पुऽना International School
Shree Swaminarayan Gurukul, Zundal

Grade – XII

BUSINESS STUDIES

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UNIT-1

CHAPTER 1
NATURE AND SIGNIFICANCE OF MANAGEMENT

NATURE AND SIGNIFICANCE OF MANAGEMENT

Management is an art of getting things done with and through others. Management can be defined as, the process of getting things done with the aim of achieving organizational goals effectively and efficiently.

Efficiency and Effectiveness

Efficiency (completing the work at low cost) means doing the task correctly at minimum cost through optimum utilization of resources while effectiveness (Completing the work on time) is concerned with end result means completing the task correctly within stipulated time. Although efficiency and effectiveness are different yet they are inter related. It is important for management to maintain a balance between the two.

1. Rohini prepared a well-documented and factual report on Co's performance but she could not present it in Board meeting as she could not complete it on time.

[Hint: Efficient but not effective]

2. Best roadways promised to deliver goods in time and charged extra money from Mr. Singh. But the goods were not delivered on time.

[Hint: Efficient but not effective]

Characteristics of Management

1. Goal oriented Process It is a goal oriented process, which is to achieve already specified and desired objectives by proper utilization of available resources.

2. Pervasive: Management is universal in nature. It is used in all types of organizations whether economic, social or political irrespective of its size, nature and location and at each and every level.

3. Multidimensional: It is multidimensional as it involves management of work, people and operations.

4. Continuous: It consists of a series of function and its functions are being performed by all managers simultaneously. The process of management continues till an organization exists for attaining its objectives.

5. Group Activity: It is a group activity since it involves managing and coordinating activities of different people as a team to attain the desired objectives of the organization.

6. Dynamic function : It is a dynamic function since it has to adapt according to need, time and situation of the changing business environment. For example, McDonalds made major changes in its 'Menu' to survive in the Indian market.

7. Intangible Force: It is intangible force as it can't be seen but its effects can be felt in the form of results like whether the objectives are met and whether people are motivated or not and there is orderliness and coordination in the work environment.

Objectives of Management

(1) Organizational objectives:

Organizational Objectives can be divided into **Survival** (Earning enough revenues to cover cost); **Profit** (To cover cost and risk); and **Growth** (To improve its future prospects).

(A) Survival - Management by taking positive decisions with regard to different business activities ensures survival of business for long term.

(B) Profit - It plays an important role in facing business risks and successful running of business activities.

(C) Growth - Management must ensure growth which can be measured by increase in sales, number of employees, number of products, additional investment, etc.

(2) Social Objectives:

Social objectives is to provide some benefits to society like applying environmental friendly practices in the production process and giving employment to disadvantaged sections of society, etc. Example: TISCO, ITC, and Asian Paints.

(3) Personal Objectives:

Personal Objectives is to focus on diverse personal objectives of people working in the organization which need to be reconciled with organizational objectives.

Importance of Management

(1) Achieving Group Goals: Management creates team work and coordination in the group. Managers give common direction to individual efforts in achieving the overall goals of the organization.

(2) Increases Efficiency: Management increases efficiency by using resources in the best possible manner to reduce cost and increase productivity.

(3) Creates Dynamic organization: Management helps the employees overcome their resistance to change and adapt as per changing situation to ensure its survival and growth.

(4) Achieving personal objectives: Management helps the individuals achieve their personal goals while working towards organizational objectives.

(5) Development of Society: Management helps in the development of society by producing good quality products, creating employment opportunities and adopting new technologies.

Management as an Art

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

(1) Existence of theoretical knowledge: In every art, Systematic and organized study material should be available compulsorily to acquire theoretical knowledge.

(2) Personalized application: The use of basic knowledge differs from person to person and thus, art is a very personalized concept.

(3) Based on practice and creativity: Art involves in consistent and creative practice of existing theoretical knowledge.

In management also a huge volume of literature and books are available on different aspects of management. Every manager has his own unique style of managing things and people. He uses his creativity in applying management techniques and his skills improve with regular application. Since all the features of art are present in management. so it can called an art.

Management as a Science

Science is a systematized body of knowledge that is based on general truths which can be tested anywhere, anytime. The features of Science are as follows:

(1) Systematized body of knowledge: Science has a systematized body of knowledge based on principles and experiments.

(2) Principles based on experiments and observation: Scientific principles are developed through experiments and observation.

(3) Universal validity: Scientific principles have universal validity and application.

Management has systematic body of knowledge and its principles are developed over a period of time based on repeated experiments & observations which are universally applicable but they have to be modified according to given situation.

As the principles of management are not as exact as the principles of pure science, so it may be called-an inexact science. The prominence of human factor in the management makes it a Social Science.

Management as Profession

Profession means an occupation for which specialized knowledge and skills are required and entry is restricted. The main features of profession are as follows:

(1) Well-defined body of Knowledge: All the professions are based on well defined body of knowledge.

(2) Restricted Entry: The 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 regulates entry and frames code of conduct relating to the profession.

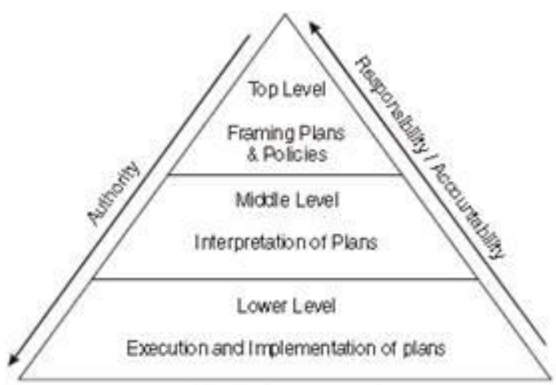
(4) Ethical Code of Conduct: All professions are bound by a code of conduct which guides the behavior of its members.

(5) Service Motive: The main aim of a profession is to serve its clients.

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

Levels of Management: Top, Middle and Operational Levels

"Levels of management" means different categories of managers, the lowest to the highest on the basis of their relative responsibilities, authority and status.



Levels of management

Top Level

Consists of Chairperson, Chief Executive Officer, Chief Operating Officer or equivalent and their team.

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

Middle Level

Consists of Divisional or Departmental heads, Plant Superintendents and Operation Managers etc.

Main tasks are to interpret the policies of the top management to ensure the availability of resources to implement policies, to coordinate all activities, ensure availability of necessary personnel & assign duties and responsibilities to them.

Lower Level/Supervisory Level

Consists of Foremen and supervisor etc. Main task is to ensure actual implementation of the policies as per directions, bring workers' grievances before the management & maintain discipline among the workers.

Functions of Management

1.Planning: Thinking in advance what to do, when to do, and who is going to do it. It bridges the gap between where we are and where we want to reach.

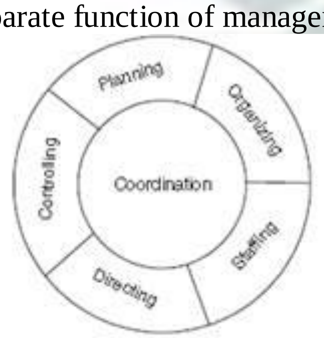
2.Organising: organization means deciding the framework of working how many units and sub-units are needed,how many posts are needed, how to distribute the authority and responsibilities.

3. Staffing: It refers to recruitment, selection, training, development and appointment of the employees.
4.Directing: It refers to guiding, instructing, inspiring and motivating the employees.

5.Controlling are the main functions of management.Controlling is monitoring the organizational performance towards the attainment of the organizational goals.

Coordination (The Essence of Management):

Coordination is the force which synchronizes all the functions of management and activities of different departments. Lack of coordination results in overlapping, duplication, delays and chaos. It is concerned with all the three levels of management as if all the levels of management are looked at together, they become a group and as in the case of every group, they also require coordination among themselves. So, it is not a separate function of management, rather it is the essence of management.



l. Coordination integrates group efforts: It integrates diverse business activities into purposeful group activity ensuring that all people work in one direction to achieve organizational goals.

2. Coordination ensures unity of action: It directs the activities of different departments and employees towards achievement of common goals and brings unity in individual efforts.

3. **Coordination is a continuous process:** It is not a specific activity matter it is required at all levels, in all departments till the organization continues its operations.

4. Coordination is all pervasive function: It is universal in nature. It synchronizes the activities of all levels and departments as they are interdependent to maintain organizational balance.

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

6. **Coordination is a deliberate function:** Coordination is never established by itself rather it is a conscious effort on the part of every manager. Cooperation is voluntary effort of employees to help one another. Effective coordination cannot be achieved without cooperation of group members.

CHAPTER – 2
PRINCIPLES OF MANAGEMENT

Principle

A principle is a fundamental statement of truth that provides guidance to thought and action.

Principles of Management

Principles of management are broad and general guidelines for managerial decision making and behavior (i.e. they guide the practice of management).

Nature of Principles of Management

The nature of principles of management can be described in the following points:

1. Universal applicability i.e. they can be applied in all types of organizations, business as well as non-business, small as well as large enterprises.

2. **General Guidelines:** They are general guidelines to action and decision making however they do not provide readymade solutions as the business environment is ever changing or dynamic.

3. Formed by practice and experimentation: They are developed after thorough research work on the basis of experiences of managers.

4. **Flexible:** Which can be adapted and modified by the practicing managers as per the demands of the situations as they are man-made principles.

5. **Mainly Behavioural:** Since the principles aim at influencing complex human behaviour they are behavioural in nature.

6. Cause and Effect relationship: They intend to establish relationship between cause & effect so that they can be used in similar situations.

7. Contingent: Their applicability depends upon the prevailing situation at a particular point of time. According to Terry, "Management principles are 'capsules' of selected management wisdom to be used carefully and discretely".

Significance of the Principles of Management

The significance of principles of management can be derived from their utility which can be understood from the following points:

1. Providing managers with useful insights into reality: Management principles guide managers to take right decision at right time by improving their knowledge, ability and understanding of various managerial situations and circumstances.

2. Optimum utilization of resources and effective administration: Management principles facilitate optimum use of resources by coordinating

the physical, financial and human resources. They also help in better administration by discouraging personal prejudices and adopting an objective approach.

3. Scientific decisions: Decisions based on management principles tend to be more realistic, balanced and free from personal bias.

4. **Meeting the changing environmental requirements:** Management principles provide an effective and dynamic leadership and help the organization to implement the changes.

5. Fulfilling social responsibility: Principles of management not only help in achieving organizational goals but also guide managers in performing social responsibilities. Example : “Equity” and “Fair” remuneration.

6. Management training, education and research: Management principles are helpful in identifying the areas in which existing and future managers should be trained. They also provide the basis for future research.

Fayol’s Principles of Management

About Henry Fayol: Henry Fayol (1841-1925) got degree in Mining Engineering and joined French Mining Company in 1860 as an Engineer. He rose to the position of Managing Director in 1988. When the company was on the verge of bankruptcy. He accepted the challenge and by using rich and broad administrative experience, he turned the fortune of the company. For his contributions, he is well known as the “Father of General Management”.

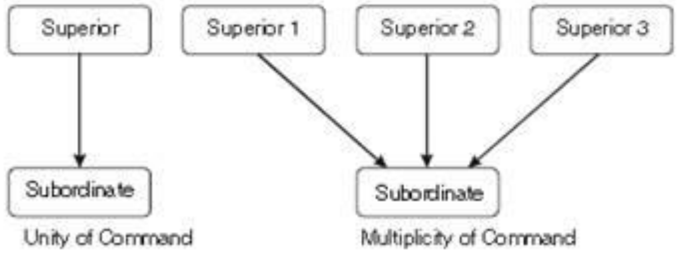
Principles of Management developed by Fayol

1. Division of work: Work is divided in small tasks/job and each work is done by a trained specialist which leads to greater efficiency, specialization, increased productivity and reduction of unnecessary wastage and movements.

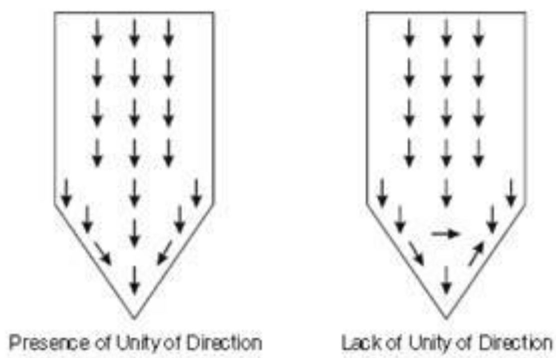
2. **Authority and Responsibility:** Authority means power to take decisions and responsibility means obligation to complete the job assigned on time. Authority and responsibility should go hand in hand. Mere responsibility without authority, makes an executive less interested in discharging his duties. Similarly giving authority without assigning responsibility makes him arrogant and there is fear of misuse of power.

3. Discipline: t is the obedience to organizational rules by the subordinates. Discipline requires good supervisors at all levels, clear and fair agreements and judicious application of penalties.

4. Unity of Command: t implies that every worker should receive orders and instructions from one superior only, otherwise it will create confusion, conflict, disturbance and overlapping of activities.



5. Unity of Direction: Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination.



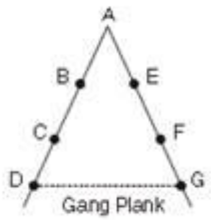
Difference between Unity of Command and Unity of Direction

Basis	Unity of Command	Unity of Direction
1.Meaning	It means that a subordinate should receive orders and instructions from one boss only.	It advocates 'one head, and one plan' for a group of activities having the same objectives. The activities should be directed towards the common goals.
2.Scope	This principle is related to the functioning of personnel	This principle is related to the functioning of a department or the organization as a whole
3.Purpose	The main purpose of unity of command is to avoid confusion and fix up the responsibility of the employee.	The purpose of unity of direction is to direct the efforts of employees of one department in achieving the main objective of that department.
4.Results in	Systematic working and improved efficiency by removing confusion and chaotic conditions	Co-ordination within a particular department and overall; by preventing overlapping of various activities.

7. **Remuneration of Employees:** The overall pay and compensation should be, fair to both employees and the organization. The wages should encourage the workers to work more and better.**6**. **Subordination of Individual Interest to General Interest:** The interest of an organization should take priority over the interest of any one individual employee.

8. Centralization and Decentralization: Centralization means concentration of decisions making authority in few hands at top level. Decentralization means evenly distribution of power at every level of management. Both should be balanced as no organization can be completely centralized or completely decentralized.

9. Scalar Chain: The formal lines of authority between superiors and subordinates from the highest to the lowest ranks is known as scalar chain. This chain should not be violated but in emergency employees at same level can contact through Gang Plank by informing their immediate superiors.



10. Order: A place for everything and everyone and everything and everyone should be in its designated place. People & material must be in suitable places at appropriate time for maximum efficiency.

11. Equity: The working environment of any organization should be free from all forms of discrimination (religion, language, caste, sex, belief or Basis Unity of Command Unity of Direction nationality) and principles of justice and fair play should be followed. No worker should be unduly favoured or punished.

12. Stability of Personnel: After being selected and appointed by rigorous procedure, the selected person should be kept at the post for a minimum period decided to show results.

13. Initiative: Workers should be encouraged to develop and carry out their plan for improvements. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan.

14. Espirit De Corps: Management should promote team spirit, unity and harmony among employees. Management should promote a team work.

Taylor's Scientific Management

Fredrick Winslow Taylor (1856-1915) was a person who within a very short duration (1878-1884) rose from ranks of an ordinary apprentice to chief engineer in Midvale Steel Company, U.S.A. Taylor conducted a number of experiments and came to conclusion that workers were producing much less than the targeted standard task. Also, both the parties - Management and workers are hostile towards each other. He gave a number of suggestions to solve this problem and correctly propounded the theory of scientific management to emphasize the use of scientific approach in managing an enterprise instead of hit and trial method. For his contributions, he is well known as the "Father of the Scientific Management". Scientific Management attempts to eliminate wastes to ensure maximum production at minimum cost.

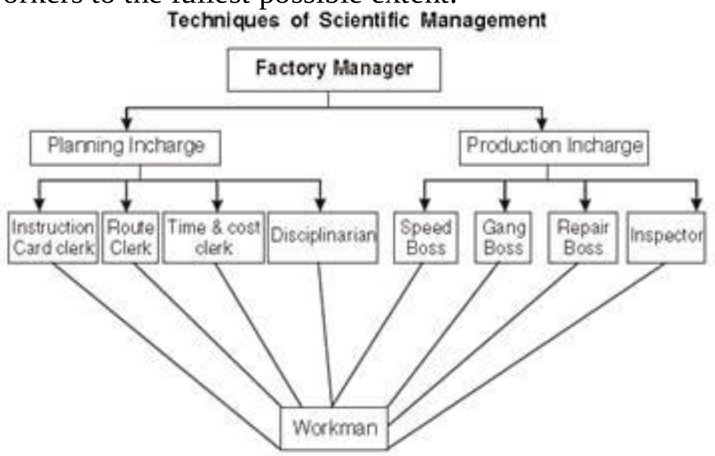
Principles of Scientific Management

(1) Science, not rule of Thumb: There should be scientific study and analysis of each element of a job in order to replace the old rule of thumb approach or hit and miss method. We should be constantly experimenting to develop new techniques which make the work much simpler, easier and quicker.

(2) Harmony, Not discord: It implies that there should be mental revolution on part of managers and workers in order to respect each other's role and eliminate any class conflict to realize organizational objectives.

(3) Cooperation not individualism: It is an extension of the Principle of Harmony not discord whereby constructive suggestions of workers should be adopted and they should not go on strike as both management and workers share responsibility and perform together.

(4) Development of each and every person to his or her greatest Efficiency and Prosperity: It implies development of competencies of all persons of an organization after their scientific selection and assigning work suited to their temperament and abilities. This will increase the productivity by utilizing the skills of the workers to the fullest possible extent.



1. Functional Foreman-ship: Functional foreman-ship is a technique in which planning and execution are separated. There are eight types of specialized, professionals, four each under planning and execution who keep a watch on all workers to extract optimum performance.

Planning Incharges:

1. Route Clerk to specify the exact sequence and route of production.

2. Instruction card clerk is responsible for drafting instructions for the workers.

3. **Time and cost clerk** to prepare time and cost sheet for the job.

4. Shop Disciplinarian to ensure discipline and enforcement of rules and regulations among the workers.

Production Incharges:

1. Gang boss is responsible for keeping tools and machines ready for operation.

2. Speed boss is responsible for timely and accurate completion of job.

3. Repair boss to ensure proper working conditions of tools and machines.

4. Inspector to check quality of work.

2. Standardization and Simplification of work: Standardization refers to developing standards for every business activity whereas Simplification refers to eliminating superfluous varieties of product or service. It results in savings of cost of labour, machines and tools. It leads to fuller utilization of equipment and increase in turnover.

3. Method Study: The objective of method study is to find out one best way of doing the job to maximize efficiency in the use of materials, machinery, manpower and capital.
(1) Which technique of scientific management is being violated here?

(Hint: Functional Foreman ship.)
(2) Write one consequence of this violation.

4. Motion Study: It is the science of eliminating wastefulness resulting from using unnecessary, ill-directed and inefficient motions by workers and machines to identify best method of work.

5 Time study: It determines the standard time taken to perform a well-defined job. The objective of time study is to determine the number of workers to be employed, frame suitable incentive schemes & determine labour costs.

6. Fatigue study: Fatigue study seeks to determine time and frequency of rest intervals in completing a task. The rest interval will enable workers to regain their lost stamina thereby avoiding accidents, rejections and industrial sickness.

7. Differential piece wage system: This system links wages and productivity. The standard output per day is established and two piece rates are used: higher for those who achieve upto and more than standard output i.e. efficient workers and lower for inefficient and slow workers. Thus, efficient workers will be rewarded & inefficient will be motivated to improve their performance.

For example: Standard task is 10 units. Rates are: Rs 50 per unit for producing 10 units or more and Rs 40 per unit for producing less than 10 units
Worker A produces 11 Units; he gets Rs 550 (11 units x 50 per unit)
Worker B produces 09 units; he gets Rs 360 (9 units x 40 per unit)
This difference of Rs 190 will motivate B to perform better.

Basis	Fayol	Taylor
1. Nature of Research	He developed the theory of Functional management or Management process.	He developed the concept of Scientific management.
2. Concern	His principles are concerned with management efficiency.	His principle and techniques are concerned with workers efficiency.
3. Level	He designed principles for top level of management.	He designed principles for lower level of management.
4. Focus	Improving overall administration by observing certain principles was his main focus.	For him increasing productivity through work simplification was main focus.
5. Personality	He developed the personality of a researcher and practioner and was called as ‘father of general management.	He developed the personality of scientist and was called as ‘father of scientific management
6. Major contribution	Hid main contribution was to produce a systematic theory of management with the help of fourteen principles of general management.	He provided a basis on accomplishment on production line with the help of scientific techniques and management.
7. Human element	He gave due emphasis to human elements by suggesting principles like equality, initiative, fair renumeration etc.	He ignored the human element and emphasized more on increasing productivity.
8. Rigidity and flexibility	His principles were flexible.	He was rigid in his approach and he felt that there should be no deviation from fixed standards.
9. Applicability	His principles are applicable to business as well	His principles are applicable to production

	as non-business organizations i.e. are applicable universally.	and manufacturing i.e. are applicable to specific situations.
10. Unity of command	He strictly follow this principles i.e. one boss for one employee.	He did not follow this principle instead he insisted on minimum eight bosses.

8. Mental Revolution: It involves a complete change in mental outlook and attitude of workers and management towards one another from competition to cooperation. The management should create pleasant working conditions & workers should work with devotion and loyalty. Instead of fighting over distribution of profits, they must focus attention on increasing it

CHAPTER – 3
BUSINESS ENVIRONMENT

Meaning of Business Environment:

Business environment refers to forces and institutions outside the firm with which its members must deal to achieve the organisational purposes. Here

• Forces = economical, social, political, technological etc

• Institutions = suppliers, customers, competitors etc

It includes all those constraints and forces external to a business within which it operates. therefore,

• The firm must be aware of these external forces and institutions and

• The firm must be nagged keeping in mind these forces and institutions so that the organisational objectives are achieved. .

Features of Business Environment

1. Totality of external forces: Business environment is the sum total of all the forces/factors external to a business firm.

2. Specific and general forces: Business environment includes both specific and general forces. Specific forces include investors, competitors, customers etc. who influence business firm directly while general forces include social, political, economic, legal and technological conditions which affect a business firm indirectly.

3. Inter-relatedness: All the forces/factors of a business environment are closely interrelated. For example, increased awareness of health care has raised the demand for organic food and roasted snacks.

4. Dynamic: Business environment is dynamic in nature which keeps on changing with the change in technology, consumer's fashion and tastes etc.

5. Uncertainty: Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.

6. Complexity: Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.

7. Relativity: Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example, a shift of preference from soft drinks to juices will be welcomed as an opportunity by juice making companies while a threat to soft drink manufacturers.

IMPORTANCE OF BUSINESS ENVIRONMENT

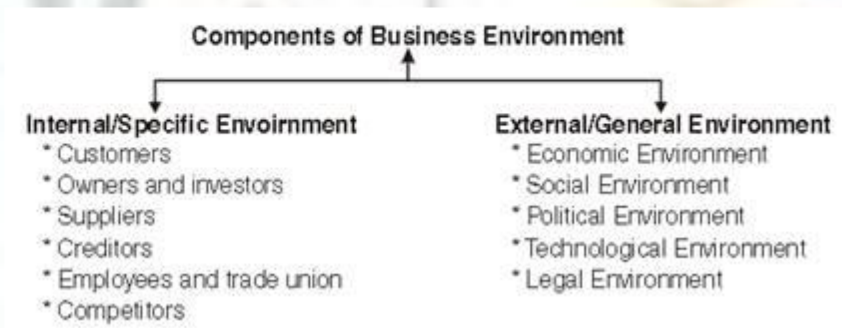
1. Identification of opportunities to get first mover advantage: Understanding of business environment helps an organization in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.

2. Identification of threats: Correct knowledge of business environment helps an organization to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other companies entered the auto industry.

3. Tapping useful resources: Business environment makes available various resources such as capital, labour, machines, raw material etc. toa business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.

4. Coping with Rapid changes: Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively.

5. **Assistance in planning and policy formulation:** Understanding and analysis of business environment helps an organization in planning &policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.



Helps in Improving performance: Correct analysis and continuous monitoring of business environment helps an organization in improving its performance.

Economic Environment in India

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991 for taking out the country out of economic difficulty and speeding up the development of the country.

Main features of NEP, 1991 are as follows:

1. Only six industries were kept under licensing scheme.

2. The role of public sector was limited only to four industries.

3. Disinvestment was carried out in many public sector enterprises.

4. Foreign capital/investment policy was liberalized and in many sectors100% direct foreign investment was allowed.

5. Automatic permission was given for signing technology agreements with foreign companies.

6. Foreign investment promotion board (FIPB) was setup to promote & bring foreign investment in India.

7. Various benefits were offered to small scale industries.

The three main strategies adopted for the above may be defined as follows:
1. Globalisation:
• Integrating the economy of a country with the economies of other countries to facilitate freer flow of trade, capital, persons and technology across borders. It leads to the emergence of a cohesive global economy.
• Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to (a) licensing of imports, (b) tariff restrictions and (c) quantitative restrictions.
• NEP '91 advocated rapid advancement in technology and directed trade liberalization towards:

a. Import Liberalisation

b. Export promotion towards rationalization of the tariff structure and

c. Reforms w.r.t foreign exchange
2. Liberalisation:
= Liberalising the Indian business and industry from all unnecessary controls and restrictions. That is relaxing rules and regulations which restrict the growth of the private sector and allowing the private sector to take part in economic activities that were earlier reserved for the government sector. The steps taken for this were:
a. Abolishing licensing b. Freedom in deciding the scale of operations c. Removal of restrictions on movement of goods and services. d. Freedom in fixing prices.
e. Reduction in tax rates and unnecessary controls f. Simplifying procedures for import and exports g. Making it easy to attract foreign capital.

3. Privatization:

• Refers to the reduction of the role of the public sector in the economy of a country.

• Transfer of ownership and control from the private to the public sector (disinvestment) can be done by : a. Sale of all/some asses of the public sector enterprises. b. Leasing of public enterprises to the private sector. c. Transfer of management of the public enterprise to the private sector.
• To achieve privatization in India, the government redefined the role of the public sector and -

a. Adopted a policy of planned disinvestment of the public sector

b. Refer the loss making and sick units to the Board of Industrial and Financial Reconstruction (BIFR)

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

1. Economic Environment: It has immediate and direct economic impact on a business. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms. Economic environment may offer opportunities to a firm or it may put constraints.

2. Social Environment: It includes various social forces such as customs, beliefs, literacy rate, educational levels, lifestyle, values etc. Changes in social environment affect an organization in the long run. Example: Now a days people are paying more attention towards their health, as a result of which demand for mineral water, diet coke etc. has increased while demand of tobacco, fatty food products has decreased.

3. Technological Environment: It provides new and advance ways/techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product. For Example, Digital watches in place of traditional watches, artificial fabrics in place of traditional cotton and silk fabrics, booking of railway tickets on internet etc.

4. **Political Environment:** Changes in political situation also affect business organizations. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government-single party or coalition government affects the business Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.

5. Legal Environment: It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Businessmen have to act according to various legislations and their knowledge is very necessary. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

MAJOR STEPS IN ECONOMIC FORMS

1. New Industrial Policy - Under this the industries have been freed to a large extend from licences and other controls. Efforts have been made to encourage foreign investment.

2. New Trade Policy - The Foreign trade has been freed from the unnecessary control. The age old restrictions have been eliminated.

3. Fiscal Reforms. The greatest problem confronting the Indian Govt. is excessive fiscal deficit.

(a) Fiscal Deficit - It means country is spending more than its income

(b) Gross Domestic Product (GDP) - It is the sum total of the financial value of all goods & services produced in a year in a country.

4. Monetary Reform - It is a sort of control policy through which the central bank controls the supply of money with a view to achieving objectives of general economic policy.

5. Capital Market Reforms- The Govt. has taken the following steps for the development of this market:

(1) SEBI has been established.

(2) The restriction in respect of interest on debentures has been lifted.

(3) Private Sector has been permitted to establish Mutual Fund.

6. Dismantling Price control - The govt. has taken steps to remove price control in many products especially in fertilizers, iron and steel, petro products. Restrictions on the import of these things have also been removed.

IMPACT OF GOVERNMENT POLICY CHANGESON BUSINESS AND INDUSTRY

1. Increasing Competition: De-licencing and entry of foreign firms Indian market is increased the level of competition for Indian firms.

2. More Demanding Customers: Now customers are more aware and they keep maximum information of the market as the result of which now market is customer/buyer oriented, Now, products are produced keeping in mind the demands of the customers.

3. **Rapid Changing Technological Environment:** Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.

4. **Necessity for Change-** After New Industrial. Policy the market forces (demand & supply) are changing at a very fast rate. Change in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.

5. **Need for Developing Human Resources:** The changing market conditions of today requires people with higher competence and greater commitment, hence there is a need for developing human resources which could increase their effectiveness and efficiency.

6. Market Orientation: Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, educational advertising, after sales services have become more significant.

7. Reduction in budgetary Support to Public Sector: The budgetary support given by the government to the public sector is reducing thus the public sector has to survive and grow by utilising their own resources efficiently.

CHAPTER – 4
PLANNING

Meaning:

• Deciding in advance what to do& how to do it. It is one of the basic managerial functions.

• It involves 2 aspects:
Setting of aims and objectives of the organization + Selecting and developing an appropriate course of action to achieve these objectives.

• Koontz and O'Donnell - ―Planning is deciding in advance what to do, how to do, when to do, and who to do it. Planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur which would not otherwise happen.

• Involves setting of objectives & developing an appropriate course of action to achieve these objectives

Importance of Planning

1. **Planning provides directions:** By stating in advance how the work is to be done planning provides direction for action. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its goals efficiently.

2. **Planning reduces the risk of uncertainity:** Planning is an activity which enables a manager to look ahead, anticipate change, consider the impact of change and develop appropriate responses.

3. **Planning reduces wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different departments and individuals whereby useless and redundant activities are mentioned.

4. **Planning promotes innovative ideas:** Planning is the first function of management. Managers get the opportunity to develop new ideas and new ideas can take the shape of concrete plans.

5. **Planning facilities decision making:** Under planning targets are laid down. The manager has to evaluate each alternative and select the most viable option.

6. **Planning establishes standards for controlling:** Planning provides the standards against which the actual performance can be measured and evaluated. Control is blind without planning. Thus planning provides the basis for control.

Limitations of Planning

(A) Internal Limitations

1. Planning leads to rigidity: Planning discourages individual's initiative &creativity. The managers do not make changes according to changing business environment. They stop taking or giving suggestions and new ideas. Thus detailed planning may create a rigid framework in the organization.

2. Planning may not work in dynamic environment: Planning is based on anticipation of future happenings and since future is uncertain and dynamic therefore, the future anticipations are not always true.

3. Planning involves huge costs: When plans are drawn up, huge cost is involved in their formulation.

4. Planning is time consuming: Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.

5. Planning does not guarantee success: The success of an enterprise is possible only when plans are properly drawn and implement. Sometimes managers depend on previously tried successful plans, but it is not always true that a plan which has worked before will work effectively again.

6. Planning reduces creativity: In planning, work is to be done as per pre-determined plans. It is decided in advance what is to be done, how it is to be done and who is going to do it. Moreover, planning is done by top management which leads to reduction of creativity of other levels of management.

(B) External Limitations

They are those limitations of planning which arises due to external factors over which an organization has no control.

1. Changes in Government policies way leads to failure of planning.

2. Natural calamities such as flood, earthquake etc. also adversely affect the success of planning.

3. Changes in the strategies of competitors also leads to failure of planning many times.

4. Regular technological changes may affect planning.

5. Changes in the Economic and Social Conditions also reduces the effectiveness of planning.

Planning Process

1. Setting Objectives:
- Objectives specify what the organization wants to achieve.
- Objectives can be set for the entire org. & stated to each dept. within the org. very clearly, to determine how all depts. would contribute towards overall objectives.
-Then these have to percolate down to all employees at all levels so that they understand how their actions contribute to achieving objectives.
- E.g. Objective could be to achieve sales, expansion of business etc.

2. Developing Premises:
- Plans are made on the basis of some assumptions.
- These assumptions, which provide the basis for planning, are called premises.
- All managers involved in planning should be familiar w/ them, cuz plans are expected to operate & reach their destination subject to these. They can be:
• Internal premises: Cost of products, capital, machinery, profitability etc.
• External premises: Changes in technology, population growth, competition, govt. policies etc

3. Identifying Alternative Courses Of Action:
- After setting the objectives, managers make a list of alternatives through which the org. can achieve its objectives as there can be many ways to achieve the objectives & managers must know all of them.
- E.g. Sales could be increased through any of the following ways:
• By enhancing advertising expenditure
• Appointing salesmen for door-to-door sales
• By offering discounts
• By adding more product lines.

4. Evaluating Alternative Courses Of Action
- Positive & negative aspects of each &every proposal need to be evaluated to determine their feasibility and consequences in the light of each objective to be achieved.
- E.g. In financial plans, risk-return trade-off are imp. Riskier the investment, higher the returns it is likely to give. To evaluate such proposals, detailed calc. of earnings, taxes, earnings per share etc. should be done.

5. Selecting The Best Alternative
- Real point of decision-making→ Best plan has to be adopted and implemented.
- The ideal plan = most feasible, profitable and with least negative consequences.
- Most plans may not be subjected to mathematical analysis. In such cases, subjectivity & manager‘s experience, judgment and intuition are important to select the most viable alternative.
- Sometimes a combination of plans may be selected instead of one best course.

6. Implementing The Plan
- Concerned with putting the plan into action.
- For implementing the plans, managers start organizing & assembling resources for it.
- E.g. If there is a plan to ↑ production, then more labour, more machinery will be reqd. This step would also involve organizing for more labour and purchase of machinery.

7. Follow Up Action
- This involves monitoring the plans and ensuring that activities are performed according to the schedule.
- Whenever there are deviations from plans, immediate action has to be taken to bring implementation according to the plan or make changes in the plan.

TYPES OF PLAN

Plan

A Plan is a specific action proposed to help the organization achieve its objectives. It is a document that outlines how goals are going to be met. The importance of developing plans is evident from the fact that there may be more than one means of reaching a particular goal. So with the help of logical plans, objectives of an organization could be achieved easily.

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 reoccur or repeat. It is specifically designed to achieve a particular goal. Such plan is developed to meet the needs of a unique situation. The length of a single use plan differs greatly depending on the project in question, as a single event plan may only last one day while a single project may last one week or months. For example, an outline for an advertising campaign. After the campaign runs its course, the short term plan will lose its relevance except as a guide for creating future plans.

Types of Single Use Plan

1. 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.

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

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 revisions 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.

Types of Standing Plans

1. Objectives: Objectives are defined as ends for the achievement of which an organization goes on working. They may be designed as the desired future position that the management would like to reach. The first and foremost step of the planning process is setting organizational objectives. Examples increasing sales by 10%, Getting 20% return on Investment etc. Objectives should be clear and achievable.

2. Strategy: Strategies refer to those plans which an organization prepares to face various situations, threats and opportunities. When the managers of an organization prepare a new strategy for the business it is called internal strategy and when some strategies are prepared to respond to the strategies of the competitors, then such strategies are called external strategies. Examples, selection of the medium of advertisement, selection of the channel of distribution etc.

3. Policy: Policies refers to the general guidelines which brings uniformity in decision-making for achievement of organizational objectives. They provide directions to the managers of an organization. They are flexible as they may be changed as per requirement. Example, selling goods on cash basis only, reserving some post for women in the organization.

4. **Procedure**: Procedures are those plans which determine the sequential steps to carry out some work/activity. They indicate which work is to be done in which sequence/way. They help in the performance of work. Procedures are guides to action. Example: Process adopted in the Selection of Employees.

5. Rule: Rules are specific statement that tell what is to be done and whatnot to be done in a specified situation. They help in indicating which points are to be kept in mind while performing task/work. Rules are rigid which ensure discipline in the organization. Example : ‘No smoking in the office premises’. Violation of rules may invite penalty.

6. Method: Methods are standardized ways or manners in which a particular task has to be performed. There may be many ways/method of completing a task but that method/way must be selected by which work can be done early at the minimum possible cost. Methods are flexible. Example, various methods of training are adopted by an organization to train its employees like apprenticeship training, vestibule training etc.

Basis of Difference	Single use plans	Standing Plans
1. Meaning	A single use plans in a business refers to plans developed for a one time project or event that has same objective.	A standing plans in a business refers to plans developed for using over and over again because they focus on organizational situations that occur repeatedly.
2. Objective	Single use plans is developed to carry out a course of action that is not likely to be repeated in future time.	Standing plans however is developed for activities that occur regularly over a period of time.
3. Scope	Single use plans generally encompass a narrow scope targeting a specific project or event.	Standing plans generally encompass a wider scope involving more than one department or business function.
4. Stability	Single use plans are discarded when the situation, project or event is occur.	Standing plans are relatively stable and used over and over again with necessary modifications or updations.
5. Example	Budget for Annual General Meeting of Shareholders.	Recruitment and selection procedure for a particular post in a company.

CHAPTER – 5
ORGANISING

Meaning of Organizing

•nce the objectives and plans are laid down, management has to identify and establish productive relationships between various activities and resources for implementing plans. In general words organising refers to arranging everything in orderly form and making the most efficient use of resources. The aim of organizing is to enable people to work together for a common purpose.

'Organizing 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.'

Steps Involved in the Process of Organizing

1. Identification & Division Of Work: -
The total work to be done should be divided into specific jobs as according to predetermined plans. -
Job = a set of related tasks that can be performed by an individual. It should have specific and definite tasks to be performed. As far as possible, it should define expected results along with the job.
- Division of work → specialization of efforts and skills + avoids duplication of work.
- Management must ensure that all the activities required to achieve organizational objectives are identified.

2. Departmentalization:
- Grouping similar and related jobs into larger units called departments, divisions or sections and placing them under a department head. It facilitates specialization.
- The departments are linked together and are interdependent.
- Aims at achieving co-ordination and facilitate unity of action. Departmentation can be done on the basis of:
•Functions: marketing, personnel, finance etc.
•Products: Textiles, chemical, power division etc.
•Territories: Western, northern, central, eastern etc.

3. Assignment Of Duties:
- Define the work of different job positions and allocate work accordingly.
- Once departments are formed, the dept 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 duties.
- E.g. activities of finance should be assigned to persons having qualifications and experience in finance e.g. C.A's.

4. Establishing Reporting Relationships:
- Granting requisite authority to enable employees to perform the job satisfactorily.
- Superior subordinate relations between different people and job positions created, so that everybody knows from whom he is to take orders and to whom he can issue orders.
- Creates management hierarchy = a chain of command from the top manager to the individual at the lowest

level.
- This helps in coordination.

Importance of Organizing

1. Benefits of specialization: In organizing every individual is assigned apart of total work and not the whole task. This division of work into smaller units and repetitive performance leads to specialization. Thus organizing promotes specialization which in turn leads to efficient & speedy performance of tasks.

2. Clarity in working relationship: It 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 in organizing.

3. 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 ineffective administration.

4. Optimum utilization of resources: The proper assignment of jobs avoids overlapping/duplication of work. This helps in preventing confusion and minimizing the wastage of resources and efforts.

5. Adoption to Change: A properly designed organizational structure is flexible which facilitates adjustment to changes in workload caused by change in external environment related to technology, products, resources and markets.

6. Development of Personnel: Sound organization encourages initiative and relative thinking on part of the employees. When managers delegate their authority, it reduces their workload so they can focus on more important issues related to growth & innovation. This also develops the subordinates' ability and helps him to realize his full potential.

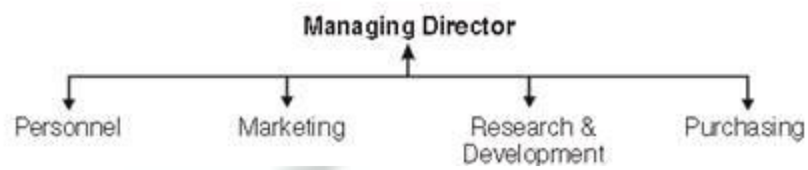
7. Expansion and growth: It helps in growth & diversification of an enterprise by adding more job positions, departments, products lines, new geographical territories etc.

Meaning of Organizational Structure

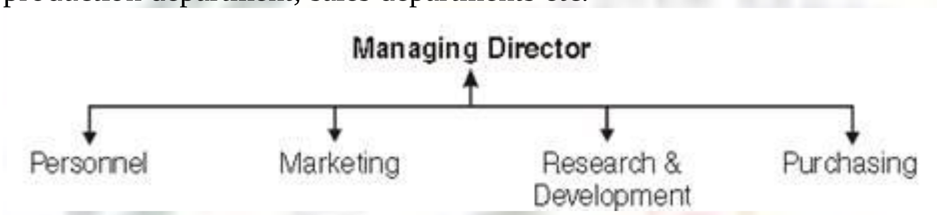
It seeks to establish relations among all the persons working in the organization. Under the organizational structure, various posts are created to perform different activities for the attainment of the objectives of the enterprise. Relations among persons working on different posts are determined. The structure provides a basis or framework for managers and other employers for performing their functions. The organization structure can be defined as the frame work within which managerial and operating tasks are performed.

Relation between Span of Management and Organization structure:

Span of management refers to the number of subordinates that can be effectively managed by a superior. The Span of management to a large extent gives shape to the organization structure. This determines the levels of management in the structure. Arrow span of management results in tall structure whereas wider span of management results in flat structure.



(A) Functional Structure: In functional structure activities are grouped and departments are created on the basis of specific functions to be performed. For example, all the jobs related to production are grouped under production department, sales departments etc.



Suitability

(1) Large organizations producing one line of product.

(2) Organizations which require high degree of functional specialization with diversified activities.

Advantage

1. Specialization: Better decision of labour takes place which results in specialization of functions and its consequent benefits.

2. Coordination is established: All the persons working within a departmental are specialists of their respective jobs. It makes the co-ordination easier at departmental level.

3. Helps in increasing managerial efficiency: Managers of one department are performing same type of function again and again which makes them specialized and improves their efficiency.

4. Minimizes cost: It leads to minimum duplication of effort which results in economies of scale and thus lowers cost.

Disadvantages

1. Ignorance of organizational objectives: Each departmental head works according to his own wishes. They always give more weight to their departmental objectives. Hence overall organizational objectives suffer.

2. Difficulty in Inter-departmental Coordination: All departmental heads work as per their own wishes which leads to coordination within the department easier but it makes inter-departmental coordination difficult.

3. Hurdle in complete development – because each employee specializes only in a small part of the whole job.

(B) DIVISIONAL ORGANIZATION STRUCTURE

Dividing the whole enterprise according to the major products to be manufactured (like metal, plastic, cosmetics etc.) is known as divisional organization structure.

Suitability: This structure is suitable in organizations producing multi product or different lines of products requiring product specialization. Also growing companies which intend to add more lines of products in future adopt this structure.

Advantages

1. Quick decision-making: Divisional manager can take any decision regarding his division independently which makes decisions quick and effective.

2. **Divisional results can be assessed**: Division results (profit/loss) can be assessed easily. On this basis any unprofitable division can be closed.

3. Growth and Expansion: It facilitates growth and expansion as new divisions can be added without disturbing existing departments.

Disadvantages

1. **Conflicts** among different divisions on allocation of resources.

2. Duplicity of Functions: Entire set of functions is required for all divisions. It gives rise to duplicity of efforts among divisions & increases cost.

3. Selfish Attitude: Every division tries to display better performance and sometimes even at the cost of other divisions. This shows their selfish attitude.

FORMAL ORGANISATION

- Refers to the org. structure that is designed by the management to accomplish organizational objectives..

- It specifies clearly the boundaries of authority & responsibility and there is a systematic coordination among the various activities to achieve organizational goals.

- Louis Allen – **System of well defined jobs, each bearing a definite measure of authority, responsibility & accountability.** .

Features

1. It is deliberately created by the top management.

2. It is based on rules and procedures which are in written form.

3. It is impersonal i.e. does not takes into consideration emotional aspect.

4. It clearly defines the authority and responsibility of every individual.

5. It is created to achieve organizational objectives.

Advantages

1. Easier to fix responsibility since mutual relationships are clearly defined.

2. No overlapping of work – because things move according to a definite plan.

3. Unity of command through an established chain of command.

4. Easy to achieve objectives - because coordination and optimum use of human and material resources.

5. Stability in the organization – because behavior of employees can be fairly predicted since there are specific rules to guide them.

Disadvantages

1. The Work is based on rules which causes unnecessary delays.

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

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

INFORMAL ORGANISATION

An informal organization is that organization which is not established deliberately but comes into existence because of common interests, tastes and religious and communal relations. The main purpose of this organization, structure is getting psychological satisfaction. For example, employees with similar interest in sports, films, religion etc. may form their own informal groups.

Features

1. It originates from within the formal organization as a result of personal interaction among employees.

2. It has no written rules and procedures.

3. It does not have fixed lines of communication.

4. It is not deliberately created by the management.

5. It is personal means the feelings 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 – enhances job satisfaction which gives them a sense of belongingness in the organization.

3. Quick solution of the problems – because 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 careless and sometimes a wrong thing is conveyed to the other persons.

2. It resists change and lays stress on adopting the old techniques.

3. Priority to group interests: Pressurizes members to conform to group expectations.

Difference between Formal Informal Organisation

Basis	Formal Organisation	Informal Organisation
1. Meaning	It refers to the structure of well defined authority and responsibility.	It refers to the network of social relationships which develops automatically.
2. Nature	Rigid and stable	Flexible and unstable
3. Authority	Arises by virtues of positions in management.	Arises out of personal qualities.
4. Adherence to rules	Violations of rules may lead to penalities and punishments.	No such penalities and punishments.
5. Flow to Communication	Takes place through the scalar Chain.	Not through a planned route, it can take plane in any direction.
6. Purpose	To achieve planned organizational objectives.	To satisfy social and cultural needs and fulfill common interests.
7. Formation/ origin	Deliberately planned and created by management.	Emerges spontaneously as a result of social interaction among employees.
8. Structure	Well defined structure of tasks and relationships.	No clear cut structure because of complex network of relationships.
9. Flow of Authority	Authority flows from top to bottom i.e. downwards.	Authority flows vertically as well as horizontally.
10. Interdependence	Independent.	Depends on formal structure.

Delegation of Authority

Meaning: It means the granting of authority to subordinates to operate within the prescribed limits. The manager who delegates authority holds his subordinates responsible for proper performance of the assigned tasks. To make sure that his subordinates perform all the works effectively and efficiently in expected manner the manager creates accountability.

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.

2. Responsibility: It is the obligation of a subordinate to properly perform the assigned duty. When a superior issues orders, it becomes the responsibility of the subordinate to carry it out.

3. Accountability: When a superior assigns some work to a subordinate, he is answerable to his superior for its success or failure.

Principle of Absoluteness of Accountability: Authority can be delegated but responsibility/accountability cannot be delegated by a manager. The authority granted to a subordinate can be taken back and re-delegated to another person. The manager cannot escape from the responsibility for any default or mistake on the part of his subordinates. For example, If the chief executive asks marketing manager to achieve a sales target of sale of 100 units/day. The marketing manager delegates this task to deputy sales manager, who fails to achieve the target. Then marketing manager will be answerable for the work performance of his subordinates. Thus, accountability is always of the person who delegates authority.

Process of Delegation of Authority

Difference between Authority, Responsibility and Accountability

Basis	Authority	Responsibility	Accountability
1. Meaning	Right to command	•bligation to perform an assigned task.	Accountability for the outcome of the assigned task.
2. Origin	Arises from formal position.	Arises from delegated authority.	Arises from responsibility.
3. Flow	Downward- from superior to subordinate.	Upward- from subordinate to superior.	Upward- from subordinate to superior.
4. Withdrawl	Can be withdrawn anytime by giving notice.	Cannot be withdrawn once created.	Cannot be withdrawn once created.

Importance of the Delegation of Authority

1. Reduction of Executives' work load: It reduces the work load of officers. They can thus utilize their time in more important and creative works instead of works of daily routine.

2. Employee development: Employees get more opportunities to utilize their talent which allows them to develop those skills which will enable them to perform complex tasks.

3. Quick and better decision are possible: The subordinate are granted sufficient authority so they need not to go to their superiors for taking decisions concerning the routine matters.

4. High Morale of subordinates: Because of delegation of authority to the subordinates they get an opportunity to display their efficiency and capacity.

5. Better coordination: The elements of delegation – authority, responsibility and accountability help to define the powers, duties and answer ability related to various job positions which results in developing and maintaining effective coordination.

Decentralization

• Decentralisation of authority means dispersal of authority to take decisions throughout the organization, upto the lower levels.

• It implies reservation of some authority with the top level management and transferring rest of the authority to the lower levels of the organization. This empowers lower levels to take decisions regarding problems faced by them without having to go to the upper levels.

According to Allen,‘ Decentralisation refers to systematic efforts to delegate to the lowest level, all authority except the one which can be exercised at central points.‟

Centralization = authority retained at top level and **Decentralization** = Systematic delegation of authority at all levels and in all departments of a firm. Firm needs to balance the two.

• In case of a decentralized firm, Top level retains authority for:

o Policies and decisions w.r.t the whole firm

o Overall control and coordination

• Middle and lower levels have authority to take decisions w.r.t tasks allocated to them

Centralization and Decentralization: represents the pattern of authority among managers at different levels. Centralization of authority means concentration of power of decision making in a few hands. In such an organization very little authority is delegated to managers at middle and lower levels. No organization can be completely centralized or decentralized. They exist together and there is a need for a balance between the two. As the organization grows in size, there is tendency to move towards decentralization. Thus, every organization is characterized by both.

Importance of Decentralization

1. Develops initiative amongst subordinates: It helps to promote confidence because the subordinates are given freedom to take their own decisions.

2. Quick and better decisions: The burden of managerial decisions does not lie in the hands of few individuals but gets divided among various persons which helps them to take better and quick decisions.

3. Relieves the top executives from excess workload: The daily managerial works are assigned to the subordinates which leaves enough time with the superiors which they can utilize in developing new strategies.

4. Managerial Development: It means giving authority to the subordinates up to the lower level to take decisions regarding their work. In this way the opportunity to take decisions helps in the development of the organization.

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

Difference between – Delegation and Decentralization

Basis	Delegation	Decentralization
1. Nature	It is a compulsory act.	It is an optional policy.
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 sharing 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- It includes extension of delegation to all the levels of management.
5. Purpose	To reduce the burden of manager.	To increase the role and the autonomy of lower level of management.

CHAPTER – 6
STAFFING

Meaning

Staffing means putting people to jobs. It begins with human resource planning and includes different other functions like recruitment, selection, training, development, promotion and performance appraisal of work force.

Need and Importance of Staffing

1. Obtaining Competent Personnel: Proper staffing helps in discovering and obtaining competent personnel for various jobs.

2. High Performance: Proper staffing ensures higher performance by putting right person on the right job.

3. Continuous growth: Proper staffing ensures continuous survival and growth of the enterprise.

4. Optimum utilization of human resources: It prevents under-utilization of personnel and high labour cost.

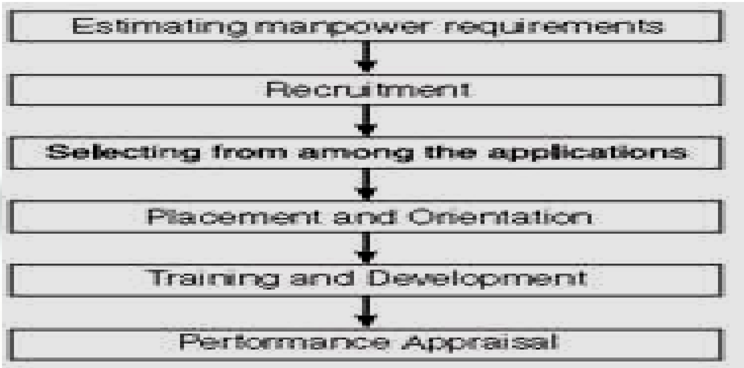
5. Improves job satisfaction: It improves job satisfaction and morale of employee.

Staffing As a Part ofHuman Resource Management (HRM)

• **Staffing**
• Function which all managers have to perform as all managers directly deal with people
• Staffing refers to this kind of role played by all managers in small organizations.
• As organizations grow and number of people employed increases, a separate department called the human resource department is formed which consists of specialists who are experts in dealing with people.
• In fact early definitions of staffing focused narrowly on only hiring people for vacant positions. But today staffing is a part of HRM which encompasses not only staffing but also a number of other specialized services such as job evaluation, management of labour relations.

• **Human Resource Management**
• Involves procuring, developing, maintaining and appraising a competent and satisfied workforce to achieve the goals of the organization efficiently and effectively.
• Its purpose is to enable every human being working in the organization to make his best possiblecontribution..

PROCESS OF STAFFING



1. Estimating Manpower Requirement: It involves the following:

(a) Making inventory of current human resources in terms of qualification, training & skills.

(b) Assessing future human resource needs of all departments.

(c) Developing a programme to provide the human resources. Job Analysis is an intensive way of finding details related to all jobs.

2.Recruitment: It refers to identification of the sources of manpower availability and making efforts to secure applicants for the various job positions in an organization.

3. Selection: It is the process of choosing and appointing the right candidates for various jobs in an organization through various exams, tests &interviews.

4. Placement and Orientation: When a new employee reports for duty, he is to be placed on the job for which he is best suited. Placement is very important process as it can ensure "Right person for right job". Orientation/Induction is concerned with the process of introducing a new employee to the organization. The new employees are familiarized with their units, supervisors and fellow employees. They are also to be informed about working hours, procedure for availing leave, medical facilities, history and geography of organization and rules/regulations relating to their wages etc.

5. Training and Development: Systematic training helps in increasing the skills and knowledge of employees in doing their jobs through various methods.
Development involves growth of an employee in all respects. It is the process by which the employees acquire skills and competence to do their present jobs and increase their capabilities for higher jobs in future.

6. Performance Appraisal: It is concerned with rating or evaluating the performance of employees. Transfers and promotions of the staff are based on performance appraisal.

RECRUITMENT

(A) Recruitment: Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organization.

Sources of Recruitment
(A) Internal Sources
(B) External Sources

(A) Internal Sources of Recruitment
Internal sources refer to inviting candidates from within the organization. Following are important sources of internal recruitment:

1. Transfers: It involves the shifting of an employee from one job to another, from one department to another or from one shift to another shift.

2. Promotions: It refers to shifting an employee to a higher position carrying higher responsibilities, prestige, facilities and pay.

3. **Lay-Off:** To recall the temporary worker for work is called Lay-Off, who were temporarily separated from organization due to lack of work.

Advantages of Internal Sources Recruitment:
(1) Employees are motivated to improve their performance.
(2) Internal recruitment also simplifies the process of selection & placement.
(3) No wastage of time on the employee training and development.
(4) Filling of jobs internally is cheaper.

Limitation of Internal Sources
(1) The scope for induction of fresh talent is reduced.
(2) The employee may become lethargic.
(3) The spirit of competition among the employees may be hampered.
(4) Frequent transfers of employees may often reduce the productivity of the organization.

External Sources of Recruitment

When the candidates from outside the organization are invited 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, a notice is placed on the notice board of the enterprise specifying the details of the jobs available.

2. Casual callers: Many reputed business organizations keep a data base of unsolicited applicants in their office. This list can be used for Recruitment.

3. Advertisement: Advertisement in media is generally used when a wider choice is required. Example– Newspapers, Internet, Radio, Television etc.

4. Employment Exchange: Employment exchange is regarded as a good source of recruitment for unskilled and skilled operative jobs.

5. Campus recruitment and labour contractors can be used for the purpose.

Merits of External Sources

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.

3. Fresh Talent: It provides wider choice and brings new blood in the organization.

4. Competitive Spirit: If a company taps external sources, the 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 employees. They may feel that their chances of promotion are reduced.

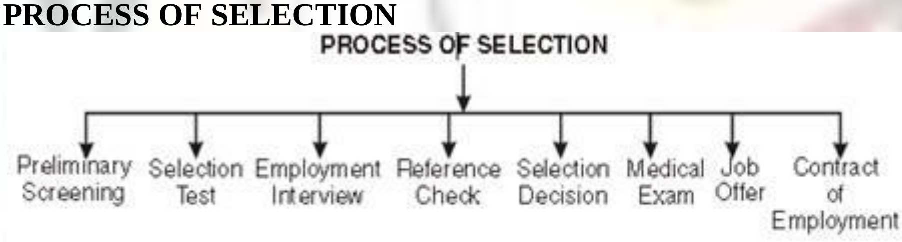
2. Costly process: A lot of money has to be spent on advertisement therefore this is costly process.

3. Lengthy Process: It takes more time than internal sources of recruitment.

Selection

Selection is the process of choosing from among the candidates from within the organization or from outside, the most suitable person for the current position or for the future position.

PROCESS OF SELECTION



The successive stages in selection process are:

1. Preliminary Screening: After applications have been received, they are properly checked as regarding qualification etc. by screening committee. A list of candidates to be called for employment tests made and unsuitable candidates are rejected altogether.

2. Selection Tests: These tests include:

(a) Psychological tests which are based on assumption that human behaviour at work can be predicted by giving various tests like aptitude, personality test etc.

(b) Employment test for judging the applicant's suitability for the job.

3. Employment Interviews: The main purpose of interview is:

(a) to find out suitability of the candidates.

(b) to seek more information about the candidate.

(c) to give the candidate an accurate picture of job with details of terms and conditions.

4. Reference Checks: Prior to final selection, the prospective employer makes an investigation of the references supplied by the applicant. He undertakes a thorough search into candidates family background, past employment, education, police records etc.

5. Selection Decisions: A list of candidate who clear the employment tests, interviews and reference checks is prepared and then the selected candidates are listed in order of merit.

6. Medical/Physical Examination: A qualified medical expert appointed by organization should certify whether the candidate is physically fit to the requirements of a specific job. A proper physical exam will ensure higher standard of health & physical fitness of employees thereby reducing absenteeism.

7. Job Offer: After a candidate has cleared all hurdles in the selection procedure, he is formally appointed by issuing him an Appointment Letter. The broad terms and conditions, pay scale are integral part of Appointment Letter.

8. Contract of Employment: After getting the job offer, the candidate has to give his acceptance. After acceptance, both employer and employee will sign a contract of employment which contains terms & conditions, pay scale, leave rules, hours of work, mode of termination of employment etc.
Nishant wants to set a unit in rural area where people have very few job opportunities and labour is available at a low cost.

For this he wants four different heads for Sales, Accounts, Purchase and Production. He gives an advertisement and shortlists some candidates after conducting selection tests.

1. Identify and state the next three steps for choosing best candidates.

2. Also identify two values which Nishant wants to communicate.

Training: Training is the act of increasing the knowledge and technical skills of an employee for doing a particular job efficiently. Both existing employees and new employees get acquainted with their jobs and this increases job related skills.

Benefits to the firm:	Benefits to the employee:
1. Avoids wastage of time, effort and money involved in the hit and trial method. **2.** ↑ productivity(quality + quantity)thereby leading to ↑ profits **3.** Equips future managers(to take over in emergencies) **4.** ↑ employee morale,↓ absenteeism and turnover **5.** response to fast changing environment **6.** ↓ supervision, standardization of procedure and safety of operations	**1.** Improved skills an knowledge so better career opportunities **2.** Better performance→ higher earnings **3.** Less accidents **4.** ↑ satisfaction and morale of employees

Training Methods

(A) On the Job Method: It refers to the methods that are applied at the work place, where the employee is actually working. It means learning while doing.
The following are the methods of On-the job training:

1. Apprenticeship Training: Under this, the trainee is placed under supervision of an experienced person (master worker) who imparts him necessary skills and regulates his performance. The trainee is given stipend while learning so that he/she can enjoy "earn while you learn" scheme.

2. Internship Training: Under this method an educational institute enters into agreement with industrial enterprises for providing practical knowledge to its students by sending them to business organizations for gaining practical experience.

3. Induction training is a type of training given to help a new employee in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business. The duration of such type of training may be from a few hours to a few days. The induction provides a good opportunity to socialize and brief the newcomer with the company's overall strategy, performance standards etc. If carefully done, it saves time and cost (in terms of effectiveness or efficiency etc.)

Training and Development

Training is concerned with imparting technical knowledge in doing a particular job. But development is a wider process concerned with growth of an individual in all respects. However, both are related processes; training helps the employees in learning job skills whereas development shapes attitude of the employees.

Comparison of Training and Development

Basis	Training	Development
1. Definition	It means imparting skills and knowledge doing a particular job	It means growth of an employee in all respects.
2. Purpose	It is concerned with maintaining and improving current job performance.	It seeks to develop competence and skills for future performance.
3. Methods	It is imparted through on the job method.	It is imparted through off the job method.
4. Initiative	The boss takes the initiative for imparting training to his subordinates.	The individual takes the initiative for self growth and development.
5. Duration	Training programmes are organized for short terms.	Development takes place over a large period of time.

CHAPTER – 7
DIRECTING

Meaning:
Directing means giving instructions, guiding, counseling, motivating and leading the staff in an organization in doing work to achieve Organizational goals. Directing is a key managerial function to be performed by the manager along with planning, organizing, staffing and controlling. From top executive to supervisor performs the function of directing and it takes place accordingly wherever superior – subordinate relations exist.Directing is a continuous process initiated at top level and flows to the bottom through organizational hierarchy.

Direction has got following characteristics:

1. Pervasive Function- Directing is required at all levels of organization. Every manager provides guidance and inspiration to his subordinates.
2. Continuous Activity- Direction is a continuous activity as it continuous throughout the life of organization.
3. Human Factor- Directing function is related to subordinates and therefore it is related to human factor. Since human factor is complex and behaviour is unpredictable, direction function becomes important.
4. Creative Activity- Direction function helps in converting plans into performance. Without this function, people become inactive and physical resources are meaningless.
5. Executive Function- Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise, a subordinate receives instructions from his superior only.
6. Delegate Function- Direction is supposed to be a function dealing with human beings. Human behaviour is unpredictable by nature and conditioning the people's behaviour towards the goals of the enterprise is what the executive does in this function. Therefore, it is termed as having delicacy in it to tackle human behaviour.

Importance

1. Initiates Action: It helps to initiate action by the people in the organization towards attainment of desired objectives. The employees start working only when they get instructions and directions from their superiors. It is the directing function which starts actual work to convert plans into results.
2. 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. Means of motivation: It motivates the subordinates to work efficiently and to contribute their maximum efforts towards the achievement of organizational goals.
4. Facilitates change: Employees often resist changes due to fear of adverse effects on their employment and promotion. Directing facilitates adjustment in the organization to cope with changes in the environment.
5. Stability and balance in the organization: Managers while performing directing function instruct, guide, supervise and inspire their subordinates in a manner that they are able to strike a balance between individual and organizational interests.

Principles of Effective Direction:

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.

The following are the basic principles of effective direction:

1. Harmony of Objectives:

It is an essential function of management to make the people realize the objectives of the group and direct their efforts towards the achievement of their objectives. The interest of the group must always prevail over individual interest. The principle implies harmony of personal interest and common interest..

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. If one person is under more than one boss then there can be contradictory orders and the subordinate fails to understand whose order to be followed. In the absence of unity of command, the authority is undermined, discipline weakened, loyalty divided and confusion and delays are caused.

3. Unity of Direction:

To have effective direction, there should be one head and one plan for a group of activities having the same objectives. In other words, each group of activities having the same objectives must have one plan of action and must be under the control of one supervisor.

4. Direct Supervision:

The directing function of management becomes more effective if the superior maintains direct personal contact with his subordinates. Direct supervision infuses a sense of participation among subordinates that encourages them to put in their best to achieve the organizational goals and develop an effective system of feed-back of information.

5. Participative or Democratic Management:

The function of directing becomes more effective if participative or democratic style of management is followed. According to this principle, the superior must act according to the mutual consent and the decisions reached after consulting the subordinates. It provides necessary motivation to the workers by ensuring their participation and acceptance of work methods.

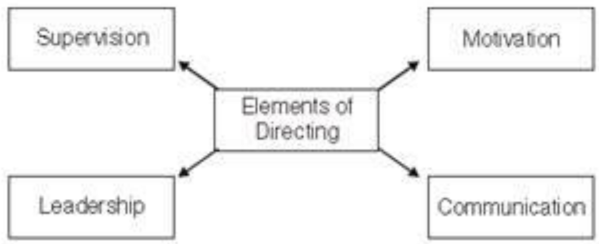
6. Effective Communication:

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.

7. Follow-up:

In order to make direction effective, a manager has to continuously direct, guide, motivate and lead his subordinates. A manager has not only to issue orders and instructions but also to follow-up the performance so as to ensure that work is being performed as desired. He should intelligently oversee his subordinates at work and correct them whenever they go wrong.

Elements of Direction



(i) Supervision- implies overseeing the work of subordinates by their superiors. It is the act of watching & directing work & workers.

(ii) Motivation- means inspiring, stimulating or encouraging the sub-ordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose.

(iii) Leadership- may be defined as a process by which manager guides and influences the work of subordinates in desired direction.

(iv) Communications- is the process of passing information, experience, opinion etc from one person to another. It is a bridge of understanding.

1. Supervision, as an element of directing:

process of guiding the efforts of employees and other resources to accomplish desired objectives.}

Overseeing people at work}

Involves instructing, observing, monitoring and guiding employees.}

Carried out at all levels but more important at the lower levels therefore the term 'Supervisor'is used at the operativeslevel of management

I. Importance of Supervision/Role of a Supervisor/Functions

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. Facilities 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 & policies.

6. Improved Motivation: A supervisor with good leadership qualities can build up high morale among workers. The relationship with the supervisor is a very good incentive to improve the motivation level of the employees while guiding the employees, the supervisors encourage the subordinates to perform to their best capacities.

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

II. Motivation

Meaning:

i. Incitement or inducement to act/move.

ii. Process of stimulating people to action to accomplish desired goals.

• Three key terms = motive, motivation, motivators

Motive :inner state that energizes, activates and directs behaviour towards goals.}

Arises out of unsatisfied needs = causes restlessness.

Motivation : Process of stimulating people to action + Depend on satisfying needs of people.}

Motivators: Technique used to motivate people.Egs. = pay, bonus, promotion, recognition etc.}

Features

1. Psychological Phenomenon: Motivation is an internal feeling which means it cannot be forced on employees. The internal feeling such as need, desire, aspiration etc. influence human behaviour to behave in a particular manner.

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 can be either positive or Negative: Positive motivation means inspiring people to work better and appreciating a work that is well done e.g., pay increase promotion recognition. Negative motivation means forcing people to work by threatening or punishing them. e.g., issue of memo, demotion, stopping increments etc.

4.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.

5. Continuous Process: Human needs are unlimited and so they keep on changing continuously, satisfaction of one need gives rise to another. As soon as one need is satisfied another need arises. So managers have to continuously perform the function of motivation.

Maslow"s Hierarchy Of Needs:
Maslow's need hierarchy is considered to be fundamental to the understanding of motivation and plays an important role in motivation.

• People have a wide range of needs like physiological needs, social needs, safety needs, esteem needs and self actualisation needs which motivate them to work.

• The manager must understand the needs and wants of people in order to motivate them and improve their performance levels.

• For the satisfaction of these needs, managers must offer different incentives (monetary and non-monetary).

NEED	Examples Of Need (Individual Example)	Management Can Satisfy This Need By (Organizational Example)
1. Basic Physiological Needs	Most basic in the hierarchy and corresponds to primary needs. Hunger, thirst, shelter, sleep.	Offer monetary incentives e.g. Good salary/wages and comfortable working conditions
2. Safety/Security Needs	Security and protection from physical and emotional harm, stability of Income etc.	Offer job security, pension, insurance etc
3. Affiliation/Belonging Needs	Refer to affection, sense of belongingness, acceptance and friendship	The firm can encourage team building and permit the workers to opportunity to interact socially and so develop cordial relations with colleagues
4. Esteem Needs	Include factors such as self-respect, autonomy status, recognition and attention	Recognize good performance, provide opportunity for employees to feel a sense of accomplishment, provide important job titles etc
5. Self Actualisation Needs	The drive to become what one is capable of becoming. These needs include growth, self-fulfillment and achievement of goals.	Offer the freedom to take decisions, providing them with opportunity to learn things, encouraging creativity, leading to achievement of goals etc.

Financial and Non-Financial Incentives: Incentive means all measures which are used to motivate people to improve performance.

Financial incentives = directly in money form or measurable in monetary terms.	Non-financial incentives= main emphasis is to provide psychological and emotional satisfaction. Not measurable in monetary terms.
1. Pay and allowance	1. Status
2. Productivity linked incentive schemes	2. Organizational climate
3. Bonus	3. Career advancement opportunities
4. Profit sharing	4. Job enrichment
5. Co-partnership/Stock options	5. Employee recognition programmes
6. Retirement benefits	6. Job security
7. Perquisites	7. Employee participation 8. Employee empowerment

III. Leadership

Leadership is the activity of influencing people to strive willingly for mutual objectives. Managers at all levels are expected to be the leaders of their subordinates. Leadership indicates the ability of an individual to maintain good interpersonal relations with followers and motivate them to contribute for achieving organizational objectives. It is a process of interaction between the leader and his followers. It helps in persuading employees to work cooperatively and enthusiastically towards common goals.

Importance of Leadership:

1. Makes people contribute positively:

• Influences behaviour and makes people contribute positively and produce good results.

2. Creates congenial work environment:

• Maintains personal relations, helps followers fulfil their needs+ provides confidence, support and encouragement.

3. Introduces change:

• Persuades, clarifies and inspires people to accept changes.

• So overcomes resistance to change with minimum discontent..

4. Handles conflict

• Does not allow adverse effects .

• Allows followers to express their feelings and disagreements and gives suitable clarifications.

5. Trains subordinates:

• Builds up successors and helps in smooth succession process.

Qualities Of A Good Leader:

1. Physical features – appearance, personality, heath and endurance inspires followers to work with the same tempo.
2. Knowledge – knowledge and competence to instruct and influence subordinates.
3. Integrity – the leader should be a role model regarding ethics, values, integrity and honesty.
4. Initiative – grab opportunities instead of waiting for them.
5. Communication – capacity to explain his ideas and also be a good listener, teacher, counselor and persuader.
6. Motivation skills – understand followers needs and devise suitable means to satisfy them. 7. Self-confidence – so that he can provide confidence to followers
8. Decisiveness – should be firm and not change opinions frequently
9. Social skills – sociable, friendly and maintain good relations with followers.

Styles of Leadership

Leadership styles refer to a leader’s behaviour. Behavioural pattern which the leader reflects in his role as a leader is often described as the style of leadership.

A Leadership style is the result of the leader’s philosophy, personality, experience and value system. It also depends upon the type of followers and the atmosphere revealing in the organization.

Different types of leadership style are:

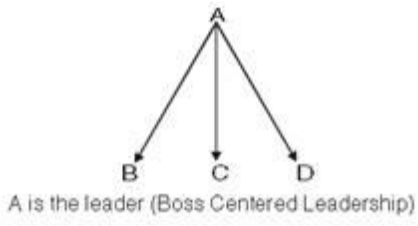
1. Autocratic leadership
2. Participative leadership/Democratic
3. Free rein leadership/Laissez Faire

A leader may use all styles over a period of time but one style tends to predominate as his normal way of using power.

l. Autocratic or Authoritarian Leader

An autocratic leader gives orders and insists that they are obeyed. He determines the policies for the group without consulting them. He does not give information about future plans but simply tells the group what immediate steps they must take. Under this style, all decision making power is centralized in the leader. He does not give the subordinates any freedom to influence his decisions.

It is like “bossing people around.” This style should normally be used on rare occasion.



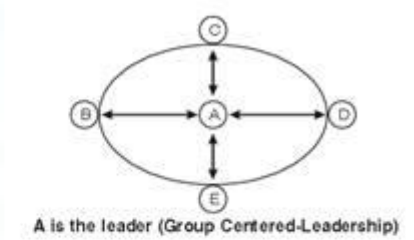
It is best applied to situations where there is little time for group decision making or where the leader is the most knowledgeable member of the group.

2. Democratic or Participative Leader

A democratic leader gives order only after consulting the group and works out the policies with the acceptance of the group.

He never asks people to do things without working out the long term plans on which they are working. He favours decision making by the group as shown in the diagram.

This improves the attitude of the employees towards their jobs and the organization thereby increasing their morale. Using this style is of mutual benefit - it allows them (subordinates) to become part of the team and helps leaders (seniors) to make better decisions.



When should Participative/democratic leadership be applied?

It works best in situations where group members are skilled and eager to share their knowledge.

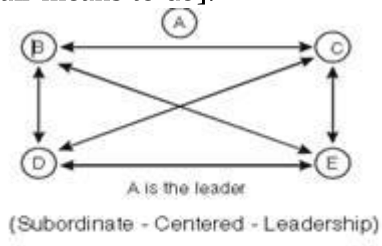
It is also important to have plenty of time to allow people to contribute, develop a plan and then vote on the best course of action.

This style should NOT he used when:

In situations where roles are unclear or time is of the essence, democratic leadership can lead to communication failures and incomplete projects.

3. Laissez Faire or Free Rein Leader

A free rein leader gives complete freedom to the subordinates. Such a leader avoids use of power. He depends largely upon the group to establish its own goals and work out its own problems. Group members work themselves as per their own choice and competence. The leader exists as a contact man with the outsiders to bring information and the resources which the group requires for accomplishing the job. Note: This is also known as laissez faire which means no interference in the affairs of others. [French laissez means to let/allow fair means to do].



Communication

It is transfer of information from the sender to the receiver with the information being understood by the receiver. Communication plays key role in the success of a manager. Directing abilities of manager mainly depend upon his communication skills. That is why organization always emphasizes on improving communication skills of managers as well as employees. Communication is important for the directing function because all other elements of directing become possible only when there is adequate communication.

Elements of Communication Process

1. Sender: Who conveys his thoughts or ideas.

2. Message: Ideas, feelings, suggestions, order etc.

3. Encoding: Converting the message into communication symbols such as words/pictures etc.

4. Media: Path/Channel through which encoded message is transmitted to receiver e.g., face to face, phone call, internet etc.

5. Decoding: Converting encoded symbols of the sender.

6. Receiver: Who receives communication of the sender.

7. Feedback: All those actions of receiver indicating that he has received and understood the message of the sender.

8. Noise: Some obstruction or hindrance to communication like poor telephone connection, inattentive receiver.

Importance of Communication

1. Facilitates Coordination: between interrelated departments and sections thus creating a unity of purpose and action.

2. Provides data necessary for decision makings: When information is effectively and efficiently communicated to management.

3. Increases managerial efficiency: Every individual in the organization is assigned a job or task. The employee must know clearly who has to report to whom, what part of total job they are expected to perform

and what are their decisions. The clarity comes only with smooth flow of communication which keeps the organization at work with efficiency.

4. Promotes cooperation and Industrial Peace: The two-way communication promotes cooperation and mutual understanding between the management and workers and brings peace in the organization.

5. Establishes effective leadership: Effective communication helps to influence subordinates. while influencing, a leader should possess good communication skills.

If there is two-way information flow between the superior and subordinates then there will be positive reaction of employees.

Communication taking place within an organization may be broadly classified into two categories.

Formal communication	Informal Communication:
1.Official communication following the chain of command 2.Is concerned with official matters 3. May be written/oral but generally recorded and filed. 4.Directions = • Vertical: 1. Downward-superior to subordinates –sending notices, passing guidelines, asking them to complete assigned work. 2. upward- subordinates to superior – application for leave, submission of reports. • Horizontal- between departments – about schedule of product delivery, product design etc. 5.Popular communication networks are: • Single chain, Wheel, Circular, Free flow and Inverted V	1.Takes place outside the official channels – 2. May be work related or other matters – 3.Arises out of social interactions – 4.Grapevine: • Origin and direction of flow is not easily located • Cuts across scalar chain • Spread of rumors is possible as it is not easy to fix responsibilities - 5.Types = • single strand, • gossip, • probability network, • clusters

Difference between Formal and Informal Communication

Basis	Formal Communication	Informal communication
1. Meaning	Follows the official chain of command.	Between individuals and groups are not officially recognized.
2. Channel	Through a definite path.	No definite path.
3. Speed	Slow: because all information has to pass through an established scalar chain.	Very fast-Cuts across all the official channels.
4. Nature	More rigid and cannot be modified.	Flexible and varies from individual to individual.
5. Expression	It is mostly expressed in the written form.	It mostly tends to be oral.

Barriers to Effective Communication

Semantic Barriers: Concerned with 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.
2. Words with different meanings confuses the receiver.

3. Faulty translations may transfer wrong messages.
4. Unclarified assumption: Different interpretations may result in confusion.
5. Technical Jargon: Technical words may not be understood by the workers.

Psychological/Emotional barriers

1. Premature evaluation- judgement before listening leads to misunderstanding.
2. Lack of attention/poor listening may disappoint the employees.
3. Loss by transmission and poor retention: When oral communication passes through various levels it destroys the structure of the message or leads to transmission of inaccurate message.
4. Distrust: If the parties do not believe each other. They cannot understand each other's message in its original sense.

Organizational Barriers

Factors related to organization structure:

1. If organizational policy does not support free flow of information it creates problem.
2. Rules and regulations: Rigid rules and regulations may lead to red tapism and delay of action.
3. Status conscious managers may not allow subordinates to express their feelings freely.
4. Complexity in organization structure results in delay and distortion.

Personal Barriers: of superiors and subordinates.

1. Fear of challenge to authority may withhold or suppress a particular communication.
2. Lack of confidence of superior in his subordinates.
3. Unwillingness to communicate. e.g., fear of punishment/demotion.
4. Lack of proper incentives stops the subordinates to offer useful suggestions.

Improving Communication Effectiveness

1. Clarify the ideas before communication.
2. Communicate according to the needs of receiver.
3. Consult others before communicating.
4. Be aware of language, tone and content of message.
5. Ensure proper feedback. Feedback provides opportunity for suggestions and criticism.
6. Follow up communication helps to remove hurdles, misunderstanding of information given by managers to subordination.
7. Be a good listener.

CHAPTER – 8
CONTROLLING

Meaning & Definition: Controlling involves comparison of actual performance with the planned performance. If there is any difference or deviation, then finding the reasons for such difference and taking corrective measures or action to stop those reasons so that they don‘t re-occur in future and that organizational objectives are fulfilled efficiently.

Importance of Controlling

1. **Controlling helps in achieving organizational goals:** The controlling function measures progress towards the organizational goals and brings to light/indicates 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. Facilitating Coordination in action: In controlling each department and employee is governed by predetermined standards which are well coordinated with one another. Control provides unity of direction.

6. Ensuring order and discipline: Controlling creates an atmosphere of order and discipline in the organization by keeping a close check on the activities of its employees.

Nature of Controlling/Features of Controlling

1. Goal oriented: Controlling is directed towards accomplishment of organizational goals in the best possible manner.

2. Pervasive: Controlling is an essential function of every manager and exercised at all levels of management.

3. Continuous: It is not an activity to be pursued in the end only; it has to be done on a continous basis.

4. Controlling is looking back: Controlling involves measurement of actual performance and its comparison with the desired performance. It is the process of checking and verification.

5. Controlling is forward looking: It is related to future because it seeks to improve future results on the basis of experience gained in the past.

6. Depends on planning: It pre supposes existence of planning because without planning no control is possible.

7. Action oriented*: Control has no meaning if no corrective action is taken; So timely action should be taken to prevent deviations.

8. Primary Function of Management* – controlling is performed at all levels and in all types of organizations.

9. Brings back management cycle back to planning:* Control should not be viewed as the last function. In fact it links back to planning. Controlling involves

• Comparing actual performance with standards • Finding out deviations • Taking corrective action so that they don't repeat in future These are the guidelines when future planning is done. Thus controlling not only completes one cycle of management process and also helps to improve planning in the next cycle.

Relationship between Planning and Controlling

Planning and controlling are interrelated and in fact reinforce each other in the sense that-

1. Planning is pre-requisite for controlling. Plans provide the standard for controlling. Thus, without planning, controlling is blind. If the standards are not set in advance managers have nothing to control.

2. Planning is meaningless without controlling. It is fruitful when control is exercised. It discovers deviations and initiates corrective measures.

3. Effectiveness of planning can be measured with the help of controlling.

4. Planning is looking ahead and controlling is looking back: Planning is a future oriented function as it involves looking in advance and making policies for the maximum utilization of resources in future that is why it is considered as forward looking function. In controlling we look back to the performance which is already achieved by the employees and compare it with plans. If there are deviations in actual and standard performance or output then controlling functions makes sure that in future actual performance matches with the planned performances. Therefore, controlling is also a forward looking function. Thus, planning & controlling cannot be separated. The two are supplementary function which support each other for successful execution of both the function. Planning makes controlling effective whereas controlling improves future planning.

Controlling Process

1. Setting Performance Standards: Standards are the criteria against which actual performance would be measured. Thus standards become basis for comparison and the manager insists on following of standards.

2. Measurement of Actual Performance: Performance should be measured in an objective and reliable manner which includes personal observation, sample checking. Performance should be measured in same terms in which standards have been established, this will facilitate comparison.

3. Comparing Actual Performance with Standard: This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired performance. If the performance matches the standards it may be assumed that everything is under control.

4. Analysing Deviations: The deviations from the standards are assessed and analysed to identify the causes of deviations.

5. **Taking Corrective Action:** The final step in the controlling process is taking corrective action. No corrective action is required when the deviation are within the acceptable limits. But where significant deviations occur corrective action is taken.

Limitations of Controlling

1. Difficulty in setting quantitative standards:

Control system loses its effectiveness when standards of performance cannot be defined in quantitative terms. This makes comparison with standards a difficult task.

e.g areas like human behaviour, employee morale, job satisfaction cannot be measured quantitatively.

2. Little control on external factors:

An enterprise cannot control external factors like government policies, technological changes, competition. etc.

3. Resistance from employees:

Control is resisted by the employees as they feel that their freedom is restricted. E.g employees may resist and go against the use of cameras to observe them minutely.

4. Costly:

Control involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system.

Managers must ensure that the cost of installing and operating a control system should not exceed the benefits derived from it.

UNIT - II

CHAPTER – 9
FINANCIAL MANAGEMENT

Introduction

• Business Finance = Money or funds available for a business for its operations (that is, for some specific purpose) is called finance. It is indispensable for survival and growth of business, for production and distribution of goods and meeting day to day expenses etc.

• It involves acquiring funds to buy Fixed assets (tangible and intangible) and Raw materials and maintain working capital.

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.

Aims of Financial Management:

1. Reduce cost of funds procured
2. Keep risks under control
3. Achieve effective employment of fund
4. Ensure availability of sufficient funds while avoiding idle funds

•bjectives of Financial Management

• Primary objective: To maximize wealth of owners in the long run – Wealth Maximization concept.

• 'Owners' of a company are the shareholders.

• The term wealth refers to wealth of owners as reflected by the market price of their shares.

• The market price of shares is linked to three basic financial decisions:

• Investment decision • Financing decision and • Dividend decision

• Market price of a share will increase if benefits from a decision are greater than the cost involved in it.

• The goal of a firm should be to maximize the wealth of owners in the long run.

• Increase in the market price of shares is an indicator of the financial health of a firm.

• Other objectives that help a firm achieve the primary objective are:

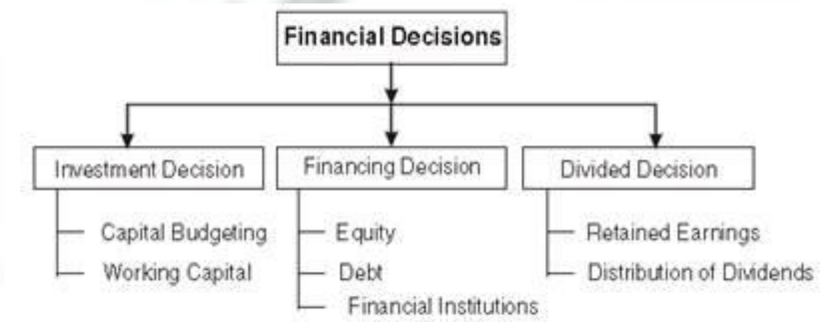
Ensure availability of funds at reasonable costs:

Ensure effective utilization of funds:

Ensure safety of funds thro creation of reserves:

Maintain liquidity and solvency:

Financial Decisions



Every company is required to take three main financial decisions which are as follows:

1. Investment Decision

Resources are scarce and can be put to alternate use. A firm must choose where to invest so as to earn the highest possible profits.

Investment decision relates to decisions about how the firm‘s funds are invested in different assets that is, different investment proposals

Has two components:

• Working Capital Decisions - Short Term investment decisions.

• Capital Budgeting decisions – Long Term investment decisions

Factors affecting Investment Decisions/Capital Budgeting decisions

1. Cash flows 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.

2. Rate of Return: The expected returns from each proposal and risk involved in them should be taken into account to select the best proposal.

3. Investment Criteria Involved: The various investment proposals are evaluated on the basis of capital budgeting techniques. These involve calculation regarding investment amount, interest rate, cash flows, rate of return etc.

2. Financing Decision

• These are decisions w.r.t quantum of finance or composition of funds from various longterm sources.(short term = working capital management)

• 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' = risk of default on payment of interest on borrowed funds and the repayment of the principle amount whereas

• Shareholders' funds involve no fixed commitment w.r.t payment of returns or repayment of capital.

• Ownership fund vs. Debt fund: They can be compared on the basis of factors such as examples, interest/dividend payout and repayment of principle, tax deductibility, and risk and floatation costs.

Factors Affecting Financing Decision

1. Cost: The cost of raising funds from different sources are different. The cheapest source should be selected.

2. 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.

3. 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.

4. 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.

5. Control Considerations: In case the existing shareholders want to retain the complete control of business then finance can be raised through borrowed funds but when they are ready for dilution of control over business, equity can be used for raising finance.

6. State of Capital Markets: During boom, finance can easily be raised by issuing shares but during depression period, raising finance by means of debt is easy.

7. Period of Finance: For permanent capital requirement, Equity shares must be issued as they are not to be paid back and for long and medium term requirement, preference shares or debentures can be issued.

3. Dividend Decision

• Dividend is that portion of divisible profits that is distributed to the owners i.e. the shareholders. It results in current income for the shareholders.

• Retained earnings= proportion of profits kept in, that is, reinvested in the business for the business.

• Dividend decision= whether to distribute earnings to shareholder as dividends or retain earnings to finance long-term profits of the firm. Must be done keeping in mind the firms overall objective of maximizing the shareholders wealth.

Factors affecting Dividend Decision

1. Earnings: Companies having high and stable earning could declare high rate of dividends as dividends are paid out of current and paste earnings.

2. 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.

3. Growth Prospects: In case there are growth prospects for the company in the near future them it will retain its earning and thus, no or less dividend will be declared.

4. Cash Flow Positions: Dividends involve an outflow of cash and thus, availability of adequate cash is for most requirement for declaration of dividends.

5. Preference of Shareholders: While deciding about dividend the preference of shareholders is also taken into account. In case shareholders desire for dividend then company may go for declaring the same.

6. Taxation Policy: A company is required to pay tax on dividend declared by it. If tax on dividend is higher, company will prefer to pay less by way of dividends whereas if tax rates are lower then more dividends can be declared by the company.

7. Issue of bonus shares: Companies with large reserves may also distribute bonus shares to increase their capital base as it signifies growth of the company and enhances its reputation also.

8. Legal constraints: Under provisions of Companies Act, all earnings can't be distributed and the company has to provide for various reserves. This limits the capacity of company to declare dividend.

Financial Planning

• It involves 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.

• Objectives of Financial Planning:

• To ensure availability of funds whenever they are required o Includes estimation of the funds required for different purposes (long term assets/working cap requirement)

• Estimate the time at which these funds need to be made available.

• Specify sources of these funds.

• To see that the firm does not raise resources unnecessarily:

• Shortage of funds => firm cannot meet its payment obligations.

• Surplus funds => do not earn returns but adds to costs.

Importance of Financial Planning

1. To ensure availability of adequate funds at right time.

2. To see that the firm does not raise funds unnecessarily.

3. It provides policies and procedures for the sound administration of finance function.

4. It results in preparation of plans for future. Thus new projects can he under taken smoothly.

5. It attempts to achieve a balance between inflow and outflow of funds. Adequate liquidity is ensured throughout the year.

6. It serves as the basis of financial control. The management attempts to ensure utilization of funds in tune with the financial plans.

Capital Structure

• On the basis of ownership, funds => owners funds + borrowed funds.

• Owners funds = equity share capital + preference share capital + reserves and surpluses + retained earnings = EQUITY

• Borrowed funds = loans + debentures + public deposits = DEBT
• Capital Structure = The mix of long-term sources of funds

• Refers to the proportion of debt and equity used for financing the operations of a business.

• Cost and risk- Debt Vs Equity:

• Cost of Debt is lower than cost of equity but Debt is more risky than equity.

• Cost of debt < cost of equity as lenders risk < owners risk.

• Lender earns an assured interest and repayment of capital..

• Interest on debt is a tax deductible expense so brings down the tax liability for a business whereas dividends are paid out of profit after tax.

• Debt is more risky for the business as it adds to the financial risk faced by a business.

• Any default w.r.t payment of interest or repayment of principle amt may lead to liquidation.

• Capital structure affects both the profitability and the financial risk faced by a business.

• Optimal Capital Structure is that combination of debt and equity that maximizes the market value of shares of that company

Factors Affecting Capital Structure

i. Cash flow position:
a. The size of the projected cash flows must be considered before deciding the capital structure of the firm. If there is sufficient cash flow, debt cab be used.
b. It must cover fixed payment obligations w r t:
i. Normal business operations ii. Investment in fixed assets iii. Meeting debt service commitments as well as provide a sufficient buffer.

ii. Interest coverage ratio :
a. Higher the Interest coverage ratio which is calculated as follows: EBIT/ Interest, lower shall be the risk of the company failing to meet its interest payment obligations.
b. Low Interest coverage ratio => debt ≠ used.

iii. Debt Service Coverage Ratio:
a. Debt service coverage ratio = Profit after tax + Depreciation + Interest + Non Cash exp. Pref. Div + Interest + Repayment obligation
b. A higher Debt service coverage ratio, in which the cash profits generated by the operations are compared with the total cash required for the service of debt and the preference share capital, the better will the ability of the firm to increase debt component in the capital structure.
c. Low Debt service coverage ratio => debt ≠ used.

iv. Return On Investment
a. If return on investment of the company is higher, the company can choose to use trading on equity to increase its EPS, i.e., its ability to use debt is greater.

v. Cost Of Debt
a. More debt can be used if cost of Debt is low.

vi. Tax Rate
a. A higher tax rate makes debt relatively cheaper and increases its attraction as compared to equity.

vii. Cost Of Equity
a. when the company uses more debt, the financial risk faced by equity holders increase so their desired rate of return increases.
b. If debt is used beyond a point, cost of equity may go up sharply and share price may decrease in spite of increased EPS.

viii. Floatation Cost
a. Cost of Public issue is more than the floatation cost of taking a loan.
b. The floatation cost may affect the choice between debt and equity and hence the capital structure

ix. Risk Consideration:
a. The total risk of business depends upon both the business risk and financial risk. If a firm‘s business risk is lower, its capacity to use debt is higher and vice versa.

x. Flexibility:
a. If the firm uses its debt potential, it loses the flexibility to use more debt.
b. To maintain flexibility the company must maintain some borrowing power to take care of unforeseen circumstances.

xi. Control:
a. Debt normally does not cause dilution of control whereas a public issue makes the firm vulnerable to takeovers.
b. To retain control, firm should issue debt.

Fixed Capital

Fixed capital refers to investment in long-term assets. Investment in fixed assets is for longer duration and they must be financed through long-term sources of capital. Decisions relating to fixed capital involve huge capital funds and are not reversible without incurring heavy losses.

Factors Affecting Requirement of Fixed Capital

1. Nature of Business: Manufacturing concerns require huge investment in fixed assets & thus huge fixed capital is required for them but trading concerns need less fixed capital as they are not required to purchase plant and machinery etc.

2. Scale of Operations: An organization operating on large scale requires more fixed capital as compared to an organization operating on small scale.

For Example - A large scale steel enterprise like TISCO requires large investment as compared to a mini steel plant.

3. Choice of Technique: An organization using capital intensive techniques requires more investment in plant & machinery as compared to an organization using labour intensive techniques.

4. Technology upgradation: Organizations using assets which become obsolete faster require more fixed capital as compared to other organizations.

5. Growth Prospects: Companies having more growth plans require more fixed capital. In order to expand production capacity more plant & machinery are required.

6. Diversification: In case a company goes for diversification then it will require more fixed capital to invest in fixed assets like plant and machinery.

7. Distribution Channels: The firm which sells its product through wholesalers and retailers requires less fixed capital.

8. Collaboration: If companies are under collaboration, Joint venture, then they need less fixed capital as they share plant & machinery with their collaborators.

Working Capital

Working Capital refers to the capital required for day to day working of an organization. Apart from the investment in fixed assets every business organization needs to invest in current assets, which can be converted into cash or cash equivalents within a period of one year. They provide liquidity to the business. Working capital is of two types - Gross working capital and Net working capital. Investment in all the current assets is called Gross Working Capital whereas the excess of current assets over current liabilities is called Net Working Capital. Following are the factors which affect working capital requirements of an organization:

l. Nature of Business: A trading organization needs a lower amount of working capital as compared to a manufacturing organization, as trading organization undertakes no processing work.

2. Scale of Operations: An organization operating on large scale will require more inventory and thus, its working capital requirement will be more as compared to small organization.

3. Business Cycle: In the time of boom more production will be undertaken and so more working capital will be required during that time as compared to depression.

4. Seasonal Factors: During peak season demand of a product will be high and thus high working capital will be required as compared to lean season.

5. Credit Allowed: If credit is allowed by a concern to its customers than it will require more working capital but if goods are sold on cash basis than less working capital is required.

6. Credit Availed: If a firm is able to purchase raw materials on credit from its suppliers than less working capital will be required.

7. Inflation: Working capital requirement is also determined by price level changes. For example, during inflation prices of raw material, wages also rise resulting in increase in working capital requirements.

8. Operating Cycle/Turnover of Working Capital: Turnover means speed with which the working capital is converted into cash by sale of goods. If it is speedier, the amount of working capital required will be less.

CHAPTER – 10
FINANCIAL MARKETS

Introduction

Financial Intermediation = process of allocating funds from saving surplus units (E.g. households) to saving deficit units (e.g. industries, government etc).

• Alternatives = Banks or Financial markets
Financial Markets are the institutional arrangements by which savings generated in the economy are channelised into avenues of investment by industry, business and the government. It is a market for the creation and exchange of financial assets.

Functions of Financial Market

1.Mobilization of savings and channelising them into the most productive uses:

• Facilitates transfer of savings from the savers to the investors.

• Financial markets help people to invest their savings in various financial instruments and earn income and capital appreciation.

• Facilitate mobilization of savings of people and their channelisation into the most productive uses.
2. Facilitate Price Discovery:

• Price of anything depends upon the demand and supply factors.

• Demand and supply of financial assets and securities in financial markets help in deciding the prices of various financial securities; where business firms represent the demand and the households represent the supply.
3. Provide liquidity to financial assets:

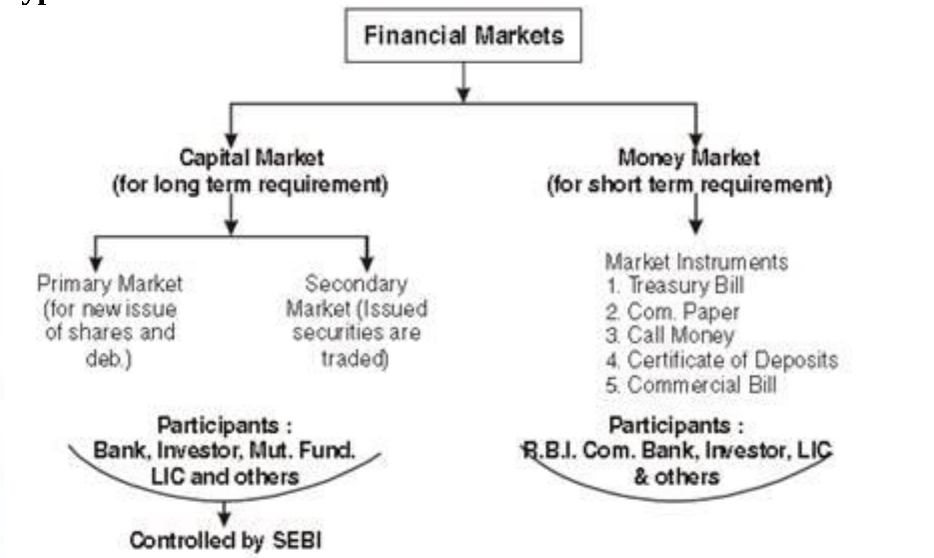
• Financial markets provide liquidity to financial instruments by providing a ready market for the sale and purchase of financial assets.

• Whenever the investors want, they can invest their savings into long term investments and whenever they want, they can sell the investments/ instruments and convert them into cash.
4. Reduce the cost of transactions:

• By providing valuable information to buyers and sellers of financial assets, it helps to saves time, effort and money that would have been spent by them to find each other.

• Also investors can buy/sell securities through brokers who charge a nominal commission for their services. This way financial markets facilitate transactions at a very low cost.

Types of Financial Markets



Money Market

Market for financial securities with maturity period of less than one year.

• Mkt for low risk, unsecured and short term debt instruments that are highly liquid are traded everyday.
• No plysical location bye conducted over the telephone and the internet.
• Helps to:

o raise short term funds

o Temporary deployment of funds .

The main instruments of money market are as follows:

l. Treasure Bills: They are issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds. They are issued at a price which is lower than their face value and arc repaid at par. They are available for a minimum amount of Rs.25000 and in multiples thereof. They are also known as Zero Coupon Bonds. They are negotiable instruments i.e. they are freely transferable.

2. Commercial Paper: It is a short term unsecured promissory note issued by large credit worthy companies to raise short term funds at lower rates of interest than market rates. They are negotiable instruments transferable by endorsement and delivery with a fixed maturity period of 15 days to one year.

3. Call Money: It is short term finance repayable on demand, with a maturity period of one day to 15 days, used for interbank transactions. Call Money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio as per RBI. The interest rate paid on call money loans is known as the call rate.

4. Certificate of Deposit: It is an unsecured instrument issued in bearer form by Commercial Banks & Financial Institutions. They can be issued to individuals. Corporations and companies for raising money for a short period ranging from 91 days to one year.

5. Commercial Bill: It is a bill of exchange used to finance the working capital requirements of business firms. A seller of the goods draws the bill on the buyer when goods are sold on credit. When the bill is accepted by the buyer it becomes marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill maturity.

Capital Market

Facilities and institutional arrangements through which long term securities are raised and invested- both debt and equity.

• Nature of Capital Markets:

a. Important component of Financial markets b. Two segments(primary and secondary) c. 2 forms(organized and unorganized) d. long term securities e. Satisfies long term requirements of funds f. Performs trade-off functions g. Creates dispersion in business ownership h. Helps in capital formation i. Creates liquidity

• Features Of Capital Market Instruments:

a. Provide long term funds
b. Lesser outlay required as unit value of instruments is low
c. Duration more than 1 year
d. Liquidity
e. Lower safety
f. Higher expected returns as compared to short term securities

The capital market can be divided into two parts:

1. Primary Market

2. Secondary Market

Primary Market

• New issues markets
• Transfers investible funds from savers to entrepreneurs.
• Funds used for setting up new projects, expansion, diversification, modernization of existing projects, mergers and take overs etc.

Methods of Floatation of New Issues in Primary Market

1. Offer through Prospectus: It involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.

2. Offer for Sale: Under this method, securities are offered for sale through intermediaries like issuing houses or stock brokers. The company sells securities to intermediary/broker at an agreed price and the broker resells them to investors at a higher price.

3. Private Placements: It refers to the process in which securities are allotted to institutional investor and some selected individuals.

4. Rights Issue: It refers to the issue in which new shares are offered to the existing shareholders in proportion to the number of shares they already possess.

5. e-IPOs: It is a method of issuing securities through an on-line system of stock exchange. A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an e-initial public offer. SEBI's registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company.

Secondary Market

1.Refers to a market where existing securities are bought and sold.

2.The company is not involved in the transaction at all. It is between two investors. **Features of Secondary market are:** 1) Creates liquidity 2) Fixed location 3) Comes after primary market 4) Encourages new investment

Difference between Primary Market and Secondary Market

Basis	Primary Market	Secondary Market
Securities	Only new securities are traded	Existing securities are traded
Price of Securities	Prices of securities are determined by the management of the company.	Prices are determined by the forces by the demand and supply of the securities.
Purchase and Sale	Securities are sold to investors directly by the company or through intermediary.	Investors exchange ownership of securities.
Place of Market	There is no fixed geographical location.	Located at specified places.
Medium	Only buying of securities takes place.	Both buying and selling of securities can take place.

Stock Exchange/Share Market

A Stock Exchange is an institution which provides a platform for buying and selling of existing securities. It facilitates the exchange of a security i.e. share, debenture etc. into money and vice versa. Following are some of the important functions of a Stock Exchange:

a. Gives liquidity and marketability to existing securities
b. Pricing of securities(dd and ss)
c. Safety of transactions(membership = regulated + dealings well defined)
d. Contributes to economic growth (ensures that savings are channelized to most productive investment avenues)
e. Spreading of equity cult(ensures wider share ownership)
f. Provides scope for speculation (in a restricted and controlled environment)

Trading Procedure on a Stock Exchange

1. Selection of Broker: in order to trade on a Stock Exchange first a broker is selected who should be a member of stock exchange as they can only trade on the stock exchange.

2. Placing the order: After selecting a broker, the investors specify the type and number of securities they want to buy or sell.

3. Executing the order: The broker will buy or sell the securities as per the instructions of the investor.

4. Settlement: Transactions on a stock exchange may be carried out on either cash basis or carry over basis (i.e. badla). The time period for which the transactions are carried forward is referred to as accounts which vary from a fortnight to a month. All transactions made during one account are to be settled by payment for purchases and by delivery of share certificates, which is a proof of ownership of securities by an individual. Earlier trading on a stock exchange took place through a public outcry or auction system which is now replaced by an online screen based electronic trading system. Moreover, to eliminate, the problems of theft, forgery, transfer, delays etc. an electronic book entry from a holding and transferring securities has been introduced, which is called process of de materialisation of securities.

Difference between Capital and Money Market

Basis	Capital Market	Money Market
Participants	Financial Institutions, Banks, Corporate Entities, foreign investors and individuals.	RBI, Banks Institutions and finance companies.
Instruments traded	Equity shares, bonds preferences and debentures, call money etc.	Treasury Bills, Trade Bills commercial paper
Investment Outlay	Does not necessarily require a huge financial outlay.	Entails huge sum of money as the instruments are quite expensive.
Duration	Deals in medium and long term securities having a maturity period of one year.	Deals in short term funds having a maturity period upto one year.
Liquidity	Securities are less liquid as money market securities.	Money markets instruments are highly liquid
Expected	High return	Low return
Safety	Capital Market Instruments are riskier both with respect to return and repayment.	Money market instruments are generally much safer with a minimum risk of default.

Depository Services and DEMAT Accounts: Keeping in the mind the difficulties to transfer of shares in physical form, SEBI has developed a new system in which trading in shares is made compulsory in electronic form Depository services system and D-Mat Account are very basis of this system.

Depository Services: Just like a bank keeps money in safe custody for customers, a depository also is like a bank and keeps securities(e.g. shares, debentures, bonds, mutual funds etc.) in electronic form on behalf of the investor. In the depository a securities account can be opened, all shares can be deposited, they can be withdrawn/ sold at any time and instruction to deliver or receive shares on behalf of the investor can be given**.** At present there are two depositories in India: NSDL. (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.). which are known as “Depository Participants”. (DPs)

Services provided by Depository

Dematerialisation (usually known as demat) is converting physical certificates to electronic form. Rematerialisation, known as remat, is reverse of demat, i.e getting physical certificates from the electronic securities.

Transfer of securities, change of beneficial ownership.

_ Settlement of trades done on exchange connected to the Depository. Now a days on-line paper-less trading in shares of the company is compulsory in India. Depository services is the name of that mechanism. In this system transfer of ownership in shares take place by means of book entry without the physical delivery of shares. When an investor wants to deal in shares of any company he has to open a Demat account. There

are four players who participate in this system.

1. The Depository: A depository is an institution which holds the shares of an investor in electronic form. There are two depository institutions in India these are NSDL and CDSL.

2. The Depository Participant: He opens the account of Investor and maintains securities records.

3. The Investor: He is a person who wants to deal in shares whose name is recorded

4. The Issuing Company: That organization which issues the securities. This issuing company sends a list of the shareholders to the depositories.

Benefits of Depository Services

• Sale and Purchase of shares and stocks of any company on any stock Exchange.
• Saves time.
• Lower transaction costs
• Ease in trading.
• Transparency in transactions.
• No counterfeiting of security certificate
• Physical presence of investor is not required in stock exchange.
• Risk of mutilation and loss of security certificate is eliminated.

Demat Account

Demat (Dematerialized) account refers to an account which an Indian citizen must open with the depository participant (banks, stockbrokers) to trade in listed securities in electronic form. The securities are held in the electronic form by a depository.

Benefits of Demat Account

1. Reduces paper work.
2. Elimination of problems on transfer of shares such as loss, theft and delay.
3. Exemption of stamp duty when transfer of shares.
4. The concept of odd lot stand abolished.

5. Increase liquidity through speedy settlement.
6. Attract foreign investors and promoting foreign investment.
7. A single demat account can hold investments in both equity and debt instruments.
8. Traders can work from anywhere.
9. Automatic credit into demat account for shares arising out of bonus/split/consolidation % merger.
10. Immediate transfers of securities.
11. Change in address recorded with a DP gets registered with all companies in which investor holds securities eliminating the need to correspond with each of them.

Opening of Demat Account

A Demat account is opened on the same lines as that of a bank account. Prescribed account opening forms available with the DP, need to be filled in. Standard agreement is to be signed by the client and the DP, which details the rights and obligation of both parties. Along with the form, the client is required to attach photograph, attested copies of residence proof and proof of identity need to be submitted.

Securities and Exchange Board of India (SEBI)

SEBI was established by Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was given a statutory status on 30 January1992 through an ordinance which was later replaced by an Act of Parliament known as the SEBI Act, 1992. It seeks to protect the interest 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 investors and to guide & educate them.

3. To prevent trade mal practices such as internal trading.

4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.

<u>**Functions of SEBI**</u>

1. Protective Functions :a) Prohibit fraudulent & unfair trade practices in secondary market (e.g. Price rigging & misleading statement) .**b)** Prohibit insider trading. **c)** Educate investors Promote fair practice & code of conduct in securities market

2.Development Functions : a) Promotes training of intermediaries of the securities market . b) Investor education c) Promotion of fair practices code of conduct of all SRO's. d) Conducting research & publish information useful to all market participants

3. Regulation Functions : a) Registration of brokers and sub brokers & other players in the mkt. b)) Registration of collective investment schemes & mutual funds. c) Regulation of stock bankers & portfolio exchanges & merchant bankers.

CHAPTER – 11
MARKETING MANAGEMENT

MEANING OF SOME IMPORTANT TERMS:

• **Needs =** basic human requirements. Essential items necessary or fundamental to human existence.

• **Wants=** desire for a particular product. Tend to be "satisfier specific".

• **Demand-** willingness to buy is backed by purchasing power

• **Utility** – want satisfying power of a product.

• **What can be marketed:**

• A product =
• bundle of utility not confined to physical products but can refer to other things of value such as services, ideas, place. It refers to anything that satisfies a need or want.

• may be tangible or intangible(i.e. goods and services)

• even people can be marketed
• **Customers=** people or organizations that seek satisfaction of their wants.
• **"Marketers‟ =**
• Anyone taking a more active role in the process of exchange is called a marketer. Normally it is the seller. But in certain situations, it may also be the buyer. This may be in the situation of rare supply.

• Sellers as marketer are the deliverers or providers of satisfaction. They makes available products or services and offers them to customers with an intention of satisfying customer needs and wants. They can be divided into:

• Goods marketers (such as Hindustan Lever)

• Services marketers (such as Indian Airlines)

• Others marketing experiences (such as Walt Disney) or places (like tourist destinations).
• **Marketing activities** =activities carried on by the marketers to facilitate exchange of goods and services between the producers and the users of such products.
• **Market is:**

• Place where buyers and sellers meet and conduct buying and selling activities. It does not necessarily mean a geographical place(e.g. conduct of business thro telephone, mail or internet)

• The other ways in which this term is being used is in the context of a product market (cotton market, gold or share market), geographic market (national and international market), type of buyers (consumer market and industrial market) and the quantity of goods transacted (retail market and wholesale market).

• In the modern marketing sense, it refers to a set of actual or potential buyers of a product or service i.e. all customers who share a particular need or want and are able to buy the product (also referred to as target markets)

Important Features of Marketing

1. Needs and wants: Satisfaction of the needs and wants of individuals and organizations.

2. Creating a market offering: Complete offer for a product of service.

3. Customer value: greatest benefit or value for the money.

4. Exchange mechanism: Exchange of products/services for money/for something of value to them.

Meaning and concept of Marketing Management

Marketing management means management of the marketing functions. It is the process of organizing, directing and controlling the activities related to marketing of goods and services to satisfy customers' needs & achieve organizational goals.

The process of Marketing involves:

i. Choosing a target market

ii. Getting, keeping as well as growing the customer

• that is, ensure that the target customers purchase the firm's product, ensure that they keep their customers satisfied with the products and attract new customers so that the firm can grow.

iii. Create, develop and communicate superior values to the customers.

<u>Functions of Marketing/Marketing activities</u>

Gathering And Analyzing Market Information:

• systematic investigation of facts

• SWOT analysis

• Necessary to identify needs

• Decisions can be wrt. Identifying customer needs and wants, identifying buying motives, choice of a brand name, packaging and media used for promotion.

• Data is available both from primary as well as secondary sources.

Marketing planning :
• Aim = to develop a complete marketing plan so that the marketing objectives can be achieved.

• It also must specify the action programs .
• E.g if a marketer aims at enhancing his market share in the country in the next three years, then his marketing plan should include various important aspects like plan for increasing level of production, promotion of products etc.

Product designing and development:
• Involves decisions regarding the product to be manufactured and it‘s attributes such as its quality considerations, packaging, models and variations to be introduced etc..
• Done by anticipating customer needs and developing new products or improving existing products to satisfy these needs.

Standardization and grading:
• Standardization = Process of setting certain standards for a product on the basis of its desired qualities. E.g. ISI mark for electrical goods.
• Grading = Division of products into classes made up of units possessing similar features such as for agricultural products

Packaging and labeling:
• Packaging‘ refers to designing a package (that is a wrapper or a container) for a product.
• Packaging protects the products from damage , risks of spoilage, breakage and leakage. It also makes buying convenient for customers and serves as a promotional tool.
• Labeling = designing a label to be put on the package. It may vary from a simple tag to complex graphics.

Branding
• Whether to sell the product in its generic name or in a Brand name.
• Helps in differentiation, builds customer loyalty and promote its sale.
• Decision = whether each product will have a separate brand name or the same brand name to be used for all products.

Concepts & Philosophies of Marketing

1. PRODUCTION CONCEPT = In the earlier days of the industrial revolution, the number of producers were limited, → limited supply of industrial products → not able to match demand . So, anyone who was able to produce goods could easily find buyers for the same.

2. PRODUCT CONCEPT= With passage of time, the supply improved→ customers started looking for products that were superior in performance, quality and features.

3. SELLING CONCEPT= increase in scale of production→ competition among the sellers → Product quality and availability alone did not ensure survival as a large number of firms were now selling products of similar quality.

4. MARKETING CONCEPT : Implies that a firm can achieve its goals by identifying needs of the customer and satisfying them better than the competitors. Customer satisfaction is the precondition for realizing the firm’s goal and objectives,

5. SOCIAL MARKETING CONCEPT : Under this concept customer satisfaction is supplemented by social welfare. Some products bring harmful effect on environment so these should not be supplied. It pays attention to the social, ethical and ecological aspects of marketing. Raman, Joginder, John, Iqbal and Shreya are friends. They are operating different business. Each one has his/her own concept regarding operating their business. Raman believes in producing products at a large scale. Thereby decreasing the average cost of the products and selling it's at a reasonable price.

Meaning and Concept of Marketing and Selling

Marketing is a wide term. It refers to a large set of activities of which selling is just one part. A marketer before making the sale does a lot of other activities such as planning the type, design of the product, the price and selecting the distribution outlets at which the same would be available.

Selling: refers to the sale of goods or service through publicity, promotion and salesmanship. The title of the product is transferred from seller to buyer. The entire focus in selling is to covert the product into cash.

Difference between Selling & Marketing

Basis	Selling	Marketing
Scope	It is only a part of process of marketing.	It is a wide term consisting of a number of activities such aside notification, customers needs etc.
Focus	Transfer of the title from seller to consumer.	Achieving maximum satisfaction of customers needs and wants.
Pre-dominance	Product is given quantity.	Customer is treated as the king.
Aim	Profits through sales volume.	Profits through customer satisfaction.
Emphasis	Bending the customer according to the product.	To develop the products as per the customer needs.

Marketing Mix

There are a large number of factors that affect marketing decisions. They can be classified as:

• Non-controllable factors and Controllable factors:
To be successful, a firm needs to take sound decisions wrt controllable factors while keeping the environmental factors in mind.

To develop marketing tools, marketing managers use the above mentioned controllable factors and the set of marketing tools that a firm uses to pursue its marketing objectives in the target market is described as Marketing Mix. Success of a market offer will depend upon how well these ingredients are mixed to create superior value for customers and simultaneously achieve their sales and profit objective. Thus, an ideal marketing mix would need:
• Producing satisfying products • Offered to buyers at a reasonable price
• Conveniently available • About which communication is offered

Marketing mix refers to ingredients or the tools or the variables which the marketeer mixes in order to interact with a particular market.

11.8.1 Elements of Marketing Mix

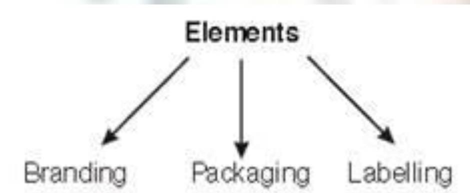
The four main elements of marketing mix as classified by MCcarthy are:

A. Product
B. Price
C. Place/Physical Distribution
D. Promotion

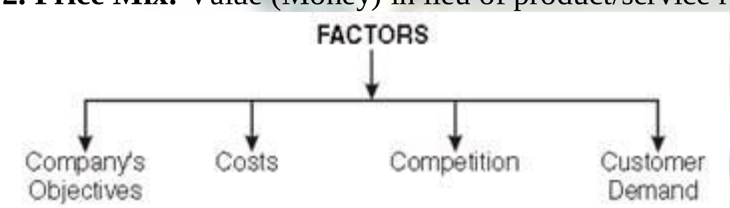
These elements are more popularly known 4 P's of the marketing.

Elements/4 Ps of Marketing Mix

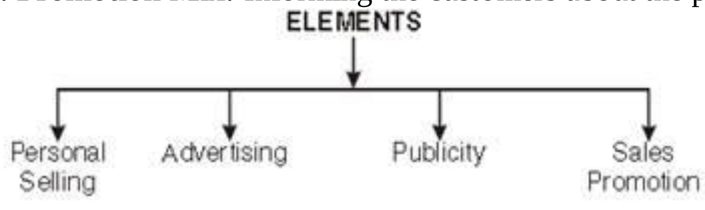
1. Product Mix: All the features of the product or service to be offered for sale.



2. Price Mix: Value (Money) in lieu of product/service received by seller from a buyer.



3. Promotion Mix: Informing the customers about the products and persuading them to buy the same.



4. Place Mix: Physical distribution: Various decisions regarding distribution of products.

• Channels of distribution: Whether wholesalers, retailers are to be used or not.

• Physical movement of the products from producer to consumers.

• Storage, transportation, managing inventory (stock) etc.

i) Branding:

The process used to create a distinct identity of a product. It is the process of using a name, term, symbol or design individually or in some combination to identify a product.

Brand : Name, term, sign, design or some combination of the above used to identify the products of the seller and to differentiate them from those of competitors.

Qualities of a Good Brand Name

1. Short, easy to pronounce, spell and remember(Rin, Vim, Ponds)

2. Suggest product benefits and quality (Genteel, Boost)

3. Distinctive (Zodiac, Safari)

4. adaptable to packing or labeling requirements, to different advertising media and to different languages.

5. Versatile to accommodate new products(Maggi)

6. Capable of being registered and protected legally

7. Have staying power(should not get outdated easily.

Advantages of Branding-

Advantages to the marketers:

1. Enables product differentiation:.

• Distinguishes the firms products from that of its competitors, thus secures and controls its markets.

2. Helps in advertising and display programmes:

• Without a brand, the advertiser can only create an awareness about the generic product and not be sure of the sale of his brand.

3. Differential pricing:

• As when customers like and become used to a brand, they would agree to pay a little more for it than the competing product

4. Ease in introduction of a new product

minimizes selling costs – enjoys the reflected glory of the brand.

Advantages to Customers:

1. Helps in product identification:

• If customer is satisfied with a brand, he will not make a close inspection every time.

2. Ensures quality:

• deviation in quality, customers can have a recourse to the manufacturer/marketer. ↑ confidence and level of satisfaction of customers

3. Status symbol:

• Because of their quality, customers feel proud of suing them and so ↑ level of satisfaction of customers

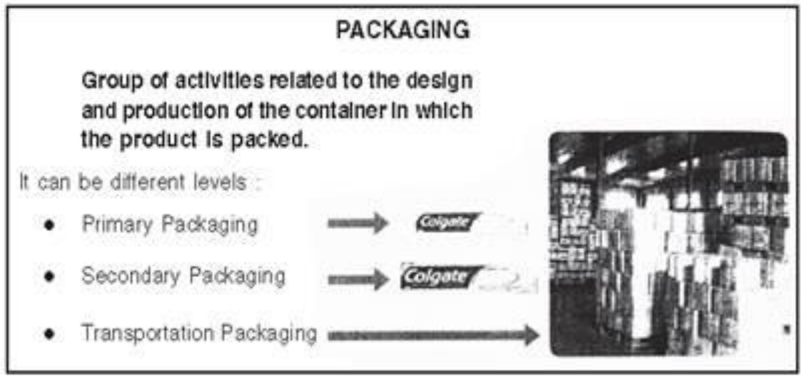
2. (ii) Packaging: Act of designing and producing the container or wrapper of a product. Good packaging often helps in selling the product so it is called a silent salesman.

Levels of Packaging

1. Primary Package: refers to the product's immediate container e.g. toffee in a wrapper, a match box.

2. Secondary Package: refers to additional layers of protection that are kept till the product is ready for use e.g. a Colgate toothpaste usually comes in a card board box.

3. Transportation Package: refers to further packaging components necessary for storage, identification and transportation e.g. package of toffees are put into corrugated boxes for storing at a manufacturer's warehouse and for transportation.



Functions of Packaging

1. Product Identification: Packaging helps in identification of the product.

2. Product Protection: The main function of the packing is to provide protection to the product from dirt, insects and breakage.

3. Convenience: It provides convenience in carriage, stocking and in consumption.

4. Product Promotion: Packaging simplifies the work of sales promotion.

Advantages of Packaging

• Rising Standards Of Health And Sanitation - As chances of adulteration in such goods are minimized

• Self-Service Outlets – so some of the traditional role assigned to personal selling w.r.t promotion has gone to packaging.

• Innovational Opportunities – innovation on packaging used to market products e.g. tetra packs for milk.

• Product differentiation – colour, size, material etc of packaging makes a difference in perception of customers about the quality of the product.

3. Labelling:

Labelling means putting identification marks on the package. Label is a carrier of information & provides information like - name of the product, name of the manufacturer, contents of the product, expiry and manufacturing date, general information for use, weight etc. Labels perform following functions:

1. Identify the product: It helps the customers to identify the product from the various types available. For example: We can easily identify a Cadbury chocolate from the various chocolates by purple colour of its label.

2. Describe the product and specify its contents:

The manufacturer prints all the information related to the product.

3. Grading of products: With the help of label, products can be graded indifferent categories **for example:** Brook Bond Red Label, Brook Bond Yellow Label, Green Label etc.

4. Helps in promotion of products: Attractive and colourful labels excite the customers and induce them to buy the products. For example: 40%extra free mentioned on detergent etc.

5. Providing information required by law: There is legal compulsion to print batch no., contents, max retail price, weight/volume on all the products and statutory warning on the packet of cigarettes, "Smoking is injuries of health": In case of hazard on/poisonous material appropriate safety warnings need to be put.

<u>II P-PRICE MIX:</u>

Meaning and concept of Price: Sum of values that consumers exchange for the benefit of having or using the product Price may therefore be defined as the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a service

Normally expressed in monetary terms. Decisions include decisions wrt basic price, discounts to be offered etc

<u>Factors determining price determination:</u>

1. Pricing Objectives

(a) to maximise profits in the short term-tend to charge maximum price.

(b) Obtain large share of the market i.e., by maximising sales it will charge lower price.

(c) Firm is operating in the competitive market it may charge low price for it.

2. Product cost:

• Price should include all costs and also include a fair return for undertaking the marketing effort and risk.

• Includes costs of producing, distributing and selling the product.

• Costs sets the floor price – the minimum level / lower limit at which the product may be sold. • Price should recover Total costs (Fixed costs/overheads + Variable costs+ Semi-variable costs) in the long run, but in certain circumstances(introduction of a new product/entry into a new market) product price may not cover all the costs for a short while.

3. Utility and demand:

• Utility provided by the product and the demand of a product set the upper limit of price that a buyer would be willing to pay for a product.

• Buyers pay to the point where the utility of the demand is more than or eequal to the utility derived from it.

• Law of demand = consumers purchase more at a lesser price.

• Elasticity of demand = responsiveness of demand to change in prices of a product. Demand = elastic if a small change in price results in a large change in quantity demanded.

• If demand is inelastic, firm can fix higher prices.

4. Competition in Market: Prices of competitors need to be considered before fixing prices.

5. Government Policies: Products regulated by government pricing regulations need to be priced as per government policies.

III. P-Place Mix/Physical Distribution Mix

A set of decisions needs to be taken to make the product available to customers for purchase and consumption.

• The marketer needs to make sure that the product is available at the right quantity, at the right time and at the right place.

• It requires development of:

• Channels of distribution

• Physical distribution of products.

Components of physical distribution-

1. Order Processing: Accurate & speedy order processing leads to profit & goodwill & vice versa.

2. Transportation: Add value of the goods by moving them to the place where they are required.

3. Inventory control: Additional demand can be met in less time, the need for inventory will also be low.

4. Ware housing: Need arises to fill the gap between the time when the product is produced & time when it is required for consumption.

Channels of Distribution

• Includes a series of firms/ individuals/ people/institutions/merchants and functionaries who form a network which helps in the transfer of title to a product from the producer to the end consumer.

• They help to overcome time, place and possession gaps that separate the goods and services from those who need/want them from those who want them

<u>Types of Channels:</u>

Direct Channel — Manufacturer-Customer. Eg. mail order, internet, door to door selling.

Indirect Channel —

1. Manufacturer-Retailer-Customer.

Usually used for specialty goods like expensive watches, appliances, Cars(Maruti Udyog) etc.

2. Manufacture-wholesaler-Retailer-customer.

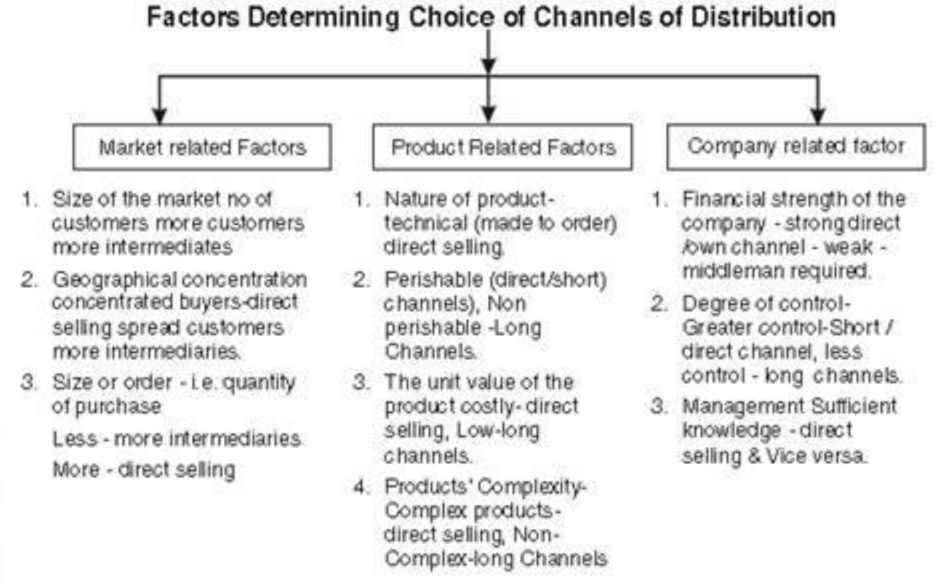
Usually used for consumer goods like soaps , salt etc.

3. Manufacture → Agent → Wholesaler → Retailer → Customer

Done when manufacturers cannot approach wholesalers directly or when they carry a limited product line and has to cover a wide market.

Factors Determining Choice of Channels of Distribution

Choice of appropriate channel of distribution is a very important marketing decision, which affects the performance of an organisation. Whether the firm will adopt direct marketing channels or long channels involving a no. of intermediaries is a strategic decision.



IV. P-Promotion Mix

It refers to combination of promotional tools used by an organization to communicate and persuade customers to buy its products.

Tools/Elements of Promotion Mix

1. Advertising: Most commonly used tool of promotion. It is an impersonal form to communication, which is paid by the marketers (sponsors) to promote goods and services. Common mediums are newspaper, magazine, television & radio.

Role or Importance of Advertising

1. Paid Form –sponsorer has to bear the costs of communicating with the prospective buyer.

2. Impersonality – no direct face to face contact between prospects and advertisers. Creates a monologue and not a dialogue.

3. Identified Sponsor –undertaken by an identified individual who makes the advertising effort and bears the costs of it.

4. Mass Reach – large number of people over a large geographical area can be reached.

5. Enhancing Customer Satisfaction And Confidence – creates confidence and prospective buyers feel more comfortable and assured about the product quality

6. Expressiveness – due to development in art, computer designs and graphics, special effect can be created that makes simple products and messages look attractive.

7. Economy- because of its wide reach, overall cost of advertising gets spread over a wide audience and per unit cost of reach ↓.

Objections against Advertising: Though advertising is one of the most frequently used medium of promotion of goods & services but it attracts a lot of criticism/objections against it, which are as follows:
1. Increased Product Price: Which is ultimately added to product cost, manufacturers pass this cost to ultimate customers.
2. Confusion to Customers: The number of advertisements shown for a single product having different brands confuse the customers and it becomes very difficult for them to make choice.
3. Encouraging sale of Inferior Products: In many cases some product features are over emphasized.
4. Advertisement of Bad Tastes: Events, models degrade the human dignity.
5. Undermines Social Values and Promotes Materialism: It induces the customers to buy more and more products. Because of emphasis on materialism, social relationships are distorted which brings social disorder.
In the changed economic environment of globalisation, advertising is considered as an important tool of marketing. It helps a firm in effectively communicating with its target market, increasing the sale and thereby reducing the per unit cost of production. It is not a social waste rather it adds value to the social cause by giving a boost to production and generating employment.

2. Personal Selling
Personal selling consists of contacting prospective buyers of product personally i.e face to face interaction between seller and buyer for the purpose of sale.

Features of the Personal Selling

1. Personal contact is established under personal selling.

2. Oral conversation.

3. Quick solution of queries.

4. Receipt of additional information.

5. Development of relationship with the prospective customers which may become important in making sale.

Qualities of a Good Salesman

1. Physical qualities: Tidy appearance, good posture, cheerful smile etc

2. Psychological qualities: good nature with Empathy and ego drive,

3. Technical quality: Full technical knowledge about the product,

4. Good communication skills - Polite, tactful, having good manners etc

5. Honesty,

6. Courtesy,

7. Persistent- must not give up as one additional argument can close a sale.

8. Capacity to inspire trust

<u>Sales Promotion</u> refers to short term incentives/ other promotion activities that seek to stimulate interest, trial or purchase.

Merits of Sales Promotion:

1. Attention Value: Attract attention of people through use of incentives.
2. Useful In New Product Launch: Sales promotion tools induce people to break away from their regular buying behavior and try new products.
3. Synergy in Total Promotional Efforts: Sales promotion activities add to the overall effectiveness of the promotional efforts (advertising and personal selling) of a firm.

• Limitations Of Sales Promotion – if used frequently:
a. Reflects Crisis: A firm that frequently relies on sales promotion activities may give the impression that it is unable to manage its sales and there are no takers for its products.
b. Spoils Product Image: Consumers may feel that the products are not of good quality or are not appropriately priced.

TECHNIQUES

1. Product Combination: Offering another product as gift along with the purchase of a product.

2. Istant draws and assigned gift: Scratch a card and instantly win a prize with the purchase of a TV, T. Shirt, Refrigerator etc.

3. Quantity Gift: Offering extra quantity of the product e.g., Buy three LUX soaps and get one free.

4. Refunds: Refunding a part of price paid by customer on production of some proof of purchase. e.g Rs 2 off on presentation of empty pack of Ruffle lays

5. Sampling: Offer of free samples of the product to potential customers. Generally used at the time of introduction of a product.

Public Relations

"The Chartered Institute of Public Relations" defines Public Relations as a strategic management function that adds value to an organization by helping it to manage its reputation Public relations covers a wide range of tactics, usually involve providing

information to independent media sources in the hope of gaining favorable coverage. It also involves a mix of promoting specific products, services and events and promoting the overall brand of an organization, which is an ongoing tact. Public Relation tools include:

1. Press Release: A press release is an announcement of an event, performance, or other newsworthy item that is issued to the press by a public relations professional of an organization. It is written in the form of a story with an attractive heading so that the media quickly grasp and circulates the message through newspaper/radio/television/internet.

2. Press Kits: It is a comprehensive package of information outlining a company's products and services most frequently sent to members of the press. It includes

• A brief company biography.

• Information of senior management.

• Comments from customers.

• Reprints of newspaper and magazine articles.

• Photos of products.

3. Brochures: It is a booklet published by the organization which contains the organization's background, its ethics, vision, mission, its past, present and future projects, its CISP, etc. E.g.: brochure given to new employees to give them a gist of the organization.

4. Newsletter: It is a printed publication produced at regular intervals focusing on a particular set of people. The content of a newsletter is presented in a writing style that is less formal and letter-like. For example, a newsletter published by a college consists of information about activities conducted during a particular period, special achievements by students or teachers, etc.

5. Events and Press support: Special events are acts of news development. The ingredients are time, place, people, activities, drama, showmanship; one special event may have many subsidiary events, such as luncheons, banquets, contests, speeches, and many others as part of the buildup.

6. Conferences and Seminars: Conferences and seminars are conducted for making people aware about the organization. For example travel companies generally call prospective clients and offer travel packages. The members are contacted through telephones and asked to attend seminar.

7. Websites: A website acts as a window for the outside world to know an organization. So it is designed not just to serve as a resource for members, but also to present a positive message to non-members who are browsing through.

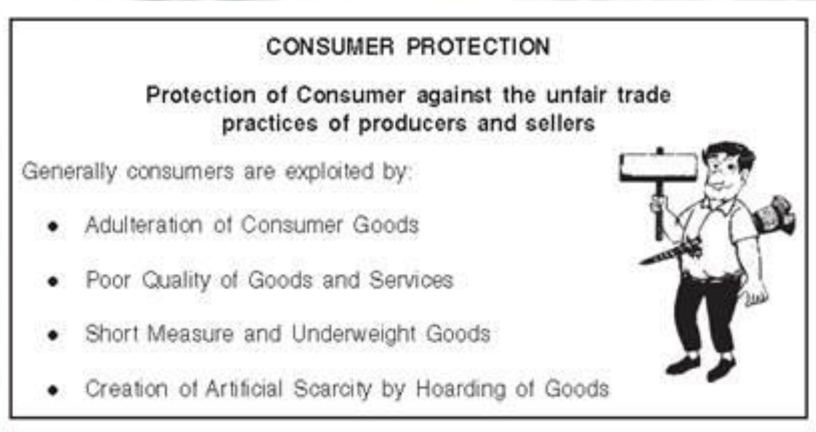
ROLE OF 'PR' IN AN ORIGINATION

(i) Smooth functioning of business and achievement of objectives.
(ii) Building corporate image that affects favorably on its products. Up keep of parks, gardens, sponsoring sports activities etc.

CHAPTER – 12
CONSUMER PROTECTION

• As a result of this, consumers may be exposed to risks due to unsafe products- that is, he may be cheated, may have to pay a higher price etc.

• Thus; there is a need to provide adequate protection to consumers against such practices



Importance of Consumer Protection

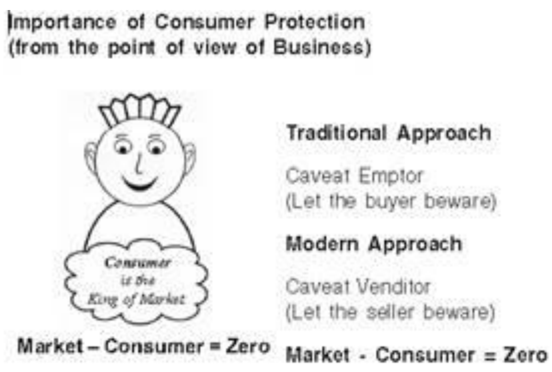
(from Consumer's point of view)

1. Consumers Ignorance: Majority of consumers are not aware of their rights and reliefs available to them as a result of which they are exploited. In order to save consumers from exploitation, consumer protection is needed.

2. Unorganized Consumers: In India consumers are still unorganized and there is lack of consumer organizations also, thus consumer protection is required.

3. Widespread Exploitation of Consumers: Consumers are exploited on large scale by means of various unfair trade practices and consumer protection is required to protect them from exploitation.

From the point of Business



1. Long term Business Interest: It is always in the interest of the business to keep its customer satisfied. Global competition could be won only after satisfying customers. Satisfied customers lead to repeat sales and help in increasing customer base of business.

2. Moral Justification: It is the moral duty of any business to take care of consumer interest & avoid any form of their exploitation & unfair trade practices like defective & unsafe products, adulteration, false and misleading advertising, hoardings, black marketing etc.

3. Business uses Resources of Society: Every business uses the resources of the society and thus it is their responsibility to work in the interest of the society.

4. Social Responsibility: A business has social responsibilities towards various groups like owners, workers, government, customers etc. Thus, customers should be provided qualitative goods at reasonable prices.

5. Government Intervention: If a business engages in any form of unfair trade practices then government takes action against it, which adversely affects its goodwill.

CONSUMER PROTECTION ACT, 1986 (CPA, 1986)

1. Set up to protect and promote consumer interests thro a speedy and inexpensive redressal of grievances.

2. Recognizes consumer rights

Redressal agencies- set up a three-tier agency to address consumer grievances.

Scope of the act-

It is applicable to all types of undertaking:

• Large and small scale

• Private, public and co-operative sector

• Manufacturer or trader

• Firms supplying goods as well as services

Meaning of Consumer

1. Any person who buys any goods for a consideration. It includes any user of such goods with the approval of the buyer. But it does not include a person who obtains goods for resale or any commercial purpose.

2. Any person who avails any services for a consideration. It includes any beneficiary of such services but it does not include a person who avails such service for any commercial purpose.

Rights of a Consumer

Consumer Protection Act, 1986 has provided six rights to the consumers, which are as follows:

1. Right to Safety: Consumer has the right to be protected against products, & services which are hazardous to health & life (should use ISI marked electronic device.

2. Right to be Informed: Consumer has right to have complete information about the product before buying it.

3. Right to choose: Consumer has a right to choose any product out of the available products as per his own decision making.

4. Right to be heard: Consumer has the right to file a complaint to be heard in case of dissatisfaction with goods or services (use of grievance cell)

5. Right to Seek Redressal: Consumer has the right to get relief in case the product or service falls short of his expectations or is dangerous. He may be provided with replacement/removal of defect or compensation for any loss. Various redressal forums are set up by the Govt. at National and State level.

6. Right to consumer education: Consumer has the right to acquire knowledge nd to be well informed throughout life. He should be made aware of his rights and reliefs available to him in case of the product or service falls short of his exceptions. The Govt. of India has included consumer education in the school curriculum & is making use of media to make consumers aware of their rights.

Responsibilities/Duties of a Consumer

Consumer Responsibilities:

1. Ask for a cash memo
• On purchase of goods or services. This would serve as a proof of the purchase made.

2. Be aware
• About various goods and services available in the market so that an intelligent and wise choice can be made.

3. Buy only standardized goods
• As they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO mark on food products, Hallmark on jewelry etc.

4. Follow manufacturer‘s instructions
• Learn about the risks associated with products and services, and use the products safely.

5. Read labels carefully
• So as to have information about prices, net weight, manufacturing and expiry dates, etc.

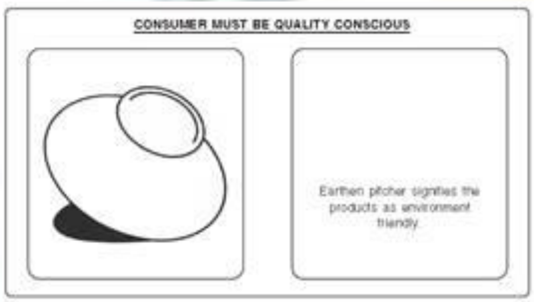
6. Assert yourself
• To ensure that you get a fair deal.

7. Be honest in your dealings.
• Choose only from legal goods and services and discourage unscrupulous practices like blackmarketing, hoarding etc.

8. File a complaint in an appropriate consumer forum
• In case of a shortcoming in the quality of goods purchased or services availed. Do not fail to take an action even when the amount involved is small.

9. Form consumer societies
• Which would play an active part in educating consumers and safeguarding their interests.

10. Respect the environment.
• Avoid waste, littering and contributing to pollution.



THE SALIENT FEATURES AND PROVISIONS OF CONSUMER PROTECTION ACT,1986

Who Can File A Complaint Under CPA, 1986

A complaint before the appropriate consumer forum can be made by:

1. Any consumer.

2. Any registered consumer association.

3. The central or state government.

4. One or more consumers on behalf of numerous consumers having same interest.

5. A legal heir or representative of a deceased consumer.

<u>Complaints can be filed and compensation claimed w.r.t:</u>

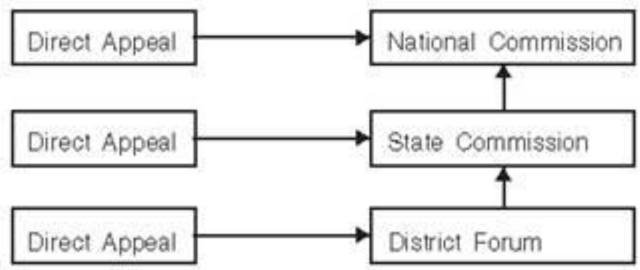
• Fraudulent practices by traders and manufacturers

• Defective goods

• Deficiency in services in connection with 9 services such as banking, transportation, insurance, supply of electricity and gas, house construction, medical service

REDRESSAL AGENCIES UNDER CONSUMER PROTECT ACT, 1986

For the redressal of consumer grievances the act provides a three–tier machinery as:



Redressal Agencies

1. DISTRICT FORUM

District forum are set up in each district by the state concerned. The important features are:

(a) It consists of a President and two members, one of whom should be a woman, duly appointed by State Govt.

(b) It can receive consumer complaints of not more than Rs. 20 lakhs value.

(c) On receiving the complaint, the district forum shall refer the complaint to the opposite party concerned and send the sample of goods for testing in a laboratory.

(d) The district forum after being satisfied that goods are defective or there is some unfair trade practice can issue an order to opposite party directing him to either replace or return the price or pay compensation. In case the aggrieved party is not satisfied with the order of district forum. He can appeal before state forum within 30 days of passing an order.

2. STATE COMMISSION

It is set up in each state by the govt. concerned. The salient features are:

(a) Each commission consists of a president and it least 2 members appointed by state Govt.

(b) Complaints of at least Rs. 20 lakhs but not more than 1 crore can be filed with state commission.

(c) On receiving the complaint, the state commission can also refer the complaint to opposite party and send the goods for testing in laboratory.

(d) The state commission after being satisfied can order to opposite party to either replace or repay or pay compensation. In case the aggrieved party is not satisfied, they can appeal before national commission within 30 days of passing an order.

3. NATIONAL COMMISSION

It is setup by Central Govt. The provisions of act are:

(a) It consists of a President and at least 4 members appointed by Central Govt.

(b) All complaints are pertaining to goods and services of value more than Rs. 1 crore can be filed with national commission.

(c) On receiving the complaint, the national commission can also refer it to opposite party and send goods for testing.

(d) The National Commission has the power to issue orders for replace mentor removal and to pay the compensation for loss.

REMEDIES AVAILABLE TO CONSUMERS

• Remove defect in goods and deficiency in services.

• Replace defective goods with one with no defects

• Refund price paid

• Pay a reasonable amount of compensation for any loss or injury suffered.

• Pay punitive damages in appropriate circumstances.

• Discontinue unfair/restrictive trade practice

• Not to offer hazardous goods and services for sale

• Withdraw hazardous goods from sale

• Cease manufacturing hazardous goods

• Pay an amount to consumer welfare fund/ person (not less than 5%) to be utilized in the prescribed manner

• Issue corrective advertisement to neutralize the effect of misleading ads.

• Pay adequate costs to parties.

CONSUMER AWARENESS

Some important consumer organization and NGO's engaged in protecting consumer interests are:

1. Consumer coordination council, Delhi.

2. Voluntary organization in Interest of Consumer Education, Delhi.

3. Mumbai Grahak Panchayat, Mumbai.

4. Consumer Association, Kolkata.

5. Consumer Unity and Trust Society Jaipur.

Role of Consumer organizations and NGO's

1. Educating the general public about consumer rights by organizing training programmes, seminars and workshops.

2. Publishing periodical & other publications to educate consumers.

3. Providing legal assistance to consumers by providing legal advice etc.

4. Producing films or cassettes on food adulteration, misuse of drugs etc.

5. Filing complaints in appropriate consumer courts on behalf of consumers.

6. Encouraging consumers to take on action against unfair trade practices.

7. Taking an initiative in filing cases in consumer courts on behalf of consumers.

Ways and Means of Consumer Protection

1. Self Regulation by Business:

• It is in the long-term interest of businesses to serve the customers well.

• Socially responsible firms follow ethical standards and practices in dealing with their customers.

• Many firms have set up their customer service and grievance cells to redress the problems and grievances of their consumers.

2. Business Associations:

• Examples of associations of trade, commerce and business - Federation of Indian Chambers of Commerce of India (FICCI) and Confederation of Indian Industries (CII)

• They have laid down their code of conduct which lay down for their members the guidelines in their dealings with the customers.

3. Consumer Awareness:

• A consumer, who is well informed about his rights and the reliefs available to him, would be in a position to raise his voice against any unfair trade practices or unscrupulous exploitation. • This enables them to understand their responsibilities and to safeguard their interests.

4. Consumer Organizations':

• Force business firms to avoid malpractices and exploitation of consumers.

5. Government:

• The most important of these regulations is the Consumer Protection Act, 1986. The Act provides for three-tier machinery at the district, state and national levels for redressal of consumer grievances.