

BUSINESS STUDIES WORK BOOK

CLASS - XII



State Council of Educational Research and Training
Govt. of Tripura

© All rights reserved by SCERT, Tripura

BUSINESS STUDIES WORK BOOK

Class - XII

**First Edition
September, 2021**

**Cover Design
Asoke Deb, Teacher**

Type & Setting : SCERT, Tripura in Collaboration with DEO, West District, Tripura.

**Printed by : Satyajug Employees Co-operative Industrial Society Ltd.,
13/1A Prafulla Sarkar Street, Kolkata-72**

**Publisher :
State Council of Educational Research and Training
Government of Tripura**

রতন লাল নাথ

মন্ত্রী
শিক্ষা দপ্তর
ত্রিপুরা সরকার



শিক্ষার প্রকৃত বিকাশের জন্য, শিক্ষাকে যুগোপযোগী করে তোলার জন্য প্রয়োজন শিক্ষাসংক্রান্ত নিরন্তর গবেষণা। প্রয়োজন শিক্ষা সংশ্লিষ্ট সকলকে সময়ের সঙ্গে সঙ্গে প্রশিক্ষিত করা এবং প্রয়োজনীয় শিখন সামগ্রী, পাঠ্যক্রম ও পাঠ্যপুস্তকের বিকাশ সাধন করা। এস সি ই আর টি ত্রিপুরা রাজ্যের শিক্ষার বিকাশে এসব কাজ সূনামের সঙ্গে করে আসছে। শিক্ষার্থীর মানসিক, বৌদ্ধিক ও সামাজিক বিকাশের জন্য এস সি ই আর টি পাঠ্যক্রমকে আরো বিজ্ঞানসন্মত, নান্দনিক এবং কার্যকর করবার কাজ করে চলেছে। করা হচ্ছে সুনির্দিষ্ট পরিকল্পনার অধীনে।

এই পরিকল্পনার আওতায় পাঠ্যক্রম ও পাঠ্যপুস্তকের পাশাপাশি শিশুদের শিখন সক্ষমতা বৃদ্ধির জন্য তৈরি করা হয়েছে ওয়ার্ক বুক বা অনুশীলন পুস্তক। প্রসঙ্গত উল্লেখ্য, ছাত্র-ছাত্রীদের সমস্যার সমাধানকে সহজতর করার লক্ষ্যে এবং তাদের শিখনকে আরো সহজ ও সাবলীল করার জন্য রাজ্য সরকার একটি উদ্যোগ গ্রহণ করেছে, যার নাম 'প্রয়াস'। এই প্রকল্পের অধীনে এস সি ই আর টি এবং জেলা শিক্ষা আধিকারিকরা বিশিষ্ট শিক্ষকদের সহায়তা গ্রহণের মাধ্যমে প্রথম থেকে দ্বাদশ শ্রেণির ছাত্র-ছাত্রীদের জন্য ওয়ার্ক বুকগুলো সুচারুভাবে তৈরি করেছেন। ষষ্ঠ থেকে অষ্টম শ্রেণি পর্যন্ত বিজ্ঞান, গণিত, ইংরেজি, বাংলা ও সমাজবিদ্যার ওয়ার্ক বুক তৈরি হয়েছে। নবম দশম শ্রেণির জন্য হয়েছে গণিত, বিজ্ঞান, সমাজবিদ্যা, ইংরেজি ও বাংলা। একাদশ দ্বাদশ শ্রেণির ছাত্র-ছাত্রীদের জন্য ইংরেজি, বাংলা, হিসাবশাস্ত্র, পদার্থবিদ্যা, রসায়নবিদ্যা, অর্থনীতি এবং গণিত ইত্যাদি বিষয়ের জন্য তৈরি হয়েছে ওয়ার্ক বুক। এইসব ওয়ার্ক বুকসহ ছাত্র-ছাত্রীরা জ্ঞানমূলক বিভিন্ন কার্য সম্পাদন করতে পারবে এবং তাদের চিন্তা প্রক্রিয়ার যে স্বাভাবিক ছন্দ রয়েছে, তাকে ব্যবহার করে বিভিন্ন সমস্যার সমাধান করতে পারবে। বাংলা ও ইংরেজি উভয় ভাষায় লিখিত এইসব অনুশীলন পুস্তক ছাত্র-ছাত্রীদের মধ্যে বিনামূল্যে বিতরণ করা হবে।

এই উদ্যোগে সকল শিক্ষার্থী অতিশয় উপকৃত হবে। আমার বিশ্বাস, আমাদের সকলের সক্রিয় এবং নিরলস অংশগ্রহণের মাধ্যমে ত্রিপুরার শিক্ষাজগতে একটি নতুন দিগন্তের উন্মেষ ঘটবে। ব্যক্তিগত ভাবে আমি চাই যথাযথ জ্ঞানের সঙ্গে সঙ্গে শিক্ষার্থীর সামগ্রিক বিকাশ ঘটুক এবং তার আলো রাজ্যের প্রতিটি কোণে ছড়িয়ে পড়ুক।

(রতন লাল নাথ)

CONTRIBUTORS

Sri Goutam Majumder, Teacher
Sri Gouranga Acharjee, Teacher
Sri Jayanta Debnath, Teacher
Sri Sukanta Saha, Teacher
Sri Debamalya Bhattacharjee, Teacher

PROOF CHECKING & EDITING :

Sri Debashish Datta, Teacher
Sri Suman Roy Barman, Teacher

CONTENT

Chapter – 1	7
NATURE AND SIGNIFICANCE OF MANAGEMENT	
Chapter -2	18
PRINCIPLES OF MANAGEMENT	
Chapter-3	34
BUSINESS ENVIRONMENT	
Chapter-4	44
PLANNING	
Chapter – 5	53
ORGANISING	
Chapter – 6	69
STAFFING	
Chapter -7	82
DIRECTING	
Chapter -8	102
CONTROLLING	
Chapter -9	115
FINANCIAL MANAGEMENT	
Chapter – 10	128
FINANCIAL MARKET	
Chapter-11	139
MARKETING MANAGEMENT	
Chapter-12	168
CONSUMER PROTECTION	

Chapter – 1

NATURE AND SIGNIFICANCE OF MANAGEMENT

Definitions of Management

“Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims.”

Harold Koontz and Heinz Weihrich

“Management is the process of working with and through others to effectively achieve organisational objectives by efficiently using limited resources in the changing environment.”

Kreitner

Characteristics of Management

- (i) **Management is a goal-oriented process:** Management unites the efforts of different individuals in the organisation towards achieving the goal of the enterprise.
- (ii) **Management is all pervasive:** The activities involved in managing an enterprise, it may be economic, social or political are common for all the organisations.
- (iii) **Management is multidimensional:** Management is a complex activity that has three main dimensions. These are management of work, people and operations.
- (iv) **Management is a group activity:** Management is a group activity which enable all its members to grow and develop as needs and opportunities change.
- (v) **Management is a dynamic function:** Management is a dynamic function and has to adapt itself according to the need of situation.
- (vi) **Management is an intangible force:** Management is an intangible force that cannot be seen but its presence can be felt in the way the organisation functions.

Objectives of Management

(i) Organisational Objectives

(a) **Survival:-** It exists for a long time in the competition market. In order to survive, an organization must earn enough revenues to cover costs.

(b) **Profit:-** It provides a vital incentive for the continued successful operations. Profit is essential for covering costs and risks of the business.

(c) **Growth** :- Success of an organisation is measured by growth and expansion of activities. A business needs to add to its prospects in the long run, for this it is important for the business to grow.

(ii) **Social Objectives** :- Involves creation of benefit for society. As a part of society, every organisation whether it is business or non-business, has a social obligation to fulfill.

(iii) **Personal Objectives** :- Objectives of employees like good salary, promotion, social recognition, healthy working conditions. Management has to reconcile personal goals with organisational objectives for harmony in the organization.

Importance of Management

(i) **Management Helps in Achieving Group Goals**: -Management creates team work and coordinating the group activities to give common direction to individual efforts in achieving the goals of the enterprise.

(ii) **Management Increases Efficiency**: -Management increases efficiency by using resources in the best possible way to reduce the cost and increases productivity of the enterprise.

(iii) **Management Creates a Dynamic Organisation**: - Organisation have to survive in dynamic environment thus manager keep changes in the organisation to adjust with the environmental changes.

(iv) **Management Helps in Achieving Personal Objectives**: - Through motivation and leadership, management helps the individuals to achieve their personal objectives while working towards organizational objectives.

(v) **Management Helps in the Development of Society**: -Management helps in the development of society by providing good quality products, creates employment and generate new technologies.

Levels of Management

(i) Top-level management

It consists of Chairman, Chief Executive Officer, President and Vice President.

Main task is to integrate and to coordinate various activities of the business like framing the policies, formulating organizational goals & strategies etc.

(ii) Middle-level management

It consists of Divisional or Departmental heads, Plant Superintendents and Operational heads etc.

Main tasks is to interpret the policies of the top management, to coordinate all activities, ensure availability of personnel & assign duties and responsibilities to them. They are the link between top and lower level of management.

(iii) Lower or Supervisory or Operational Level Management

It consists of Foremen and supervisor etc.

Main task is to ensure actual implementation of the policies, bringing workers' problems before the management & maintaining discipline among the workers. They are the link between lower level management and workers.

Management as an Art

The features of art as follows:

- (1) In every art, systematic and organized study material should be available compulsorily to acquire proper theoretical knowledge.
- (2) The use of basic knowledge differs from person to person and thus, art is a very personalized concept.
- (3) Art involves in consistent and creative practice of existing theoretical knowledge.

A huge volume of literature and books are also available in management. Every manager uses his unique creativity in applying management techniques and his skills improve with regular application of these techniques Since all the features of art are present in management. So it can be called an art.

Management as a Science

The features of Science are as follows:

- (1) Science has a systematized body of knowledge based on principles and experiments.
- (2) Scientific principles are developed through experiments and observation.
- (3) Scientific principles have universal validity and application.

Management has systematic body of knowledge and its principles are universally applicable but they have to be modified according to the situation.

As the principles of management are not as exact as the principles of pure science, so it may be called-an inexact science or social science.

Management as a Profession

Management as a profession should have the following characteristics which are as follows:

- (1) **Well-defined Body of Knowledge:** All the professions are based on well-defined body of knowledge.
- (2) **Restricted Entry:** Entry in every profession is restricted through examination or through some minimum educational qualification.
- (3) **Professional Associations:** All professions are affiliated to a professional association which frames code of conduct relating to that profession.
- (4) **Service Motive:** The main aim of a every profession is to give proper service to its clients.

Management does not fulfill all the characteristics of a profession and therefore it is not a full-fledged profession like doctor, lawyer, etc., but very soon it will be recognized as a full-fledged profession.

Functions of Management

1. **Planning:** Thinking in advance what to do, when to do, and who is going to do it. This implies setting goals in advance and developing a way of achieving them efficiently and effectively.
2. **Organising:** Organising means deciding the framework of assigning duties, grouping tasks, establishing authority and allocating the resources required to carryout a specific plan.
3. **Staffing:** *Staffing* simply stated, is finding the right person for the right job. It refers to recruitment, selection, training, development and appointment of the employees.
4. **Directing:** Directing refers to leading, instructing, inspiring and motivating the employees to perform the tasks assigned to them.
5. **Controlling:** Controlling means establishing standards of performance, comparing current performance with established standards and taking corrective action (if needed)to achieve the goal of the enterprise.

Coordination

Coordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of common purpose.

McFarland

Coordination is the orderly synchronising of efforts of subordinates to provide proper amount, timing and quality of execution so that their united efforts lead to the stated objectives, namely, the common purpose of the enterprise.

Theo Haimann

Coordination (The Essence of Management):

Coordination is the force which binds all the functions of management and activities of different departments. Without coordination there may be overlapping, duplication, delays and chaos. It is concerned with all the levels of management and groups; they also require coordination among themselves. So, it is not a separate function of management, rather it is the essence of management.

FEATURES OF COORDINATION

- 1. Coordination integrates group efforts:** It integrates unrelated business activities into purposeful work activity ensuring that all people work in one direction to achieve the goal of the enterprise.
- 2. Coordination ensures unity of action:** It binds the activities of different departments and employees and brings unity in individual efforts for achievement of common goals.
- 3. Coordination is a continuous process:** It is a continuous process as it is required at all levels, in all departments till the organization continues its operations.
- 4. Coordination is all pervasive function:** It is all pervasive function because it integrates the efforts of all levels and departments to maintain organizational balance.

5. Coordination is the responsibility of all managers:It is the responsibility of all managers that they make all possible efforts to establish coordination as it is equally important for top, middle and lower levels of management.

1 Marks questions

Multiple Choice Questions: -

1. Successful organisations do not achieve goals by chance but by following a deliberate process known as

- (a) Planning
- (b) Organising
- (c) Management
- (d) Staffing

2. Management contains a series of interrelated functions that include

- (a) Planning
- (b) Staffing
- (c) Directing
- (d) All of the above

3. ___ is a systematised body of knowledge that explains certain general truths or operation of general laws.

- (a) Science
- (b) Art
- (c) Profession

(d) Art and Profession both

4. Ratan works as a production manager in ABC Limited. He has been given the task of getting 100 units of hand woven table mats manufactured at the cost of ₹ 200 per unit within 5 days. In order to be acknowledged as an effective manager, he must ensure that

- (a) The cost of production does not exceed ₹ 200 per unit
- (b) The work is completed within 5 days even at higher cost per unit
- (c) The cost of production is less than ₹ 200 per unit
- (d) All of the above

5. Which one of the following statements is not correct?

- (a) Management is a goal-oriented process.
- (b) Management is a rigid process.
- (c) Management is all pervasive.
- (d) Management is a continuous process.

6. The Management of a business is said to be poor if it is

- (a) Both inefficient and ineffective
- (b) Effective but inefficient
- (c) Efficient but ineffective
- (d) All of the above

7. Ram Enterprises is planning to increase its sales by 35% in the next month. Identify the feature of management being highlighted in the given statement.

- (a) Management is multi-dimensional
- (b) Management is a goal oriented process
- (c) Management is a continuous process
- (d) None of the above

8. Managing Director is the position of which level of management in a large company.

- (a) Top
- (b) Middle
- (c) Lower
- (d) Middle and Lower

9. Management is multidimensional because it has ___ dimension(s).

- (a) One
- (b) Two
- (c) Three
- (d) Seven

10. Management is a ___ directed process as it aims at achieving specified goals.

- (a) Upcoming
- (b) Goal
- (c) Future
- (d) Deliberately

11. The element that aims at integrating group efforts to achieve group goals is called ____

- (a) Cooperation
- (b) Coordination
- (c) Management
- (d) Staffing

12. Which of the following is not a designation related to lower level management?

- (a) Plant Superintendent
- (b) Managing Director
- (c) Section officers
- (d) Supervisor

13. Which of the following is not a designation related to top level management?

- (a) President
- (b) Vice-President
- (c) Chairman
- (d) Marketing Manager

14. Which of the following is not a designation related to middle level management?

- (a) Operations Head
- (b) Sales Manager
- (c) Chief Executive Officer
- (d) Divisional Manager

15. Identify the level of management which does not interact with the work force directly.

- (a) Supervisory management
- (b) Operational management

(c) Lower level management

(d) Top level management

Very Short Answer Questions:-1 Mark questions

1. Name the function of Management which related to placing the right person at the right job.
2. Name the function of management relating to laying down the foundation for carrying out the other functions of management successfully .
3. Name the level of management serves as a link between top level managers and first line managers.
4. What is meant by management?
5. State any two points that prove that the management is a multi-dimensional.
6. How does coordination integrate group efforts? State briefly.
7. Name any two important characteristics of management.
8. Name that intangible force which creates productive relationships among resources of an organization.
9. What is the main objective of any organization?
10. Give one designation each of top and middle level management?

Answer the following Questions: - (3/4/5/6 marks)

1. Explain the Characteristics of Management.
2. Discuss the various Objectives of Management.
3. "Management is the art of getting things done through other people" Explain the importance of management in the light of this statement.
4. Narrate the functions of various Levels of Management.
5. Briefly explain whether management as an Art?
6. Explain the Management as a Science.
7. Do you think management has the characteristics of a full-fledged profession? Explain.
8. 'Coordination is needed at all levels of management'. Explain.
9. Briefly explain the Functions of Management.
10. Write the functions of Supervisory Level of Management?

Case Studies

1. Sudip is working in a private sector bank. One of her key function relates to the formulation of the overall organisational goals and strategies of the bank.

- i. Identify the level of management at which he is working?
- ii. State any three other functions that she has to perform at this level.

2. ABC Ltd. set up a factory for manufacturing solar light in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient to cover the costs and the risks. As the demand of light was increasing day- by-day, the company decided to

increase production to generate higher sales. So they decided to employ people from a nearby village as very few job opportunities were available in that area. The company also decided to open schools for the children of their employees.

1. Identify and explain the objectives of management discussed above.
2. State any two values which the company wanted to communicate to the society.

ANSWER KEY

1 Marks questions : Multiple Choice Questions: -

1. Answer: c 2. Answer: d 3. Answer: a 4. Answer: b 5. Answer: b 6. Answer: a 7. Answer: b 8. Answer:

a 9. Answer: c 10. Answer: c 11. Answer: b 12. Answer: b 13. Answer: d 14. Answer: c 15. Answer: d

Very Short Answer Questions: -

Answer:

1. Staffing
2. Planning
3. Middle level management.
4. Management is the process of working with and through others to effectively achieve organisational objectives by efficiently using limited resources in the changing environment
5. Management of work, Management of people
6. Coordination integrates group efforts by unifying distinct interests hereby giving them a common focus to assure that the performance is according to the plans and strategies.
7. Pervasive, Multidimensional.
8. Management
9. Main objective of any organization is optimum utilization of resources
10. Top – CEO, Middle – Divisional Manager.

Chapter -2

Principles of Management

Principles are the basic truth, generally stated in the form of cause and effect relationships.

A Principle refers to a statement which reflects the fundamental truth about some phenomenon based on cause and effect relationship. Management principles are broad and general guidelines for decision making and behaviour of manager. Management Principles enable the managers to manage the enterprise effectively.

Principles are the ground work for practice. They sharpen the skills and competence of the manager. A manager, having thorough knowledge of the management principles, become a successful manager.

Nature / Features / characteristics of Management Principles :

The nature of management principles can be described with the help of the following elements :

1) Flexibility : Management Principles are flexible in nature. Management experts do suggest principles but in some cases, they leave it to the discretion of the managers to modify them according to the given situation. Management principles can be applied differently under different conditions. Some changes can be made in application of principles according to the requirement of the company.

2) Universal application : The Principle of management are universal in nature that means they can be applied to all types of organisations irrespective of their size and nature. These are equally applicable to business and non-business organisation.

3) General Guidelines : Management Principles guide the managers to take decisions. Management Principles are Guidelines to actions but these Principles do not provide readymade solution for any problem.

4) Formed by practice and experiments : The management principles are developed only after deep and through research work. They are not developed overnight. Proper observations and experiment are conducted before developing them.

5) Lack of empirical support : Most of the management principles have been developed out of experience and personal judgement. There are not many principle that have emerged on the basis of empirical research.

Overall, Management principles are formed to guide and influence the behaviour of employees. These principles insist on improving relationship between superior, subordinates and all the members of organisation.

Significance / Importance of Management Principles :

Management principles are required for each enterprise as these enable the managers to take appropriate decisions under the given situations. Proper understanding of management principles are very necessary and helpful for managers as these principles act as guidelines for managerial activities.

The significance of management principles is due to following reasons.

i) Providing managers with useful insight into reality : Management Principles act as guidelines for the managers. These principles improve knowledge, ability and understanding of managers under various managerial situations.

ii) Status of discipline : Any branch of knowledge to be designated as a discipline must be backed by principles. Management is a rich discipline. Most of its credit goes to the comprehensive principles which have been developed by experts. These have been developed on the basis of experience and research.

iii) Optimum utilisation of resource : The management principles insist on planned activities and systematic organisation of men and materials in the organisation. Principles are designed to get maximum benefits from the human efforts and other resources.

iv) Universal application : Management principle have a universal applicability, i.e. these are equally applicable to business and non-business organisation. The principle of 'order' for example is required in a departmental store, as much as it is required in a club.

v) Research in management : Management Principles provide ground for broad generalisations which enables the managers and researchers to test the behaviour, understand it and predict the outcomes of future. Principles help in improving the fund of tested knowledge and encouraging further research in human behaviour.

vi) Effective administration : Administration is the function of top level management, in this function major plans and policies are formed. The management principles act as guidelines and base to form various administrative policies to have systematic working in the organisation.

vii) Fulfilling social responsibilities : A business is creation of society and makes use of resources of society, so it must do something for society also by performing some social responsibilities. Management principles not only act as guidelines for achieving organisational objectives but these principles also guide the managers to perform social responsibilities.

Thus, the need and importance of management principles lie in the fact that. These make the managers more competent in their managerial duties. Besides, these principles add to the status of management as a discipline by enriching its subject matter.

FAYOLS ADMINISTRATIVE MANAGEMENT / FAYOLS PRINCIPLES OF MANAGEMENT

Perhaps the real father of modern operational management theory is the French industrialist Henry Fayol. His contributions are generally termed as operational management or administrative management. Fayol's contributions were first published in book form titled 'Administration Industrielle et Generale' in French language, in 1916. However, the book was not made available outside France and was not translated until 1929. Its English version was published in 1949 in the USA. Therefore in the early period, Fayol's contributions could not make much impact on the development of management thought. However after the publication of his book in English, he got prominence in the field of Management very quickly.

Fayol looked at the problems of managing an organization from a top management point of view. He has used the term, administration instead of 'management' emphasizing that there is unity of science of administration. For him administration was a common activity and administrative doctrine was universally applicable. From an administrative point of view, he placed commerce, industry, religion, philanthropy and the state on equal footing. His administrative science can be applied equally well to public and private affairs. Therefore management is a universal phenomenon.

Fayol has divided his approach of studying management into three parts.

- i) Managerial qualities and training.
- ii) General Principles of management.
- iii) Elements of management.

Managerial qualities and training :

Fayol was the first person to identify the qualities required in a manager. According to him, there are six types of qualities that a manager requires, these are as follows : \

- i) Physical (health, vigour and dress)
- ii) Mental (ability to understand and learn, judgement, mental vigour and capability)
- iii) Moral (Energy, firmness, initiative, loyalty, truth and dignity)
- iv) Educational (general acquaintance with matter not belonging exclusively to the function performed).
- v) Technical (Particular to the function being performed) and
- vi) Experience (arising from the work)

Fayol has observed that most important ability for a worker is technical, the relative importance of managerial ability increases as one goes up the scalar chain, with insight becoming the most important ability for top level executives. On the basis of this conclusion, Fayol recognised a widespread need for principles of management and for management teaching. He held that managerial ability should be acquired first in school and latter in the workshop. In order to acquire managerial knowledge, he developed principle of management to be taught in academic institutions.

GENERAL PRINCIPLES OF MANAGEMENT

Fayol has given fourteen principles of management. He has made distinction between management principles and management elements. While management principle is a fundamental truth and establishes cause-effect relationship, management elements denotes the function performed by a manager. While giving the management principles. Fayol has emphasized two things;

i) The list of management principles is not exhaustive but suggestive and has discussed only those principles which he followed on most occasions.

ii) Principles of management are not rigid but flexible, According to him there is nothing rigid or absolute in management affairs; it is all a question of proportion. Therefore, principle are flexible and capable of being adopted to every need.

various principle of management are as follows :

I) DIVISION OF WORK : Fayol has advocated division of work to take the advantage of specialization. According to him, specialization belongs to natural order. The worker always work on the same part, the managers concerned always with the same matters, acquire an ability, sureness and accuracy which increase their output, each change of work brings need for training and adaptation which reduces output. However division of work has its limits and may not be exceeded. This division of work can be applied at all levels of the organisation.

II) AUTHORITY AND RESPONSIBILITY : Authority and responsibility are related. Authority means power to take decision, Responsibility means obligation to complete the job assigned on time. According to this principle, there must be balance or parity between the authority and responsibility. Exces of authority without matching responsibility may bring negative results and excess of responsibility without matching authority will not allow the worker to complete his job on time.

III) DISCIPLINE REFFERS TO

a) Following code of conduct, rule regulations of employment agreement.

b) Good superior at all levels.

- c) Clean and fair agreement among subordinate and superior.
- d) Meeting commitments at all levels.
- e) Judicial application of penalties.

Fayol insists that discipline is required at superior as well as subordinates level. The disciplinary rules shall not be applicable only on subordinates but discipline requires good superiors at every level.

IV. UNITY OF COMMAND : Unity of command means that, a person should get orders and instructions from only one superior. That an individual has a reporting relationship to a single superior. The less is the problem of conflict in instructions and the greater is the feeling of personal responsibility for results. Fayol has considered unity of command as an important aspect in managing an organisation.

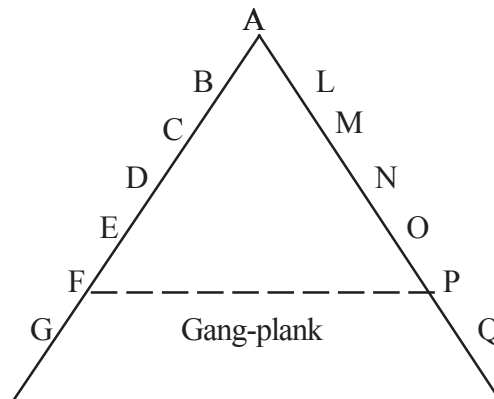
V. UNITY OF DIRECTION : According to this principle, each group of activities with the same object must have one head and one plan.

Unity of directions is different from unity of command in the sense that the former is concerned with functioning of the organisation in respect of its grouping of activities one planning while the latter is concerned with personnel at all levels in the organisation in terms of reporting relationship. Unity of direction provides better co-ordination among various activities to be undertaken by an organisation.

VI. SUBORDINATION OF INDIVIDUAL INTEREST TO GENERAL INTEREST : Common interest is above the individual interest. Individual interest must be subordinate to general interest when there is conflict between the two. However factors like ambition, laziness, weakness, etc tend to reduce the importance of general interest. Therefore superiors should set an example of fairness and goodness. The agreement between the employers and the employees should be fair and there should be constant vigilance and supervision.

7.REMUNERATION OF PERSONNEL : Remuneration of employees should be fair and provide maximum possible satisfaction to employees and employers. Fayol did not favour profit sharing plan for workers but advocate it for managers. He was also in favour of non-financial benefits though these were possible only in the case of large scale organisation.

8. CENTRALIZATION : Everything which goes to increase the importance of subordinate role is decentralization. Everything which goes to reduce it is centralization. Without using the term. 'Centralization of authority' Fayol refers the extent to which authority is centralized or decentralized. Centralization and decentralization are the question of proportion. In small firms, centralization is the natural order, but in large firms, a series of intermediaries is required. Share of authority and initiative left to intermediaries depends on the personal character of the manager, his moral worth, the reliability of his subordinates and also on the condition of the business.



Scalar chain and Gang plank

9.SCALAR CHAIN : Scalar chain means line of authority or chain of superiors from highest to lowest rank. Fayol insists that this chain must be followed strictly in the organisation. ‘Every information must pass through every key of this chain, no skipping of any one key should be allowed. It can be short circuited only in special circumstances when, its rigid following would be detrimental to the organisation.

For this purpose, Fayol has suggested ‘gang plank’ which is used to prevent the scalar chain from bogging down action. His scalar chain and gang plank can be presented as follows :

In the above figure A is the top man having immediate subordinates B and L. In turn B and L are having immediate subordinates C and M. This continue to the level of G and Q. Ordinarily, the communication must flow from A to B to C to D and so on while coming from the top to down. Similarly, it must flow from G to F to E and so on while going up, it means if any communication is going from F to P, it will flow from F to A via E, D, C and B and coming down to P via L, M, N and O. If this chain is broken then there are chances of communication gap in the organisation but sometimes following scalar chain becomes a long process and if some important information has to be passed, it gets delayed so in case of emergency and urgent information, Fayol permitted a short cut in the chain which is called ‘Gang-Plank’. Gang-plank permits direct communication between the employees working in different position without following the scalar chain.

x) ORDER : This is a principle relating to the arrangement of things and people. In material order, there should be a place for everything and everything should be in its place. Similarly, in social order, there should be the right man in the right place. The kind for order demands precise knowledge of the human requirement and resources of the organisation and a constant balance between there requirement and resources. Normally, bigger the size of the organisation, more difficult this balance is.

XI. EQUITY : Equity is the combination of justice and kindness. Equity in treatment and behaviour is linked by everyone and it brings loyalty in the organisation. The application of equity requires good sense, experience and good nature for soliciting loyalty and devotion from subordinates.

XII. STABILITY OF TENURE : No employee should be removed within short time. There should be reasonable security of jobs. Stability of tenure is essential to get an employee accustomed to new work and succeeding in doing it well. Unnecessary turnover is both cause and effect of bad management.

XIII) INITIATIVE : Within the limits of authority and discipline, manager should encourage their employees for taking initiative. Initiative is concerned with thinking out execution of a plan. Initiative increases zeal and energy on the part of human being.

XIV. ESPIRIT DE CROPS : This is the principle of 'union is strength' and extension of unity of command for establishing teamwork. The manager should encourage esprit de corps among his employees. The carrying employees should be set right by oral directions and not by demanding written explanations. Written explanations complicate the matters.

Fayol holds that management should be viewed as a process consisting of five elements. He has regarded these elements as functions of management. These are planning, organisation, commanding, coordination and controlling. He has regarded planning as the most important managerial function and failure to plan properly leads to hesitation, false steps and untimely changes in direction which cause weakness in the organisation. Creation of organisation structure and commanding function is necessary to execute plans. Coordination is necessary to make sure that every one is working together and controlling looks whether everything is proceeding according to plan. Fayol holds the view that these functions are required at all levels of management and in all types of organisation.

The contributions of Fayol have made the real beginning of development of management as a separate field of study. He wrote as the practical man of business reflecting on his long managerial career and sitting down the principles he had observed.

SCIENTIFIC MANAGEMENT

Meaning of scientific management : Scientific management means a sound management technique that tends to eliminate wastage, harmonises different factors and processes of production and brings about an all-round efficiency in the working of the organisation. It implies that men, machines and materials are used in the best possible way. It will do away with the 'trial and error' method of doing things and gives maximum importance to planned and systematic approach in accomplishing the jobs.

In the word of Taylor, 'Scientific management involves a complete mental revolution on the part of the workmen engaged in any particular establishment or industry a complete mental revolution on the part of these men, as to their duties towards their work, towards their fellow men and towards employees. It involves the equally complete mental revolution on the part of those on the management side, viz, The foreman, the superintendent the owner of the business, the board of directors - a complete revolution on their part as to their duties towards their fellow workers in the management, towards their workmen and towards all their daily problems.

The above views were expressed by Taylor on his testimony before the house committee in 1912. His name is so much attached with scientific management that people started calling this item as scientific management.'

Principles of Scientific management

Taylor gave the following fundamental principles of scientific management :

i) Discard rule of thumb with science : 'Rule of Thumb' means making decisions on the basis of subjectivity, prejudices and whims. Taylor recommended that 'rule of thumb' should be replaced by objectivity and science.

ii) Scientific Selection, Training and development : Taylor suggested that managers should scientifically select and then train, teach and develop the workmen, where as in the past he chose his own work and trained himself as best he could.'

iii) Co-operation rather than chaotic individualism : Taylor recommended that, 'managers should heartily co-operative with men so as to insure all of the work being done in accordance with the principles of the science which has been developed.' Manager and workers should do away with the mutual distrust. Worker should give up the false notion that management exploits them by extracting maximum work at minimum wages. At the same time, managers should also not feel that workers are dishonest and shirkers. This will lead to pleasant atmosphere, better understanding, more output and higher profits.

iv) Equitable Division of Work : Taylor writes that there is an almost equal division of work and the responsibility between the management and the workmen. The management takes overall work all which they are better fitted than the workmen, while in the past almost all the work and the greater part of the responsibility were thrown upon the men.

Scientific Techniques of Taylor

Alongwith scientific principle Taylor developed some scientific techniques by conducting various experiments at his work place.

The Common Techniques are :

i) Functional foremanship : In this technique Taylor suggested that the division of factory in two department : Planing department and production department as Taylor felt that workers must be free from the burden of planning and they must concentrate on work and production. To develop specialisation in the productivity, Taylor suggested under each department there must be some functional experts to supervise, guide and instruct the worker. As one foremen can not be expert in every aspect of work so Taylor stressed on minimum eight specialists or functional experts to supervise and give orders to workers. Each boss will be specialised in one aspect of work and while observing and instructing the worker there will be definitely specialisation. So this technique is the extension of principle of division of labour. Taylor said foreman must be intelligent, educated, energetic, honest, specialised or profession expert. All these qualities can not be found in one person so, Taylor stressed on having minimum eight experts, four under each department to order and guide the workers.

ii) Standardisation and Simplification of Work : Scientific management always emphasises on maintaining standard relating to every step of business operation. Standardisation of output is possible if standard is maintained right from selection of tools, equipment and machine to use, maximise the output by keeping in mind the quality standards, standardisation does not mean only quality standard but it refers to setting up standards for size, type, weights, measures and quality of product.

According to Taylor scientific methods of production must be selected to develop standard.

iii) Work Study : It ensure maximum production at minimum cost and getting best contribution from every factor, it include.

a) Fatigue study : This technique of scientific management is conducted to find out

- (i) The frequency of rest intervals.
- (ii) The duration of rest intervals.
- (iii) The number of rest intervals.

b) Method study : The method study technique of scientific management is conducted to find out the one best method or way of performing the job which keeps production cost minimum and makes maximum use of resources of the organisation.

Taylor suggested that method of production should not be decided by rule of thumb method but all the methods must be tried in the organisation and the one which brings maximum benefits with minimum cost must be selected.

iii) Time Study : The technique of time study is conducted to determine or the objectives of time study are :

- a) The standard time required to perform a job.
- b) Setting up the standard target for workers.
- c) Determine the number of workers required to perform a job.
- d) Categorising the workers in efficient and inefficient categories.

Taylor suggested that the time required to perform the job should not be decided by intuition, will and wish of manager, but time study must be conducted to determine the standard time scientifically.

iv) Motion Study : The scientific technique of motion study is conducted or the objectives of motion study are : (a) To determine the movements of workers when they are performing the job.

- (b) To differentiate between productive and unproductive movements.
- (c) For cutting down unproductive and wasteful movements.
- (d) To design suitable equipment and tools to minimise the unproductive movements of worker.

To conduct motion study Taylor suggested to observe an average worker when he is performing the job and note down all the movements he is doing. How many times he is getting up from his place, how many times he is bending down etc. Repeat it for 100 times with different workers. After writing all the movements classify them in productive and unproductive movement and make the strategy to cut down or minimise the unproductive movements.

iv) Differential piece wage system : The scientific technique of differential piece rate system emphasises on paying different rate of wage for efficient and inefficient employees. The technique of differential wage rate system insists on.

- a) Paying different rate of wage to efficient and inefficient employees.
- b) Extra wages paid to efficient employees will motivate them to remain efficient.
- c) Extra wages paid to efficient employees will motivate inefficient employees to come in the category of efficient employees.

d) When payment is given according to number of units produced automatically the production will be maximised.

This technique is a strongest motivation for employees to perform efficiently.

To conduct or adopt differential wage system Taylor suggested that the company must fix a standard rate of wage for workers producing standard output or their target. The workers who produce more than the standard target must be paid with a higher rate of wages and those who are producing than standard output must be paid with a rate less than standard rate.

v) Mental revolution : The objective of mental revolution are :

- a) Change in mental attitudes of workers and management towards each other.
- b) Co-operation between workers and management.
- c) Ruling out feeling of suspicion or prejudice from the minds of workers and management to adopt systematic thinking.

Taylor said that generally in every organisation workers feel that management exploits them, overburdens them with excess work and pays them less: On the other hand, management feels that, workers always grumble, they follow go slow policy, damage the equipment and work carelessly. Both the groups suspect each other. In the technique of mental revolution, Taylor stressed that there is need to change the attitude of both the groups drastically. He referred to change as a revolution of mind to develop positive thinking and feeling to co-operation for each other.

Advantages of Scientific Management : Scientific management bring following benefits :

- a) Improve efficiency of business through simplification.
- b) Helps in reducing cost of production by eliminating all types of wastages.
- c) Due to decrease in price firm is enable to capture a bigger share in the market.
- d) Mutual understanding and co-operation bring workers and management closer.
- e) More training to improve the skill of workers.
- f) Enables the workers to earn more with the introduction of differential price wage system.

Contribution of Taylor and Fayol : A comparison

At this stage it may be worthwhile to compare the contribution of both Taylor and Fayol as both of them have made attempts to the development of management principles in some what systematic

way. Both were contemporary though from different countries. When we compare the contribution of Taylor and Fayol, we find that both are complementary to each other and have some what similarity.

Similarity : Both Taylor and Fayol have seen and analyzed the problems of managing from practitioners point of view. Therefor, there must be some similarity between the two. The similarity exists on the following lines:

- a) Both have attempted to overcome managerial problems in a systematic way.
- b) Both have developed some principles which can be applied in solving managerial problems.
- c) Both have emphasized that management actions can be effective if these are based on sound principles.
- d) Both of them emphasized that managerial qualities are acquirable and can be acquired through training.
- e) Both have emphasized harmonious relationships between management and workers for the achievement of organizational objectives.

Dissimilarity : There is more dissimilarity between the approaches of Taylor and Fayol as compared to similarity. This is because of the fact that Taylor has Concentrated on the shop floor efficiency while Fayol has concentrated on higher managerial levels.

Multiple Choice Question (Mark-1)

1. Priciple of management are not

- a) Universal (b) Flexible (c) Absolute (d) None of these.

2. Management Principle Provide

- a) Readymade solution to managerial problems.
- b) Guidelines for managerial action
- c) Guarnatee for success of an organisation
- d) All of the above.

3. The principle of management are significant because

- a) Increase in efficiency (b) Initiative

c) Optimum utilisation of resources (d) None of these.

4. How are principle of management formed ?

- a) In a laboratory (b) By experience of managers
- (c) By experinece of customers (d) All of the above.

5. Which of the following statement best describes the principle of 'Division of Work'.

- a) Increase in efficiency (b) Work should be devided into small tasks
- b) Labour should be divided (d) Resource should be divided among jobs.

6. Henry Fayol was a

- a) Social Scientist (b) Mining Engineer (c) Accountant (d) Production engineer

7. Gang-plank is

- a) For making teams among subordinates
- b) For keeping all the raw manterial and input ready.
- c) Short cut in scalar chain
- d) None of the above

8. According to Fayol

- a) Organisation must use policy of centralisation.
- b) Fix and right place for every man and material
- c) Employes must work as per order of superior
- d) One boss one command.

9. Unity of command insist on

- a) One boss one employee (b) Order from a single superior

- c) Match between orders of different bosses
- d) All of the above

10. Management should find 'one best way' to perform a task. Which technique of scientific management is defined in this sentence ?

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

11. Technique of mental revolution is based on the principle of

- a) Harmony not discord (b) Science not rule of thumb
- c) Principle of responsibility and authority
- d) All of the above.

12. Unity of Direction insists on

- a) One unit one plan
- b) Efforts of all employees should be directed in one direction only
- c) No overlapping of different department
- d) All of the above.

13. The concept of Scientific management must was given by

- a) F. W. Taylor b) Henry Fayol c) Abraham Malsow d) W. W. Taylor

14. Chief executive performs staffing function by appointing the organisation .

- a) Senior personnel (b) Junior personnel (c) The Manager (d) None of these.

15. There should be a scalar chain of authority and of communication ranging from the

- a) Highest to the lowest (b) Lowest to the highest (c) Both a and b (d) None of these.

16. Fayol is the person to identify the qualities required in a manager.

- a) 2nd person b) 3rd person c) 1st person d) all of the above.

17. Fayol has divided his approach of studying management into

- a) Two parts (b) Three parts (c) Both two and three parts (d) None of these.

18. Taylors contributions can be described in

- a) Two parts (b) One parts (c) Three parts (d) Four parts.

19. Unity of command means that a perosn should get orders and instructions from only

- a) One superior b) Two superior c) Both a and b d) None of the above.

20. Administrative principles were given by

- a) F. W. Taylor b) Henry Fayol c) Abraham Maslow d) W W Taylor.

Answer :

- 1) c 2) b 3) c 4) b 5) b 6) b 7) c 8) c 9) b 10) d 11) a 12) d 13) a 14) a 15) a 16) c 17) b 18) a 19) a 20) b.

Short answer type questions : (Mark - 1)

1. What is the meaning of management principles ?
2. Define scientific management.
3. Give any one point of difference between management principle and scientific principles.
4. Why are that managment principles universal ?
5. Name the principles of scientific management.
6. Give any two features of management principles.
7. Why scientific management also called Taylorism ?
8. Which principle of management insist in orderly arrangement of men and material ?
9. Describe the meaning of ‘replacement of rule or thumb with science’.
10. Enumerate the major areas of Fayols contribution.

Long answer type question

(Marks - 3/ 4/ 5/ 6)

1. Explain briefly the nature and significance for management principles.
2. Define scientific management state any three of its principles.
3. Name and explain the Taylor's principles of scientific management.
4. Explain briefly the Fayol's principle of management.
5. Discuss the differences between the contributions of Taylor and Fayol.

CASE STUDY :

ABC Ltd. was engaged in the business of food processing and selling its products under a popular brand. Lately the business was expanding due to good quality and reasonable prices. Also with more people working the market for processed food was increasing. New players also coming to cash in on the new trend. In order to keep its market share in the short run the company directed its existing workforce to work overtime.

But this resulted in many problems. Due to increased pressure of work the efficiency of the worker declined. Sometimes the subordinates had to work for more than one superior resulting in declining efficiency. The divisions that were previously working on one product were also made to work on two or more products. This resulted in a lot of overlapping and wastage. The workers were becoming undisciplined. The spirit of teamwork, which had characterised the company. Previously was beginning to wane. Workers were feeling cheated and initiative was declining. The quality of the products was beginning to decline and market share was on the verge of decrease. Actually the company had implemented changes without creating the required infrastructure.

Questions :

- i) Identify the principles of Management (out of 14 given by Henry Fayol) that were being violated by the company.
- ii) Explain these principles in brief.
- iii) What steps should the company management take in relation to the above principles to restore the company to its past glory ?

Chapter-3

Business Environment

Environment is a broad term. It consists of the internal and external factors that influence one's work and living conditions.

Environment is classified as external and internal because an organisation works within the framework provided by the various elements of the society. All such elements which are outside the organisation are called external environment or simply as environment. At the same time, organisation may create environment internal to it which affects the various sub systems of the organisation. Here, we are concerned with external environment which is referred to as environment without any suffix or prefix. Environment includes all the conditions, circumstances, and influences surrounding and affecting the total organisation of any of its part. Thus, the environmental forces are quite broad.

In simple words, the business environment is the surrounding in which business exists. Thus, the economic, social, political, technological, legal and other forces which operate outside business enterprise are part of business environment.

Although these environmental forces exist outside the enterprise but they influence the business enterprises for example.

1. Increase in taxes by government make things expensive to buy.
2. Technological changes may make existing products obsolete.
3. Changes in fashions and tastes of consumers may shift the demand in market from existing products to new ones.
4. Increase in competition in the market may reduce profit margins in the firm.

Since environmental factors influence business enterprise so it becomes essential for businessmen to take complete awareness and understanding of business environment.

Features / Characteristic / Nature of business environment :

The main features of business environment are :

- 1. All the external forces :** Business environment includes all the forces, institutions and factors which are external to business organisations.
- 2. Specific and general forces :** Business environment includes both specific and general forces. Specific forces affect business enterprise directly and immediately in their day to day working. These include supplier, investors, customers, general forces are social, political, legal, technological conditions have impact on all the enterprises and affect individual firms only indirectly.
- 3. Inter-relation :** All the forces and factors of business environment are inter-related to each other.
- 4. Uncertainty :** It is very difficult to predict the changes of business environment. As environment is changing very fast for example in IT, fashion industry frequent and fast changes are taking place.

5. Dynamic : Business environment is highly flexible and keep changing. It is not state or rigid that is why it is essential to monitor and scan the business environment continuously.

6. Relativity : Business environment differ from country to country, region to region as political conditions, cultures are different in different countries.

Importance of business environment :

The understanding and awareness of business environment is must for every businessman as ignorance about business environment can throw the businessman out from the market. Proper understanding and awareness about the business environment brings lots of benefits for the businessman and these benefits are:

a) Enabling the identification of opportunities and getting the first mover advantage:

Environmental awareness can help the firm to capitalise on early opportunities, rather than lose these to competitors. For example, Rachana Sagar Pvt. Ltd. was the first publishing company to understand the requirements of the students regarding preparation for Board Exam and launched its unique and special product “Together with CBSE/ICSE pariksha” series which was readily accepted by the teacher’s and students community in all India level.

b) Helps in the identification of threats and early warning signals :

Threats refers to the changes in external environment that will have an adverse effect on the firms performance. A good knowledge and understanding of the business environment enable managers to identify the various threats and serve as an early warning signal. In fact they not merely recognise and ward off threats they convert threats into opportunities.

c) Sensitise the management / coping with the rapid changes :

Environment understanding sensitise the management to the changing needs and wishes of its customers and develop suitable causes of action.

d) Tapping useful resources :

The organisation receives inputs finance, material, manpower, equipment etc. from the external environment. The organisation is dependent on the external environment for disposal of its output of products and services to a wide range of clientele.

This is an interaction process-perceiving the needs the external environment and catering to them, satisfying the expectations and demands of the clientele groups, such as customers, employees, shareholders, suppliers, general public and so on. This can be done better by understanding the business environment.

e) Assisting in planning and policy making :

The major strategies or plans and policies in the organisation are formed keeping in mind business environment because the policies and strategies have to be implemented in the presence of environmental factors. So, this must be made keeping in mind the environmental factors.

f) Image building :

Environmental understanding helps in improving the image of the firm with its public by showing that it is sensitive to its environment and responsive to it.

g) Continious learning :

Environment scanning provides a continuing broad-based education for executives, especially strategy planners.

Business and environmental factors / DIMENSIONS : These are the factors that facilitate the inflow of money or result in the outflow of money. The following are the main economic factors that influence the environment of businers.

I) Economic policies of the Government :

Economic policies of the government have a significant effect on the business environment. Some important economic policies are :-

a) The industrial policy : Government regulates the industries through its industrial policy. The examples of industrial policy may be to set-up industrial units in industrial areas only, to produce or not to produce a particular line of products, installing a ganbage-treatment-plant etc. Student should try to think themselves how the provision of all these brings in or takes away money.

b) The Fiscal policy : This policy is devised to collect money through various types of taxes. Excise and customs duties, sales and income tax etc are the example of this policy.

c) The monetary policy : This is the policy laid down by the Apex Financial Organisation for regulating the amount of currency and credit in a country. Reserve bank of India, for example, reduce or increases the bank rate to restrict inflation or to mobilise funds. This policy does influence the business and is, therefore, an important factor of business environment.

II) Political-legal environment :

Political legal environment is an important element particularly in a mixed economy like ours and affects directly the working of business organisation.

Political -legal environment depends on :

- i) Political stability, like impact of changes in the form of structure of governmental administration, civil war, declaration of emergency etc.
- ii) Political organisation like political parties and their ideology, degree and extent of bureaucratic delays, red-tape, etc.
- iii) Defence and military policy, like impact of defence policy on industrial development, expenditure on defence etc. and
- iv) Legal rules of the game of business-their formulation, implementation, efficiency and effectiveness.

The Political environment has immediate and great impact on the business transactions, so businessman must scan this environment very carefully. The business man has to make changes in his organisation according to the changing factor of political environment and also the management of every business enterprise has to obey the law of land. therefore, it is essential for every business enterprise to have adequate knowledge of rules and regulations framed by government.

III) Social Environment :

Social environment consists of the custom and traditions of the society in which business is existing. It includes the standard of living, taste, performance and education level of the people living in the society where business exists. The businessman can not overlook the components of social environment as these components may not have immediate impact on the business but in the long run the social environment has great impact on the business.

The common factors of Indian Social Environment are :

- a) Demand for reservation in jobs for minority and woman.
- b) Demand for equal status of woman by paying equal wages for male and female workers.
- c) Health and fitness trend has become popular.

Example of social environment are :- The celebration of Diwali, Id, Christmas, Guruparv etc. increase the sale of sweets, greeting cards etc.

IV) Technological Environment :

Technological environment is important for business as it affects the type of conversion process that it may adopt for this purpose. The technological environment refers to the sum total of knowledge providing way to do things. It may include inventions and techniques which affect the ways of doing things, that is, designing, producing and distributing products.

Few examples of recent technological changes which have effected Indian business.

- i. Companies have started using new ways of advertising such as CD-Roms, Computerised information kiosks, internet etc. due to technological advancement is computers and electronics.
- ii. Online sale of grocery items becoming very common.
- iii. Online booking of Air tickets, movie tickets, not only booking you can see your seat number.
- iv. Due to technological advancement customer can compare the fare prices of various airlines, hotels, etc. and select the most economical one.

Features of new economic policy 1991 : There are three major components are elements of new economic policy :

A. Liberalisation : Liberalisation refers to the removal of unnecessary controls and restrictions of the government in the form of licences, permits and quotas. Liberalisation of Industries in India took the following form :

i) Abolition of licences : Licences required for the establishment of Industries were abolished. Licencing was retained only for six industries namely, liquor, cigarette, difence equipment, dengerous chemical, Industrial explosives and drug and pharmaceuticals.

ii) Augmentation of Production : The MRTP companies (Companies having assets worth more than Rs. 100 crore) were free to expand the scale of their business according to the market condition.

iii) Reduction of tax rate and lifting of unnecessary controls over the economy.

iv) Liberalisation in import and export.

v) Freedom in movement of goods and services.

vi) Freedom in fixing the prices of goods and services.

B. Privatisation :

It implies assignning a greater role to the private sector undertakings in India, privatisation was followed in the following manner.

i) Disinvestment of Public Sector, i.e. transfer of public sector enterprise to private sector.

ii) Establishing Board of Industrial and Financial reconstruction (BIFR). this board is establshih for the revival of the sick and loss making enterprises.

iii) Dilution of stake of the Government. If in the process of disinvestments private sector aquires more than 51% shares then it results in transfer of ownership and management to the private sector.

C. Globalisaton :

Globalisation refers to the process of integration of various economies of the world. In India, the folloiwng policies were followed with regard to globalisation.

(i) Removal on trade restriction : Various barriers on trade such as traiffs, custom duties, quotas etc. were reduced considerably.

(ii) Reducing the export duty and import duty : Various duties and traxes on import and export were removed to promote free trade.

(iii) Encouragement to foreign capital investment : With the aim of encouraging foreign capital investment various steps were taken such as increasing the equity limit of forign capital, setting up of special economic zones, introduction foreign management Act (FEMA).

Impacts of changes in government policy on the business/effects of liberalisation and Globalisation.

The factors and forces of business environment have lot of influence over the business. The common influence and impact of such changes in business and industry are explained below :

(i) All round competition / increasing competition : After the new policy, Indian companies had to face all round competition which means competition from the internal market and competition from the MNCs. The companies which could adopt latest technology and which were having large number of resources could only servive and face the competition. Many companies could not face the competition and had to leave the market.

For example; Prior to 1991, Banking sector, Insurance, telecommunication etc were only public sector enjoying the monopoly where as now so many private banks, airlines and telecommunication companies have entered in the race of competition.

ii) Buyer's market / More demanding customers : There were shortages practically in every sector consumer goods, industrials goods and services. As a result, the buyers suffered. A shift from shortage to surplus has been a major development of the liberalised regime. After new economic policy many more businessman joined the production line and various foregin companies also established their production units in India. As a result there was surplus of products in every sector. This shift from shortage to surplus brought another shift in the market. The market become customer oriented and many new schemes were made by companies to attract the customer. Now a days product are produced manufactured keeping in mind the demands of the customer.

iii) Rapidly changing technological environment : Before or prior to new economic policy there was less, internal competition only. But after the new economic policy the world class competition started and to stand this global competition the companies need to adopt the world class technology. To adopt and implement the world class technology the investment in research and development department has to increase.

iv) Necessity for changes : Prior to 1991 business enterprise could follow stable policies for a long peroid of time but after 1991 the business enterprises have to modify their policies and operations from time to time.

v) Need for developing human resources : Before 1991 Indian enterprises were managed by in adequately trained personnels. Now market conditions require people with higher competence skills and trainings. Hence Indian companies felt the need to develop their human skills.

vi) Market Orientation : Earlier firms are following selling concept, i.e. produce first and then go to market but now companies follow marketing concept, i.e. planning production on the basis of market research, need and want of customers.

Demonetisation : November 8, 2016 was the day when ‘500’ and ‘1,000’ demonetisation notes were withdrawn from circulation. It resulted in withdrawal of 86% currency in circulation, people were advised to go to the bank to replace old notes with new upto a limit.

There was a restriction on cash withdrawal. The main aim of demonetisation was to curb corruption, check on use of notes for illegal activities and specially the accumulation of black money generated by not declining in income to income tax authorities.

Features of Demonetisation :

1. Demonetisation as a tax administration measures : Due to demonetisation people had to declare their cash holding to get it exchange from bank.
2. Non tolerance of tax evasion : Demonetisation also indicated that government will no longer accept tax evasion.
3. Tax administrating and channelising saving into formal financial system : Demonetisation led to tax administration, channelising savings into the formal financial system. As much of the cash deposited by people for exchange will be offered to people for loan under new schemes.
4. Creating less cash or digital cash lite economy : Another feature of demonetisation is to create a less cash or cash-lite economy i.e. channelising more saving through the formal financial system and improving tax compliance.

MULTIPLA CHOICE QUESTIONS

(Mark : 1)

1. Business environment includes
 - a) Surroundings of Business
 - (b) Forces, Factors, institutions which directly or indirectly effect business.
 - c) Customers and employees.
 - (d) None of the above.
2. Which of the following does not characterise the business environment ?
 - a) uncertainty
 - b) Employees
 - c) Relativity
 - d) Complexity
3. The force in business environment that effect all the business houses are known as
 - a) General
 - b) Specific
 - c) Particular
 - d) Influential.
4. Which of the following best indicates the importance of business environment ?
 - a) Identification
 - b) Imporvement in performance

- c) Coping with rapid changes d) All of them.
5. The condition of business environment keep changing as it is
 a) External environment b) Complex c) Dynamic d) None of these
6. The environment scanning helps to identify
 a) Opportunities b) Threats c) Both (a) and (b) d) None of the above.
7. The importance of business environment which helps to know in advance forthcoming constraints and threats of business is
 a) Helpful in getting first mover advantages.
 b) Early warning signals
 c) Assist in planning and policy making
 d) All of the above.
8. Which of the following is an example of social environment ?
 a) Money supply in the economy
 b) Consumer protection Act
 c) The constitution of the country
 d) Composition of family.
9. Changes in taxes is part of
 a) Economic environment
 b) Political environment
 c) Legal environment
 d) Social environment
10. Demonetisation had direct impact on
 a) Social environment
 b) Political environment
 c) Legal environment
 d) Economic environment
11. Liberalisation means :
 a) Integration among economics
 b) Reduced government controls and restrictions
 c) Policy of planned disinvestments
 d) None of them
12. Which of the following does not explain the impact of government policy changes on business and industry ?
 a) More demanding customers
 b) Increasing competition
 c) Change in agricultural prices
 d) Market orientation

13. It is compulsory that advertisement on baby food must inform that mother milk is the best related to
a) Social environment b) Economic environment
c) Political environment d) Legal environment
14. Swachh Bharat Abhiyan started by BJP Government is part of
a) Legal environment b) Social environment
c) Political environment d) Economic environment

Answer :

- 1) a 2) b 3) a 4) d 5) c 6) c 7) d 8) d 9) a 10) c 11) b
12) c 13) d 14) c

Short Answer type Questions

(Mark- 1)

1. List any two examples of business environment.
2. List two examples of changes in social environment which affect business organisation.
3. If new product are introduced in market by new technique, which type of environment is indicated it ?
4. What is L.P.G in context of business environment ?
5. The finance minister reduced the repo rate to overcome recession. This is related to which dimension of business environment ?
6. The project of Nano car reestablished in Gujarat is indicated by which factor of environment ?
7. Write one feature of liberalisation, Privatisation and Globalisation.
8. Write two dimensions of business environment.

Long answer type question

(Marks- 3, 4, 5, 6)

1. What do you mean by business environment ?
2. Mention the various dimensions of business environment.
3. Briefly discuss the impact of Govt. policy changes on business and industry.
4. Explain any four features of business environment.
5. **Briefly explain the following :**
a) Liberalisation b) Privatisation c) Globalisation.

Case Study

In an environment of rising petroleum prices and a large middle class population in India. KV MOTORS Ltd. recognised the need for small cars in India. It created a product for superior than their competitors not only in terms of quality but also in terms of overall driving experience. It soon become the leader in the small car market. As the Indian government was encouraging foreign investment, MNCS having a big name in car manufacturing entered the Indian market. KV Motors further expanded its service network and quality creating an entry barrier for the competitors. It depicted its strengths through various brand building activities. As a result, the market share of KV Motors is refusing to go down inspite of all major automakers as it competitors.

- i) Identify the economic reforms highlited in the above case.
- ii) Quoting the lines, explain any two points of importance of business environment being highlighted in the above case.

CHAPTER 4

PLANNING

Meaning of Planning: -

Planning is ascertaining prior to what to do and how to do. It is one of the primary managerial duties. Before doing something, the manager must form an opinion on how to work on a specific job. Hence, planning is firmly associated with discovery and creativity.

Importance of Planning: -

Planning is definitely significant as it directs us where to go, it furnishes direction and decreases the danger of risk by making predictions. The significant importance of planning is provided below:

i. Planning provides directions: Planning assures that the objectives are certainly asserted so that they serve as a model for determining what action should be taken and in which direction. If objects are well established, employees are informed of what the company has to do and what they need do to accomplish those purposes.

ii. Planning decreases the chances of risk: Planning is an activity which permits a manager to look forward and predict changes. By determining in prior the tasks to be completed, planning notes the way to deal with changes and unpredictable effects.

iii. Planning decreases overlapping and wasteful activities: Planning works as the foundation of organising the activities and purposes of distinct branches, departments, and people. It assists in avoiding chaos and confusion. Since planning guarantees precision in understanding and action, work is conducted on easily without delays.

iv. Planning encourages innovative ideas: Since it is the primary function of management, new approaches can take the form of actual plans. It is the most challenging project for the management as it leads all planned actions pointing to growth and of the business.

v. Planning aids decision making: It encourages the manager to look into the future and make a decision from amongst several alternative plans of action. The manager has to assess each option and pick the most viable plan.

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. If there is any deviation it can be corrected.

Features of Planning: -

The planning function of the management has certain special features, which are discussed follows:

i. Planning focuses on achieving objectives: Every organisation has a set of goals to be achieved. Planning involves setting goals and determining the most economical and viable course of action to achieve the predetermined goals. Thus, planning is purposeful.

ii.Planning is a primary function of management: It lays down the base for all other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, it can be said that planning precedes other functions.

iii. Planning is pervasive: It is required at all levels of management as well as in all the departments of the organisation. It is not a function restricted to top level but it is performed by managers at every level.

iv. Planning is continuous: Plans are made for a specific time period. At the end of such specific period, new plans have to be drawn. When plans are objective-based and goals are achieved, new plans are drawn with new objectives. On the other hand, if goals are not achieved, plans are revised to achieve success in future.

v. Planning is futuristic: Planning always means looking ahead, it is never for the past. All the managers try to make predictions and assumptions for future.

vi. Planning involves decision making: Planning choice making of the best possible alternative out of various alternatives.

Vii. Planning is a mental exercise: It is a mental exercise as it requires creativity, imagination and higher thinking skills with sound judgement. It is an intellectual activity of thinking rather than doing. It requires logical and systematic thinking rather than guess work or wishful thinking.

Limitations of Planning: -

The major limitations of planning are given below:

i. Planning leads to rigidity: Once plans are made to decide the future course of action the manager may not be in a position to change them.

ii. Planning may not work in a dynamic environment: Business environment is very dynamic as there are continuously changes. It becomes very difficult to forecast these future changes. Plans may fail if the changes are very frequent.

iii. Planning reduces creativity: Planning is done by top management. Middle level management merely follow the plans and are not permitted to act on their own. Thus, initiative and creativity get lost in the process.

iv. Planning involves huge costs: Planning process involves lot of costs because it is an intellectual process and companies need to hire the professional experts to carry on this process.

v. Planning is a time-consuming process: Sometimes, plans to be drawn up take so much of time that there is not much time left for their implementation. This leads to failure of planning.

vi. Planning does not guarantee success: Mere making of plans and not implementing them in their true sense, makes the plans useless.

Planning Process: -

As planning is an activity, there are certain reasonable measures for every manager to follow:

i. Setting Objectives: In planning function manager begin with setting up of objectives because all the policies, procedures and methods are framed for achieving objectives only.

ii. Developing Premises: Premises refers to making assumptions regarding future. The assumptions are made on the basis of forecasting. Forecast is the technique of gathering information.

iii. Identifying Alternative Courses of Action: After setting up of objectives the managers make a list of alternatives through which the organisation can achieve its objectives.

iv. Evaluating Alternative Courses: After making the list of various alternatives along with the assumptions supporting them the manager starts evaluating each and every alternative.

v. Selecting an Alternative: The best alternative is selected but as such there is no mathematical formula to select the best alternative. Sometimes instead of selecting one alternative a combination of different alternatives can also be selected.

vi. Implementing the Plan: This is the step where other managerial functions also come in to the picture. The step is concerned with putting the plan into action i.e., doing what is required.

vii. **Follow-up Action** Planning is a continuous process so the manager's job does not get over simply by putting the plan into action. The manager monitors the plan carefully while it is implemented.

Types of Plans: -

Plans can be classified into several types depending on the use and the length of the planning period. Certain plans have a short-term horizon and help to achieve operational goals. These plans can be classified into single-use plans and standing plans.

SINGLE USE PLAN: A Single use plan in a business refers to plan developed for a one-time project or event that has one specific objective. It applies to activities that do not recur or repeat. It is specifically designed to achieve a particular goal. Such plan is developed to meet the needs of a unique situation.

STANDING PLANS: Standing plans are used over and over again because they focus on organizational situations that occur repeatedly. They are usually made once and retain their value over a period of years while undergoing modifications and updates. That is why they are also called repeated use plans. For example, Businessman plans to establish a new business. Entrepreneur drafts business plan before opening the doors to their business, and they can use their plan to guide their efforts for years into the future.

Based on what the plans seek to achieve, plans can be classified as Objectives, Strategy, Policy, Procedure, Method, Rule, Programme, Budget.

Objectives: Objectives are the ends towards which the activities are directed. They are the end result of every activity, e.g., increase in sale by 10%.

Strategy: A strategy is a comprehensive plan to achieve the organisational objectives. Examples, selection of the medium of advertisement, selection of the channel of distribution etc.

Policy: Policies are general statements that guide thinking or channelise energies towards a particular direction. Example, selling goods on cash basis only, reserving some post for women in the organization.

Procedure: Procedures are required steps established in advance to handle future conditions. The procedure can be defined as the exact manner in which an activity has to be accomplished. Example: Process adopted in the Selection of Employees.

Method: Methods provide the prescribed ways or manner in which a task has to be performed considering the objective. Example, various methods of training are adopted by an organization to train its employees like apprenticeship training, vestibule training etc.

Rule Rules are specific statements that inform what is to be done. They do not allow for any flexibility or discretion. Example: 'No smoking in the office premises'. Violation of rules may invite penalty.

Programme: A programme is a single use plan containing detailed statements about project outlining the objectives, policies, procedures, rules, tasks, physical and human resources required to implement any course of action.

Budget: A budget is a statement of expected result expressed in numerical terms for a definite period of time in the future.

EXERCISE

A. Choose the correct answer:

(Mark: 1)

1. Which of the following is a feature of planning: -
 - (a) Focuses on achieving goals
 - (b) Pervasive
 - (c) Mental exercise
 - (d) All of the above
2. Planning provides direction is a
 - (a) Importance of planning
 - (b) Limitation of planning
 - (c) Characteristics of planning
 - (d) Method
3. Which one of the following is an importance of planning?
 - (a) Reducing uncertainty
 - (b) Identifying alternatives critically
 - (c) Developing leadership
 - (d) Selecting the most appropriate plan
4. Which one of the following is not a limitation of planning?
 - (a) May not work in dynamic environment

- (b) Costly process
 - (c) Rigidity
 - (d) It is pervasive
5. Which one of the following is a step of planning?
- (a) Analysis of organisation structure
 - (b) setting objectives
 - (c) Analysis of employee behaviour
 - (d) Analysis of employee morale
6. Decision-making is the case of __
- (a) Planning
 - (b) Organising
 - (c) Staffing
 - (d) Directing
7. ___ are relevant to recurring activities.
- (a) Single-use plans
 - (b) Standing plans
 - (c) Objectives
 - (d) Programmes
8. Which of the following statements is not true with reference to planning?
- (a) Planning is a pre-requisite for controlling.
 - (b) Planning does not lead to rigidity.
 - (c) Planning enables a manager to look ahead and anticipate changes.
 - (d) Planning facilitates co-ordination among departments and individuals in the organisation.
9. What is known as the primary function of management?

- (a) Controlling
 - (b) Organising
 - (c) Planning
 - (d) Staffing
10. A strategy is derived from
- (a) Policy
 - (b) Objective
 - (c) Method
 - (d) Rule
11. They provide a basis for interpreting strategy, which is usually stated in general terms.
- (a) Policies
 - (b) Procedures
 - (c) Objectives
 - (d) Programmes
12. Pervasiveness of planning indicates that planning
- (a) is a top management function.
 - (b) extends throughout the organisation.
 - (c) is a future-oriented activity.
 - (d) is the first element of management process.
13. ___ is a comprehensive plan for achieving its objectives.
- (a) Strategy
 - (b) Method

(c) Rule

(d) Policy

B. Give the answers of the following questions in one word/ sentence: -(Mark: 1)

1. What is planning?
2. One of the functions of Management is considered as base for all other functions? Name that function.
3. Mention any two qualities which are required for doing planning?
4. How does planning create rigidity?
5. Which is the most crucial step in planning process?
6. Define 'Strategy'.
7. Define 'Policy'.
8. Give one limitation of planning function.

C. Give the answers of the following questions: -

(Mark: 3/4/5/6)

1. What do you mean by planning? Explain the features of planning? (2+4)
2. Discuss about any five importance of planning.
3. State any four limitations of planning.
4. What are the steps taken by management in the planning process?
5. "Planning provides directions" and "planning decreases the chances of risk". Explain how? (2+3)
6. 'Planning is the basic/primary function of management.' Explain
7. Explain "Objective" and "Programme" as types of plans using suitable examples. (2.5+2.5)
8. 'Planning promotes innovative ideas'. Explain?

D. Case Study:

Rajiv, a worker, is given a target of assembling four computers per day. Due to his nature of doing things differently, an idea struck him which would not only reduce the assembling time of computers but would also reduce the cost of manufacturing of the computers. Rajiv's manager instead of appreciating him, ordered him to finish the work as per the methods and techniques decided earlier as nothing could be altered at that stage.

Questions:

1. Name and explain the limitation of planning described in the above case.
2. List two impacts of this limitation on business. (1+4)

ANSWERS

A. Choose the correct answer:

- | | | | | | | |
|------|------|-------|-------|-------|-------|------|
| 1- d | 2- a | 3- a | 4- d | 5- b | 6- a | 7- b |
| 8- b | 9- c | 10- b | 11- a | 12- b | 13- a | |

C. Give the answers of the following questions: -

5. Discuss these two points elaborately from the importance of Planning.
6. Discuss the point elaborately from features of Planning.
7. Discuss the point elaborately from importance of Planning.

D. Case Study:

Hints:

1. The Question No-1 expresses the limitation of planning which is 'Planning reduces creativity'.
2. Explain in details that how Planning reduces creativity.

Chapter – 5

Organising

Definition

Organising is the process of defining and grouping the activities of the enterprise and establishing authority relationships among them.

Theo Haimman

Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.

Louis Allen

STEPS IN THE PROCESS OF ORGANISING

Following are the steps in the process of organising:

(i) **Identification and division of work:** Identification and division of work is the first step in the process of organising. The work is divided into manageable activities so that duplication can be avoided and the burden of work can be reduced.

(ii) **Departmentalisation:** Grouping similar and related jobs into larger units called departments, divisions or sections and placing them under a department head. It facilitates specialization. This grouping process is called departmentalisation.

(iii) **Assignment of duties:** Once departments have been formed, each of them is placed under the charge of an individual. Jobs are assigned to an individual best suited to perform it. Qualifications, experience, ability and aptitudes of people should be matched with their duties.

(iv) Establishing reporting relationships:

Merely allocating work is not enough. Superior subordinate relations between different people and job positions need to create, so that everybody knows from whom he is to take orders and to whom he can issue orders.

IMPORTANCE OF ORGANISING

(i) Benefits of specialisation:

In organising every individual is assigned a part of total work and not the whole task. This reduces the workload as well as enhances productivity. Moreover, repetitive performance of a particular task helps to gain the benefit of specialisation.

(ii) Clarity in working relationship: Organising helps in creating well defined jobs and also clarifying the limits of authority and responsibility of each job. The superior-subordinate relationship is clearly defined here. This removes ambiguity in transfer of information and instructions.

(iii) Optimum utilization of resources:

The proper assignment of jobs avoids overlapping of work and also makes possible the best use of resources. This helps in preventing confusion and minimising the wastage of resources and efforts.

(iv) Adaptation to change:

The process of organising allows an organisation structure to be suitably modify their workload caused by change in external environment related to technology, products, resources and markets to pave the way for a smooth transition.

(v) Effective Administration:

It provides a clear description of jobs and related duties which helps to avoid confusion and duplication. Clarity in working relationships enables proper execution of work which results in effective administration.

(vi) Development of personnel:

Effective delegation allows the reduce their workload by assigning routine jobs to their subordinates. This reduction in workload helps the manager to develop new ways of performing tasks which develops the subordinates' ability and helps them to realize their full potential.

(vii) **Expansion and growth:** It helps in growth & diversification of an enterprise by adding more job positions, departments, new products, new geographical territories etc. will help to increase customer base, sales and profit.

ORGANISATIONAL STRUCTURE

The organisation structure can be defined as the framework within which managerial and operating tasks are performed. It specifies the relationships between people, work and resources in an organisation.

The organisational structure can be classified under two categories which are as follows:

- (i) **Functional organizational structure and**
- (ii) **Divisional organizational structure**

Functional organizational structure :

Functional structure is an organisational structure which is formed by grouping of jobs of similar nature under various functional departments.

Suitability

- (1) It is most suitable for large organizations producing one line of product.
- (2) It is suited for organizations which require high degree of functional specialization with diversified activities.

Advantage

The functional structure has certain advantages; these are: -

- 1. Specialization:** A functional structure leads to occupational specialisation since emphasis is placed on specific functions. Here employees perform similar tasks within a department and are able to improve their performance.
- 2. Coordination is established:** All the persons working within a departmental are specialists of their respective jobs. It establishes control and coordination within a department.
- 3. Helps in increasing managerial efficiency:** Managers of one department are performing same type of function again and again which helps in increasing managerial and operational efficiency.
- 4. Minimizes cost:** It leads to minimum duplication of effort which results in economies of scale and thus lowers cost.

Disadvantages

The functional structure has certain disadvantages; these are: -

- 1. Ignorance of organisational objectives:** A functional structure gives less emphasis on overall organisational objectives than the objectives pursued by a functional head. Hence overall organizational objectives suffer.
- 2. Difficulty in Coordination:** All departmental heads work as per their own wishes which may lead to difficulty in coordination as information has to be exchanged across functionally differentiated departments.
- 3. leads to inflexibility:** It may lead to inflexibility as staffs with same abilities and knowledge base may develop a narrow opinion and thus, have difficulty in appreciating any other point of view.

Divisional organisational structure

Under this structure an organisation is divided into different divisions or units on the basis of their products or geographical area.

Suitability:

1. This structure is suitable for organisations producing different types of products which requires product specialisation.
2. When growing companies need to add more lines of products in future can adopt this structure.

Advantages

The divisional structure has certain advantages; these are as follows:

- 1. Faster decision-making:** Decisions are taken much faster in divisional structure as divisional manager can take any decision regarding his division independently.
- 2. Divisional results can be assessed:** Results of each division can be assessed very easily. On the basis of this result any unprofitable division can be closed.
- 3. Growth and Expansion:** It facilitates growth and expansion as new divisions can be added very easily without disturbing existing departments.

Disadvantages

The divisional structure has certain disadvantages; these are as follows:

- 1. Conflicts:** Conflict among different divisions may arise on allocation of resources.

2. **Increase in costs:** Entire set of functions are required for each division which gives rise to duplication of efforts among divisions & increases cost.

3. **Selfish Attitude:** Every division tries to achieve best result among all and sometimes even at the cost of other divisions. This shows their selfish attitude.

Comparison between Functional organisational structure and Divisional organisational structure

Basis	Functional organisational structure	Divisional organisational structure
Meaning	Functional structure is an organisational structure which is formed by grouping of jobs of similar nature under various functional departments.	Under this structure an organisation is divided into different divisions or units on the basis of their products or geographical area.
Specialisation	Specialisation based on functions	Specialisation based on Product
Responsibility	In Functional structure it is difficult to fix the responsibility on a department.	In Divisional structure it is easy to fix the responsibility for performance.
Managerial development	In Functional structure managerial development is difficult, as each functional manager has to report to the top management.	In Divisional structure managerial development is easier, as they get the chance to perform multiple functions helps in managerial development.
Cost	Functional structure is less costly as there is no duplication of resources.	Divisional structure is costly as there is duplication of resources
Coordination	In Functional structure coordination is difficult.	In Divisional structure coordination is easy.

FORMAL ORGANISATION

Definition:-

Formal organisation is a system of consciously coordinated activities of two or more persons toward a common objective.

Chester Barnard

The formal organisation is a system of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability.

Louis Allen

Features of Formal organization

1. It is deliberately created by the top management for proper functioning of an organisation.
2. It is based on rules and procedures which are essential for organisation.
3. It does not take into consideration emotional aspects of employees.
4. It clearly specifies the authority and responsibility of every individual.
5. It is created to achieve organisational objectives as per plan.

Advantages of Formal organisation

Some of the important advantages of Formal organisation are:-

1. **Easier to fix responsibility:** In Formal organization mutual relationships are clearly defined hence it is easier to fix responsibility.
2. **No duplication of effort:** There is clarity in the role that each member has to play. This helps in avoiding duplication of effort.
3. **Unity of command:** Unity of command is maintained in the organization through an established chain of command.
4. **Easy to achieve objectives** – It leads to effective accomplishment of objectives because of coordination and optimum use of human and material resources.
5. **Stability in the organization** – It provides stability to the organization because behavior of employees can be fairly predicted since there are specific rules to guide them.

Disadvantages

Some of the important disadvantages of Formal organization are:-

1. Delay in decision making: The Work is based on various rules and procedures which causes unnecessary delay in decision making.

2. Lack of initiative: The employees have to do what they are told to do and they have no opportunity of thinking by their own.

3. Limited in scope: It is difficult to understand all human relationships in an enterprise as it places more emphasis on structure and work rather than emotions.

INFORMAL ORGANISATION

Definition:-

An informal organisation is an aggregate of interpersonal relationships without any conscious purpose but which may contribute to joint results.

Chester Barnard

Informal organisation is a network of personal and social relations not established or required by the formal organisation but arising spontaneously as people associate with one another.

Keith Davi

Features

1. It originates from within the formal organization as a result of personal interaction between employees.
2. It has no official written rules and procedures.
3. It does not have fixed lines of communication.
4. It is not deliberately created by the management but emerges spontaneously.
5. It is personal; means the feelings, emotions etc. of individuals are kept in mind.

Advantages

1. **Speed:** Prescribed lines of communication are not followed which leads to faster spread of information.
2. **Fulfillment of social needs** – It helps to fulfill the social needs of the members which enhances job satisfaction and gives them a sense of belongingness in the organization.
3. **Quick solution of the problems** – In this organisations the subordinates can speak without hesitation before the officers, it helps the officers to understand the problems of their subordinates.

Disadvantages

1. **It creates rumours:** All the persons in an informal organization talk carelessly and sometimes a wrong thing is conveyed to the other persons which create rumours.

2. Restrict growth:It resists change and lays stress on adopting the old techniques which restricts growth.

3. Priority to group interests: It pressurises members to conform to group expectations which can be harmful if it goes against organisational goals.

Basis	Formal organisation	Informal organisation
Definition	Formal organisation is a system of consciously coordinated activities	An informal organisation is an aggregate of interpersonal relationships
Responsibility	Here mutual relationships are clearly defined hence it is easier to fix responsibility.	Here mutual relationships are defined by feelings , emotions hence it is not easier to fix responsibility.
Authority	Arises by virtues of positions in management.	Arises out of personal qualities.
Structure	Well defined structure of tasks and relationships.	No clear cut structure because of complex network of relationships.
Speed	Prescribed lines of communication are followed which does not leads to faster spread of information.	Prescribed lines of communication are not followed which leads to faster spread of information.
Flow of Authority	Authority flows from top to bottom i.e. downwards.	Authority flows vertically as well as horizontally.

Difference between Formal and Informal Organisation

DELEGATION

Definition:

Delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits.

Theo Haimman

Process/Elements of Delegation

1. Authority: The power of taking decisions in order to guide the activities of others. Authority is that power which influences the conduct of others. It helps to maintain proper order in the organisation by giving the managers the right to exact obedience and give instructions to the workforce under them. Authority flows from top to bottom, i.e., the superior has authority over the subordinate.

2. Responsibility: It is the obligation of a subordinate to properly perform the assigned duty. When a superior give orders, it becomes the responsibility of the subordinate to carry it out. It arises from a superior-subordinate relationship because the subordinate is bound to perform the duty allotted to him by his superior. Thus, responsibility flows upwards i.e., a subordinate will always be responsible to his superior.

3. Accountability: When a superior assigns some work to a subordinate, he is answerable to his superior for its success or failure. Once authority has been delegated and responsibility accepted, one cannot refuse accountability. It cannot be delegated and flows upwards i.e., a subordinate will be accountable to a superior for satisfactory work. It indicates that the manger has to confirm the proper discharge of duties by his subordinates.

Basis	Authority	Responsibility	Accountability
1. Meaning	Right to command	Obligation to perform an allotted work.	Accountability for the outcome of the allotted work.
2. Origin	Arises out from formal position.	Arises out from delegated authority.	Arises out from responsibility.
3. Flow	Downward- Flows from superior to subordinate.	Upward- Flows from subordinate to superior.	Upward- Flows from subordinate to superior.
4. Withdrawl	Can be withdrawn anytime by notice.	Cannot be withdrawn once created.	Cannot be withdrawn once created.
5. Delegation	Can be delegated.	Cannot be entirely - delegated.	Cannot be delegatedat all.

Difference between Authority, Responsibility and Accountability

Importance of the Delegation of Authority

- 1. Reduction of Executives' work load:** It reduces the work load of managers. They can thus use their time in more important and resourceful works instead of works of daily routine.
- 2. Employee development:** Employees get more chances to use their talent which allows them to develop those skills which will enable them to perform more complex tasks.
- 3. Quick and better decision are possible:** The subordinate are can take various decisions concerning the routine matters as they have granted sufficient authority.
- 4. High Morale of subordinates:** Because of delegation of authority to the subordinates they get an opportunity to display their own efficiency and capacity which in turn increase the morale of subordinates.
- 5. Better coordination:** The elements of delegation – authority, responsibility and accountability helps to define the powers, duties and answerability related to various job positions of employees which results in maintaining better coordination.

DECENTRALISATION

Definition:

Decentralisation refers to systematic effort to delegate to the lowest level all authority except that which can be exercised at central points.

Louis Allen

Importance of Decentralisation

- 1. Develops initiative amongst subordinates:** It helps to promote self-reliance and confidence because the subordinates are given freedom to take their own decisions. It helps to identify those executives who have the necessary potential to become dynamic leaders.
- 2. Quick and better decisions:** The burden of managerial decisions does not depend in the hands of few people but gets divided among various persons which helps them to take better and quick decisions. There are also less chances of information getting distorted.
- 3. Relieves to top management:** The daily managerial works are assigned to the subordinates which gives enough time to the superiors which they can utilise in developing various new strategies.

4. Managerial development: It means giving authority to the subordinates up to the lower level to take various decisions regarding their work. In this way the decentralisation gives them a chance to prove their abilities.

Basis	Delegation	Decentralisation
1. Nature	It is a compulsory act.	It is an optional policy decision.
2. Freedom of action	Less freedom to take decisions due to more control by the superiors.	More freedom of action due to less control by the top management.
3. Status	It is a process of followed to share tasks and authority.	It is the result of policy decisions taken by top management.
4. Scope	Narrow- as it is confined to a superior and his immediate and subordinate.	Wide- as it includes extension of delegation to all the levels of management.
5. Purpose	To reduce the burden of manager.	To increase the role of subordinates and the autonomy of lower level of management

EXERCISE

5. Better Control: It makes it possible to evaluate performance at each level which results in complete control over all the activities of the organisation.

Difference between – Delegation and Decentralization

1. Multiple Choice Questions: - 1 mark each

1. Biswajit has joined as a Creative Head in an entertainment company. He always ensures that the work has been divided into small and manageable activities and also the activities of similar nature are grouped together. Identify the related step in organising process being mentioned in the above lines.

(a) Identification and division of work

- (b) Departmentalisation
- (c) Assignment of duties
- (d) Establishing reporting relationships

2. Which of the following is not an element of delegation?

- (a) Accountability
- (b) Authority
- (c) Responsibility
- (d) Informal organization

3. Air India Limited has a staff of 250 people which is grouped into different departments. The organisational structure depicts that 80 people work in Production department, 110 in Finance department, 25 in Technology department and 35 in Human Resource department. Identify the type of organisational structure being followed by the company.

- (a) Functional structure
- (b) Divisional structure
- (c) Informal structure
- (d) None of the above

4. A network of social relationship that arise spontaneously due to interaction at work is called:

- (a) Formal organisation
- (b) Informal organisation
- (c) Decentralisation
- (d) Delegation

5. Which of the following does not follow the scalar chain?

- (a) Functional structure
- (b) Divisional structure
- (c) Formal organisation
- (d) Informal organisation.

6. A tall structure has a

- (a) Narrow span of management

- (b) Wide span of management
- (c) No span of management
- (d) Less levels of management

7. Authority arises from

- (a) Responsibility
- (b) Formal position
- (c) Accountability
- (d) All of the above

8. Centralisation refers to

- (a) Retention of decision making authority
- (b) Dispersal of decision making authority
- (c) Creating divisions as profit centers
- (d) Opening new centers or branches

9. For delegation to be effective it is essential that responsibility be accompanied with necessary

- (a) Authority
- (b) Manpower
- (c) Incentives
- (d) Promotions

10. Span of management refers to

- (a) Number of managers
- (b) Length of term for which a manager is appointed
- (c) Number of subordinates under a superior
- (d) Number of members in top management

11. Responsibility is derived from

- (a) Authority
- (b) Formal position

(c) Accountability

(d) All of the above

12. The form of organisation known for giving rise to rumors is called

(a) Centralisedorganisation

(b) Decentralisedorganisation

(c) Informal organisation

(d) Formal organisation

13. Grouping of activities on the basis of product lines is a part of

(a) Delegated organisation

(b) Divisional organisation

(c) Functional organisation

(d) Autonomous organisation

14. Grouping of activities on the basis of functions is a part of

(a) Decentralisedorganisation

(b) Divisional organisation

(c) Functional organisation

(d) Centralised organisation

15. Accountability is derived from

(a) Authority

(b) Formal position

(c) Responsibility

(d) All of the above

Short Answer Type Questions: - 1 mark each

1. Define 'Organising'?

2. Is formal organisational structure is consciously and deliberately designed structure of well-defined jobs?

3. Under what circumstances would functional structure prove to be an appropriate choice?

4. What do you mean by Functional organizational structure?

5. Define Divisional organizational structure?

6. What do you mean by formal organisation?
7. Define Informal organisation.
8. Write about Delegation of Authority?
9. Define Decentralisation?

Long Answer Type Questions: - 3/4/5/6 marks

1. Why is delegation considered essential for effective organising?
2. What is a divisional structure? Discuss its advantages and limitations.
3. Decentralisation is an optional policy. Explain why an organisation would choose to be decentralised.
4. Make a difference between Formal and Informal Organisation.
5. Distinguish between Delegation and decentralisation.
6. Discuss about the elements of delegation.
7. Can a large sized organisation be totally centralised or decentralised? Give your opinion.
8. Decentralisation is extending delegation to the lowest level. Comment.
9. What is a functional structure? Discuss its advantages and limitations.
10. Distinguish between functional structure and divisional structure.
11. Explain the importance of Organising.
12. What are the steps in the process of organising? Explain.

CASE STUDY

1. A company manufacturing Ceiling Fans set up in 1985 by the ABC Group follows formal organisation culture in totality. It is facing lot of problems in delays in decision making. As the result it is not able to adapt to dynamic business environment. The work force is also not motivated since they cannot vent their complaints except through formal channels, which involve red tapism. Employee turnover is also high. Its market share is also declining due to this environment.

Questions:

You are to advise the company with regard to change it should bring about in its organisation structure to overcome the problems faced by it. Give reasons in terms of benefits it will derive from the changes suggested by you. In which sectors can the company diversify themselves by keeping in mind the declining trend for the product the company is manufacturing?

ANSWER KEY

Multiple Choice Questions: - 1 mark each

1. Answer: b 2. Answer: d 3. Answer: a 4. Answer: b 5. Answer: d 6. Answer: a 7. Answer: a
8. Answer: a 9. Answer: a 10. Answer: c 11. Answer: a 12. Answer: d 13. Answer: b 14. Answer: c
15. Answer: c

Chapter – 6

Staffing

MEANING

Staffing is ‘putting people to jobs’. It begins with human resource planning and comprises different other function like recruitment, selection, training, development, promotion, compensation and performance appraisal of work force.

NEED AND IMPORTANCE OF STAFFING

- (i) **Discovering competent personnel** :- Staffing helps in discovering and obtaining competent personnel for various jobs;
- (ii) **Improves Efficiency**: Staffing makes for higher performance, by putting right person on the right job;
- (iii) **Survival and Growth**: Staffing ensures the continuous survival and growth of the enterprise through the succession planning for managers;
- (iv) **Optimum Utilisation of Human Resources**: Staffing helps to ensure optimum utilisation of the human resources by avoiding overmanning, it prevents under-utilisation of personnel and high labour costs.
- (v) **Improves Job Satisfaction**: Staffing improves job satisfaction and morale of employees through objective assessment and fair rewarding of their contribution.

Staffing as Part of Human Resource Management

Staffing function deals with human beings which plays an important role in the success of an organisation. As organization grows the number of people employed increases and a separate department consists of specialists and experts is formed as human resource department. Human Resource Management includes many specialised activities and

duties which the human resource personnel must perform. These duties are:

- a. Recruitment of Competent people
- b. Analysing jobs, collecting information about jobs to prepare job descriptions.
- c. Developing compensation and incentive plans.
- d. Training and development of employees for efficient performance.

- e. Maintaining labour relations with management.
- f. Handling grievances and complaints of employees.
- g. Providing for social security and welfare of employees.

This shows that Human Resources Management is a much broader concept and it is essential to achieve the goals of the organization efficiently and effectively.

PROCESS OF STAFFING

Staffing as a process can be described as follows: -

- (i) Estimating the Manpower Requirements:** The number of persons and the kind of persons required in the organisation must be estimated. understanding the manpower requirements would necessitate workload analysis on the one hand and workforce analysis on the other.
- (ii) Recruitment:** Recruitment means the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. For the recruitment process, internal sources and external sources can be used.
- (iii) Selection:** It is the process of choosing and appointing the right candidates for right job in an organization by conducting various exams, tests and interviews. It ensures that the organisation gets the best candidate.
- (iv) Placement and Orientation:** Placement refers to occupying of the post by the candidate for which he has been selected. Orientation means introducing the selected employee to other employees and familiarising him with the rules and policies of the organisation.
- (v) Training and Development:** Training is concerned with upgradation of the knowledge and skills of employees so that their ability can be improved. Development involves growth of an employee in all aspects such as performance, knowledge etc.
- (vi) Performance appraisal:** Performance appraisal means evaluating an employee's performance as against certain pre determined standards.

Aspects of Staffing

Recruitment:

Recruitment means the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. The sources are: -

- (A) Internal Sources
- (B) External Sources

A. Internal sources of Recruitment

Internal sources of recruitment means where job vacancies are filled from within the organisation. It can take the following forms:

- 1. Transfers:** It refers to shifting of an employee from one job to another, from one department to another or from one shift to another shift.
- 2. Promotions:** It involves shifting of an employee to a higher position carrying higher responsibilities, status, facilities and remuneration.

Advantages

- (a) It is economical and simple.
- (b) It motivates the existing employees.
- (c) Transfer is a tool of training the employees to prepare them for higher jobs..

Limitations

- (a) No fresher, new ideas will not come in the organisation.
- (b) A new enterprise cannot use internal sources of recruitment.
- (c) The spirit of competition among the employees may be hampered.

B. External sources of Recruitment

When the candidates from outside the organisation are recruited to fill the vacant job position then it is known as external recruitment.

The common methods of external sources of recruitments are:

- 1. Direct Recruitment:** Under the direct recruitment, an organisation places a notice on the notice board specifying the details about job vacancies such as the number of vacancies, required qualifications of candidates and date of interview.
- 2. Casual callers:** Many reputed business organizations keep a data base of unsolicited applicants in their office. This list can be used for Recruitment of employees.
- 3. Advertisement:** Advertisement in media is generally used when a wider choice is required. Example– Newspapers, Internet, Radio, Television etc.

4. Employment Exchange: Employment exchanges serve as a link between job seekers and employers. It is regarded as a good source of recruitment for unskilled and skilled operative jobs.

5. Campus Recruitment: Recruitment of fresh graduates directly from colleges and universities is now a popular source of recruitment.

6. Recommendations of Employees: Applicants introduced by present employees, or their friends and relatives may prove to be a good source of recruitment.

Merits of External Sources of Recruitment

1. Qualified Personnel: By using external source of recruitment the management can attract qualified and trained people to apply for the vacant jobs in the organization.

2. Wider Choice: The management has a wider choice in selecting the people for employment through external sources.

3. Competitive Spirit: If a company selects new staff through external sources, the existing staff will have to compete with the outsiders.

Limitations of External Sources of Recruitment

1. Dissatisfaction among Existing Employees: Recruitment from outside may cause dissatisfaction among the existing employees. They may feel that their chances of promotion are reduced.

2. Costly Process: It is very costly. A lot of money has to be spent on advertisement therefore this is a costly process.

3. Lengthy Process: It takes more time than internal sources of recruitment as candidates need to select from outside of the organisation.

Selection:

It is the process of choosing and appointing the right candidates for right job in an organization by conducting various exams, tests and interviews. It ensures that the organisation gets the best candidate.

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:** Employment test for judging the applicant's suitability for the job. These tests include:
 - (a) Intelligence Tests
 - (b) Aptitude Test
 - (c) Personality Tests
 - (d) Trade Test
 - (e) Interest Tests
- 3. Employment Interviews:** The main purpose of interview is to seek more information about the candidate and to give the candidate various terms and conditions of the job.
- 4. Reference Checks:** Many employers request names, addresses, and telephone numbers of references for the purpose of verifying information and, gaining additional information on an applicant.
- 5. Selection Decisions:** A list of candidate who are able to clear the employment tests, interviews and reference checks is prepared and then the candidates are selected.
- 6. Medical/Physical Examination:** A qualified Doctor appointed by organisation should certify whether the candidate is physically fit to the requirements of a specific job or not.
- 7. Job Offer:** After a candidate has cleared all hurdles in the selection procedure, he is officially appointed by issuing him an Appointment Letter.
- 8. Contract of Employment:** After getting the job offer, the candidate has to give his acceptance. There is also a need for preparing a contract of employment.

Differences Between Recruitment and Selection

Points	Recruitment	Selection
Meaning	Recruitment means the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.	Selection is the process of choosing and appointing the right candidates for right job.
Employment contract	No employment contract is given to the candidates who are assembled for recruitment.	Candidates who pass the selection process are offered an employment contract .
Characteristic	A good number of people are attracted to the job.	Only the appropriate suitable candidates are selected.

Education

Education is the process of increasing the knowledge and understanding of employees. It is the understanding and interpretation of knowledge.

Training and Development:

Training is concerned with upgradation of the knowledge and skills of employees, so that their ability can be improved. Development involves growth of an employee in all aspects such as performance, knowledge etc.

Need of Training and Development

Training and development help both the organisation and the individual.

Benefits to the organisation

The benefits of training and development activity to the organisation are as follows:

- (i) **Less wastage** : Training is a systematic learning, always better than hit and trial methods which lead to wastage of efforts and money.
- (ii) **Higher profits** : It enhances employee productivity both in terms of quantity and quality, leading to higher profits.
- (iii) **Managerial Efficiency**: Training imparts self-confidence among employees to face new challenges. It helps them to increase their managerial efficiency.
- (iv) **Reduced Absenteeism**: Training increases employee moral and reduces absenteeism and employee turnover.
- (v) **Adapting to Changes**: It helps in obtaining effective response to fast changing technological and economic environment.

Benefits to the Employee

The benefits of training and development activity to the employees are as follows:

- (i) **Better Career Opportunities**: Improved skills and knowledge due to training lead to better career of the individual.
- (ii) **Earn More**: Increased performance by the individual help him to earn more.
- (iii) **Less Accident Prone**: Training makes the employee more efficient to handle machines. Thus, less prone to accidents.
- (iv) **Self-Confidence**: Training increases the Self-confidence and morale of employees.

Difference Between Training and Development :

Points	Training	Development
Meaning	It enhancing skills and abilities of an employee necessary for a specific job	It refers to the overall growth and improvement of an employee
Focus	It focuses on the requirements of a specific job	It focuses on the overall growth of an individual, thereby relating to the full career
Scope	It is narrow in scope as it is related to only a specific job	It is wider in scope as it is related to the complete growth of the employee

TRAINING METHODS

There are two broad categories

A. ON THE JOB METHODS

(i) Apprenticeship Programmes:

Workers are made to work under a master worker to get the required skills for the job. These are designed to acquire a higher level of skill. For example, plumbers, electricians etc.

(ii) **Coaching:** Here the superior guides and instructs the trainee as a coach. The trainee works directly with a senior manager and he takes full responsibility for the trainee's coaching.

(iii) **Internship Training:** Under this method an educational institute enters into agreement with industrial enterprises for providing practical knowledge to its students for gaining practical experience.

(iv) **Job Rotation:** This kind of training involves shifting the trainee from one department to another or from one job to another which helps in promotions, replacements or transfers of employees.

OFF THE JOB METHODS

(i) **Class Room Lectures/Conferences:** The lecture or conference method is well adapted to convey definite information, rules, procedures etc. Audio-visual presentations are used to address trainees in the classroom.

(ii) **Case Study:** Taken from actual experiences of organisations, cases represent attempts to describe, as accurately as possible real problems that managers have faced. Trainees study the cases to determine problems and their solutions.

(iii) **Computer Modelling:** Real-life situations are imitated through computer programmes which helps trainees to learn various situations in a risk-free environment.

(iv) **Vestibule Training:** Actual work environments are created in a class room and employee use the same materials and equipment. After completion they are shifted to work on the actual machines at the actual workplace.

1. Multiple Choice Questions: -

(Mark- 1)

1. It begins with human resource planning and comprises different other function like recruitment, selection, training, development, promotion etc.
 - (a) Planning
 - (b) Organising
 - (c) Staffing
 - (d) Directing
2. It is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
 - (a) Recruitment,
 - (b) Selection,
 - (c) Training,
 - (d) Development
3. Which of the following is not an external source of recruitment
 - (a) Campus recruitment
 - (b) Promotion
 - (c) Casual callers
 - (d) Advertisement
4. Which of the following is an internal source of recruitment?
 - (a) Transfer
 - (b) Advertising on television
 - (c) Direct recruitment
 - (d) Labour contractors

5. Which of the following is not an advantage of using external sources of recruitment?
- (a) Qualified personnel
 - (b) Wider choice
 - (c) Economical and simple
 - (d) Fresh talent
6. Which of the following is not a disadvantage of using external sources of recruitment?
- (a) Dissatisfaction among existing staff
 - (b) Lengthy process
 - (c) Wider Choice
 - (d) Costly process
7. It is the process of choosing and appointing the right candidates for right job in an organization
- (a) Recruitment
 - (b) Selection
 - (c) Training
 - (d) Development
8. It is the process of introducing the selected employee to other employees and familiarising him with the rules and policies of the organisation..
- (a) Orientation
 - (b) Selection
 - (c) Training
 - (d) Recruitment
9. It refers to the employee occupying of the post by the candidate for which he has been selected.
- (a) Development
 - (b) Selection
 - (c) Placement
 - (d) Recruitment

10. It is concerned with upgradation of the knowledge and skills of employees so that their ability can be improved.
- (a) Orientation
 - (b) Staffing
 - (c) Training
 - (d) Recruitment
11. It involves growth of an employee in all aspects such as performance, knowledge etc.
- (a) Organising
 - (b) Selection
 - (c) Training
 - (d) Development
12. In this training method actual work environments are created in a class room and employees use the same materials and equipment
- (a) Apprenticeship training
 - (b) Induction training
 - (c) Internship training
 - (d) Vestibule training
13. Under this method an educational institute enters into agreement with industrial enterprises for providing practical knowledge to its students.
- (a) Apprenticeship training
 - (b) Induction training
 - (c) Internship training
 - (d) Vestibule training
14. Identify the correct sequence of the steps involved in the staffing process of an organization.
- (a) Recruitment, Estimating the Manpower Requirements, Placement and Orientation, Selection
 - (b) Estimating the Manpower Requirements, Selection, Placement and Orientation, Recruitment
 - (c) Selection, Estimating the Manpower Requirements, Recruitment, Placement and Orientation

(d) Estimating the Manpower Requirements, Recruitment, Selection, Placement and Orientation

15. Choose the correct sequence of the steps involved in the selection process

(a) Reference and Background checking, Selection Decision, Medical Examination, Job Offer, Contract of Employment

(b) Reference and Background checking, Selection Decision, Contract of Employment, Medical Examination, Job Offer

(c) Job Offer, Reference and Background checking, Selection Decision, Medical Examination, Contract of Employment

(d) Medical Examination, Contract of Employment, Reference and Background checking, Selection Decision, Job Offer

Very Short Answer Questions: -1 Mark questions

1. What is meant by Staffing?
2. State the method of training in which trainee is put under the guidance of a master worker to acquire a higher level of skill.
3. State how does staffing improve job satisfaction and morale of employees?
4. State how staffing ensures 'continuous survival and growth of enterprise'.
5. What is meant by selection of an employee?
6. Name the kind of training which involves shifting the trainee from one department to another or from one job to another?
7. Name the method of training in which an educational institute enters into agreement with industrial enterprises for providing practical knowledge to its students.
8. What do you mean by the term 'Development'?
9. Name the method of recruitment in which reputed business organizations keep a data base of unsolicited applicants in their office.
10. State the method of recruitment in which fresh graduates directly from colleges and universities are recruited in the organization.

Answer the following Questions: - (3/4/5/6 marks)

1. What is meant by recruitment? How is it different from selection?
2. Explain Staffing as Part of Human Resource Management.
3. Explain in brief the various steps involved in the process of staffing.
4. A newly appointed Personnel Manager is of the view that there is no need for training the workers. Do you agree with this statement? Give reasons in support of your answer.
5. Explain any four external sources of recruitment. Which of these sources is ideal for a manufacturing organisation?
6. Give any four limitations of using internal sources of recruitment.
7. Explain briefly 'transfers' and 'promotions' as internal sources of recruitment.
8. Define Training. How is it different from education?
9. Distinguish between training and development.
10. Why are internal sources of recruitment considered to be more economical?
11. What is the importance of staffing function in today's environment?
12. Explain briefly Staffing as a process.
13. Discuss the important steps in the process of selection.
14. What are the advantages of training to the individual and to the organisation? Explain.
15. Explain any three on the job training methods and off the job training methods.

Case Studies

(i) ABC transport corporation has hired 100 buses for the different routes for the passengers of smart city. Most of the 300 crewmen (drivers, conductors, helpers etc.) of these buses have been found to be wanting in satisfactorily dealing with public and daily commuters. They seem to be little interested in the job and the job seem to have lost all meaning to them.

Questions

1. As manager of the public transport company what measures do you suggest to improve the working of crewman in question?
2. Is it possible to modify their behaviour by planning a suitable type of training? Suggest one.

(ii) Ms. Sudipa recently completed her Post Graduate Diploma in Human Resource Management. A few months from now a large Cement manufacturing company appointed her as its human resource manager. As of now, the company employs 500 persons and has an expansion plan in hand which may require another 150 persons for various types of additional requirements. Ms. Sudipa has been given complete charge of the company's Human Resource Department.

Questions

1. Find out, what functions is she supposed to perform?
2. What problems do you foresee in her job?
3. What steps is she going to take to perform her job efficiently?
4. How significant is her role in the organisation?

ANSWER KEY

Multiple Choice Questions: -

1. Answer: c
2. Answer: a
3. Answer: b
4. Answer: a
5. Answer: c
6. Answer: c
7. Answer: b
8. Answer: a
9. Answer: c
10. Answer: c
- Answer: d
12. Answer: d
13. Answer: c
14. Answer: d
15. Answer: a

CHAPTER-7

Directing

Meaning of Directing: -

Directing function of management is concerned with instructing, guiding, inspiring and motivating the employees in the organisation so that their efforts result in achievement of organisational goal. Directing is a key managerial function performed by the manager along with planning, organizing, staffing and controlling. Directing is a continuous process initiated at top level and flows to the bottom through organizational hierarchy.

Characteristics of Directing: -

The salient characteristics of directing are discussed below:

- 1. Directing Initiates Action:** Directing is required at all stages, a manager has to perform this function along with planning, organizing, staffing and controlling.
- 2. Directing Takes Place at all Levels of Management:** Every manager has to perform this function and hence it takes place at all levels of management.
- 3. Directing is a Continuous Process:** Directing takes place at all levels of the organisation so that all activities are directed towards the achievement of organizational goals
- 4. Directing Flows from Top to Bottom:** Directing initiates at top level and flows to the bottom of organisation through organizational hierarchy.

Importance of Directing: -

Directing binds all the efforts done by the management in the form of organising and planning and brings together all of the organisation towards achieving the goals of the organisation. Following are some of the points that show the importance of directing in the organisation:

- 1. Directing Initiates Action:** Directing is the starting point of action. It initiates action based on planning, organising and staffing. Action is initiated when the managers provide direction to their subordinates for carrying out the task to achieve the goals of the organisation.

2. Directing Integrates Employee's Efforts: All the activities of the organization are interrelated so it is necessary to coordinate all the activities. It integrates the activities of subordinates by supervision, guidance and counselling.

3. Provide Motivation: Directing acts as a source of motivation for the employees. It helps in motivating the employees in contributing their efforts for the realization of organisational objectives.

4. Directing Facilitates Change: Employees often resist changes due to fear of adverse effects on their employment and promotion. Effective directing through motivation, communication and leadership help employees to cope up with changes in the environment.

5. Maintaining Balance: Directing brings about stability and balance in the organization which is essential for long term survival of the business. Balance and stability can be achieved by following a persuading leadership style coupled with effective communication, motivating employees and strictly supervising the work of employees and suggesting improvements.

Principles of Directing: -

Effective direction leads to greater contribution of subordinates to organization goals. The directing function of management can be effective only when certain well accepted principles are followed.

1. Maximum Individual Contribution: Directing techniques must be applied towards maximizing individual involvement of employees for the achievement of organizational objectives. It should bring out available energies of employees for the efficiency of organisation.

2. Unity of Command: This principle states that one person should receive orders from only one superior, in other words, one person should be accountable to only one boss.

3. Appropriateness of Direction Technique: Appropriate motivational and leadership technique should be used by a manager while directing the people based on subordinate needs, capabilities, attitudes and other situational variables.

4. Managerial Communication: To have effective direction, it is very essential to have an effective communication system which provides for free flow of ideas, information, suggestions, complaints and grievances.

5. Use of Informal Organisation: A manager must be aware of the informal groups in an organisation and use it for effective directing.

6. Leadership: Managers should exercise good leadership as it can influence the subordinates positively without causing dissatisfaction among them.

Elements of Direction: -

There are four main elements of directing, which are:

(i) Supervision (ii) Motivation (iii) Leadership (iv) Communication

(i) Meaning of Supervision: -

Implies overseeing the work of subordinates by their superiors. It is an act of watching & directing worker's activities. Managers act as supervisors and they ensure that the work is going as per their instructions. It is the duty of a supervisor to make sure that all instructions are properly followed and the subordinates are doing as they are instructed. It is an important function at the lower levels of management therefore the term 'Supervisor' is used at the operatives level of management

Importance of Supervision/Role of a Supervisor: -

The importance of supervision can be understood from multiple roles performed by a supervisor. These are explained below:

1.Link Between Workers and Management: Because the supervisor explains management policies to workers and brings workers problems to the notice of the management.

2.Ensures issuing Instructions: To make sure that the instructions are communicated to each and every employee.

3. Facilitate Control: Control means match between actual and planned output. It ensures checking on the methods in use and progress of work according to planned schedule.

4. Maintenance of Discipline: The strict supervision and guidance of supervisor encourages the employees and workers to be more disciplined in the activities. Under the guidance of superior the workers follow a fixed or strict timetable and execute the plans in right directions.

5. Feedback: The supervisors are directly dealing with the subordinates. As a result, feedback in the form of suggestions, grievances keep coming to the management. It improves quality management decisions and revision of plans and policies.

6. Optimum utilization of resources: All the activities are under the observation of supervisor, so less wastage and optimum utilization of resources is possible.

Meaning of Motivation: -

Motivation means stimulation to act or move. Motivation is the process of stimulating people to action to complete desired goals.

While discussing about motivation, we need to understand three inter related terms — motive, motivation and motivators. Let us try to know about these terms.

Motive: Inner state that energizes, activates and directs behaviour towards goals. Arises out of unsatisfied needs and causes restlessness.

Motivation: Process of stimulating people to action to complete desired goals.

Motivators: Technique used to motivate people. e.g., bonus, promotion, recognition etc.

Features of Motivation: -

The main characteristics of motivation are discussed below:

1. Motivation is a Psychological Phenomenon: Motivation is an internal feeling, such as urge, drives and desires which means it cannot be forced on employees.

2. Goal Directed Behaviour: It induces people to behave in such a manner so that they can achieve their goals. A motivated person works towards the achievement of desired goals.

3. Motivation is a Complex Process: It is a complex and difficult process. Individuals differ in their needs and wants and moreover human needs change from time to time.

Motivation Process: -

Motivation process is based on human needs. A simple model to explain motivation process is discussed below.

i) **Unsatisfied Need:** At the first step of motivation, a person feels the need of something or there is a feeling that he lacks something.

ii) **Tension:** The person concerned gets tensed at the actual idea of his need not being satisfied.

iii) **Drives:** Drive signifies some sort of anxiety in the mind of the person concerned. At this step, the person concerned activities to fulfil his need. The fulfilment of need depends on the direction and intensity of the drive.

iv) **Search Behaviour:** At this step, a person tries to discover different options to fulfil his need. He puts the best option into operation.

v) **Need Satisfied:** If the option really happens to be a correct one, satisfaction is obtained.

vi) **Reduction of Tension:** The person concerned gets his tension relieved when his need is satisfied.

Importance of Motivation: -

The importance of motivation can be pointed out by the following benefits:

i) Motivation Improves Performance: Good motivation in the organisation helps to achieve higher levels of performance as motivated employees contribute their maximum efforts for organizational goals.

ii) Motivation Stimulates Action: By motivating the employees and praising them for the good work positive attitude can be developed among the employees.

iii) Motivation Facilitate Change: Motivation helps managers to introduce changes smoothly without much resistance from workers.

Maslow's Need Hierarchy Theory of Motivation: -

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 an overall theory of motivation. His theory was based on human needs. He felt that within every human being, there exists a hierarchy of five needs. These are:

1. Basic Physiological Needs: These are the most basic need such as food, shelter, sleep etc. In the organisational context, basic salary helps to satisfy these needs.

2. Safety/ Security Needs: Provide security from physical and emotional harm E.g., Job security, stability etc.

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

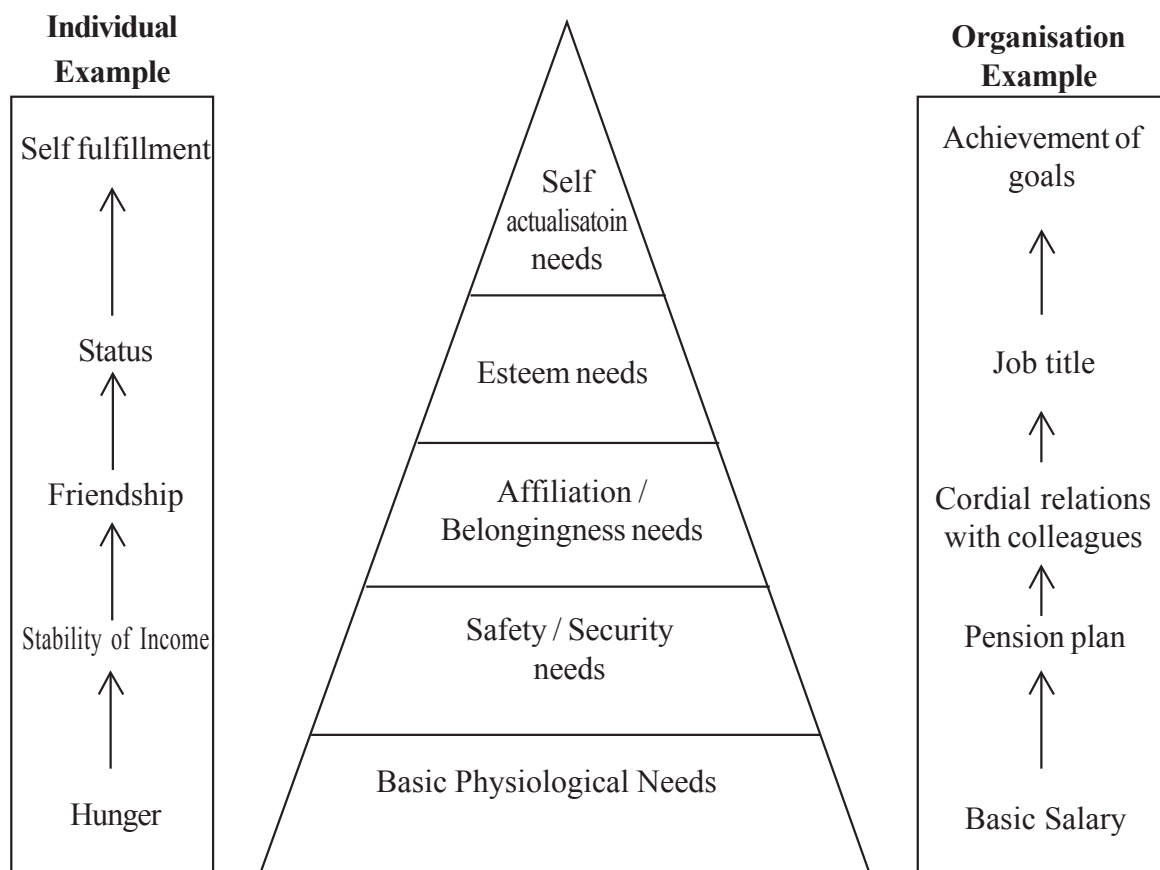
3. Esteem Needs: These include factors such as self-respect, prestige, autonomy status, recognition and attention.

4. Self Actualisation Needs: It is the highest level of need in the hierarchy. It refers to the drive to become what one is capable of becoming.

Assumptions of Maslow's Need Hierarchy Theory:-

Maslow's theory is based on the following assumptions:

1. People's behaviour is based on their needs. Satisfaction of such needs influences their behaviour.
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-level need is satisfied.



Maslow's Theory focuses on the needs of human beings as the basis for motivation. Managers use this theory to identify the various need levels amongst employees and formulate different motivational techniques to satisfy their needs and motives. It is not necessary that each employee follows same hierarchy level to satisfy his/her needs.

FINANCIAL AND NON-FINANCIAL INCENTIVES:-

Incentive means all measures which are used to motivate people to improve their performance.

I. Financial incentives: It refers to incentives which are measurable in monetary terms and serve to motivate people for better performance.

Types of Financial incentives:

i) Pay and allowances: For every employee/ worker, salary is the basic monetary incentive.

ii) Productivity linked wage incentives: In this case the payment of wages is determined on the basis of the goods produced. This is used for increasing productivity.

iii) Bonus: Bonus is an incentive offered over and above the wages/ salary for the services provided by the employees.

iv) Profit Sharing: Profit sharing is meant to provide a share to employees in the profits of the organisation in order to motivate them.

II. NON-FINANCIAL INCENTIVES: It refers to reward that doesn't form part of salary/ wages of the employee. It provides psychological satisfaction to an employee. Some of the important non-financial incentives are discussed below:

i) Status: In the organizational context, status means ranking of positions in an organisation, in other words status given to a person holding a managerial position.

ii) Organisational Climate: Organisational climate indicates the characteristics which describe an organisation and distinguish it from another one.

iii) Career Advancement Opportunity: A company must provide employees appropriate skill development programmes, and a sound promotion policy to achieve promotions.

Meaning of Leadership: -

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

Features of Leadership: -

The important features of leadership are discussed below:

i) Influence the behaviour of others: Leadership is an ability of an individual to influence the behaviour of other employees in the organization to achieve a common purpose or goal so that they can willingly co-operate with each other for the fulfillment of the same.

ii) Inter-personal process: It is an interpersonal process between the leader and the followers. The relationship between the leader and the followers decides how efficiently and effectively the targets of the organization would be met.

iv) Group process: It is a group process that involves two or more people together interacting with each other. A leader cannot lead without the followers.

v) Dependent on the situation: It is situation bound as it all depends upon tackling the situations present. Thus, there is no single best style of leadership.

Importance of Leadership: -

Leadership is a key factor in making any organisation successful. History reveals that, many times, difference between success and failure of an organisation is leadership. The importance of leadership can be discussed from the following benefits to the organisation:

i) Initiating Action: Leadership starts from the very beginning, even before the work actually starts. A leader is a person who communicates the policies and plans to the subordinates to start the work.

ii) Providing Guidance: A leader not only supervises the employees but also guides them in their work. He instructs the subordinates on how to perform their work effectively so that their efforts don't get wasted.

iii) Co-ordination: A leader reconciles the personal interests of the employees with the organizational goals and achieves coordination in the entity.

iv) Creating Successors: A leader trains his subordinates in such a manner that they can succeed him in the future easily in his absence. He creates more leaders.

Qualities of A Good Leader:

It assumes that leaders can be distinguished from non-leaders by certain unique qualities owned by them. The qualities of good leaders as identified by some researchers. Some of these qualities are explained below:

i) Physical Qualities: Good physical features attract people. Physical features like height, weight, health and looks of person attract an individual. Healthy and smart leader himself can also work hard and he can encourage his subordinates also to work hard.

ii) Knowledge: A subordinate looks up to his leader for any suggestion that he needs. A good leader should thus possess adequate knowledge and competence in order to influence subordinates.

iii) Integrity: A leader needs to possess a high level of integrity and honesty. He should have a fair outlook and should base his judgment on the facts and logic. He should be objective and not biased.

iv) Initiative: A leader must take initiative to grab the opportunities. He must have courage and initiative to take bold decisions. He must take risk for the advantage of organisation.

However, we should remember that all good leaders may not necessarily have all the qualities of a good leader. But an understanding about these qualities help the managers to acquire them through training and conscious efforts.

Leadership Style: -

There are several bases for classifying leadership styles. The most popular classification of leadership styles is based on the use of authority. Depending on the use of authority, there are three basic styles of leadership:

(i) Autocratic (ii) Democratic, and (iii) Laissez-faire

i) Autocratic or Authoritarian Leader:

An autocratic leader exercises complete control over the subordinates. He centralizes power in himself and takes all decisions without consulting the subordinates. He does not delegate authority. The leader gives order and expects the subordinates to follow them unquestioningly. He gives reward and puts penalty to direct the subordinate. This leader is dogmatic i.e., does not change or wish to be contradicted.

Advantages:

i) Quick decision making.

ii) Provides strong motivation and satisfaction to the leader who dictates terms.

iii) Less competent subordinates are needed at lower level.

Disadvantages:

i) Leads to frustration and low moral among subordinates.

- ii) Initiative level of subordinates goes down.
- iii) Potential and creativity of subordinates are not utilised.

Suitability:

Autocratic style of leadership is suitable when:

- i) Subordinates are uneducated, unskilled, lack of knowledge and experience on part of subordinates.
- ii) Company follows fear and punishment disciplinary technique.
- iii) Leader prefers to be dominant in decision making.

ii) Democratic or Participative Leader:

Under this style leader takes decisions in consultation and participation with employees. He delegates and decentralizes the authority. Leader follows the opinion of majority. He provides freedom of thinking and expression. He listens to the suggestions, grievances and opinion of the subordinates.

Advantages:

- i) Improves the job satisfaction and confidence of the employees.
- ii) Improves decision making ability of subordinates.
- iii) Quality of decision improves.

Disadvantages:

- i) Time-consuming and may result in delay in decision making.
- ii) It may not produce positive result when subordinates prefer minimum interaction with the leader.
- iii) Leader may pass the work to subordinates and abdicate responsibility.
- iv) Consultation with subordinates may be considered as sign of incompetence of leader.

Suitability:

This style is suitable:

- i) When goal of company is to increase job satisfaction and independence of employees.
- ii) When leader wants to share decision making with the subordinates.

iii) When subordinates have accepted the goal of organisation.

iii) Laissez faire or Free-rein Leader:

This style involves complete delegation of authority so that subordinates themselves take decision. In this style, leader avoids power. He serves only as a contact to bring information and resources needed by the subordinates.

Advantages:

- i) Positive effect on the job satisfaction and morale of subordinates.
- ii) Maximum scope for development of subordinates.
- iii) Full utilisation of potential and capacity of employees.

Disadvantages:

- i) Subordinates do not get the guidance and support of the leader.
- ii) It ignores the contribution of leader.
- iii) Subordinates may work in different direction and result in chaos.

Suitability:

This style is suitable when:

- i) Subordinates are well trained and highly knowledgeable.
- ii) Subordinates are self-motivated and are ready to assume responsibility

Meaning of 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, views, facts, feelings etc., between or among people to create common understanding. Communication plays key role in the success of a manager.

Elements of Communication Process: -

The elements involved in communication process are explained below:

1. Sender: The person who conveys his thoughts or ideas to receiver.

2. **Message:** Ideas, feelings, suggestions, order etc. intended to be communicated.
3. **Encoding:** The process of converting the message into communication symbols such as words/pictures etc.
4. **Media:** Path or channel through which encoded message is transmitted to receiver.
5. **Decoding:** Converting encoded symbols of the sender.
6. **Receiver:** Who receives the communication of the sender.
7. **Feedback:** All the actions of receiver indicating that he has received and understood the message of the sender.

Importance of Communication: -

Communication is one of the most central aspects of managerial activities. The importance of communication in management can be judged from the following:

1. **Acts as a basis of coordination:** Facilitates Coordination between various departments and sections thus creating a unity of purpose and action.
2. **Helps in smooth working of an enterprise:** By effective communication a manager can coordinate all the human and physical elements of an organisation and thus enable smooth functioning.
3. **Acts as a basis for decision making:** Provides necessary data for decision making and thus information is effectively and efficiently communicated to management.
4. **Increases managerial efficiency:** All individuals in the organization is assigned a job or task. The employee must know clearly whom he/ she has to report and what part of total job they are expected to perform and what are their decisions.

Formal and Informal Communication: -

Communication taking place within an organisation may be broadly classified as formal and informal communication.

Formal Communication:

Formal communication flows through official channels designed in the organisation chart. This communication may 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.

Formal communication may be further classified as – Vertical and Horizontal.

Vertical Communication: Vertical communication flows vertically i.e., upwards or downwards through formal channels. Upward communications refer to flow of communication from subordinate to superior whereas downward communication indicates communication from a superior to subordinate.

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

Communication Network: -

The pattern through which communication flows within the organisation is called as **communication network**.

Some of the popular communication networks are presented in given figure and also discussed below:

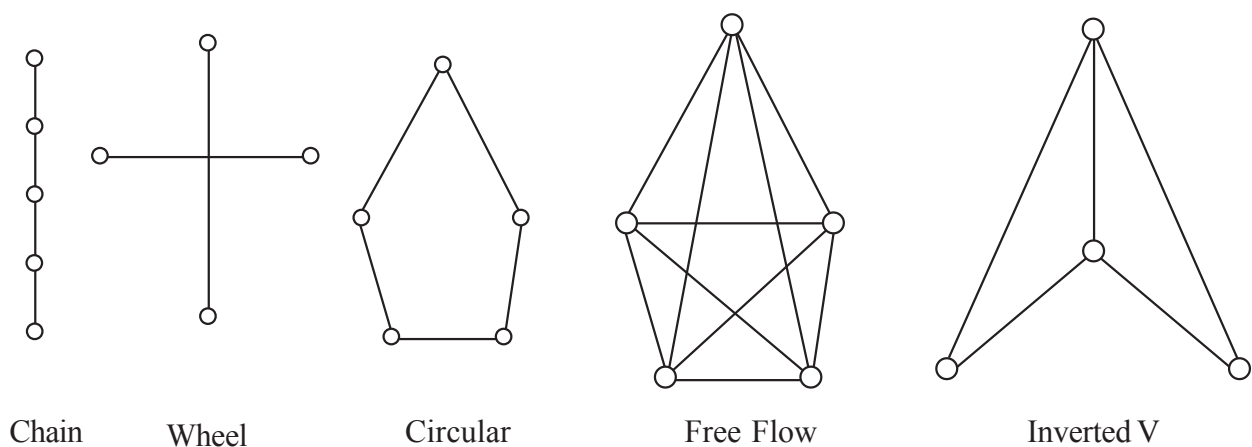


Figure: Communication Network

- 1. Single chain:** This communication exists between a supervisor and his subordinates.
- 2. Wheel:** In wheel network, all subordinates under one superior communicate through him only as he acts as a hub of the wheel.
- 3. Circular:** The communication moves in a circle.
- 4. Free flow:** Free flow of communication with each and every one in an organisation.

5. Inverted V: In this network, a subordinate is allowed to communicate with his immediate superior as well as his superior's superior. However, in later case, only prescribed communication takes place.

Informal Communication: -

Communication that takes place without following the formal lines of communication is said to be informal communication. The informal communication arises out of needs of employees to exchange their views, which cannot be done through formal channels. Workers chit chatting in a canteen about the behaviour of the superior, discussing about rumours that some employees are likely to be transferred are some examples of informal communications.

Meaning of Grapevine Network: -

Grapevine is an informal, unofficial and personal communication channel or system that takes place within the organization as a result of rumor and gossip. It is a complex web of oral information flow linking all the members of the organization.

Types of Grapevine Network: -

Grapevine communication may follow different types of networks. Some of these networks are shown in figure and also discussed below:

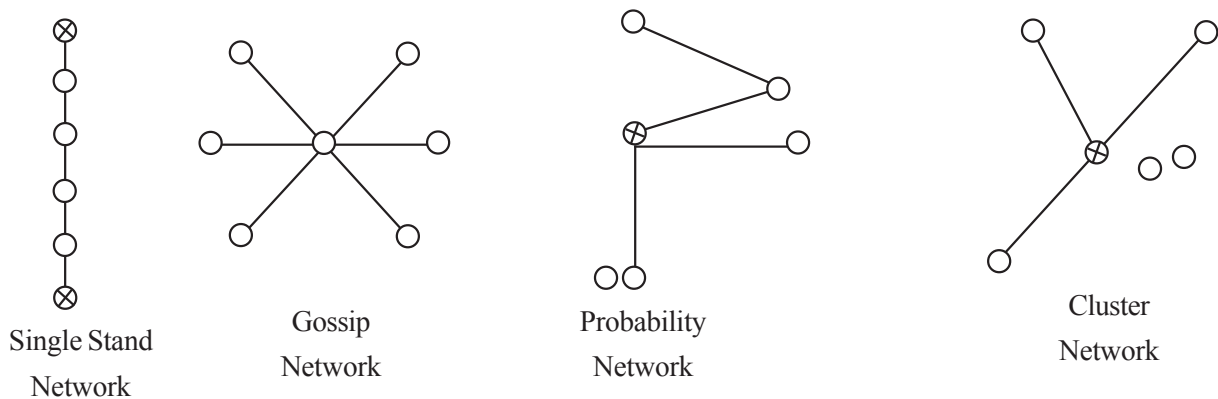


Figure: Types of Grapevine Communication Networks

- i) Single strand network:** Each person communicates to the other in a sequence.
- ii) Gossip network:** Each person communicates with others on a nonselective basis.
- iii) Probability network:** The individual communicates randomly with others.

iv) **Cluster network:** A person communicates with only those people whom he trusts.

Barriers to Communication: -

It is generally observed that managers face several problems due to communication breakdowns or barriers. The barriers to communication in the organisations can be broadly grouped as: semantic barriers, psychological barriers, organisational barriers, and personal barriers. These are briefly discussed below:

I. Semantic Barriers: Concerned with communication problems and obstructions in the process of encoding or decoding of message into words or impressions. Semantic barriers are as follows:

1. Badly expressed message: Sometimes intended meaning may not be conveyed by the usage of inadequate vocabulary, wrong meaning words etc.

2. Symbols with different meaning: Words with different meanings confuses the receiver.

II. Psychological/Emotional barriers: Emotional or psychological factors acts as barriers to communicators. Some of the psychological barriers are:

1. Premature evaluation: judgement before listening leads to misunderstanding.

2. Lack of attention: poor listening due to preoccupied mind of the receiver may disappoint the sender.

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

1. Organizational policy: If the organisational policy, explicit or implicit, is not supportive to free flow of communication, it may hamper effectiveness of communications.

2. Rules & Regulations: Rigid rules, regulations may also create barriers as following rules may lead to red tapism, delay of action and delay in movement of information.

IV. Personal Barriers: Personal factors of both superior and subordinate may influence an effective communication.

Some of the personal barriers of superiors and subordinates are given below:

1. Fear of challenge to authority: If a superior perceives that a particular communication may adversely affect his authority, he or she may withhold or suppress such communication.

2. Lack of confidence of superior on his subordinate: If superiors do not have confidence on the competency of their subordinates, they may not seek their advice or opinions.

Improving Communication Effectiveness: -

Some efforts to improve communication and to overcome barriers are given below:

i) Clarify the ideas before communication: When a superior sends a message to her subordinate, the message has to be clear and specific. The manager has to have a clear goal, clear steps and a transparent methodology which is attainable.

ii) Communicate according to the needs of receiver: The level of understanding of receiver should be crystal clear to the communicator.

iii) Consult others before communicating: Before actually communicating the message, it is better to involve others in developing a plan for communication.

iv) Be aware of languages, tone and content of message: For an effective communication the words, tone and symbols used in message must be selected very carefully. The language used should not offend the sentiments of listener. The symbols used in message must be known to the listener.

Exercise

A. Multiple Choice Questions :

Mark-1

1. Which of the following is not a characteristic of directing ?

- a) Directing initiate action b) It is a continuous process.
- c) Flows from top to bottom d) Ensuring order & discipline

2. Which of the following is the elements of directing ?

- a) Supervision b) Motivation
- c) Leadership d) All of the above.

3. ___ is the process of guiding the efforts of employees to accomplish the desired goal.

- a) Supervision b) Directing
- c) Controlling d) Motivating

4. Which of the following is not a non-financial incentive ?

- a) Status b) Job enrichment
- c) Bonus d) Employee progress

5. Which of the following is not a feature of motivation ?

- a) It is an integral feeling b) Reduces absenteeism
- c) Complex process d) Can be positive or negative.

6. ___ is an example of esteem needs-

- a) Status b) Self-fulfillment
- c) Hunger c) Pension

7. _____ is the process of influencing the behaviour of people making them strive voluntarily towards achievement of goals.

- a) Motivation b) Communication
- c) Leadership d) Directing

8. Informal communication is also called

- a) Wheel communication b) Grapevine
- c) Verbal d) Visual

9. Need hierarchy theory of motivation has been given by

- a) Maslow b) Fayol
- c) Taylor d) Koontz

10. Which one of the following is not a financial incentive ?

- a) Bonus b) Provident fund
- c) Profit sharing d) Job security

11. Leadership is based on a superior's

- a) authority b) responsibility
- c) accountability d) persuasive communication

12. Which one of the following is a semantic barrier ?
- a) Organisation policy b) Lack of attention
c) Technical jargon d) Status
13. ____ aim at instructing, guiding, motivating people to achieve the desired results.
- a) communication b) directing
c) Motivating d) Organising
14. ____ is the process of exchanging information and understanding between two or more persons.
- a) Directing b) Leadership
c) Communication d) Motivation
15. Directing takes place at ____ levels of management.
- a) top b) middle
c) lower d) all
16. The highest-level need in the need hierarchy of Abraham Maslow :
- a) Belongingness need b) Safety need
c) Prestige need d) Self actualisation need

B. State whether the following statements are True or False :

(Mark-1)

1. Leadership and motivation are the two elements of directing.
2. Directing takes place at the top, middle and bottom level of management.
3. Encoding refers to converting symbols received by the receiver into meaning.
4. Democratic leadership style involves giving orders by a superior to his subordinates and expecting that his orders will be obeyed by them.
5. Formal and Informal communication flow through officially prescribed channels of communication.

C. Give the answers of the following questions in one word/sentence :

(Mark-1)

1. Define directing as a function of management.

2. What is meant by financial incentives ?
3. Who is a supervisor ?
4. What is meant by non-financial incentives ?
5. Give any two example of financial incentives.
6. Define the term 'motive'.
7. Define the term 'motivators'.
8. Give any one measure to improve communication.
9. What is informal communication ?

D. Give the answer the following questions :

(Marks -3/4/5/6)

1. What do you mean by directing ? Discuss the characteristics of Directing.
2. Explain the point that highlight the importance of directing are function of management.
3. Explain the principles of directing.
4. Discuss briefly about the elements of directing.
5. Discuss about importance of supervision.
6. Briefly discuss the process of motivation.
7. To satisfy the social and physiological needs which type of incentives are needed ? Explain any four types of such incentives.
8. Discuss Maslow's Need Hierarchy theory of motivation.
9. Define the terms 'motive', 'motivation' and 'motivator'.
10. What is meant by communication ? Explain how communication is an important function of management.
11. What are the common barriers to effective communication ? Suggest measures to overcome them.
12. What is meant by 'Esteem needs' and 'self-actualisation needs' in relation to the motivation of an employee ?
13. Explain about various types of leadership style ?

14. 'A good leader should have some qualities to lead the team'. State some qualities of a good leader.

15. Describe the various financial incentives briefly.

16. Explain different networks of grapevine communications ?

E. Case Study :

1. Ayasha Ltd. assured their employees that inspite of recession, no worker will be retrenched from the job.

i) Name and explain the type of incentive offered to the employees.

ii) Explain three more incentive of the same category.

CHAPTER- 8

CONTROLLING

Meaning of Controlling: -

Controlling is one of the management function, which involves setting standards, measuring actual performance and taking corrective action. Controlling involves comparison of actual performance with the planned performance.

Controlling function of a manager is a pervasive function. It is a primary function of every manager. Managers at all levels of management- top, middle and lower-need to perform controlling functions to keep a control over activities in their areas. Moreover, controlling is as much required in an educational institution, military, hospital, and a club as in any business organisation.

Importance of Controlling: -

Control is an indispensable function of management. The following are some factors contributing to the importance of controlling:

- 1. Controlling helps in achieving organizational goals:** The controlling function measures progress towards the organizational goals and indicates deviations if any to take corrective action.
- 2. For Evaluating/Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate or not by careful check on the changes taking place in the organizational environment.
- 3. Making efficient use of resources:** By the process of control, a manager seeks to reduce wastage of resources.
- 4. Improves employees' motivation:** A good control system ensures that employees know well in advance what they are expected to do & also the standard of performance. It thus motivates & helps them to give better performance.
- 5. Ensuring order and discipline:** Controlling function creates an atmosphere of order and discipline in the organization by keeping a close check on the activities of its employees.
- 6. Facilitating Coordination in action:** Predetermined standards are set for governing each department and employee in an organisation.

Limitations of Controlling: -

Apart from several benefits and importance of control management, there are some of the limitations also present. These are discussed below:

- 1. Difficulty in setting quantitative standards:** Control system loses its effectiveness when standard of performance cannot be defined in quantitative terms and it is very difficult to set quantitative standard for human behaviour, efficiency level, job satisfaction, employee's morale, etc. In such cases judgement depends upon the discretion of manager.
- 2. Little control on external factors:** An organisation cannot control external factors such as government policies, technological changes, competition etc.
- 3. Resistance from employees:** Employees often resist control and as a result effectiveness of control reduces. Employees feel control reduces or curtails their freedom. Employees may resist and go against the use of cameras, to observe them minutely.
- 4. Costly affair:** Control is a costly affair as it involves a lot of expenditure, time and effort. The control system is very costly as it involves the exercises that are exceedingly charged. Controlling involves a lot of expenditure, time and effort, thus it is a costly affair.

Relationship Between Planning and Controlling: -

Planning and controlling are inseparable twins of management. Planning and controlling functions always co-exist or have to exist together as one function depends on the other. The relationship between planning and control can be explained as follows:

- 1. Planning Originates Controlling:** In planning the objectives or targets are set in order to achieve these targets control procedure is needed. So planning precedes control.
- 2. Controlling Sustains Planning:** Controlling directs the course of planning. Controlling spots the areas where planning is required.
- 3. Controlling Provides Information for Planning:** In controlling the real performance is compared to the standards set and records the deviations, if any. The information collected for exercising control is used for planning also.
- 4. Controlling measures plans:** Controlling measures are taken in accordance with the pre-determined plans, programs, and targets. Planning is the initial step and controlling is in the process and required at every step.

- 5. Planning and controlling, both are forward-looking:** Both planning and controlling aim at the future prospects of the business. Planning is always for future and control is also forward-looking. Their combined efforts are to reach maximum output with a minimum of cost.

However, it should be understood that planning is guided by past experiences and the corrective action initiated by control function aims to improve future performance. Thus, planning & controlling are interrelated.

Controlling Process: -

The main objective of the control process is to make sure that the activities within an organisation are going as per the planning. Control process helps the managers in determining the level of performance of their respective organisations. The following are the steps involved in the controlling process:

1. Setting Performance Standards: The first step in the process of controlling is concerned with setting performance standards. These standards are the basis for measuring the actual performance. These standards can be expressed both in quantitative and qualitative terms.

Examples of Quantitative Standards:

(a) Revenue to be earned, (b) Units to be produced and sold, (c) Cost to be incurred, (d) Time to be spent in performing a task.

Examples of Qualitative Standards:

(a) Improving motivation level of employees, (b) Improving labour relations, (c) Improving quality of products, (d) Improving goodwill etc.

2. Measurement of Actual Performance: Once the standards have been determined, the next step is to measure the actual performance. The various techniques for measuring are sample checking, performance reports, personal observation etc. However, in order to facilitate easy comparison, the performance should be measured on same basis that the standards have.

3. Comparing Actual Performance with Standards: This step involves comparing the actual performance with standards laid down in order to find the deviations. For example, performance of a salesman in terms of unit sold in a week can be easily measured against the standard output for the week.

4. Analysing Deviations: Some deviations are possible in all the activities. However, the deviation in the important areas of business needs to be corrected more urgently as compared to deviation in insignificant areas. Management should use (a) Critical Point Control and (b) Management by Exception in such areas.

(a) Critical Point Control: Since it is neither easy nor economical to check each and every activity in an organisation, the control should focus on Key Result Areas (KRAs) which act as the critical points. The KRAs are very essential for the success of an organisation. Therefore, the entire organisation has to suffer if anything goes wrong at these points. For example, in a manufacturing organisation, an increase of 7% in labour cost is more troublesome than an 18% increase in stationary expenses.

(b) Management by Exception: Management by exception or control by exception is an important principle of management control. According to this principle, an attempt to control everything results in controlling nothing. Thus, only the important deviations which exceed the prescribed limit should be brought to the notice of management. Thus, if plans provide for 3% increase in labour cost, deviations beyond 3% alone should be brought to the notice of the management.

5. Taking Corrective Action: The last step in the process of controlling involves taking corrective action. If the deviations are within acceptable limits, no corrective measure is required. However, if the deviations exceed acceptable limits, they should be immediately brought to the notice of the management for taking corrective measures, especially in the important areas.

Techniques of Managerial Control:

Techniques of managerial control may be classified into two broad categories:

- I. Traditional Techniques
- II. Modern Techniques.

I. TRADITIONAL TECHNIQUES: -

1. Personal Observation: It enables the manager to collect first-hand information but it is very time consuming and cannot be used in all kinds of job.

2. Statistical Reports: Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation.

3. Breakeven analysis: is a technique to study the relationship between costs, volume and profits.

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

Types of Budgets:

- i. Sales budget
- ii. Production budget
- iii. Material budget
- iv. Cash budget
- v. Capital budget
- vi. Research and development budget

Advantages of Budgeting:

1. Helps in attainment of organisational objectives.
2. Is a source of motivation to the employees.
3. Helps in optimum utilisation of resources.
4. Is also used for achieving coordination among different departments.

II. MODERN TECHNIQUES: -

1. Return on Investment: Return on Investment (ROI) is a technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return.

$$\text{ROI} = \frac{\text{Net income}}{\text{Total Investment}} \times 100$$

2. Ratio Analysis: Ratio Analysis refers to analysis of financial statements by computation of various ratios, like-

- a. Liquidity Ratios
- b. Solvency Ratios
- c. Profitability Ratios
- d. Turnover Ratios

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

i. Cost centre: A cost or expense centre is a segment of an organisation for which a manager is held responsible for its operations. For e.g., production department for manufacturing unit.

ii. Revenue Centre: is a segment of an organisation which is primarily responsible for generating revenue. For e.g., Marketing department

iii. Profit Centre: is a segment of an organisation whose manager is responsible for both revenues and costs. For e.g., repair and maintenance department.

iv. Investment Centre: is responsible not only for profits but also for all investments made in the centre. e.g., assets.

4. Management Audit: Management Audit is a process of judging the overall performance of the management of an organisation. It aims at reviewing the efficiency and effectiveness of management and improving its future performance. Its basic purpose is to identify the deficiencies in the performance of management functions. It also ensures updating of existing managerial policies.

Advantages of Management Audit:

The main advantages of management audit are as follows-

(i) It identifies the deficiencies in the performance of management functions.

(ii) It helps in improving coordination among the functions of various departments.

(iii) It ensures required modification in the existing managerial policies and techniques according to environmental changes.

(iv) The continuous monitoring of the performance of management helps in improving control system.

There is no proper technique of management audit and also it is not compulsory under any law.

5. PERT & CPM: PERT (programmed evaluation & review technique) & CPM (critical path method) are important network techniques useful in planning & controlling. These techniques, therefore, help in performing various functions of management like planning; scheduling & implementing time-bound projects involving the performance of a variety of complex, diverse & interrelated activities.

Therefore, these techniques are so interrelated and deal with such factors as time scheduling & resources allocation for these activities.

The various steps involved in using these techniques are as follows:

- (i) The project is first divided into various activities and then these activities are arranged in a logical sequence.
- (ii) A network diagram is prepared showing the sequence of activities.
- (iii) Time estimates are laid down for each activity. PERT prepares three-time estimates-(a) Optimistic (shortest time) (b) Most likely time & (c) Pessimistic (longest time). In CPM, only one time estimate is prepared. Along with this, CPM also lays down the cost estimates for completing the project.
- (iv) The most critical path in the network is the longest path. Longest path consists of those activities which are critical for completing the project on time; hence the name CPM.
- (v) If required, necessary changes are made in the plan for completing the project on time.

6. Management Information System: Management Information System (MIS) is a computer-based information system that provides information and support for effective managerial decision-making. It is an important control technique.

Advantages of MIS:

MIS offers the following **advantages** to the managers:

1. It facilitates collection, management and dissemination of information
2. It supports planning and controlling at all levels
3. It improves the quality of information
4. It ensures cost effectiveness
5. It reduces information overload

EXERCISE

A. MULTIPLE CHOICE QUESTIONS: -

(Mark: 1)

1. Controlling function finds out how far _____ deviates from standards.
(a) Actual performance (b) Improvement
(c) Corrective actions (d) Cost
2. Which of the following is not a limitation of controlling?
(a) Little control on external factors (b) Costly affair
(c) Ensuring order & discipline (d) Difficulty in setting quantitative standards
3. Which of the following is not an importance of controlling function?
(a) It ensures order and discipline. (b) It restricts co-ordination in action.
(c) It helps in judging accuracy of standards. (d) It improves employee motivation.
4. Which of the following is not a process of controlling?
(a) Analyzing deviations (b) Integrates employees efforts
(c) Taking corrective measures (d) Setting performance standards
5. Which of the following is a traditional technique of managerial control?
(a) Personal observation (b) Breakeven analysis
(c) Budgetary control (d) All of the above
6. Write the full form of PERT :-
(a) Performance evaluation report technique (b) Personnel enquiry retrieving technique
(c) Programme evaluation and review technique (d) Professional evaluation report technique
7. Remedial actions taken to prevent deviation in future is called
(a) Measurement of actual performance (b) Taking corrective actions
(c) Analyzing deviations (d) Setting performance standards

8. Assembling of facilities and personnel for collecting, processing, information that is required by managers is called
- (a) PERT (b) CPM
(c) Ratio analysis (d) Management information Technique
9. It is the process of ensuring that events confirm to plans.
- (a) Planning (b) Controlling
(c) Organising (d) Directing
10. Controlling function brings the management cycle back to the
- (a) Organising function (b) Directing function
(c) Planning function (d) None of the above
11. Which of the following is a technique used for measuring actual performance?
- (a) Random sampling (b) Personal observation
(c) Performance reports (d) All of the above
12. The need for the controlling function is felt in
- (a) Business organisations (b) Political organisations
(c) Social organisations (d) All of the above
13. Controlling is known as a backward-looking function because
- (a) It relates to future course of action. (b) It is like a post-mortem of the past activities
(c) To find out deviation, it aims at improving future performance. (d) All of the above
14. The controlling function is performed by
- (a) Top level management (b) Lower level management
(c) Middle level management (d) All of the above

B. Give the answers of the following questions in one word/ sentence: - (Mark: 1)

1. Explain the meaning of controlling.
2. Why is planning an empty exercise without controlling function?
3. Give two examples of quantitative standards of controlling process.
4. Give two examples of qualitative standards of controlling process.
5. What do you mean by 'Management by Exception'?
6. Write down the full form of CPM.
7. What is the full form of MIS?

C. Give the answers of the following questions: - (Marks: 3/4/5/6)

1. 'Planning is looking ahead and controlling is looking back'. Comment.
2. Discuss the important features of the control function of management.
3. Explain the limitations of controlling.
4. "There is a close and reciprocal relationship between planning and controlling." Explain the statement.
5. Discuss the various steps involved in the controlling process:
6. Explain the term Management by Exception
7. Explain the techniques of managerial control.
8. Explain how management audit serves as an effective technique of controlling.
9. What do you mean by Management Information System (MIS)? Mention the advantages of MIS.
10. "If planning is done carefully and accordingly other functions of management are going in the right direction, then there is no need for the controlling function of management". Do you agree with the statement? Give reasons in support of your answer.

D. Case Study:

1. HP Co. Ltd. is engaged in manufacturing of machine components. The target of production is 200 units daily. The company had been successfully attaining this target until two months ago. Over the last two months it has been observed that daily production varies between 150-170 units. Identify the possible causes for the decline in production and the steps to be taken to achieve the desired targets.

2. P Ltd. is a producer of a smart phone. The firm qualified its engineer from Japan. They trade their mobile phone internationally and domestically. P Ltd. had a strong market share and loyal buyers because of its quality. From the first financial year, the firm has been inadequate to accomplish its objective because of the conflict in the market. The company is planning to renovate its controlling system.

Questions:

- (i) Mention the steps of the renovated controlling process to be developed by the firm to solve this problem
- (ii) Also, mention any one value, which the company wants to communicate to the society

ANSWERS

A. MULTIPLE CHOICE QUESTIONS: -

- 1- a 2- c 3- b 4- b 5- d 6- c 7- b 8- d 9- b
10- c 11- d 12- d 13- b 14- d

B. Give the answers of the following questions in one word/ sentence: -

- 1. See workbook.
- 2. Planning is an empty exercise without controlling function because monitoring and implementing of the plan is based on the controlling.
- 3. (a) Revenue to be earned, (b) Units to be produced and sold.
- 4. (a) Improving motivation level of employees, (b) Improving labour relations.
- 5. See workbook.

6. See workbook.

7. See workbook.

C. Give the answers of the following questions: -

1. Planning and controlling are inseparable. Planning is the primary function of every organisation it is the thinking process, which means looking ahead or making plans that how desired goal is achieved in future thus it is called a forward looking function on the other hand controlling is a systematic function which measures the actual performance with the planned performance. It compared and analysed the whole process of an organisation and take correcting actions. Thus, it is a backward-looking function but the statement “Planning is looking ahead and controlling is looking back” is partially correct because it should be understood that planning is guided by past experiences and the corrective action initiated by control function which aims to improve future performance. Thus, planning and controlling are both backward looking as well as a forward-looking function.

2. See workbook.

3. See workbook.

4. Discuss briefly the relation between planning and controlling.

5. See workbook.

6. See workbook.

7. See workbook.

8. Write down the advantages of management audit.

9. See workbook.

10. Discuss by highlighting the points of importance of controlling.

D. Case Study:

1. The possible causes for decline in production are-

- i. There may be some defect in machinery by which the components are produced.
- ii. Employees are not performing efficiently.
- iii. Sometimes employees may become lethargic.

The company can take the following steps to achieve the desired targets-

- i. Company can replace the machinery or get repaired, if fault is in machine.
- ii. If employees are not performing efficiently, the company can give training to employees.
- iii. If employees are becoming lethargic, the company needs to keep a close supervision on their employees.

2. (ii) The steps are:

- Analysing variation
- Taking appropriate action

(iii) The one value the company wants to communicate to the society is

- Serving society by presenting a quality product.

CHAPTR-9

Financial Management

MEANING OF BUSINESS FINANCE: -

Business Finance means money or funds available for a business for operations. It is indispensable for survival and growth of business, for production and distribution of goods and meeting day-to-day expenses etc. Finance is needed to establish a business, to run it, to modernise and expand, or diversify it.

MEANING OF FINANCIAL MANAGEMENT: -

Financial Management includes those business activities that are concerned with acquisition and conservation of capital funds in meeting the financial needs and overall objectives of a business enterprise. Financial Management is concerned with optimal procurement as well as the usage of finance.

IMPORTANCE OF FINANCIAL MANAGEMENT: -

The business goal can be achieved only with the help of effective management of finance. We can't neglect the importance of finance at any time and at any situation. Some of the importance of the financial management is as follows:

i) Financial Planning: Financial management helps to determine the financial requirement of the business concern and leads to take financial planning of the concern. Financial planning is an important part of the business concern, which helps to promotion of an enterprise

ii) Acquisition of Funds: Financial management involves the acquisition of required finance to the business concern. Acquiring needed funds play a major part of the financial management, which involve possible source of finance at minimum cost.

iii) Proper Use of Funds: Proper use and allocation of funds leads to improve the operational efficiency of the business concern. When the finance manager uses the funds properly, they can reduce the cost of capital and increase the value of the firm.

iv) Financial Decision: Financial management helps to take sound financial decision in the business concern. Financial decision will affect the entire business operation of the concern.

OBJECTIVES OF FINANCIAL MANAGEMENT:

There are certain objectives of the financial management which are fulfilled while taking these decisions. They are as under:

i) Wealth maximization: One of the main objectives of **Financial Management** is to maximize shareholder's wealth, for which achievement of optimum capital structure and proper utilization of funds is very necessary. Wealth maximization is a more holistic approach, aimed at the growth of the organization.

ii) Profit maximization: Every economic activity has the aim to earn profit. Similarly, every business concern also aims at earning the profit from the investment made by them. Profit can be maximised only when a business concern is running efficiently and effectively.

iii) To Ensure Availability of Funds: The sound financial condition of business is a must for any business to survive. The availability of funds at the proper time of need is an important **objective of business**. The organization will not be able to function without funds, and activities will come to a halt.

iv) Attain Optimum Capital Structure: To maintain the optimum capital structure, a perfect combination of **debentures** and shares is a requirement. The organization will not want to give away too much equity, and also control the cost of capital. It is a delicate balance.

FINANCIAL DECISIONS: -

These are the decisions which are concerned with the selection of best financing alternative or best investment alternative. It is broadly concerned with three aspects, viz I) investment decision, II) financing decision and III) dividend decision.

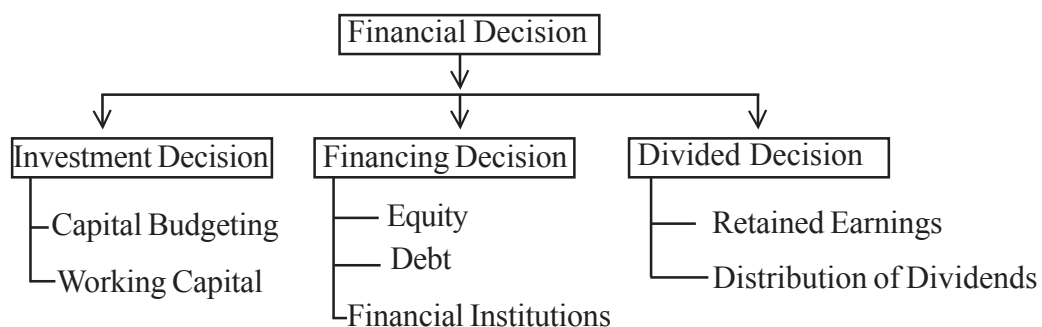


Figure: Aspects of Financial Decision

I) Investment Decision:-

Investment decision means judicious investment of firm's resources, from the available alternative proposals and choosing the cheapest one, which earns highest possible return for the investors. The various resources available with an organisation are scarce and can be put to alternate use. A firm must choose where to invest, wisely so as to earn the highest possible profits. Investment decisions are decisions about how the firm's funds are invested in different assets that is, in different investment proposals.

Types of Investment decision:

Investment decision can be a) long-term or b) short-term.

a) A long-term investment decision is called capital budgeting decisions which involve huge amounts of long-term investments and are irreversible except at a huge cost.

b) Short-term investment decisions are called working capital decisions, which affect day to day working of a business. It includes the decisions about the levels of cash, inventory and receivables.

Factors affecting Investment Decisions / Capital Budgeting Decisions:

Factors that affect the investment decisions are:

a) Cash flow of the project- The series of cash receipts and payments over the life of an investment proposal should be considered and analyzed for selecting the best proposal.

b) Rate of return- The expected returns from each proposal and risk involved in them should be taken into account to select the best proposal.

c) Investment criteria involved- The various investment proposals are evaluated on the basis of capital budgeting techniques. Which involve calculation regarding investment amount, interest rate, cash flows, rate of return etc. It is to be considered which technique to use for evaluation of projects.

II) Financing Decision:-

Financing decisions are decisions about the quantum of finance to be raised from various long-term sources and short-term sources and selecting the cheapest one. Financing decisions involve: a) Decision whether or not to use a combination of ownership and borrowed funds. b) Determining their precise ratio.

Firm needs a judicious mix of debt and equity as 'Debt' involves 'Financial Risk' ('Financial Risk' refers to the risk of default on payment of interest on borrowed funds and the repayment of the principle amount) whereas Shareholders' funds involve no fixed commitment about the payment of returns or repayment of capital.

Factors affecting Financing Decision:

The financing decisions are affected by various factors. Important among them are as follows:

- a) Cost:** The cost of raising funds from different sources are different. A prudent manager will select the cheapest source.
- b) Risk:** The risk associated with different sources is different. More risk is associated with borrowed funds as compared to owner's fund as interest is paid on it and it is repaid also, after a fixed period of time or on expiry of its' tenure.
- c) Flotation Cost:** The costs involved in issuing securities such as brokers commission, underwriters' fees, expenses on prospectus etc. are called flotation costs. Higher the flotation cost, less attractive is the source of finance.
- d) Cash flow position of the business:** In case the cash flow position of a company is good enough then it can easily use borrowed funds and pay interest on time.

III) DIVIDEND DECISION: -

Dividend decision is whether to distribute earnings to shareholder as dividends or to retain earnings to finance long-term projects of the firm. The dividend decisions are taken keeping in view the overall objective of maximizing shareholder's wealth.

Factors affecting Dividend Decisions: -

- a) Amount of Earnings:** Returns to investors are paid out of the present and past income. Consequently, earning is a noteworthy determinant of the dividend.
- b) Stability of Dividends:** Companies generally follow the policy of stable dividend. The dividend per share is not altered and changed in case earnings change by small proportion or increase in earnings is temporary in nature.
- c) Growth Opportunities:** In case there are good, growth prospects for the company in the near future, then it will retain its earning and thus, no or less dividend will be declared.
- d) Cash Flow Positions:** The payment of dividends involve outflow of cash and thus, availability of adequate cash is required for declaration of dividends.

FINANCIAL PLANNING: -

Meaning: Financial Planning involves the preparation of a financial blueprint of an organization. It is the process of estimating the fund requirement of a business and determining the possible sources from which it can be raised. It is typically done for 3-5 years-broad in scope and generally includes long-term investment, growth and financing decisions.

Objectives of Financial Planning:

financial planning strives to achieve the following objectives, which are:

a) To ensure availability of funds whenever required: Includes proper estimation of the funds required for different purposes (long term assets/working capital requirement). There is a need to estimate the time at which these funds are to be made available. Financial planning also tries to specify possible sources of these funds.

b) To see that the firm does not raise resources unnecessarily: Excess funding is as bad as inadequate funding. Surplus funds reduce return and increase cost to a company.

Importance of Financial Planning:

Financial planning is an important part of overall planning of any business enterprise. The importance of financial planning can be explained as follows:

- i. It helps in forecasting future happenings under different situations.
- ii. It helps in avoiding business shocks and surprises and volatilities and helps the company in preparing for the future.
- iii. It helps in coordinating various business functions, e.g., sales, marketing, production etc.
- iv. Detailed plans of action prepared under financial planning reduce waste, duplication of efforts, and gaps in planning.
- v. It tries to link the present with the future.
- vi. It provides a link between investment and financing decisions on a continuous basis.

CAPITAL STRUCTURE: -

Meaning: Capital structure refers to the mix between owners' fund (equity) and borrowed funds (debt). Capital structure of a business affects both the profitability and financial risk of business. Since, use of equity and debt in the capital structure has both its merits and demerits, a judicious mix of both are used in the capital structure. Capital structure affects both the profitability and the financial risk faced by a business.

Types of Capital Structure:

On the basis of ownership, the business finance is divided into two categories, namely:

- i) Owners funds
- ii) Borrowed funds.

i) Owners funds/ Equity = equity share capital + preference share capital + reserves and surpluses/ retained earnings

ii) Borrowed funds/ DEBT = loans + debentures + public deposits

Equity Capital: Equity capital is the money owned by the shareholders or owners. It consists of two different types

a) Retained earnings: Retained earnings are part of the profit that has been kept separately by the organisation and which will help in strengthening the business.

b) Contributed Capital: Contributed capital is the amount of money which the company owners have invested at the time of opening the company or received from shareholders as a price for ownership of the company.

Debt Capital: Debt capital is referred to as the borrowed money that is utilised in business. There are different forms of debt capital.

1. Long Term Bonds: These types of bonds are considered the safest of the debts as they have an extended repayment period, and only interest needs to be repaid while the principal needs to be paid at maturity.
2. Short Term Commercial Paper: This is a type of short-term debt instrument that is used by companies to raise capital for a short period of time

Some important concepts related to Capital Structure:

Optimal Capital Structure: Optimal capital structure is referred to as the perfect mix of debt and equity financing that helps in maximising the value of a company in the market while at the same time minimises its cost of capital.

Capital structure varies across industries. For a company involved in mining or petroleum and oil extraction, a high debt ratio is not suitable, but some industries like insurance or banking have a high amount of debt as part of their capital structure.

Financial Leverage: Financial leverage is defined as the proportion of debt which is part of the total capital of the firm. It is also known as capital gearing. A firm having a high level of debt is called a highly levered firm while a firm having a lower ratio of debt is known as a low levered firm.

Trading on Equity: Companies often employ more of cheaper debt to enhance the EPS. Such practice is called Trading on Equity. Trading on Equity refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest.

Factors affecting the choice of Capital Structure: -

The factors which affect the choice of capital structure are discussed below:

i) Cash flow position: The size of the projected cash flows should be considered before deciding the capital structure of the firm. If there is sufficient cash flow, debt can be used but it must cover fixed payment obligations.

ii) Interest coverage ratio: The interest coverage ratio refers to the number of times earnings before interest and taxes of a company covers the interest obligation. Which is calculated as follows: $\text{EBIT} / \text{Interest}$. Higher the Interest coverage ratio, lower shall be the risk of the company failing to meet its interest payment obligations.

iii) Debt Service Coverage Ratio: The cash profits generated by the operations are compared with the total cash required for the service of the debt and the preference share capital. It is calculated as follows:

$\text{Debt service coverage ratio} = (\text{Profit after tax} + \text{Depreciation} + \text{Interest} + \text{Non-Cash Expenses}) \div (\text{Preference Dividend} + \text{Interest} + \text{Repayment Obligation})$

FIXED AND WORKING CAPITAL: -

Meaning of Fixed Capital:

Fixed capital refers to investment in long-term assets. Investment in fixed assets is for longer duration and must be financed through long-term sources of capital. Decisions relating to fixed capital involve huge capital investments and are irreversible without incurring heavy losses. Fixed capital does not mean fixed in location. Machinery, tools, railways tractors, factories etc., all are example of fixed capital.

Management of Fixed Capital:

Management of fixed capital involves allocation of firm's capital to different projects or assets with long-term implications for the business. These decisions are called investment decisions or capital budgeting decisions and affect the growth, profitability and risk of the business in the long run.

Importance of Management of Fixed Capital:

The management of fixed capital or investment or capital budgeting decisions are important for the following reasons:

- i) Long-term growth:** These decisions have bearing on the long-term growth. The funds invested in long-term assets are likely to yield returns in the future.
- ii) Large amount of funds involved:** These decisions result in a significant portion of capital funds being blocked in long-term projects. Therefore, these investments are planned after a detailed scrutiny is undertaken.
- iii) Risk involved:** Fixed capital involves investment of huge amounts. It affects the returns of the firm as a whole in the long-term. Therefore, investment decisions involving fixed capital influence the overall business risk complexion of the firm.

Factors affecting the Requirement of Fixed Capital:

In order to assess the fixed capital requirement for any business enterprise, one must be fully conversant with the factors that influence such requirement. These factors are summarised as follows:

- 1. Nature of Business:** The type of business is a factor in determining the fixed capital requirements. For e.g., manufacturing concerns require huge capital investment in fixed assets but trading concerns need less fixed capital investment.
- 2. Scale of Operations:** A larger organization operating on large scale requires more fixed capital investment as compared to an organization operating on small scale.
- 3. Technology upgradation:** An organization using obsolete assets require more fixed capital as compared to other organizations.
- 4. Growth Prospects:** Companies having higher growth prospects require more fixed capital investments, in order to expand their production capacity.

Meaning of Working Capital:

Working Capital refers to the funds required for the day-to-day operations of an organization. Apart from the investment in fixed assets every business organization needs to invest in the current assets, which can be converted into cash or cash equivalents within a period of one year.

Working capital is of two types:

- (a) Gross working capital:** Investment in all the current assets is called as Gross WorkingCapital.

(b) Net working capital: The excess of current assets over current liabilities is called NetWorking Capital.

$$\text{Net Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

Factors affecting the Working Capital requirements:

i) Nature of Business: The basic nature of a business enterprise influences the amount of working capital required by it. For e.g. A trading organization needs a lower amount of working capital as compared to a manufacturing organization.

ii) Scale of Operations: An organization which is operating on large scale will require more inventory as its working capital requirement will be more, compared to small organization.

iii) Business Cycle: When there is a boom in the economy, more production will be undertaken and so more working capital will be required during that time as compared to depression in the economy.

iv) Seasonal Factors: In peak season, demand for a product will be high and thus high working capital requirements will be more as compared to lean season.

EXERCISE

A. MULTIPLE CHOICE QUESTIONS: -

(Mark: 1)

1. Business finance is needed to

- (a) Establish a business (b) Run a business
(c) Expand a business (d) All of the above

2. Financial management is concerned with managerial activities relating to

- (a) Planning (b) Procurement and administration of funds
(c) Optimum utilization of funds (d) All of the above

3. Which of the following factors affect financial decision?

- (a) Cost (b) Risk
(c) Cash flow position (d) All of the above

12. Name the financial decision which relates to disposal of profits.
- (a) Investment decision (b) Financing decision
(c) Dividend decision (d) Capital budgeting decision
13. The short-term financial plans are known as
- (a) Objectives (b) Budgets
(c) Programs (d) Policies
14. Which of the following is not a part of owners' funds?
- (a) Equity shares (b) Reserves and surplus
(c) Debentures (d) Preference shares
15. . Which of the following is not a source of borrowed funds?
- (a) Loan from financial institutions (b) Debentures
(c) Retained earnings (d) Public deposits
16. Capital structure shows
- (a) Debtor-creditor ratio. (b) Fixed assets-current assets ratio.
(c) Debt-equity ratio. (d) Interest coverage ratio.

B. Give the answers of the following questions in one word/ sentence: -

(Mark: 1)

1. What is meant by 'Business Finance'?
2. State the meaning of Financial Management.
3. What is 'Financial Risk'?
4. What is meant by Financial Planning?
5. What is meant by Debt Capital
6. State the meaning of Meaning of Fixed Capital.
7. What is Working Capital?
8. Define 'Current Assets'.
9. Give two examples of 'Current Assets'.
10. Define the term 'Trading on Equity'.

C. Give the answers of the following questions: -

(Marks: 3/4/5/6)

1. Briefly discuss the importance of financial management.
2. What are the main objectives of financial management? Briefly explain.
3. Financial management is based on three broad financial decisions. Discuss briefly about these three decisions.
4. Explain the factors affecting the investment decisions or capital budgeting decisions.
5. Discuss the factors affecting the financing decision.
6. What is meant by 'Financial Planning'? Explain any four importance of financial planning.
7. What do you mean by Capital Structure? Explain any four factors which affect the choice of Capital Structure.
8. Explain briefly any five factors affecting the fixed capital requirements of an organisation.
9. State any five factor which affects the working capital requirements of a company.

D. Case Study:

1. A businessman who wants to start a manufacturing concern approaches you to suggest him whether the following manufacturing concerns would require large or small working capital:
 - a) Bread
 - b) Sugar
 - c) Cooler
 - d) Furniture manufacturing against specific orders, and
 - e) Motor Car

ANSWERS

A. MULTIPLE CHOICE QUESTIONS: -

1-d	2-d	3-d	4-a	5-b	6-c	7-a	8-d
9-b	10-d	11-c	12-c	13-b	14-c	15-c	16-c

B. Give the answers of the following questions in one word/ sentence: -

3. 'Financial Risk' refers to the risk of default on payment of interest on borrowed funds and the repayment of the principle amount.

10. Trading on Equity refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest.

C. Give the answers of the following questions: -

3. Discuss briefly about three types of financial decisions, namely: I) investment decision, II) financing decision and III) dividend decision.

D. Case Study:

1. Requirements of working capital for the mentioned business will be:

a) Bread: Requirements of working capital will be less because it has quick cash turnover.

b) Sugar: Working capital required for manufacturers will be more as ratio of raw material cost to total cost is more.

c) Coolers: Working capital required for manufacturers of cooler will be more because it is a seasonal product.

d) Furniture manufacturing against specific orders: Requirements of working capital for furniture manufactured against specific order is less as it does not require large stock.

e) Motor Car: Requirements of working capital for a manufacturer of locomotives will be less because gestation period is more.

Chapter – 10

Financial Market

Financial Market

Financial Market is a market for creation and exchange of financial assets. It helps in mobilization and channelizing the savings of savers into most productive uses. It also helps in price discovery and provide liquidity to financial assets..

Functions of Financial Market

1. **Mobilisation of Savings:** A financial market facilitates the transfer of savings from savers to investors. It gives choice to the saver to channelize their surplus funds into the most productive use.
2. **Price Fixation:** In the financial market price is determined from the forces of demand and supply. The interaction between demand and supply helps to establish a price for financial asset.
3. **Provides Liquidity to Financial Assets:** Financial markets facilitate easy purchase and sale of financial assets. shareholders can sell their share easily through mechanism of financial market.
4. **Reduce the Cost of Transactions:** Financial markets provides valuable information to buyers and sellers of financial assets & helps them in saving their time, money and efforts.

Money Market

Money Market is a market for short-term funds. It deals in monetary assets whose period of maturity is less than one year. The instruments of money market are Treasury bills, commercial paper, call money, Certificate of deposit, commercial bills etc.

Money Market Instruments

- A. **Treasury Bills:** Treasury bills are issued by RBI on behalf of the govt. of India for a period of 14 to 364 days. These are available for a minimum amount of Rs. 25,000 and in multiples thereof and are also called Zero coupon Bond.

- B. Call Money:** Call money is short term finance repayable on demand, with a maturity period of 1 to 15 days, used for inter-bank transactions. Under this bank lends cash to other bank to maintain a minimum cash balance known as cash reserve ratio.
- C. Commercial Bills:** A commercial bill is drawn by one business firm on other business firm, normal duration is 90 days. It is used to finance the working capital requirements of business firms.
- D. Commercial Paper:** Commercial paper is issued by the public/private sector companies. It is a short-term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period of 15 days to one year.
- E. Certificate of Deposits:** Certificates of deposit (CD) are unsecured, short term negotiable instruments issued by commercial banks & financial institutions during the periods of tight liquidity when deposits growth of banks is slow & demand of credit is high.

Capital Market

Capital Market refers to all organizations, institutions & instruments that provide long term funds. Capital Market may be divided into primary market and secondary market. Primary market deals with new securities which were not previously tradable to the public. Secondary market is a place where existing securities are bought and sold.

Primary Market:

primary market is the market, in which new securities are sold for the first time. A company can raise capital through the primary market in the form of equity shares, preference shares, debentures etc.

Methods of Floatation

There are various methods of floating new issues in the primary market:

- A. Offer through Prospectus:** A prospectus involves inviting subscription from the public through issue of prospectus. It is a document inviting deposits from the public through direct appeal for the subscription of any shares or debentures.
- B. Offer for Sale:** In this method the securities are not issued directly to the public but are offered for sale through stock brokers or issuing house and sells the securities entirely at an agreed price to brokers.

- C. Private Placement:** Under this method securities are allotted to by the company to institutional investors and some selected individuals. It helps to raise capital more quickly than a public issue.
- D. Right Issue:** This is a special facility given to existing shareholders to subscribe to a new issue of shares according to the terms & conditions of the company.
- E. e-IPOs:** If a company wants 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 an initial public offer.

SECONDARY MARKET

Secondary market Refers to a market where existing securities are bought and sold. It is also known as the stock market or stock exchange. It also provides liquidity and marketability to existing securities.

Difference between Primary Market and Secondary Market

Basis	Primary Market	Secondary Market
Meaning	Primary market is the market, in which new securities are sold for the first time.	Secondary market Refers to a market where existing securities are bought and sold.
Securities	Only new securities are traded here.	Existing securities are traded here.
Pricing of Securities	Pricing of securities are determined by the company.	Pricing of securities are determined by the forces by the demand and supply of the securities.
Purchase and Sale of Securities	Securities are sold to investors directly by the company or through intermediary.	Investors exchange ownership of securities.
Location	There is no fixed geographical location.	Located at specified places.

Distinguish between Capital Market and Money Market

Basis	Capital Market	Money Market
Meaning	Capital Market refers to all organization, institutions & instruments that provide long term funds.	Money Market is a market for short-term funds.
Instruments	The instruments of capital market are equity shares, preference shares , Debentures etc.	The instruments of moneymarket are Treasury bills, commercial paper, call money, Certificate of deposit, commercial bills etc.
Safety	Capital market is risky.	Money market is less risky.
Return	High returns on investment	Low returns on investment
Participants	Financial institutions, Investors, Corporate houses etc.	Commercial Banks,RBI, Financial institutions etc.

Stock Exchange/Share Market:

Stock Exchange is an institution which provide a platform for buying and selling of existing securities. It provides continuous market for securities, helps in price discovery, widening share ownership and provide scope for speculation.

Functions of a Stock Exchange:-

Following are the important functions of a stock exchange-

(i) Providing Liquidity and Marketability to Existing Securities:

The basic function of a stock exchange is to create a continuous market where securities are bought and sold. This provides both liquidity and easy marketability to the existing securities in the market.

(ii) Pricing of Securities:

Pricing of various Securities on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined.

(iii) Safety of Transactions:

The membership of a stock exchange is well-regulated and its transactions are well defined according to the existing legal framework which ensures the investors to get a safe and fair deal on the market.

(iv) Contributes to Economic Growth:

A stock exchange is a market in which listed securities are traded. Through this process of disinvestment and reinvestment saving get channelised, and helps to invest into most productive investment proposals. This leads to capital formation and economic growth.

(v) **Spreading of Equity**

The stock exchange encourages people to invest in share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

(vi) **Providing Scope for Speculation**

The stock exchange provides sufficient scope for speculative activity in a restricted and controlled manner to ensure liquidity and price continuity in the stock market.

National stock exchange of India (NSE)

The National Stock Exchange was incorporated in 1992 and set up a nationwide fully automatic screenbased trading system. It was setup by leading financial institutions, banks, insurance companies and other financial intermediaries.

OBJECTIVES OF NSE

NSE was set up with the following objectives:

- a. **Nationwide Coverage:** To establish a nationwide trading facility for all types of securities.
- b. **Equal Access:** To ensure equal access to investors all over the country through an appropriate communication network.
- c. **Transparency:** To provide a fair, efficient and transparent securities market using electronic trading system.
- d. **Shorter Settlement Cycles:** To enable shorter settlement cycles and book entry settlements. Payment and delivery in 15 days' time period

OVER THE COUNTER EXCHANGE OF INDIA (OTCEI)

OTCEI was incorporated in 1992 to provide listing facility for small companies with paid up capital of minimum 3 crores. In India, it has been promoted by UTI, ICICI, IDBI, IFCI, LIC, GIC, SBI capital markets and can bank financial services.

Advantages of OTCEI

1. **Trading platform for Small Companies:** It is providing a trading platform to smaller and less liquid companies as they are not eligible for listing on a regular exchange.

2. **Cost Effective Method:** It is a cost effective method for corporates as there is a lower cost of new issues and lower expenses of servicing the investors.

3. **Greater Freedom of Choice:** It is giving greater freedom of choice to investors to choose stocks by dealers for market making in both primary and secondary markets.

4. **Transparent System:**It is providing a transparent system of trading with no problem of bad or short deliveries.

SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

Securities and Exchange Board of India was established on 12 April 1988 and was given statutory status through an Act in 1992. The SEBI was set-up to protect the interests of investors in new and second hand securities.

Objectives of SEBI

1. To regulate stock exchange and the securities market to promote their orderly functioning.
2. To protect the rights and interests of different investors and to guide & educate them properly.
3. To prevent trading malpractices such as internal trading practices.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.

Functions of SEBI

Regulatory Functions

- i. Registration of brokers and sub brokers and other players in the securities market.
- ii. Registration of collective investment schemes and Mutual Funds.
- iii. Regulation of Stock Brokers and portfolio exchanges, and merchant bankers etc.

Development Functions

- i. Promotes training of intermediaries of the securities market.
- ii. Conducting research and publishing information useful to all market segments.
- iii. Undertaking measures to develop the capital markets by adopting a flexible approach.

Protective Functions

- i. Prohibition of fraudulent and unfair trade practice like making misleading statements, manipulations, price rigging etc.
- ii. Controlling insider trading and imposing penalties for such type of practices.
- iii. Promotion of fair trade practices and undertaking steps for investor protection.

Multiple choice question : 1 Mark for each questions

1. Which of the following statements is not true with regard to capital market?

- (a) The funds are raised for a short period of time.
- (b) Both debt and equity funds can be raised.
- (c) It is classified into five types.
- (d) None of the above.

2. Total number of Stock Exchanges in India are

- a. 20 b. 21 c. 22 d. 25

3. Which one of the following is not a function of financial market?

- (a) Mobilisation of savings (b) Price fixation
(c) Floating of companies (d) Reduce the cost of transactions

4. National Stock Exchange of India was recognized as stock exchange in the year.

- a. 1996 b. 1992 c. 1994 d. 1995

5. NSE started futures trading in the year

- a. 1999 b. 2000 c. 2001 d. 2004

6. Which one of the following is a money market instrument?

- (a) Unit of mutual fund
- (b) Debenture
- (c) Commercial Paper
- (d) Bond

7. OTCEI was started on the lines of

- a. NASDAQ
- b. SENSEX
- c. NASAQ
- d. NSE

8. To be listed on OTCEI, the minimum capital requirement for a company is

- a. Rs. 5 Crores
- b. Rs. 3 Crores
- c. Rs. 6 Crores
- d. Rs. 4 Crores

9. Saha Enterprises wishes to invest Rs. 1,05,000 in treasury bills. What is the maximum number of treasury bills it can buy with this fund?

- (a) 6
- (b) 7
- (c) 4
- (d) 2

10. It is a market for short-term funds which deals in monetary assets whose period of maturity is up to one year.

- (a) Primary market
- (b) Secondary market
- (c) Capital market
- (d) Money market

11. A company can raise capital through the primary market in the form of

- (a) Equity shares
- (b) Preference shares
- (c) Both a and b

(d) None of the above

12. Which of the following market helps the existing investors to sell their securities.

- (a) Primary market
- (b) Secondary market
- (c) Capital market
- (d) Commodity market

13. Who issues a treasury bill?

- (a) State Bank Of India
- (b) Any private sector bank
- (c) Reserve Bank of India
- (d) None of the above

14. It is a method under which bank lends cash to other bank to maintain a minimum cash balance known as cash reserve ratio.

- (a) Commercial bill
- (b) Commercial papers
- (c) Call money
- (d) None of the above

15. It is the market, in which new securities are sold for the first time.

- (a) Primary market
- (b) Secondary market
- (c) Capital market
- (d) Commodity market

Very Short answer questions:1 Mark questions

1. Define the Financial market.
2. What do you mean by Money market?
3. Write the names of various Money market instruments?
4. Name the market which refers to all organization, institutions & instruments that provide long term funds.

5. What is Treasury Bill?
6. What do you mean by Secondary market?
7. Define Stock exchange/share market.
8. Name the market which was incorporated in 1992 to provide listing facility for small companies with paid up capital of minimum 3 crores.
9. What do you mean by Securities and exchange board of India (SEBI)?
10. What are the different Functions of SEBI?

Answer the following questions: (3/4/5/6 marks)

1. What are the functions of financial markets? Explain.
2. “Money Market is essentially a Market for short term funds” Discuss.
3. Distinguish between Capital Market and Money Market.
4. What are the functions of Stock Exchange? Explain.
5. Distinguish between Primary Market and Secondary Market.
6. Explain the various Money Market Instruments.
7. Discuss various methods of floating new issues in the primary market.
8. Explain the objectives of SEBI.
9. Explain the functions of Securities and exchange board of India (SEBI).
10. Discuss various objectives National stock exchange of India (NSE).

Case Studies

1. Housing Limited is a real estate company which was formed in 1955. In about 65 years of its existence the company has managed to create a position for itself in this sector. Lately, this sector is witnessing a boom due to the fact that the Indian economy is on the rise. The income of middle class families are rising. Now more people can afford to buy homes for themselves because of easy availability of loans and tax concessions. To expand its business in India the company is weighing various options to raise money through equity offerings in India. Whether to tap equity or debt. whether to raise money from domestic market or international market or Combination of both? Whether to raise the necessary funding from money market or capital market. To make its offerings attractive it is planning to offer host of financial plans products to its stakeholders and investors. It is also planning to list itself at NSE after complying with the regulations of SEBI.

- (i) What benefits will the company derive from listing at NSE?
- (ii) What are the regulations of SEBI that the company must comply with?
- (iii) How does the SEBI exercise control over Housing Limited in the interest of investors?

2. Raja Software Ltd. is a renowned name in the market for the last twenty years. Now, this company wants to set up new projects for the expansion of existing projects.

For this purpose, it is opting for two different methods of floating new issues.

Firstly, securities are sold to issuing houses or stockbrokers at an agreed price which they resell to the investing public.

Secondly, one share is offered against five shares (which shareholders already possess) to the existing shareholders. This is a privilege given to them.

- 1. In which type of capital market the above issue of securities is covered?
 - ii. Write the name of the methods used for issue of securities by Raja Software Ltd and explain.
 - iii. List any two other investors in this market.

ANSWER KEY

Multiple choice questions

- 1. Answer: a 2. Answer: d 3. Answer: c 4. Answer: b 5. Answer: b
- 6. Answer: c 7. Answer: a 8. Answer: b 9. Answer: c 10. Answer: d
- 11. Answer: c 12. Answer: b 13. Answer: c 14. Answer: c 15. Answer: a

Chapter-11

Marketing Management

Concept of Marketing : The term marketing has been described by different people in different ways. In the traditional sense ‘Marketing’ refers those business activities that are designed to satisfy consumer needs and wants through the permutation process.

But in modern marketing sense, marketing refers to a set of actual and potential buyers of a product or service.

Traditional Vs Modern Concept.

Traditional Concept	Modern Concept
1. Production Concept	1. Marketing concept
2. Focused on maximisation of profit pleasure.	2. Focused on customer satisfaction and
3. Limited set of marketing channels of distribution.	3. Rapid proliferation of marketing channels. i.e. websites, social networking sites, content marketing, Banner Ads, Google ads, etc.
4. Less promotional activities	4. Sustained promotional activities.
5. Narrow concept	5. Broader concept.

Some Common definitions of Marketing :

“A Social Process by which individual groups obtain what they need and want through creating offerings and freely exchanging products and services of value with others” - Philip Kotler.

“Business is not financial Science, Its about trading, buying and selling. Its about creating a product or service so good that people will pay for it.” - Anta Roddick.

“Marketing is the business process by which products are matched with the markets and through which transfers of ownership are effected.” - Cundiff and Still.

But the modern definition of marketing management are based on the philosophy that “Customer satisfaction is the ultimate Purpose of business.”

Features of Marketing : A careful analysis of the definition shows the following important features of marketing-

1. Needs and wants : The focus of marketing begins from human wants, needs and demands. Marketing fullfill or satisfying customer needs by producing the goods and supplying them to customers as per this requirements.

2. Creating a market offering : Market offering refers to complete offer for a product / products, services, information, or experiences offered to market having certain features like size, quality, shape, taste, colour etc.

3. Customer value : A product will be purchased only if it perceived to be giving greatest benefit or value for the money.

4. Exchange Mechanism : The process of marketing consists through the exchange mechanism of goods and services for money or something considered valuable by the people.



What can be marketed : A product is a ‘bundle of utilities’ or source of satisfaction’ that can be used to satisfying customers needs and wants.

Generally it is a product or services which is marketed -

a) Physical Products : TV, Cell phones, Car, Books, AC Machine etc.

b) Services : Banking, Tourism, Health care, Insurance, Transport etc.

c) Experiences : Theatres, Shows, Movies, Seminars etc.

d) Ideas : Polio, Vaccination, Family Planning, ‘ Say no to durgs’, ‘No Smoking’, ‘No Tobacco’ etc.

e) Persons : Corporates, Actor, Actresses, Political Leaders, Apostle etc.

f) Place - ‘Kolkata’- City of joy, Malaysia- Truly Asia, Singapore- Lion city, Goa-Go Goa etc.

Who is a marketer : Marketer refers to any person who takes more active part in the process of exchange. Generally, it is the seller who takes the active role in the exchange process.

Marketing Management : Marketing Management means management of all function i.e. planning, organising, directing and controlling of the activities relating with the exchange of goods and services.

Philip Kotler has defined marketing management as – “The art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communication superior customer values of management.”

If we analyse the definition, we can say that the marketing management involved with the following activities –

- i) Choosing a target market.
- ii) Growing customers in target market.
- iii) Creating, developing and communicating Superior values for the customer.

Marketing and Selling : Marketing and selling are two different concepts. The main objective of selling is to transfer the title and possession of goods from seller to buyers. In other words, selling transforms the goods into money. But marketing is a wide term as it includes whole range of activities relating to planning, designing, pricing, promoting, after sales and service etc that satisfy customer needs.

Sl.No.	Point of Difference	Selling	Marketing
1	Focus /Emphasis	Selling Focuses on the need/ demand of the seller.	Marketing focuses on the need of the buyer.
2	Objective	Maximisation of profit through maximisation of sales.	Optimum profit with customer satisfaction
3	Beginning point	Factory	Marketplace
4	Ending point	Sale of the Product	Continues even after sale.
5	Concentration	Product	Customer needs and satisfaction.
6	Types	Aggressive selling, consultative selling, competition oriented selling, product oriented selling, need oriented selling etc.	Relationship marketing, Digital marketing, cause marketing, paid advertising etc.
7	Emphasis	Bending the customer according to the product.	Develop the product and relative strategies as per the customer needs.
8	Stregies	Promotion and Persuasion.	Product, promotion, Pricing and Physical distribution.

Marketing Management Philosophies :

The Concept or philosophy of today's marketing has evolved over a period of time. It includes the following :

■ **Production Concept** : Under this concept, the assumption was that consumer prefer a product which is inexpensive and easily available. So, profit can be maximized by producing at large scale, thereby reducing the average cost of production.

■ **Product concept**: Under this concept, the assumption was that the consumer prefer products of high quality and price availability that does not influence their purchase decision.

■ **Selling concept** : Selling Concept is focused on making every possible sale of the product whatever is produced by using intensive promotional techniques.

■ **Marketing Concept** : Under this concept, the assumption was that in the long run an organisation can achieve its objective of maximisation of profit by identifying the needs of its present and prospective buyers and satisfying them in an effective way. By doing so, the business is able to build a relationship with the consumer and generate profits in the long run.

■ **Societal Concept** : This concept is based on how to fulfill the requirement/needs of the customer without affecting the environment, and natural resources. The main focus is consumer satisfaction with maintaining ethical and ecological boundaries of the society.

Functions of Marketing : The marketing process involves a number of functions or activities performed by the marketer which are given below -

i) Gathering and Analysing Market Information (Market Research) : One of the first and foremost step of the business organisation is to identify the needs and wants of the customers in the market.

ii) Market Planning : After conducting market research, the marketer has to develop an appropriate marketing plan covering various important aspects to achieve the marketing objective of the organisation.

iii) Product Designing and Development : As per Consumer research, business organisations are develop the product that suits the needs of the consumer.

iv) Standardisation and Grading : Standardisation refers the uniformity of the product. It ensures that all consumer must get the same product with same design and quality.

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.

v) Packaging and Labelling : Packaging refers to designing and developing the package for the products. Labelling refers to designing and developing the label to be put as the package. A label is a carrier of all sorts of informations, Example : Lays or uncle chips, Sunsilk shampoo etc.

vi) Branding : Branding means giving a special name, sign, symbol or combination of all to a product for creating its identification. Example : Rottomac Pen, Sony TV etc.

vii) Customer Support Services : Customer Support services relates to after sales services, handling customer complaints and adjustments, procuring credit services, maintenance services, technical services and consumer information.

viii) Pricing of product : Pricing of a product refers to the process of determining the price of a product. The price of a product will largely depends on its success or failure.

ix) Promotion : Promotion of product and services involves information the consumer/ buyers about the organisation products line-up, its feature etc. and them persuading them to buy it.

x) Physical Distribution : Physical distribution covered all the activities required to physically move the product from sellers to buyers. It includes decision like choice of channel of distribution. Inventory management, warehousing, storage etc.

xi) Transporation : Transportation involves physical movements of goods from one place to anothers. Its a very important function of marketing. After analyzing the geographical boundaries of the market, business organisation is able to take decision about modes of transporation.

xii) Storage and Warehousing : There is always a lagtime between production or procurement of goods and their sales / use. So, storage and warehousing of goods is very necessary and indespensible.

Role of Marketing :

All marketing organisation/ Departments plays a vital role by helping the individual consumers in raising their standard of living by making available the product and service that satisfy their needs and wasts.

Marketing Mix : Marketing management decisions can be broadly divided into two categories, namely controllable and non-controllable factors.

Controllable factors are those factors which can be influenced at the level of the firm. Example packaging decision, brand name, pricing, physical distribution etc.

However, their are certain other factors which affect the decision but not controllable at the firms level. These are called non-controllable factors or environmental variables. exmaple : Credit policy of central banks, Rate of Inflationb etc.

Marketing mix refers to the combination of different variable chosen by a firm to prepare its market offerings.

Marketing Mix is a combination of four elements (which is popularly known as 4P's of marketing). These are (a) Product (b) Price (c) Place and (d) Promotion.

Elements of Marketing Mix : a) Product :- Product means goods or services or ‘Anything of Value’ which is offered to the market for sale.

(b) Price : Price is the amount of money that a customer have to pay to get product. The price mix refers to the important decision related to price level, pricing strategy, pricing objectives, discounts etc.

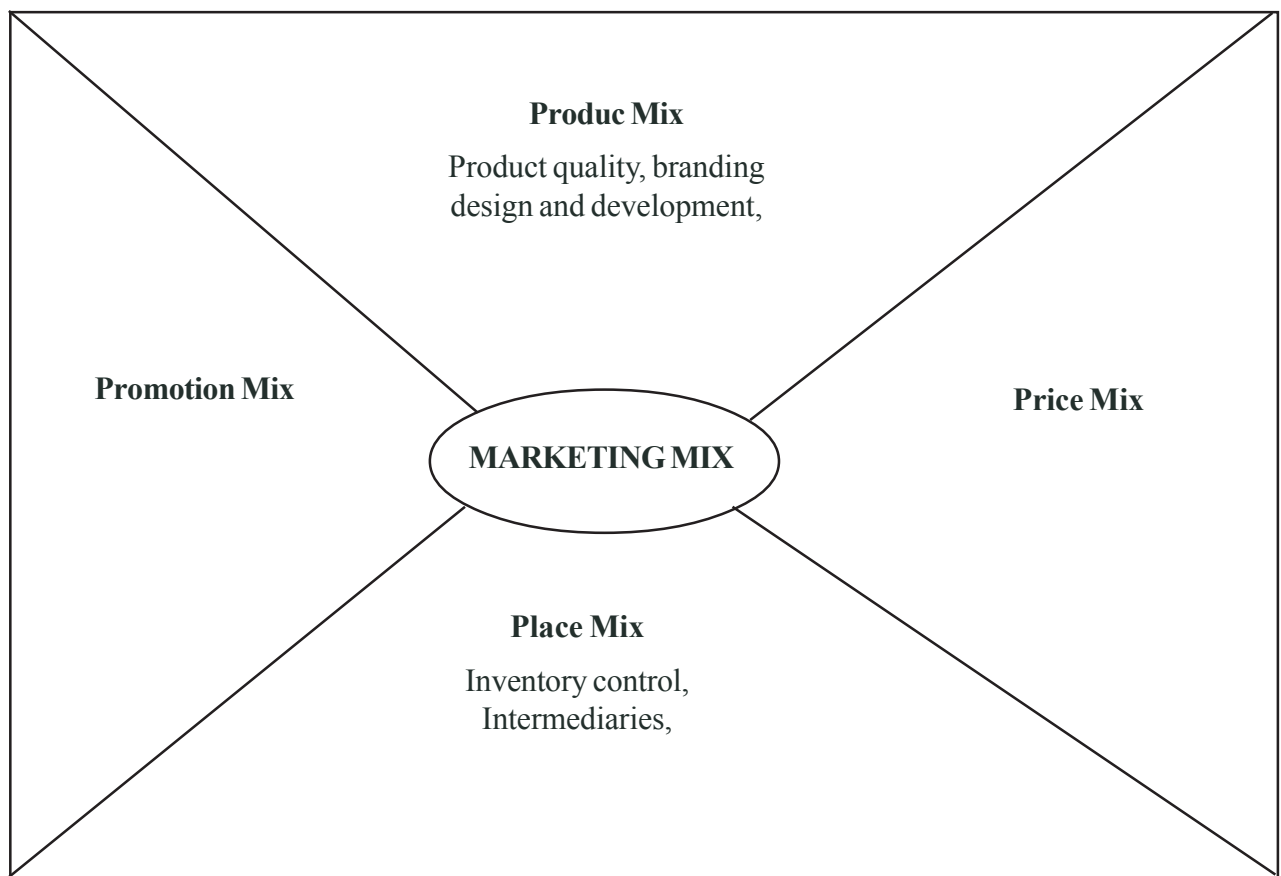
(c) Place : Place or physical distribution includes activities that make firms product available to the target customers. It includes-

i) Decision regarding channels of distribution and (ii) Physical movement of Goods.

Thus place mix involves a number of decisions relating to inventory control, intermediaries, negotiation, storage, warehousing etc.

d)Promotion : Promotion of products and services includes activities that communicate availability, features, merits etc. of the product to the target customers/buyers and persuade them to buy it.

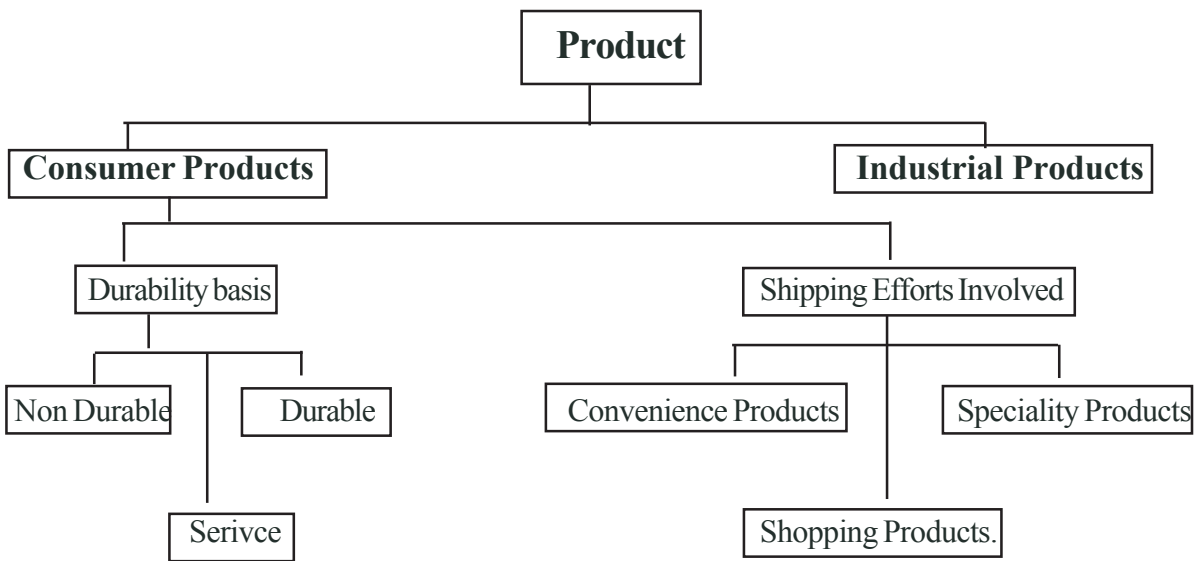
The major elements of promotion mix involves advertising, sales promotion, personal selling an public relations.



Product :In common parlance, product means goods/ article or services or anything of value that is manufactured and offered to the market for sale. Generally, it is used to refer only to the physical or tangible attributes of a product e.g. car, pen, cell phone, AC Machine etc.

Classification of products :

Products can be classified as -



1. Consumer Products : Products which are purchased by the ultimate consumers or end users for satisfying their personal needs and wants are referred to as consumer products e.g.- Soap, Washing Powder, Toothpaste, edible oil etc.

Consumer products are classified on the basis of two important factors -

- (a) Shopping efforts involved.
- (b) Durability of the product.

On the basis of shopping efforts involved consumer products can be classified into three categories, i.e.

a) Convenience products : Convenience products are those products usually low priced, easily available that customer buys frequently, immediately without any planning or search and with least time and buying efforts. e.g.- Ice cream, Newspaper, Chocolates etc.

b) Shopping Products : Shopping Products are those products where buyers devotes considerable time and efforts in gathering information about the product, compare the quality, price, features, style, suitability etc., before making final purchase. e.g.-Jewellery, Furniture, Clothes, Air Conditioners, Cars etc.

c) Speciality Products : Speciality Products are those products which are high priced branded product having certain special features and customers/buyers are highly convinced that the product is superior to all other its peer brands in regards to its features and quality, e.g.- sports car, exotic perfums, luxury watches, designer clothing etc.

On the basis of durability and tangibility, consumer product can be classify into three categories, viz:

a) Non-Durable products : These products / goods are tangible in nature that are consumed in one or few uses. e.g.- Toothpaste, soap, salt etc.

b) Durable Products : These products/ goods that may last for a long period of time or survive many uses. e.g.- Refrigerators, Motor Bike, Television etc.

e) Services : Services involved with such activities benefits or satisfactions which are offered for sale by one party to another and services are essentially intangible in nature. e.g.- Medical services, Banking services, Transportation services etc.

2. Industrial Products : Industrial Products are those products which are used as inputs producing other products or in their operations. Manufacturers, transport agencies, commercial business, Not-for Profit organisation and Government agencies are the buyer of Industrial Products. The example of such products are raw materials, components parts, major equipments, engine, machines etc.

The important characteristics of Industrial product are given below –

i) Number of Buyers : As compared to the consumer products, the number of buyers of the Industrial products are very limited.

ii) Channel Levels : Industrial products are marketed through shorter channels of distribution i.e. Direct selling or one level channel.

iii) Geographic Concentration : Because location of the industries at certain place or regions, due to that industrial markets are highly concentrated.

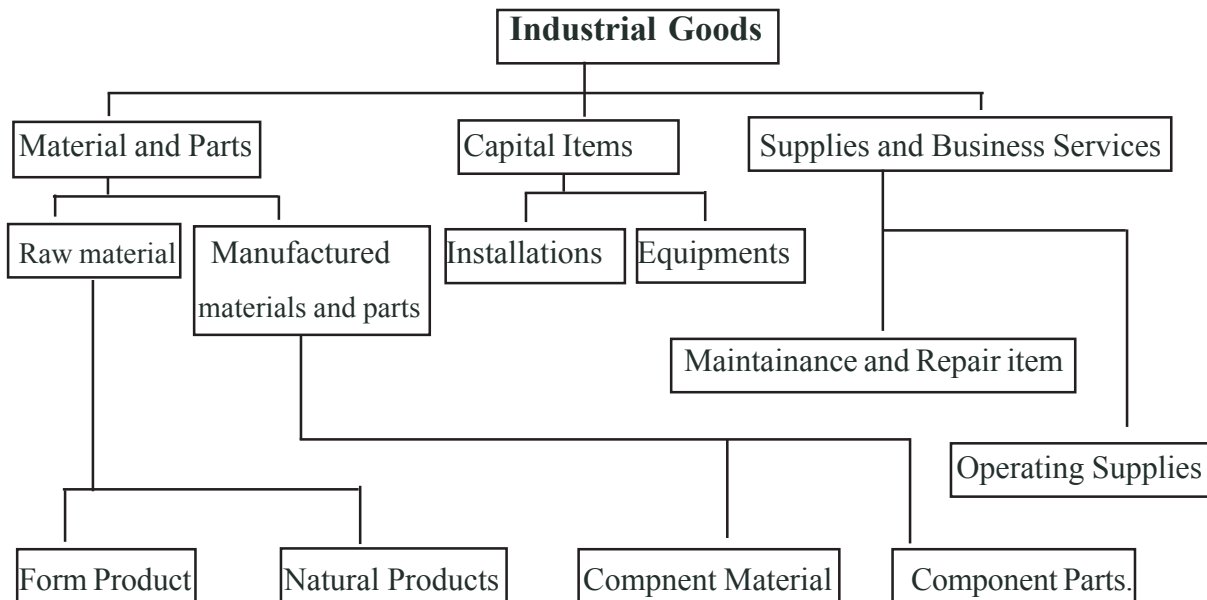
iv) Derived Demand : The demand for industrial goods/products is a derived demand in nature i.e. It is influenced upon the demand for the consumer goods that they help to manufacture.

v) Role of Technical Consideration : Industrial goods always seems to be complex in the view of their technical nature.

vi) Reciprocal Buying : It refers to the exchange of product by two industries from each other as per their needs.

vii) Leasing out : Due to heavy price of the industrial products, the seller may enter into a leasing agreement with the buyer/user instead of selling.

Classification of Industrial Goods



Product Mix : Product Mix / Product Assortment / Product Portfolio refers to the complete set of product and/or services offered by a business organisation. Important components of product mix are branding, packaging and labelling.

1. Branding : Branding is a marketing practice of creating a name, term, sign, symbol, design or some combination of them that identifies and differentiates a product from other similar products in industry. A brand is the identification of a product.

Various terms related to branding are :

i) Brand : A brand is a name, term, sign, symbol, design or some combination of them, used to identify the product-goods or service. e.g.-Bata, Ultratech Cement, Titan etc.

ii) Brand Name : A part of brand which can be spoken is called a brand name. Brand name is the verbal component of a brand. e.g.-Dettol, Maggie, Uncle chips etc.

iii) Brand Mark : A brand mark is a symbol, logo, elements, art design or visual image that helps to recognize a business entity. By creating a brand logo/image that conveys all the values, expectations and promises of your business. example : Maharaja sign of air India, Nike sign of arrow etc.

iv) Trade Mark : A brand or a part of brand that is given a legal protection is called trade mark. It is legally recognized as a type of intellectual property.

Advantages to the Marketing : Branding provides the following advantage benefits to the marketers/ seller/ producer.

i) Enables making product differentiation : Branding helps the marketer to distinguish its product from that of its competitors.

ii) Helps in advertising and display programmes : Brand name helps in advertising and display programme of a product in an easier way.

iii) Differential Pricing : Branding enables a firm to charge different price for its products than that charge by its peer group.

iv) Ease in introduction of New Product : It helps in establishing a strong base if a new product is launched under a known brand.

Advantages to Customers : Branding provides following advantages to customers -

i) Helps in Identification : Branding helps the customers to identify the product easily.

ii) Ensures Quality : Branding ensures a particular level of quality of the product which helps in building the confidence level of the customer.

iii) Status Symbol : Some brands become status symbols because of their quality. The consumers of those particular brand of products feel proud of using them and add to the level of satisfaction of the user.

Characteristics of Good brand Name : While selecting a good brand name, attention must be paid the following points :-

i) Short and Simple : A good brand name should be short, easy to pronounce, spell, recognise and remember. e.g.-Lux, dettol, VIP, Vim etc.

ii) Suggestive : A good brand name should suggest the product quality and benefits. e.g.-Swift, lipguard, May fair lady, Boost etc.

iii) Distinctive : A good brand name should be unique/distinctive.e.g.-Zodiac, Kodak, Ariel etc.

iv) Adaptable to Packaging : The good brand and should be adaptable to packaging or labelling requirements in different advertising media and language.

v) Versatile : A good brand name should be enough versatile to accommodate the new product.e.g.- Maggie, Colgate etc.

vi) Capable of registration : It should be capable of being registered and protected legally.

vii) Staying Power : Cross name of the selective brand should have staying power.i.e. it should not get out of date/old fashioned.

Packaging : Packaging refers to the act of designing and producing the container or wrapper of a product. Packaging plays a very crucial role in the marketing success or failure of any products, especially the consumer non-Durable product.

The packaging is used by the marketers to encourage the potential buyers to buy the product. Packaging is not only limited to how to use and protection of the product but also helps in identification and promotion of a product.

Levels of packaging : There are three levels of packaging –

- i) Primary Packaging :** Primary Packaging refers to the immediate packaging of a product.
- ii) Secondary Packaging :** Secondary Packaging are additional packaging which give more protection of a product.
- iii) Transportation Packaging :** It refers to further packaging components necessary for storage, identification or transportation.

Importance of Packaging : Packaging plays a very vital role in marketing of goods/products of the following reasons.

- i) Raising standards of health and sanitation :** Because increasing of awareness and standard of living in the country, people now prefer to buy packaged product as the chances of adulteration in such goods are minimised.
- ii) Self-Service Outlets :** Self service outlets are becoming very popular now a days. In these outlets generally products with attractive packaging are pick-up by the buyers more quickly.
- iii) Innovative opportunity :** Attractive packaging increase the chances of new consumer products successfully and can extend the product lifecycle.
- iv) Product Differentiation :** Packaging help the target audience to create differentiation amongst the products on the basis of colour, size, material etc.

Functions of Packaging : Packaging plays an essential function for the product because of the following functions -

- i) Product Identification :** Packaging helps the customer/buyer in identification of a product. For example- Red level Tea in red colour packing, Ponds cream jar etc.
- ii) Product Protection :** Packaging protects the product from spoilage, breakage, leakage, pilferage, damage, climate effect etc.
- iii) Facilitating use of the product :** Well designed packaging helps the consumer to handling the product more conveniently.

iv) Product promotion : An attractive packaging plays an important role for promotion of a product. A striking colourful and innovative packing attracts the customer to buy a product.

Labelling : The term labelling means putting identification marks on the package of a product. It is a printed information that is to be attached to the product for recognition and provides detailed information of the product like its nature, contents, ownership, destination etc.

Functions of labelling : *The functions of labelling are –*

i) Describe the product and specify its contents : A label provides the complete information of a product. It includes its ingredients, usage, caution of use, manufacturing details etc.

ii) Identification of the product or Brand : It is the easiest way to identify a particular product or brand with the help of labelling. For example- Lux soap, Surf excel etc.

iii) Grading of Products : Labelling enables the marketers to assign different grades to indicate different features or quality of a product. Example- Brook Bond Red Level, Yellow level, Green level etc.

iv) Helps in promotion of product : One of the salient function of labelling is to promote sales. A good label can encourage a customer to buy a product. It is used as an effective sales promotional tool.

v) Providing information required by Law : Labelling provides statutory warning required under law.e.g. statutory warning like ‘Tobacco Causes Painful death’ must be state on the package of chewing tobacco.

Pricing : Pricing occupies an important role in the marketing of product and services by a firm. Pricing is the process of determining the price of a product or services. It is the value which a buyer passes on to the seller in consideration of the purchase of a product or service.

Price Mix : Price mix refer to the important decisions related with fixing the price of a product. These are price range of the product demand of the product, profit margin, price discounts etc.

Factors affecting Determination : The following factors must kept in mind while fixing the price of a product.

i) Product Cost : Product cost refers to the cost incurred to produce or manufactured of a product. It includes direct labour, direct materials, selling and distribution Costs etc.

There are broadly three types of cost- Fixed cost, Variable cost and Semi variable costs.

Total costs includes the sum total of the fixed, variable and semi variable cost for the specific level of activity.

ii) The utility Demand : It is indispensable for marketers to anticipate the utility and demand of a product, while fixing the price. When the demand is elastic, marketers should carefully ascertain the price of a product but in case of inelastic demand, marketers may charge higher profits as because a change in the price does not affect the demand.

iii) Extent of competition in the Market : The price of a product is depending upon the nature and degree of competition in the market. However, when the competition is very high, the price of the products is depend upon competitors product, feature and quality.

iv) Government and legal Regulations : In orders to protect the interest of public against unfair practices regarding fixing the price of a product and services, government has all the rights to control the prices of the products and service.

v) Pricing objectives : If the objective of the firm is to maximise its sales, then the prices of the product will be set at a lower level and vice versa. Apart from that, other pricing objectives are -

a) Obtaining market share leadership.

b) Surviving in a competitive market.

c) Attaining product quality leadership.

vi) Marketing Methods used : The price of the product also gets influenced by various techniques and methods of marketing used to promote the product line.

Physical Distribution : The fourth important element of marketing mix is physical distribution of the products and services. Place/physical distribution is concerned with making the goods and services available at right place, so that people can buy the product.

Channels of Distribution : Channels of distribution refers to the set of individuals or middlemen, who help in for distributing of goods.

Institutions, merchants and functionaries, who take part in the distribution process are called channels of distribution.

PRODUCER → WHOLESALER → RETAILER → CONSUMER

Functions of Distribution channels :

Channels of distribution make it easy for flow of goods by creating possession, place and time utilities. Some important function performed by middle men are as follow -

i) Sorting : Middlemen obtain the supplies of goods from various suppliers and sorting the product into homogenous groups on the basis of size, quality, price etc.

ii) Accumulation : In order to ensure continuous flow of supply of products middlemen maintain a large value of stock.

iii) Allocation : Allocation involves packing of the homogeneous stocks in smaller marketable lots. example- 1 kg, 500 gm and 250 gms.

iv) Assorting : It refers to the process of various products from different procure sources and deliver the customer as per their desires.

v) Product Promotions : Middlemen helps in the promotion of a product by demonstrations, special displays, contests, promotional events etc.

vi) Negotiation : Middlemen negotiate price, quality, guarantee and other related matters about a product with the manufacture as well as customers.

vii) Risk-taking : Middlemen have to bear the risk of distribution on a account of price and demand fluctuation, spoilage etc.

Types of Channels of Distribution : Broadly, channel of distribution is of two types i.e. Direct Channel and Indirect Channel.

1. Zero level channel / Direct Channel : When the producer or manufacturer directly sells the products to the customer without involving any middlemen, is called zero level channel or direct channel.

Example- Bata, Mc Donalds, Eureka Forbes etc.

Manufacturer → Consumer.

Common types of Direct Channel are -

- i) Internet selling.
- ii) Mail order selling.
- iii) Door to Door selling.
- iv) Company owned retail outlets. etc.

2) Indirect Channels : When the producer or manufacturer involved one or more intermediaries in the distribution network is called Indirect Channels.

The various indirect channels are -

i) Manufacturer -- Retailer -- Consumer (One level channel) : In this case only one intermediary is involved.i.e. retailer who in turn sells the product to the ultimate customers. This methods is used for expensive or speciality products. For exmple- Ford Motors sells its cars through company approved retailers.

Manufacturer → Retailer → Customer

ii) Manufacturer -- Whole saler -- Retailer -- Customer (Two level channel) : Under this channel, wholesaler and retailer act as a link between the manufacutrer/producer and the customer/ user. This is the most commonly used channels of distribution of products e.g.- Pulses, Wheat, Clothes etc.

Manufacturer → Wholesaler → Retailer → Customer.

iii) Manufacturer -- Agent -- Whole saler -- Retailer -- Consumer (Three level channel) : In this level three middlemen persist.i.e. agent, wholesaler and the retailer. The manufacturer uses their own agents or brokers, who in turn supply the products/goods to wholesaler and retailers. This is done when a manufacturer deal with limited number of products and to cover a wide market.

Manufacturer → Agent → Wholesaler → Retailer → Consumer.

Factors determining choices of channels : The choice of channels of distribution depends on various factors, which are categorised under-

1. Product related factors :

(i) Nature of the product : When the product cost is very high, it is the best to use small distribution channel. Example- Industrial machinery, Gold Jewellery etc.

(ii) Unit value of the product : When the product unit value is very low/less, long network channels is preferred.

iii) Perishability : Prishable product like fruits, vegetables and diary products are preferred to sold through direct or short channels.

iv) Product complexity : Technically complex products requires expert advice and guidance, so direct channels is preferred while for non-complex products longer channel can be used.

2. Company related factors :

(i) Financial Strength : Direct selling involves a lot of fund to be invested in fixed assets for starting its own retails outlets or engaging large number of workforce. A company having strong financial base may use direct channels and vice versa.

ii) Degree of Control : If the management wants to have greater control over channel of distribution, shorter or direct channels will be preferred and vice versa.

3. Compititive factors :

Sometimes, a company select such channels which has been adopted by its compititors. On the contray a company may not select such channels which was selected by its compititors. Its depends upon the policy of the firm.

4. Market Factors :

(i) Number of Buyers : If the number of customers buyers is large and market is widespread, then it is better to take the service of the middlemen for the distribution of goods i.e. longer channel should be preferred and vice versa.

ii) Size of the Market : If the number of buyers customers are large and market area of the product is scattered. Then more intermediaries are used i.e. longer channel should be preferred and vice versa.

iii) Geographical Concentration : When the buyers are concentrated in a limited area shorter channels may be used but in case of large or scattered area longer channel may be used.

5. Environmental Factors :

Other important environmental factors such as trade policy, economic policy etc affecting the choice of channels of distributions.

Physical Distribution : The physical distribution includes all the activities associated with the supply of finished product from the place of production to the place of distribution.

Physical distribution covers all the activities associated with physical movement of goods like order processing, transportation, warehousing, inventory controls etc.

Components of physical distribution :

1. Order Processing : It refers to placing order by the consumer to the manufacturer via Intermediaries. A good physical distributions system should provide for an accurate and speedy processing of orders.

2. Transportation : Transportation refers to the mode of carrying goods and raw materials from the point of producing to the point of sale. It is one of the major important component of physical distribution of goods.

3. warehousing : It involves all the activities required in storage of goods between the time a product is produced and the time it is required for consumption.

4. Inventory Control : Inventory refers to maintenance of stock of goods. Higher the level of inventory, higher the level of service to customers and the cost of carrying the inventory will also be high. So, optimum level of inventory should be maintained.

Promotion :

Promotion refers to any type of marketing communication with the twin objectives of information target audiences/potential customers about a product and persuading them to buy it.

Promotion Mix : Promotion mix refers to all types of promotional activities/variables chosen by the marketers to persuade the customers.

The various elements of promotion mix is as follows -

- 1) Advertising (2) Personal selling (3) Publicity (4) Sales Promotion

1. Advertising : Advertising is perhaps the most commonly used tool of promotion. It can be defined as the ‘Paid form of non-personal presentation and promotion of Idia, goods or services by an Identified sponsor.’ The most common modes of advertising are- newspaper, radio, television, magazine etc.

Features of Advertising : *The distinct features of advertising are -*

i) Paid form : Advertising is a paid form of communication, it is not free of cost.

ii) Impersonality : Advertising is a Non-personal presentation of information where the advertiser and consumer will never meet. Advertising is a monologue and not a dialogue.

iii) Identified Sponsor : Advertising is sponsored by an Identified individual or company, Who bears the cost of advertisement.

Merits of advertising : Advertising as a medium of communication. It provides the following merits -

i) Mass Reach : Through advertising it is possible to reach a large number of people over a vast geographical area.

ii) Enhancing Customer satisfaction and confidence : Advertising creates confidence amongst prospective buyers as they fell more comfortable and assured about the product quality and satisfied.

iii) Expressiveness : With the recent development of art, computer designing and graphics advertising can create an image/special effect of the products.

iv) Economy : As advertising creates the demand of the product, therefore manufacturers has to produce more. Thus it helps in increasing the profitability of the business and helps in boosting the nations economy.

Limitations of Advertising : Advertising faces some weakness/limitations as a tool of promotion. These are -

i) Less forceful : Advertising is an impersonal form of communication which is less forceful. Paying attention to the massage/information is not compulsory for the buyers.

ii) Lack of Feedback : It is very difficult to evaluate the effectiveness of an advertising messages as there is no immediate and accurate feedback mechanism.

iii) Inflexibility : Advertising manages is standardized and is not tailor made according to the needs and requirements of the customers.

iv) Low effectiveness : Large number of advertisements have created difficulties amongst the target audiences/ consumers. Sometime, it becomes less effective.

Objections to Advertising : Though advertising is one of the most frequently used medium of promotion of goods and services but it has some criticism. These are-

i) Adds to cost : The opponents of advertising argue that advertisement unnecessarily adds to the cost of the product due to its high price.

ii) Undermines Social Values : Another important criticism of advertising is that it undermines social values and always looked down for promoting materialism.

iii) Confuses the buyer : Another criticism against advertising is that buyers often get confused because of so many advertisement running in the market and facing trouble to rely on any product.

iv) Encourages sale of Inferior products : Advertising does not distinguish between superior and inferior products. Good advertisement persuade people to purchase even the inferior product.

v) Some advertisements are in bad taste : Some advertisements are in bad taste because they exhibit such things which are inappropriate according to the standard society practices.

Personal Selling : Personal selling or salesmanship is the process of informing, assisting and persuading potential client/prospective customer for the purpose of making sales. It involves face-to-face interaction between the seller and the buyer.

Features of personal selling :

i) Personal Form : In personal selling a personal contact is built up between between the buyers and seller.

ii) Development of Relationship : It helps to develop a personal, long-lasting relationship between the salesperson and the prospective customers.

Other features are -

iii) Oral conversation.

iv) Quick solution of queries.

v) Receipt of additional information about customer tastes and likings.

vi) Execution of Sale.

Merits of Personal selling :

(i) Flexibility : A salesman can adjust his message according to the needs, moods, attitudes, motives of the customers.

ii) Direct feedback : As there is a direct face to face communication with the customers and sellers. Which it provides straight feedback from the customer and take the necessary initiative accordingly.

iii) Minimum wastage : The wastage of efforts in personal selling can be reduced/minimised as the company can decide the potential buyers before making any contact with them.

Role of personal selling :

Personal selling plays a very vital role in marketing of goods and services to businessman, customers and society in the following way-

1. Importance to Businessman :

Personal selling is an important promotional tool for creating demand in marketing of goods and services. It is very important for the businessman due to the following reasons -

- i) Effective promotional tool.
- ii) Flexible tool.
- iii) Minimises wastage of efforts.
- iv) Consumer attention.
- v) Lasting relationship.
- vi) Personal Rapport.
- vii) Role in introduction stage.
- viii) Link with customers.

Importance to Customers : The role of personal selling becomes more important for the uneducated and rural customers, who do not have adequate knowledge about product information or services.

In the following ways customers get benefited through personal selling -

- i) Helps in identifying needs.
- ii) Latest market information.
- iii) Expert advice.
- iv) Induces customers.

Importance to Society : Personal selling plays a very significant role in the economic development of a society.

Personal selling benefited the society in the following ways -

- i) Converts latent Demand.
- ii) Employment opportunities.
- iii) Career opportunities.

- iv) Mobility of sales people
- v) Product standardisation.

Sales Promotion : Sales Promotion refers to short term initiatives, which are designed to encourage the customers to make immediate purchase of a product or service. It is the most important tool used in promotion of a product or service.

Sales promotion activities include case discounts, sales contest, free gift offers, free sample distribution, coupons, special price, time limited offers, free shipping, reward points etc.

Definition : “Those activities that supplement both personal selling and advertising, coordinate them and help to make them more effective.”- American Marketing Association.

Sales promotions include only those activities that are being used to provide short term incentives to customers to boost sales of a business/firm.

Merits of sales promotion : Sales promotion provides the following merites -

- i) Attention value :** Sales promotion activities helps to attract attention of the large mass of people in a short span of time.
- ii) Useful in new product launch :** Sales promotion tools and techniques such as sampling and product combination are very helpful in introducing the new product in the market.
- iii) Synergy in total promotional efforts :** Promotion activities are designed to supplement the sales advertising and personal selling efforts of the company.

Limitation of Sales Promotion :

Sales promotion has the following limitation-

- i) Reflects crisis :** Frequent use of sales promotion technique may create an impression about the inability to generate sale of a company.
- ii) Spoils product message :** Use of sales promotion tools may affect the image of a product.

Commonly used sales Promotion Activities :

- i) Rebate :** Offering products at special price to clear off the overstock/excess inventory. Example- Rs. 40,000/- off on purchase of Maruti Suzuki Premium car NEXA upto 31st July, 2021.
- ii) Discount :** Offering products a reduction from its regular or list price. example- Discount upto 50%.
- iii) Refunds :** Refunding a part of price paid by customers on some proof by purchase. example- empty wrappers.

iv) Product combinations : Offering another product as gift alongwith purchase of a product. example- Buy a smart phone and get a sim card free, Buy a vim liquid and get a vim bar free etc.

v) Quantily Gift : Offering extra quantity of the product as gift/less price along with the purchase of a product. example- Buy 2 get 1 free, 20% extra toothpast in a packet of 100 gm toothpast etc.

vi) Instant draws and assigned gift : It is a technique in which the customer is asked to ‘ Scratch a Card’ or ‘instantly draw or coupan’ to win an assured gift immediately. Example- ‘Scratch a card’ or ‘burst a cracker’ to instantly win refrigerators, TV, AC Machine, Computer etc.

vii) Lucky Draw : Lucky draw is a game in which prizes are covered up and mixed together in a container by including the bill number or names of the customer. Example- Purchase a certain quatity of Rice brand mustard oil from Big Bazar and win a Scooty offer.

viii) Usable gift : Under this method, coupons are distributed among the customer on fulfilling some conditions of purchase of the product and obtained a special discount. Example- Purchase goods worth Rs. 10,000/- and get a holiday package or get a discount voucher. etc.

ix) Full Finance@0% : It refers to the sale of the product and money received in instlement @0 % rate of interest. Example- Sale of a TV in 24 easy instlements carrying 0% Interest. with 8 up front cheques and 16 post dated cheques.

x) Sampling : It refers to the distribution of free samples of products by the producer/manufacturer to customers. Generally when a new product is launched, such sales promotion policy is adopted. Example- Horlicks launched a new products for kids and distributed between the target customers.

xi) Contents : Some manufacturers organises different kinds of contests and winners are given some reward. Such events involving application of skills or luck. Example- Quiz contest, Slogan writting contest. etc.

Publicity : Publicity is the public visibility or awarness for any proudet or service or organisation. It is a non-personal form of communication. From marketing point- of view, publicity is one of the important component of promotion and marketing of a product or service.

Features of Publicity :

(i) Publicity is an unpaid form of communication. It does not involve any direct expenditure by the marketing organisation and (ii) There is no identify sponser for the communication as the message circulated between the audience as news item.

Public Relation : Public relation is an important element of promotion mix. Public relations refers to the variety of activities conducted by a business organisation to promote and protect the image of the company and its products in the eyes of public.

Public Relations encompasses a broad range of activities such as public attitudes, identify the policies and procedure of an organisation etc.

Definition of Public Relation : The chartered Institute of Public Relations defines Public Relation is a strategic management function that add value to an organisation by helping it to manage its reputation.

Ways/Methods/Tools and Technique of Public Relation :

i) Newsletters : Newsletters is one of the most important way to send relevant information about the organisation and its product lines/service, directly to the target audience.

ii) Social Media : Using social networking sites such as twitter and facebook business organisation can easily build up the relations with public and expose their business brand.

iii) Press Release : A Press realese in a written document prepared for the media which announces something newsworthy. It is the most usual medium to interact with public.

Other important tools are - Advertorials, Broachures and Catalogues, Business events, Sponsorships, Blogging etc.

Role of Public Realtion : It is an important tool in the hands of marketing department. The public relation department performs five functions :

i) Press Relations : The public relation department is in contact with the media to present true facts and correct picture of the business.

ii) Product Publicity : Promoting new established products or services require special effort to publicise them and the company has to sponsor such programmes.

iii) Corporate Commuications : With the help of newsletter, annual reports, brochures, articles and audio/visual materials the public relation department promotes the image of the organisation by communicating with the public and employees of the organisation.

iv) Lobbying : The organisation has to deal with government official and different ministers in charge of corporate affairs, industry, finance with respect to policies relating to business and the economy.

v) Counselling : The public relations department advices the management and general issues that effect the public and goodwill of the company.

Objectives of Maintaining Good Public Relations : Maintaining good Public relations may also helps in achieving in following marketing objectives.

- i) Building awarness.
- ii) Building credibility.
- iii) Stimulas Sales force.
- iv) Lower Promotion costs.

EXERCISE

A. Answer the following MCQ's : (Carrying 1 Mark)

1. Which of the following is not an element of the Marketing Mix.

- a) Pricing b) Product c) Target Market d) Promotion.

Ans :

2. Which is the objective of marketing process ____

- a) Profit making b) Customer Satisfaciton
c) Selling of Product d) None of the above.

Ans :

3. Which of the following is the feature of marketing ?

- a) Exchange Mechanism b) Customer value
c) Creating a Market offerieng d) All of the above.

Ans :

4. 'Value added Services' refers to -

- a) Costlier services b) at per services
c) value at a discount d) Extra services.

Ans :

5. Which of the following is not a feature of product concept ?

- a) Product Improvements b) Extra features in products
c) Good quality d) Emphasis on sales volume.

Ans :

6. ____ Concept is emerged on those organisation whose philosophy is that quality of goods or services of good standard can always attract the customers.

- a) Selling concept b) Materiality concept
c) Marketing concept d) Product Concept

Ans :

7. Which of the following is not the marketing management philosophies or concepts ?

- a) Product concept b) Production concept
- c) Full disclosure concept d) Marketing concept

Ans :

8. Marketing is _____

- a) A Science b) An art and a science
- c) An art c) None of the above.

Ans :

9. Promotion of a product is a wide term includes -

- a) Sales b) Advertising
- c) Personal selling d) All of the above.

Ans ;

10. In _____ market, there are huge number of buyers and sellers gathered.

- a) perfect b) Imperfect
- c) Commodity d) Bullion.

Ans :

11. 'Cross Selling' refers to

- a) Selling to unknown customer b) Cross country marketing
-) Selling other product to existing customer d) None of the above.

Ans :

12. Which of the following is not a functions of marketing ?

- a) Primary package b) Market Research
- c) Market planning d) Branding.

Ans :

13. Market information refers to -

- a) knowledge of Customer demand.

- b) knowledge of peers group.
- c) knowledge of industry.
- d) All of the above.

Ans :

14. Which of the following does not include of non-controllable factors ?

- a) credit policy of central bank
- b) Rate of Inflation
- c) Competition
- d) Labelling decision.

Ans :

15. Which of the following is the ways/methods and tools of public relations ?

- a) Written materials
- b) News
- c) Speeches
- d) All of the above.

Ans :

16. Price determination of a product is depends on -

- a) Product cost
- b) Pricing objectives
- c) Customer demand and utility
- d) All of the above.

Ans :

17. Which of the following is not a merits of sales promotion ?

- a) useful to launch a new product
- b) Spoiled product image
- c) Synergy in total promotional efforts
- d) Attention value.

Ans :

18. In zero level channels of distribution number of intermediaries involves is -

- a) Zero
- b) Two
- c) Three
- d) Four

Ans :

19. 'Better product, Better value, Better living' is the policy statement of which business enterprise.

- a) Reliance
- b) Nirma
- c) Larsen
- d) HUL

Ans :

20. Which of the following is not the merits of personal selling ?

- a) Flexibility b) Complexity c) Minimum wastage d) Direct feedback.

Ans :

B. Very Short Answer type Questions (Carrying 1 mark) :

- i) What do you mean by marketing ?
- ii) Mention any two factors which affecting the price of a product ?
- iii) What are the basis of marketing ?
- iv) Give any two example of convenience product.
- v) What is market offerings ?
- vi) What is the main focus of the product concept ?
- vii) Give any two example of shopping product ?
- viii) What is Price Mix ?
- ix) What do you mean by promotion of a product ?
- x) Who is a marketer ?
- xi) What is mean by product ?
- xii) What is marketing management ?
- xiii) What is the focus point of marketing management ?
- xiv) What do you mean by 'Branding'?
- xv) What is 'Trademark'?
- xvi) What is 'Promotion Mix'?
- xvii) What is 'Personal Selling'?
- xviii) Name any two factor which is indispensable for fixing the price of a product.
- xix) What are the elements of 'marketing mix'?
- xx) Name any two essential commodities.
- xxi) Write any two features of personal selling.
- xxii) What is meant by 'sales promotion'?
- xxiii) State any three techniques of sales promotion.

- xxiv) Name the person who maintain the public relation.
- xxv) Mention any two marketing management philosophies.
- xxvi) What is pricing ?
- xxvii) What is zero level channel of distribution ?
- xxviii) What are the three level of packaging ?
- xxix) In three level channel name the intermediaries or middlement involved in marketing.
- xxx) Name any two criticism or objections of advertising ?
- xxxi) Write any three techniques of sales promotion.
- xxxii) Full finance @ 0% - explain the concept.
- xxxiv) Write any two qualities of a good salesman ?
- xxxv) What is Public Relation ?
- xxxvi) Name any two methods and tools of public realtions.

Answer the following questions:

(Marks-3/4/5/6)

- i) What is meant by selling concept of marketing ?
- ii) What is marketing ? What functions does it perform in the process of exchange of goods and services-explain.
- iii) What is meant by product concept of marketing ?
- iv) List the characteristicies of good brand name.
- v) Explain the Pillars of marketing concept.
- vi) List the characteristics of convinience products.
- vii) Explain any three/four important merits of advertising.
- viii) What is product Mix ? Breifly discuss its features.
- ix) Explain briefly the concept of personal selling.
- x) Enlist the advantage of packaging of a consumer product.
- xi) Define marketing. How it is different from selling ? - Discuss.
- xii) Discuss the marketing management philosophies.
- xiii) What is packaging ? State its importance.

- xiv) What is marketing mix ? What are its main elements - explain.
- xv) Explain the major activities involved in the physical distribution of product.
- xvi) What are the factors affecting determination of the price of a product or service ? - explain.
- xvii) Explain the factors determining the choice of channels of distribution in marketing.
- xviii) Discuss the role of marketing in economic growth of a nation.
- xix) 'Money spent an advertising is not a wasterul but an investment' - Do you agree ? Give reason in support of your answer.
- xx) Distinguish between advertising and personal selling.

Answer Key:

- 1. (c) 2. (b) 3. (d) 4. (d) 5. (d) 6. (d) 7. (c) 8. (b) 9. (d) 10. (a)
- 11. (c) 12. (a) 13. (d) 14. (d) 15. (d) 16. (d) 17. (b) 18. (d) 19. (b) 20. (b)

CASE STUDIES

1. NPPA sets 20% annual cap for Drug Price Rise.

Drug price watchdog National Pharmaceutical Pricing Authority (NPPA) has decided to invoke the 'Public Interest' clause in the drugs law more often to pressure companies to reduce prices of Medicines that go up more than 20% in a year. The pricing body has also decided to limit its communication with companies to just one reminder to asking them to resopond to the show cause notice on why the drug should not be recommended for price control, sources told ET. NPPA has now started scrutinising the fluctuation in the price to retailer of 48,600 formulations packs every month. Every month, two or three formulations are likely to get caught on an average. So far, NPPA has recommended 45 cases of alleged abnormal price increase to the chemicals ministry for appropriate action, on which the ministry has sent notices to 11 companies asking them to reduce prices or Face Price Control.

(Source : Adapted from Economic Times, Nov. 3. 2006)

- i) With reference to the above study, identify the elements of marketing discussed ?
- ii) What are the factors affecting determination of the price of a product or service-explain.

2. Increase hotel occupancy in low season :

Lake View Hotel of Jaipur was facing a problem of low demand for its hotel rooms due to off season. The hotilier, Mr. Banerjee was very worried. In the low season, hotelier have struggle with attracting guests and reaching maximum hotel occupancy. This is the harsh reality of this industry and every hotelier has to deal with seasonality every year.

Seasonality refers to the concentration of tourist flows of a specific periods in a year. These include temperature and climate, holidays and events, travel habits etc.

In view of the above, you are instructed to identify the promotional tool which can be used by the hotelier to increase the occupancy rate and to discuss its merits.

Chapter-12

Consumer Protection

Introduction :

A consumer is said to be a king in a free market economy. In earlier approach of 'Caveat Emptor' which means 'Let the buyer beware' has gone but these days fingers have been pointed to seller which means 'Let the seller beware'. In order to increase their sales, market share and profits, manufacturers and service providers may be tempted to engage in unfair, unscrupulous and exploitative trade practices-like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black marketing etc. Therefore consumer protection is very much indispensable against such practice of the seller.

Who is Consumer : A consumer is a person or a group who intend to buy any goods, products or services produced by a seller for a consideration to be paid or promised to be paid.

So, a consumer is one that buys goods and services for consumption and not for resale or commercial purpose.

Importance of Consumer Protection : Consumer protection is very extensive in nature. It is not only educating consumers about their rights, responsibilities and various remedies, but also helps in getting their grievances redressed. It has assumed great importance for consumers as well as business in the following ways –

From Consumers point of view :

i) Consumer Ignorance : Consumer protection Act provides necessary information to the ignorant consumers regarding rights and remedies available to them.

ii) Unorganised Consumers : Consumers need to be organised in the form of consumer organisation which can unite the consumers and help them to seek relief with their issues.

iii) Widespread exploitation of Consumers : Consumers may be exploited through the ways of unscrupulous, exploitative and unfair trade practice like adulteration, false practice, misleading advertisement, incomplete information on packaged products, hoarding, black-marketing etc. Consumer protection provides safeguard to customers from such malpractices of the sellers.

From the Point of View of Business : A business must also give due importance to consumer for their prosperity in the competitive market. It is important because of the following reasons-

i) Long Term Interest of Business : Customer is the foundation of any business. If any business wants to widespread their customer base in the long run then they need to make a satisfied customer group. Satisfied customers not only lead to repeat sales but also provide good feedback to prospective customer and increase the customer base.

ii) Business uses society's resources : Business should not impair customer confidence as because most of the resources such as - manpower, mineral resources, capital etc are taken from the society.

Therefore, it is the sole responsibility of the business to keeps in mind of public interest and to supply such products and render such service for the welfare of society.

iii) Social responsibility : A business has social responsibility towards various interest groups such as consumer, government bodies and the society. So, they should work in such a way which should be beneficial to all stakeholders.

iv) Moral Justification : It is the moral duty of any business to take care of consumers interest and avoid any form of there exploitation. The ethics of moral values practised by the business and glory to business. So, busines must avoid unfair trade practices such as aduteraton, defective product, fair price and weight etc.

v) Government Intervetion : If any business want to avoid government intervetion, then the busines should not be involved in unfair trade practices. Therefore, business should voluntarily take care of consumer protection.

Legal Protection to Consumers : The Indian legal framework by consumer courts consists of a number of regulations which provided various laws and legislations to protect the interest of the consumer. Some of these regulations are -

i) The Consumer Protection Act, 1986 (COPRA) :

- It seeks to protect and promote the interests of cousumers.
- It provides safeguard to consumers against defective goods, deficient services, unfair trade practices and other forms of exploitation.
- The Act provides for setting up a three-tier system consisting of District Forums, State Commission and National Commission where consumer can file complaints.

ii) **The Indian Contract Act 1872 :**

- The Act lays down the condition in which the promises made by parties to a contract are binding on each other.

- The Act protect the interest of the contract and also specify the remedies available.

iii) The sale of Goods Acts, 1930 : It safeguards and relieves the consumer in case of goods purchased do not comply with express or implied conditions/warrenties.

iv) The essential Commodities Act, 1955 :

- It aims to control production, supply and distribution of essential commodities, price control and equal distribution.
- It also keep a track of anti social activities like profiteers, hoarders and black marketers.

v) The Agricultural Produce (Grading and Marking) Act, 1937 :

- It prescribes grade standards for agricultural commodities and live stock products.
- This act lays down the procedure of grading, marking and packing of agricultural products by providing AGMARK standard.

vi) The Prevention of Food Adulteration Act, 1954 : The Act aims to check adulteration of food articles and ensure their purity so as to maintain public health.

vii) The Standards of weights and Measures Act, 1976 :

- This act protects the right against the goods which is under wight or under measures.

viii) The Trade Marks Act, 1999 :

- This act has repealed and replaced the trade and merchandise Act, 1958.
- This act protect users from fraudulent marks on products and provides protection to the consumers against such products.

ix) The Compitition Act, 2002 :

- This act repealed and replaced the Monopolies and restrictive trade practices Act, 1969.
- It provides protection to consumers in case of practices adopted by business firms which hamper compition in the market.

x) The Bureau of Indian Standards Act, 1986 :

- The Bureau of Indian standards act ensure bout the formulation of quality standards for goods and their certification through the BIS Certification scheme.

- If the goods/products conform to the prescribed quality, standards and procedure are permitted to use ISI mark on the product.
- **The consumer protection Act 1986** : The consumer protection Act (CPA) implemented in 1986 is to provide speedy and simple redressal to consumer disputes. It is one of the altruistic pieces of legislation seeks to protect the consumers from exploitation.

Consumer Rights :

The Consumer Protection Act provides for six rights to consumer to safeguard their interest. These rights are -

- i) **Right to Safety** : It means a consumer has a right to be protected against the marketing of goods and services, which are hazardous to life and property. Thus, consumers are educated that they should preferably purchase quality marked products such as AGMARK, ISI etc.
- ii) **Right to be Informed** : A consumer has the right to get true and complete information about the quality, quantity, potency, purity, standard, contents, expiry date and price of the goods and services which a customer intends to purchase.
- iii) **Right to Choose** : The Consumer has the freedom to choose from a variety of products and services at competitive price. This implies that the marketer should offer a wide variety of products in terms of quality, brand, prices, size etc. So that consumer can choose the products as per their needs.
- iv) **Right to be Heard** : The consumer has a right to file a complaint at appropriate forums. In this context, many enlightened business firms have setup their own consumer service and grievances cell and helping consumers in redressal of their grievances.
- v) **Right to seek Redressal** : This right assures justice to consumers against unfair trade practice or unscrupulous exploitation.

This act also relieves consumers by replacement/removal of product, compensation for misrepresentation, suffered by the consumer etc.

vi) **Right to Consumer Education** : The consumer has a right to acquire knowledge and skill needed and to be a well informed consumer throughout life.

He should be aware of basic consumer rights and responsibilities and how to act on them.

Consumer Responsibilities :

A consumer should be responsible while purchasing using and consuming of goods and services. The responsibilities of a consumer are -

- i) A consumer must have knowledge about various goods and services available in the market, so that an intelligent and wise choice can be made.
- ii) A consumer must buy only standardised goods as they provide quality assurance. Hence, they must look for certification marks like ISI mark on electrical goods, FPO on food products etc.
- iii) A consumer should learn about the risks associated with products and services.
- iv) A consumer must read the labels on the products carefully about prices, net weights, manufacturing and expiry dates etc.
- v) A consumer must ensure that he gets a fair deal.
- vi) A consumer should be honest in his dealing. For example- A consumer choose only legal goods and services and discourage unscrupulous practices like black-marketing, hoarding etc.
- vii) A consumer should always ask for a cash memo on purchase of goods and services which would serve as a proof of the purchase made.
- viii) A consumer must file a complaint in appropriate consumer forum in case of any shortcoming in the quality of goods purchased or services availed.
- ix) A consumer should take necessary initiative to form consumer organisations which would play an active role in educating consumers and safeguarding their interests.
- x) A consumer must keep their environment clean by avoiding wastage, littering and pollution.

Certification Marks Issued for different products in India :

- ISI : Used for Industrial products, e.g.- consumer durable products, electrical appliances, medical equipments, etc.



- AGMARK : Used for agricultural products e.g.- essential oils, vegetable oils, vegetable and semi processed products, fruits etc.



● BIS Hallmark : Used in Gold jewellery and gold coins.



● FPO Mark : Used in all processed fruit products. example- fruit jams, squashes, dehydrated fruit products etc.



● Ecomark : For environment friendly products.



Ways and Means of Consumer Protection :

There are various ways and means of consumer protection. They are as follows -

i) Self-regulation of Business : Enlightened business firms is always ready for imposition of self regulation and discipline in the long run to serve the consumers well.

ii) Business Association : Business association prepares certain code of conduct for business indicating how they are expected to deal with the consumers. example : Federation of India chambers of commerce In India (FICCI), Confederation of India Industries (CII) etc.

iii) Consumer Awareness : Consumer awareness means who is well informed about the various consumer protection laws, redress mechanism and the rights and the relief and to raise his voice against unfair trade practices on unscrupulous exploitation.

iv) Consumer Organisation : Consumer organisations are advocacy groups that play an important role in educating consumers about their rights and lobbying for laws to protect consumers against malpractices or exploitation.

v) Government : The Government of India has framed a set of laws and legislations to protect the interest of the consumers. The most important of these regulations is the Consumer Protection Act 1986 which provides a three-tier redressal agencies i.e. District, State and National level for redressal of consumer grievances.

Redressal Agencies under Consumer Protection Act, 1986 :

The Consumer Protection Act provides a three-tier consumer disputes redressal agencies. These agencies are -

1. District Forum or District Consumer Dispute Redressal Forum :

- The consumer disputes redressal forum is well known as district forum is the first stage of courts at the bottom of the hierarchy of the consumer redressal courts established by the state government in each district.
- Each district forum consists of a president and two other members. The president can be a retired or working judge of district court, one of whom is a woman.
- As per section 11 of the Consumer Protection Act, 1986 a district forum can receive consumer complaints of the value of goods & services and compensation should not exceed Rs. 20 lakh.
- On receiving the complaint, the district forum shall refer the complaint to the party against whom the complaint is filed, if required and gives decisions on the basis of facts and laboratory reports.
- In case of aggrieved party is not satisfied with the order of the district forum, he can file an appeal against the judgement in state commission within 30 days.

2. State Commission or State Consumers Dispute Redressal Commission :

- The consumer disputes redressal commission is better known as state commission is the second stage of courts from the bottom of hierarchy of the consumer redressal courts established by the state government in state level.
- Each state commission consists of a president, who is or was a judge of high court and at least two other members, appointed by the state government, one of whom is a woman.

- As per section 17(1) of the consumer protection Act, 1986, A State Commission can receive consumer complaints of the value of goods services and compensation at least Rs. 20 lakhs but not exceed Rs. 1 crore.
- The appeals against the orders of any district forum can also be filed before the state commission within 30 days of passing the order.

3. National Commission or National Consumer Disputes Redressal Commission :

- The national consumer disputes redressal commission is well known as National Commission is the highest structure of redressal agencies, which was formed by the central government.
- Section 20 of the consumer protection Act, 1986, A National Commission is formed with a president, who is or was a judge of the Supreme Court and at least 4 (four) other members appointed by central government, one of whom shall be a women.
- As per section 21 of the consumer protection act, 1986, A National Commission can receive consumer complaints of the value of goods and services and compensation should more than 1 crore rupees.
- Appeals against the orders of the state commission are settled here.

Role of Consumer Organisations and NGO's :

Consumer Organisation and NGO's plays a vital role in protecting and promoting consumers interest. various consumer organisation and non-government organisation or associations are voluntarily set up for non. Profit motive which aim at promoting the welfare of the people. These include -

- Educating the General Public.
- Publishing periodicals and other publication.
- Carrying out comparative testing of consumer products.
- Encouraging consumer to strongly protest.
- Providing legal Interest to consumers.
- Filing complaints.
- Taking an initiative in filing cases.

Important consumer organisations and NGO's engaged in protecting and promoting consumers interests include the following :

- Consumer co-ordination council, Delhi.

- ii) Common Cause, New Delhi.
- iii) Voluntary Organisation in Interest of Consumer Education. (VOICE), New Delhi.
- iv) Consumer Education and Research centre. (CERC), Ahmedabad.
- v) Consumer utility and trust society (CUTS), Jaipur etc.

EXERCISE

1. Answer the following MCQ's : (Mark-1)

i) How many rights does a consumer have under the consumer protection Act, 1986.\

- a) 5 b) 4 c) 6 d) 7

Ans :

ii) Rights of Consumer are Protected under

- a) The companies Act, 2013
- b) The Consumer Protection Act, 1986
- c) The Indian Partnership Act, 1932
- d) None of the above.

Ans :

iii) Antara Purchased a watch from Rolex watches. As a proof of purchase, what she should inquire for ?

- a) warranty card b) Invoice c) Cash memo d) All of the above

Ans :

iv) Which of the following is not the need for consumer protection in India ?

- a) Poverty and unemployment. b) Cautious consumer c) Illeterate consumer d)) Consumers are not organised.

Ans :

v) In which forum, it is compulsory to have a female member.

- a) District forum b) State Commission c) National Commission d) All of the above.

Ans :

vi) ____ is the mark on Agricultural products.

- a) AGMARK b) EPO c) Hall Mark d) ISI

vii) Who among the following can be president of the state consumer dispute redressal commission ?

- a) Judge of a Supreme Court b) Judge of a High Court c) Judge of a District Court
d) Lowyer of a High Court.

viii) A consumer has a right to get relief in case of product or service falls short of his expectations as per the

- a) Right to safety b) Right to choose c) Right to seek redressal d) None of the above.

Ans :

ix) The Jurisdiction of a state commission is --

- a) Above 1 crore b) below 1 crore c) 20 lacs to 1 crore d) All of the above

Ans :

x) What is the Printed Price on the packet of a product is called ?

- a) TRP b) CRP c) KRP d) MRP

Ans :

2. Answer the following VSA type questions : (Mark-1)

i) Who is consumer ?

ii) How many members are required to constitute 'District forum'?

iii) Mention any one importance of consumer protection from the point of view of a business ?

iv) Name any two consumer rights ?

v) Who can file a complaint under the consumer protection Act ?

vi) Why is consumer protection necessary ?

3. Answer the following Questions (marks-3/4/5/6)

i) What are the responsibilities of a consumer ?

ii) Explain the importance of consumer protection from the point of view as consumer.

iii) Explain the rights of a consumer ?

iv) State three functions performed by NGO's for consumer protection ?

v) What is consumer protection ? State any three points of importance of consumer protection from the point of view of a business?

vi) Describe briefly the features of a 'State Commission'?

vii) Describe the ways and means of consumer protection ?

viii) Describe briefly the features of a 'District forum'?

Answer key

1. (i) c (ii) b (iii) c (iv) b (v) d (vi) a (vii) b (viii) c (ix) c (x) d

Case Study

Mr. Anirban Ganguly of Kolkata, West Bengal is working as an IT Professional and is suffering from diabetes for which he regularly takes medicine. As a part of his duty, one day he visited Hyderabad, and he faced an accident and was hospitalised. Due to the doctor's inadvertent subtle nerve of his left hand was cut rendering him crippled throughout his life. Medical Negligence is punishable under various laws such as torts, IPC, Indian Contract Act, Consumer Protection Act etc. It can be defined as a misconduct of a doctor which causes many illnesses every year.

Identify the consumer right that has been violated by the doctors under the Consumer Protection Act and discuss about the right.

NOTE

NOTE
