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ORGANISATION OF COMMERCE AND MANAGEMENT

Standard 12

PLEDGE

India is my country.

All Indians are my brothers and sisters.

I love my country and I am proud of its rich and varied heritage.

I shall always strive to be worthy of it.

I shall respect my parents, teachers and all my elders and treat everyone with courtesy.

I pledge my devotion to my country and its people.

My happiness lies in their well-being and prosperity.

રાજ્ય સરકારની વિનામૂલ્યે યોજના હેઠળનું પુસ્તક

Gujarat State Board of School Textbooks
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PREFACE

The Gujarat Secondary and Higher Secondary Board has prepared new syllabi in accordance with the syllabi at the national level. These syllabi are approved by the Government of Gujarat.

The Gujarat State Board of School Textbooks takes pleasure in presenting this textbook to the students. It is prepared according to the new syllabus of **Organisation of Commerce and Management, Std. 12.**

This textbook is written and reviewed by expert teachers and professors. This textbook is published after incorporating the necessary changes suggested by the reviewers.

The Board has taken ample care to make this textbook interesting, useful and free of errors. However, suggestions are welcome to improve the quality of this book from persons taking interest in education.

P. Bharathi (IAS)
Director
Executive President
Date : 04-11-2019
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FUNDAMENTAL DUTIES

It shall be the duty of every citizen of India : *

(a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;

(b) to cherish and follow the noble ideals which inspired our national struggle for freedom;

(c) to uphold and protect the sovereinty, unity and integrity of India;

(d) to defend the country and render national service when called upon to do so;

(e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;

(f) to value and preserve the rich heritage or our composite culture;

(g) to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures;

(h) to develop the scientific temper, humanism and the spirit of inquiry and reform;

(i) to safeguard public property and to abjure violence;

(j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;

(k) to provide opportunities for education by the parent or guardian, to his child or a ward between the age of six and fourteen years as the case may be.

* Constitution of India : Section 51-A

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•

1 NATURE AND SIGNIFICANCE OF MANAGEMENT

What will you learn in this chapter ?

- Introduction

1.1 Meaning of Management

1.2 Nature of Management

1.3 Importance of Management

1.4 Management as Science, Art and Profession

- 1.4.1 Management is a Science
- 1.4.2 Management is an Art
- 1.4.3 Management is a Profession

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- 1.5.1 Top Level Management
- 1.5.2 Middle Level Management
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- 1.6.1 Planning
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- 1.8.2 Human Resource Management
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- 1.8.4 Production Management

Introduction

Management exits since ancient time. In the primitive era of stone age, human beings were getting their food by hunting, fishing etc. Planning, supervision, co-ordination, guidance were used by them for accomplishment of their work. This process means management.

No sooner did human being realised his limitations, than management became essential to achieve his objectives with the help of others. Man tries to get maximum satisfaction using minimum resources. For this, he receives co-operation of others. (1) When more than one person join hands for completion of work in a systematic manner. (2) A need of planning and delegation of authority and responsibility arises. Whenever there is a requirement, someone should be there to provide direction. Even control becomes necessary to see whether people are working as per pre-decided standards. These functions are known as management.

In business, sole proprietorship firms and partnership firms, were being managed by the owners themselves. Many changes took place in the nature of business with expansion of business activities and in due course of time finally, the 'Company' developed. In this format it becomes easy to arrange big amount of capital and the services of experts and other major benefits are also availed. But it gives rise to many problems as the size and activities of the business expand. These problems include the problem of capital, production, sales and employees. In such circumstances, there is a need of trained, experienced and expert people to take various decisions and their implimentations. Work done by this group of people is known as management.

1.1 Meaning of Management

Man is a social animal. He lives in groups. He receives co-operation of others to achieve the objectives. To know the concept of management, it becomes necessary to understand the meaning of management. Many writers have explained the meaning of management from different viewpoints.

As per an expert, "Management is the art of getting things done through others."

According to Living stun, "Management is a function of achieving predetermined objectives of a business unit with the use of minimum time and cost as well by making efficient use of available resources."

According to George R. Terry, "Management is such a process which plans and controls men, machine, material, method, money and market. It provides leadership, co-ordination and direction to human efforts which help to achieve the business objectives."

1.2 Nature of Management

To understand the concept of management, we should study the following characteristics :

(1) Universal Process : Management is a universal process. Management is required where people are working in group for the accomplishment of objectives. Management is not only required in industries but also can be applied in various social and religious fields and activities like agriculture, army, education, etc. Management activity is seen in the units of each field and different departments of these units.

(2) Goal Oriented Activity : Management is a tool and not the attainment. Every business unit is established to achieve certain objectives. Management is necessary to achieve these objectives in a competent and economical way.

(3) Group Activity : Management is a collective activity carried out by two or more people. Management is required where two or more people are working together for the accomplishment of pre-determined objecetives.

(4) Continuous Process : Management is a continuous process. Once began, it becomes difficult to discontinue it. Management is goal-oriented yet it does not stop after the achievment of objectives. New objectives and targets are decided by the business unit. The cycle of defining objectives, achieving them and re-defining them continously goes on.

(5) Human Process : Management process is limited to human activities inspite of its universality. Human element is the most significant element in management. Other means of production are useless without man. Management is done by the human being and for the human being. Man is in the centre of management. Thus it is a human process which is done by and for the man.

(6) Decision Process : Decision process is a function of management. Management has to take decisions constantly while managing business. No work can be done without taking decisions. After taking decisions, management has to proceed to implement it. Thus decision process is a function of management.

(7) Science, Art and Profession : Like Science, management has its own rules or principles. Hence many writers consider management as a Science. Man is an important factor of management therefore getting work done from him, requires proficiency, intelligence, cleverness and insight. It is known as 'Art' of getting the work done. Management of a modern business unit is handed over to trained and expert people. In recent time, managers have also adopted professionlism like lawyers, doctors, chartered accountant. Thus it is clear that management is a profession too.

1.3 Importance of Management

Management has great importance in the modern time. Success or failuare of any business activity depends on its management. If management contains limitations, despite the availability of modern and

sufficient resources, its maximum utilisation is not possible. The layout of machinary is there but it has its drawbacks, if effecient human resource is there but its management is not proper, then the business unit would fail. The importance of management is made clear by the following points :

(1) **Necessary in Every Field :** Management is required not only in business activity but also in all type of activities like religion, defence, society, politics, education, sports, etc. Management functions like Planning, Organisation, Direction and Control are required in all these activities.

(2) **Optimum Utilisation of Resources :** Management makes it possible to take the optimum utilisation of business resources like land, capital, raw materials, personnel and machinery. It avoids wastage of resources.

(3) **Accomplishment of Objectives :** Management is necessary for the accomplishment of objectives. Management makes it possible to take optimum utilisation of resources which helps to achieve business objectives.

(4) **Useful for the Success of Business :** In the success of a business unit, contribution of management is more as compared to other elements in the success of a business unit. Success or failuare of a business depends on management. If a small scale industry can convert itself into a large scale industry, then its entire credit goes to management. Efficient management helps to convert a loss making unit into a profit making unit.

(5) **Increase in Job Opportunities :** If management is efficient, the firm soon develops itself in the form of company where as inefficient management becomes responsible for closure of many companies which leads to further increase in unemployment.

(6) **Increase in Profit :** Generally, business units work with the motive of profit. Competent and proficient managers, with their insight and proficiency, make the maximum and the most economical utilisation of available resources and earn maximum profit. Therefore, it is rightly said that profit is the barometer for the efficiency and success of business.

(7) **Social Benefit** : Every business is carried out as a part of society and for the interest of society. By using resources of the society, management works in the favour of the society. Success of any business increases the wealth and welfare of society. Business units produce goods and services at low cost. This provides goods at reasonable rate which results into welfare of the entire society.

(8) **National Motive** : Management is essential to take maximum utilization of untapped human resources and factors of production for the economical, social and national development of an economy.

1.4 Management as a Science, an Art and a Profession

1.4.1 Management is a Science : Science means systematic and specialised knowledge. Science is a subject, where rules and principles are derived and cause and effect relationship is established.

Management too has the characteristics of Science, such as, systematised body of knowledge, universality, cause and effect relationship, based on collection of facts, analysis and experiments verifiability of the principles, etc. Like Science, management has its own specific principles. Through these principles, co-ordination of human resource, machine, capital, method etc. is done. Thus, management is a Science. According to Dr. George Terry, "Science teaches one to know."

1.4.2 Management is an Art : Art means employment of skills and expertise of an individual But to implement the skill, one should have also theoretical knowledge.

During practical application of management rules and principles, personal skill, insight and cleverness play an important role. Only theoretical knowledge is not sufficient. For the implementation of knowledge, technical art is necessary too. So, the manager needs to make necessary changes as per his personal skill and proficiency. According to Dr. George Terry, "Art teaches one to do."

Management is neither science nor an art but it is a sweet combination of both. Therefore it can be said that, management is neither a pure science like Physics science nor a pure art like Sculpture.

1.4.3 Management is a Profession : Profession is an activity where specialised knowledge in specific field is acquired and it is used for the welfare of the entire society. In return, fees is charged. Doctors, lawyers, chartered accountants, engineers, etc. are professionals. The profession of the above people is an activity which has following characteristics :

(1) Requirement of Specialised Knowledge : As per nature of profession, specialised knowledge is required in it. e.g. L.L.B degree for the profession of lawyer.

MBBS, MD or MS degree is necessary for the profession of doctor.

Same as BBA **(Bachelor of Business Administration)**, MBA **(Master of Business Administration)** degrees are necessary for the specialised knowledge of management.

(2) Increase in knowledge and research : Like other professions, in management too, due to experience and training there is increase in knowledge and research.

(3) Professional Association : All professionals form their associations. Management, in the same way, has its own association too. It gives education and training of management. IIM (Indian Institute of Management) imparts Management education in India. It is working at national and international level. This institute works for the development of the profession of management.

(4) Implementation of Code of Conduct : Each of the professional associations frame code of conduct for its members. It is mendatory for all members to follow the code of conduct.

(5) Moral Responsibility : Moral responsibility is an important factor in any profession. All the professionals must be loyal to their profession and need to fulfil their moral responsibility, e.g. A Chartered Accountant must be loyal to his clients and should not disclose any information of his client.

From the above characteristics, it is clear that management is developing as an independent profession that is beneficial to an individual, society and the entire country.

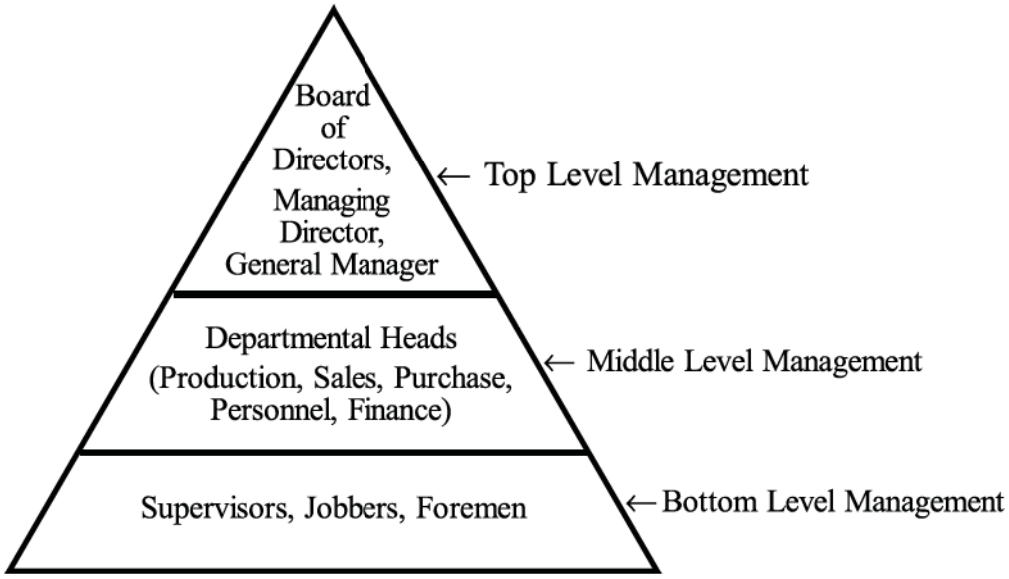
1.5 Levels of Management

As long as the size of a business unit remains small, the owner himself is able to manage it. As soon as the size of a business unit expands, the number of employees in the business also increases. The superior officer can not supervise all his subordinates directly, therefore delegation of authority has to be done. Various levels of management are created due to the delegation of authority. The more of these levels of management exist, the higher will be the expenses. As a result, control as well co-ordination

become difficult. Therefore, as much as possible, the levels of management should be kept limited. There are three levels of management :

(1) Top Level Management (2) Middle Level Management (3) Bottom Level Management

Three levels of management can be made clear by the following figure.



1.5.1 Top Level Management : The top level management is the supreme authority for the management of an enterprise. Board of Directors, Managing Directors, General Manager, Chief Executive Officers are included in this level.

Important policy decisions of business unit are taken by top level management. It is known as Top Level or Higher Level of Management.

Functions :

(1) To lay down primary and subsidiary objectives of business.

(2) Directors act as the trustees of the business enterprise.

(3) To select Chief Executive Officer and higher officers and to assign them authority and responsibility.

(4) To sanction the budget prepared by different departments.

(5) To abide by law and to take care of interest of different stakeholders of the business.

(6) To take strategic decisions by making long term plans.

(7) To analyse and resolve complex problems of management as per legal provisions.

(8) To plan for the enterprise, its implementation and to supervise it.

(9) To do the functions like distribution of profit, dividend, reserve fund, re-investment of profit, etc.

(10) To analyse reports of different activities and to give instructions accordingly.

1.5.2 Middle Level of Management : The middle level of management is an important link between top level and bottom level of management. Departmental officers, divisional officers and experts are included in it, e.g. production, sale, purchase, finance, personnel, accounts officers, etc. This level is also known as Officer's Level.

Functions :

(1) To implement the orders and instructions given by Chief Executive Officers.

(2) To prepare budget by each departmental head and present it before the top level management.

(3) To formulate policies, rules and structure for the accomplishment of enterprise objectives. To decide necessary method for it, to analyse it and to decide appropriate measures or criterion for it.

(4) To take necessary steps to increase efficiency and effectiveness of departmental activities.

(5) To make attempts to enthuse the employees of department.

(6) To keep in constant touch with the officers of the other departments and establish co-ordination.

(7) To focus on functioning of sub-divisions.

(8) To supervise the working of the departments, get information, provide directions and pass on information to the top level management.

(9) To help the top level management in taking policy decisions.

1.5.3 Bottom Level of Management : Supervisors, jobbers and foremen are included at this level of management. This level is also known as Bottom Level or Supervisors' Level. Decisions and policies decided by top level management are actually implemented by this level therefore this level is also known as Functional/Operational level of Management. Supervisors working at this level are representives of management. At this level, management functions are performed less while adminstrative work is more.

Functions :

(1) To supervise function of employees.

(2) To see that there remains discipline among employees and their morale is boosted.

(3) To plan routine work of the department.

(4) To perform functions related to employees like transfer, promotion, training, etc.

(5) To get instructions, orders and programme from the departmental officers to carry out the departmental functions.

(6) To perform the functions like the layout, repairing and maintenance of machinery.

(7) To make arrangement for necessary equipments, raw-materials, etc. for the workers.

(8) To solve the geniune problems of workers.

(9) To implement decisions and policies decided by top level of management.

(10) To forward reports of various activities taking place at the bottom level, suggestions and complaints of employees to the middle level of management.

Bottom level of management, though is the lower level of management, still is very important. Successfull performance by this level leads to achievment of business objectives, which provides support to the entire business.

Difference among Top Level Management, Middle Level Managements and Bottm Level Management :

No.	Headings	Top Level Management	Middle Level Management	Bottom Level Management
(1)	Management and Administration	Proportion of management is more and administration is less.	Proportion of management is less and administration is more.	Proportion of management is too less and administration is the maximum.
(2)	Includes	Board of directors, Managing directors and General manager are included for formation of policy.	Departmental officers, experts of various fields are included in it.	Supervisors, jobbers, foremen are included in it.
(3)	Authority and Responsibility	Authority and Responsibility both are more.	Comparatively less authority whereas responsibility is limited to departments only.	Least authority while responsibility is limited to sub-divisions only.
(4)	Number of Members	Less number of members at top level.	Compared to top level more number of members are more at middle level.	Compared to top and middle level, there are more number of members.
(5)	Competence	All round development is required.	Specialised knowledge is required.	Requirement of knowledge for one's own department and sub-department.
(6)	Formation of objectives and policies	This level formulates basic objectives and policy of company.	This level implements policy formulated by the top level management.	This level implements policies and decisions framed by top level and middle level management.
(7)	Accountability	This level is accountable towards shareholders, creditors, Government departments, legal provisions, etc.	Middle level is accountable towards top level.	Bottom level is accountable towards middle level.
(8)	Decisions	Decisions taken by this level are more risky and comparatively more far-reaching to a large extent.	Decision taken by this level are less risky and far-reaching.	Decisions taken by this level are least risky and far-reaching.

1.6. Functions of Management

Management should be done efficiently for the accomplishment of objectives. For this, management process is to be followed. A series of functions which are continuously performed for the accomplishment of pre-determined objectives of business is known as process. Various business activities are arranged in chronological and orderly manner for the achievment of objectives hence management is considered as a process. There is a controversy among different authorities regarding various activities of management process. Management is considered as a subject of study or a field of knowledge therefore it is but natural that various thinkers and scholars hold different opinions regarding it.

Classification Functions of Management

(1)	(2)	(3)	(4)	(5)
According to Koontz and O'Donnel	**According to Henry Fayol**	**According to Peter Drucker**	**According to Luther Gulick**	**According to George Terry**
(1) Planning	(1) Planning	(1) Managing a business	(1) Planning	(1) Planning
(2) Organising	(2) Organising	(2) Managing the managers	(2) Organising	(2) Organising
(3) Staffing	(3) Direction	(3) Managing workers men and work	(3) Staffing	(3) Directing
(4) Directing	(4) Co-ordination		(4) Directing	(4) Controlling
(5) Control	(5) Controlling		(5) Co-ordination	
			(6) Reporting	
			(7) Budgeting	

1.6.1 Planning : "Even God cannot change the past, but men can change the future." Planning means selection of facts for the expected result and to establish inter-relationship between them, as well as observation of necessary activities and fore casting for the same anticipation.

Management begins with planning. When in advance, it is wisely considered what work, who will do, when, how, to what extent and when work is to be finished for the achievment of predetermined objectives, it is known as planning. Planning means, future forethought in the present. Planning is necessary to reduce risk and uncertainities involved in future. Due to planning, all the activities of a business are undertaken in a systematic manner. It, therefore, becomes easy to achieve objectives. When, many alternatives are found at the time of defining objectives, planning becomes useful to select the best alternative. Hence, planning is a function of selection/preference.

Planning is a base for other managerial functions such as organising, staffing, co-ordinating and controlling.

1.6.2 Organising : Organisation is a structure for the assignment of authority and responsibility among individuals working for the achievment of common objectives.

Objectives, policy, programme, etc. are decided through planning. While executing plan, organisation structure is formed. The activities of a business are divided among different sections and various groups of people for the accomplishment of objectives. Organisation is distribution of authority and responsibility among these sections and groups get clarified with the formation of organisation structure, issues like who will supervise, who will have authority and responsibility of work, inter-relationship among individuals, etc.

Planning is the brain of a business unit while organisation is its physical structure. The function of

a brain in the human body is to take the intellectual decision while its implementation is done by various organs of the body. In the same manner, the function of planning in a business unit is to take intellectual decisions. In order to implement these of decisions, distribution of work, authority and responsibility is delegated among the employees of various departments.

1.6.3 Staffing : "Employees are arms and legs (limbs) of unit." According to Dr. George Terry, "Staffing is concerned with availing and maintaining satisfactory man-power."

Where there is a business organisation, there will be existence of staff. Any organisation without staff is like a mere skeleton. Activities of any business unit depends on its staff. Staffing is related with recruitment of employees for the right position, at the right time, in the right number, with the right qualification. It also includes selection, training, transfer, promotion, dismissal, retirement and welfare activities of employees. Enthusiasm and zeal of employees are boosted if they are satisfied. Ultimately it will lead to increase in productivity and efficiency of the organisation. Staffing function studies problems related to employees. The success of any business depends on its employees.

At present staffing also includes man-power planning, human resource development, evaluation of work, job analysis, etc. It is the strong belief of every progressive management that, a satisfied staff is an invaluable asset of the business.

1.6.4 Directing : Direction means to guide and to supervise the employees for the accomplishment of objectives.

In order to achieve predetermined objectives, it is very important to direct and supervise employees of an organisation effectively. In a business unit, planning is done after defining objectives, an ideal organisation structure is formed, raw material, machineries are purchased, staff is appointed. Inspite of it, all these efforts become useless if the superiors fail to provide proper direction to employees or workers. Other management functions are worthless without direction. Direction includes various activities like to direct the subordinates, to supervise them, to give orders and instructions, to fix the work, to motivate the workers, to provide leadership, etc. Direction is a continuous process, it is required at every level of management.

1.6.5. Controlling : Control is the function of maintaining balance among efforts, result, resources and objectives.

Controlling is the last function of management. The function of controlling is to see, whether all the business activities are done with the confirmity of planning or not. As per traditional concept, controlling means, to have restriction on employees' activities, to have strict approach, provision of punishment or fine incase of employee making mistake; transferring them or withholding their promotion and so on. But it is a negative approach of controlling.

Controlling is a positive concept in the modern time. Controlling is a corrective activity because the function of controlling is not to restrict the activities but to direct them in the right direction; if these activities are not done as per planning. The function of controlling is to see that, mistakes made in past are not be repeated in future.

1.7 Co-ordination

Co-ordination is required at every stage of management. Co-ordination is necessary from planning to controlling. Co-ordination gives a sort of an assurance for the accomplishment of objectives. No work remains incomplete or no work is duplicated and thus the work becomes easy.

1.7.1 Meaning : To bring co-ordination and harmony among the different functions carried out by different departments in the business unit is called co-ordination.

1.7.2 Characteristics :

(1) Co-ordination is required for all the activities, right from planning to controlling. Therefore, management process is not possible without co-ordination.

(2) Co-ordination is required at every level of management.

(3) Success of co-ordination depends upon effective communication.

(4) Co-ordination is not possible without co-operation. Co-operation of employees engaged in different activities is necessary to maintain co-ordination among various activities of the organisation.

(5) Optimum utilisation of business resources is possible due to co-ordination.

(6) Co-ordination is a part of every activity of management. Therefore co-ordination is considered soul of management.

1.7.3 Importance :

(1) Co-ordination makes management functions like planning, organising, directing, controlling, etc. effective.

(2) Co-ordination makes possible, all the business activities in a easy manner.

(3) Co-ordination does not leave work incomplete and no possibility of the duplication of work.

(4) Co-ordination maintains harmony among various departments of management.

(5) Co-ordination enables to maintain a balance between order and time of business activities performed by various departments.

(6) Co-ordination leads towards the accomplishment of pre-decided objectives.

1.8 Functional Area of Management

Many important functions are to be done to manage the business. As per these functions, following are the functional areas of management :

(1) Marketing Management (2) Human Resource Management (3) Financial Management (4) Production Management

The information regarding the quantity of goods are to be produced, depends upon the demand of goods. The function of marketing management is to get the information about the market demand. The function of financial management is to arrange the finance and other related matters to produce the goods as per the demand. Whereas, making arrangement of human resource in order to perform all these functions, is the function of Human Resource Management.

1.8.1 Marketing Management : In a broad sense, marketing management is the activity of providing goods or services from producers to customers. Marketing management includes exchange of goods with money as well as market research, distributive method, sales promotion, storage, insurance, etc.

Marketing management is such a process which decides the necessity of customers. It is converted into goods or services and then these goods or services are finally made available to the customer, consumer or user. Thus it can satisfy the needs of a particular customer or group of such people. It gives importance to optimum utilisation of resources and profitability of the organisation. Marketing management aims at creating demand for goods or services. The main elements are goods or services, physical distribution policy, price policy, increase in sale, packaging, etc.

Functions :

(i) Product or Proudct-mix : The decision regarding development of new product or existing product includes appearance, colour, size, shape, weight, print, packing, guarantee of work, after slaes services, variety of product, etc.

(ii) Price : In modern times, a customer expects availability of better quality of goods at reasonable rate. Therefore utmost care should be taken while deciding the price of the product. The price decision includes sales policy, credit policy, policy regarding discount, wholesale or retail sale and also commission to mediators, etc. are also considered.

(iii) Distribution : Distribution-mix include decisions regarding various ways of selling like direct selling, through the wholeseller, retailers agents, as well as problems related to transportation, etc. Distribution-mix is related to the size and scope of a business unit.

(iv) Promotion : Promotion aims at remarkable increase in sale. It includes the matters like advertisement, publicity, selling through salesmen ways and means to attract customers and traders etc. Though promotion mix is expensive, it leads to increase in sale, which results into higher profitability.

1.8.2 Human Resource Management : Every business unit takes care of its assets like land, building, machinery, furniture and vehicles. Employees working in the business unit are its live asset. Therefore it is necessary to take care of them. Success of a business depends on the employees. Business objectives can easily and successfully achieved if their needs are satisfied, condusive environment is provided and proper care is taken. Due to such care, enthusiasm, loyalty and feeling of oneness among employees develops. It increases their work efficiency.

Meaning : Human resource management is the process, which takes into consideration matters like profeciency, knowledge, intelligence, likes and dislikes, personal development, necessity, etc. of employees integrates them with business objectives and channelises the business towards the path of success and profitability.

Characteristics :

(1) Human resource management includes selection, training, promotion and direction to the employees.

(2) Human resource management enables to accomplish business objectives by way of integrating them with individual objectives business objectives.

(3) Basic function of human resource management is to manage the employees as they are valuable assets of the business.

(4) It provides proper training and thus develops personnel for the job.

(5) Human resource management evaluates performance of employees and places them at right position.

(6) Efficient management can reduce labour turnover rate and can maintain skillful employees for a longer period in company.

(7) As part of Human resource management, condusive atmosphere is provided to employees, which ultimately boosts their enthusiasm and efficiency. The values of the company are maintained and business objectives are achieved.

Importance :

(1) Efficiency of employees tend to increase.

(2) Profitability of the business increases.

(3) Business prestige is maintained.

(4) Higher standards for the quality of goods or services are maintained.

(5) Feeling of oneness among employees is developed.

(6) Maximum utilisation of factors of production is possible.

(7) Reduction in labour turn over rate is seen.

(8) Job satisfaction among the employees is enhansed

(9) Due to human resource management, employees get job satisfaction which finally turns into an environment of industrial peace.

1.8.3 Financial Management : Finance is like the lifeblood of business. No activity is possible without finance. Finance is required for the establishment, development, expansion and modernisation of a business.

Meaning : Financial management deals with the finance function of business. Financial function means the function of acquisition, utilisation and allocation of capital. This function must be done in an ideal and efficient manner.

Following functions are included in financial management :

(1) To estimate the financial needs.

(2) To make financial plans from the point of view of time duration.

(3) To prepare budget.

(4) To allocate funds.

(5) To decide capital structure and to select sources of acquisition of capital.

(6) To carry out the procedure for acquiring the finance.

(7) To see that the aequired funds are properly utilised and to keep control over financial activities.

(8) To form financial policy.

(9) To plan for taxes.

(10) To make arrangement of assets.

1.8.4 Production Management : Process of conversion of naturally available raw material into consumable finished goods with the help of human efforts is known as production. Production management produces goods and services, which are capable to satisfy customers' need.

Meaning : Production management is the process which includes production planning, deciding programmes, maintaining co-ordination, direction and keeping control.

Following functions are included in production management :

(1) To decide production plan.

(2) To undertake production research.

(3) To select product development as well as product-mix.

(4) To select technology and machinery.

(5) To take decisions regarding selection of location as well as lay out.

(6) To estimate, required material and other needs for production.

(7) To have production control.

(8) To have quality control.

(9) To undertake activities to control expenditure or cost and to maintain and increase productivity.

(10) To introduce variation and simplification in production.

What did you learn in this chapter ?

Management :

Meaning : "Management is the art of getting things done through others."

– Koontz and O'Donnel

"Management is such a process which plans and controls men, machinery, material, method, money and market. It provides leadership, co-ordination and direction to human efforts which help to achieve the business objectives." **– George R. Terry**

Nature of Management : (1) Universal process (2) Goal oriented activity (3) Group activity (4) Continuous process (5) Human process (6) Decision process (7) Science, Art and Profession.

Importance : (1) Necessary in every field (2) Optimum utilisation of resources (3) Accomplishment of objectives (4) Useful for the success of business (5) Increase in job opportunities (6) Increase in profit (7) Social benefit (8) National motive

Management as a science, an art and a profession : Management is a science : "Science means systematic and specialised knowledge. Science is a subject from which rules and principles can be concluded and cause and effect relationship can be established."

Management too has the characteristics of Science, such as systematised body of knowledge, universality, cause and effect relationship, based on collection of facts, analysis and experiments, verifiability of the principles, etc. Thus management is a Science.

Management is an art : Art means personal skill an expertisation. But to implement the skill, one should also have theoritical knowledge.

During practical application of management rules and principles, personal skill and insight play an important role. Therefore management is an art.

Management is a profession : Business is an activity where specialised knowledge in specific field is acquired and used it for the welfare of the entire society, fees is charged from the society for it.

Characteristics : (1) Requirement of specialised knowledge (2) Increase in knowledge and research (3) Professional association (4) Implementation of code of conduct (5) Moral responsibility

Levels of Management :

(A) Top level management : The top level of management is the supreme authority for the management of an enterprise.

Functions : (1) Defining objectives (2) Act as a trustee of business (3) To select Chief Executive officer and higher officers and to assign them authority and responsibility (4) Sanctions various departmental budgets (5) Abide by labour law. Take care of interest of different stakeholders (6) To take strategic decisions (7) To solve complex problems of the business (8) Implementation and supervision of different activities (9) Distribution of profit, dividend, reserve fund, re-investment of profit, etc. functions are to be performed (10) To analyse reports of different activities and give instruction accordingly.

(B) Middle level management : Middle level management is a mediator between top level and bottom level of management. This level includes departmental officers, divisional officers and experts.

Functions : (1) To implement the orders and instructions given by top level of management (2) To prepare departmental budgets (3) To formulate policies, rules and structure for the accomplishment of business objectives (4) To take necessary steps to increase efficiency and effectiveness of departmental activities (5) To boost enthusiasm of the employes (6) To remain in touch with other departmental officers (7) To take care of activities of sub-divisions. (8) To supervise the working of the departments to get the informations, analyse it and to direct. (9) To help the top level management in taking policy decisions

(C) Bottom level management : Implementation of decisions and policy decided by top level management is done by this level. Supervisors, jobbers and foremen are included at this level.

Functions : (1) To supervise activities of the workers (2) To put the efforts to raise discipline and zeal (3) To plan for routine work (4) To perform work related activities. (5) To get orders, instructions and programme from departmental officers (6) To perform the functions like machinery lay-out, repairing, maintainance, etc. (7) To provide equipments and raw material to the workers (8) To solve the problem of workers. (9) To implement decisions and policies decided by top level management (10) To forward reports, instructions and complains of workers to the top level management.

Difference between top level, middle level and bottom level of management :

Points of difference : (1) Management and administration (2) People includes (3) Authority and responsibility (4) Number of members (5) Competency (6) Formation of objectives and policies (7) Accountability (8) Decisions

Functions of Management :

(1) Planning : Planning means selection of facts for the expected result and to establish inter-relationship between them, as well as observation of necessary activities and to do forcasting for their skill.

(2) Organising : Organisation is a structure for the assignment of authorities and responsibilities among individuals working for the achievement of common objectives.

(3) Staffing : The purpose of staffing is to get, maintain and develop satisfactory man-power.

(4) Directing : Direction means to guide and supervise the employees for the accomplishment of objectives.

(5) Controlling : Control is the function of maintaining balance among efforts, result, resources and objectives.

Co-ordination :

Meaning : To bring co-ordination and harmony among the different functions done by different departments in the business unit is called co-ordination.

Characteristics : (1) Management process is not possible without co-ordination (2) Required at every level of management (3) Communication system must be efficient for success (4) Co-ordination is not possible without co-operation (5) Due to co-ordination, maximum utilisation of resources become possible

Importance : (1) Co-ordination makes other managerial function effective (2) All business activites are done in a ease manner (3) No work remain incomplete or duplicated (4) Mantains harmony among various departments (5) Maintains balance between order and time of business activities (6) Pre-determined business objectives can be accomplished.

Functional Areas of Management :

(A) Marketing Management :

Meaning : In a broad sense, marketing management is the activity of providing goods or services from producers to customers.

Functions : (i) Product (ii) Price (iii) Distribution (iv) Promotion

Human Resource Management :

Human resource management is the process, which takes into consideration, profeciency, knowledge, intelligence, likes-dislikes, personal development, necessity, etc. of employees, integrate it with business objectives and channelised the business towards success and profitability.

Characteristics : (1) It includes recruitment, training, promotion, direction, etc. of employees (2) It integrates individual objectives with the accomlishment of business objectives (3) Employees are considered in valuable assets of the business (4) Proper training is given to employees for their development (5) Evaluates performance of employees and place them at right position (6) To maintain the employees in business by reducing their labour turn over rate (7) To provide condusive environment to boost their zest and efficiency to accomplish business objectives.

Importance : (1) Increase in efficiency (2) Increase in profitability (3) Maintains reputation (4) Maintains quality of goods or services (5) Develops feeling of oneness (6) Maximum utilisation of resources (7) Reduction in labour turn over rates (8) Job-satisfaction (9) Environment of industrial peace

Financial Management :

Meaning : Financial management deals with the finance function of management. Financial function means, function of acquisation and utilisation of capital along with function of allocation of capital.

Functions : (1) Estimation of need of finance (2) To plan for finance (3) To prepare budget (4) Distribution of income (5) To decide capital structure and to select sources of acquisition (6) To do the procedure for acquiring the finance (7) Efforts are made to utilise and control the finance properly (8) To decide financial policy (9) To plan for taxes (10) To make arrangement of assets

Production Management :

Meaning : Production management is the process which includes production planning, deciding programmes, maintaing co-ordination, providing direction and keeping controlling.

Functions : (1) To decide production plan (2) Production research (3) To select the product development and product mix (4) To select technology as well as machinery (5) To decide location and layout for business (6) To estimate the need of material and other necessary things. (7) Production control (8) Quality control (9) Control over expenses or cost (10) Introduce variation and simplification in production.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) Art of getting work done from others is known as ..... .

(A) Planning (B) Management (C) Directing (D) Co-ordinating

(2) What type of an activity is management ?

(A) Universal (B) Inefficient (C) Defining objectives (D) Transparent

(3) What is the method that puts knowledge easily into practice called ?

(A) Profession (B) Science (C) Art (D) Direction

(4) What does management association frame for its own profession ?

(A) Inconsistency (B) Improper (C) Code of conduct (D) Decisions

(5) How many levels of management are there ?

(A) One (B) Two (C) Three (D) Four

(6) Who are included in top level management ?

(A) Experts (B) Workers

(C) Departmental heads (D) Board of directors

(7) What is the other name for bottom level management ?

(A) Functional level (B) Worker's level (C) Policy making level (D) Officer's level

(8) Which of the following is not included in any of the level of management ?

(A) Supervisor (B) Jobber (C) Workers (D) Accountant

(9) If planning is the brain of business then what is organisation ?

(A) Heart (B) Limbs (C) Structure (D) Blood

(10) Which of the following is the function of marketing management ?

(A) Distribution of income (B) Production

(C) Product-mix (D) Use of finance

(11) Which of the following is not included in Human Resource Management ?

(A) Repairing and maintanance (B) Training and development

(C) Promotion and Transfer (D) Recruitment and selection

2. Answer the following questions in one sentence each :

(1) What is management ?

(2) In which activities management is necessarry ?

(3) Which level of management has the supreme authority to manage the business ?

(4) What is other name of middle level of management ?

(5) Which level of management follows the order and instruction given by chief executive officer ?

(6) Which level of management does the function of machinery layout and repairing ?

(7) What are the elements included in product-mix ?

(8) Give the full form of IIM.

(9) Give the full form of MBA.

(10) Give the full form of CEO.

3. Answer the following questions in short :

(1) State any two functions performed at the top level management.

(2) How does management benefit the society ?

(3) What is planning ?

(4) What is organisation ?

(5) What is co-ordination ?

(6) Who are included in the top level management ?

(7) Which are the main elements of marketing management ?

(8) Discuss various elements of price-mix.

(9) Discuss about staffing.

4. Answer the following questions in brief :

(1) Discuss the importance of management.

(2) Explain : Management as a profession

(3) Explain functions performed by top level management.

(4) Give difference between levels of management. (Any five points)

(5) Discuss the importance of co-ordination.

(6) Discuss the importance of human resource management.

(7) What are the functions of financial management ?

5. Answer the following questions in detail :

(1) Define management and explain its characteristics.

(2) Draw a diagram of different levels of management. Also explain its functions.

(3) Define co-ordination and explain characteristics of it.

(4) Define marketing management and explain its functions.

(5) Define human resource management and explain its functions.

(6) Define production management and explain its functions.

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2 PRINCIPLES OF MANAGEMENT

What will you learn in this chapter ?

- Preface

2.1 Principles of Management
- 2.1.1 Meaning
- 2.1.2 Concept
- 2.1.3 Nature
- 2.1.4 Importance

2.2 Thoughts of Management
- 2.2.1 Classical Thoughts
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2.3 Fredric Taylor's Principle of Scientific Management
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2.4 Henry Fayol's Management Principles

2.5 Contribution of Peter F. Drucker in the Field of Management

Introduction

Management is an activity which is carried out since centuries. When we look-up at history, we can see elements of management in various activities. During the rule of Chandragupta Maurya and Chhatrapati Shivaji in India, one can see proper use of management in policy of war strategy respectively. Several management gurus, thinkers, ideologists and authors have periodically rendered new principles through evaluation and reconsideration of management concept. Thus, the history of concept of management is very ancient and has been changed periodically. From last many years, the ideology of management has been presented through different forms of approaches. Various management gurus from Frederik Taylor to Henry Fayol, Gilbreath, Max Weber, Chester Barnard, Peter F. Drucker and C. K. Prahalad played an important role in rendering various principles to make it as per the era. Harold Koontz has hailed the ideology of management as 'Jungle'.

2.1 Principles of Management

2.1.1 Meaning : Principles of management plays role of a guide for the managers. In fact, the principles of the management are not the rules, it is only the sum and substance of the assumptions, traditions and experiences. Different management gurus have obtained conclusions in different situations and it has been proven practical. As per its execution, people got perfect results as well. Thus, these principles have become the part of the management procedure for the business unit.

In a business unit some rules, principles are might be formed in relation to the human behavior so, the achievement of goal becomes easy. These principles are called as the principles of the management.

2.1.2 Concept : Management is the combination of an art and science. As a science, it is natural to have principles in it. The principles of management are not as rigid as the pure science, but they are flexible. The principles of management have direct relationship with the human behavior. Thus, by making required changes, there is a scope of additional new principles. Human behavior and the technology are such factors which changes periodically. Thus, the changes take place in the principles of management to cope up with the new changes.

Principles of management are the detailed and perfect guideline for decision making and its implementation. As per the principle of management the capability of employee could be increased

through various encouragements. e.g. : To consider his service years to make decision about promotion of any employee, while employee gets promotion by considering his capability in other unit.

It is very important to understand the difference between the principles of management and techniques of management. Methods or techniques are the set of steps taken to achieve the target; while the principles are the guidelines for the decisions which have been taken during implementation of the techniques. It is needful to understand the difference between the principles and values like techniques. Values are acceptable or preferable, it relates with the morality; while the principles are the universal truth and guidelines for the human behavior.

2.1.3 Nature : Principles of management are not rigid but practical conclusion. These principles are the guidelines to perform a task. This relates to task and reason. At the time of implementation of different tasks of management such as planning, organisation and direction, it provides guidelines to the manager for decision making. As per expert opinion, mostly these principles are truth but are not absolute truth. Here, rule of exception is also there. As per above discussions regarding the principles of management, we can conclude following points :

(1) Universal Acceptance : Principles of management can be applied to most of the business units. Wherever there is a need of human collective efforts, these principles are required. However, implementation of all the principles may change as per the type, form, activity and size of the business unit, but the principles of management can be applied to the most of business units. Thus, the principles of management are comprehensive and universal.

(2) Flexible : Principles of management are not rigid conclusion, but it is flexible. As per situation when a manager requires there is a scope for flexibility. When these principles do not seem to match in some situation, the manager is allowed to effect change. e.g. in large units the principle of division of work may be applied uniformly, but in small units the principle of division of work may not be applied in the same proportion.

(3) General Guidelines : Principles of management are the result of experiences gained by different experts in different situations. At the time of managing a business unit disparate and complex problems are arising. The form of these issues may be different as per the unit, which could not give similar result for each unit in all situations. Thus, the principles of management could not be strictly applied for each unit, but can get desired results by accepting the principles as only guidelines and by using it in favorable situation.

(4) Based on Human Behavior : As human is at the centre of the management, the principles of management may seem to have a big effect on human behavior. Principle of management has direct relationship with the human behavior and as the human behavior is a psycological phenomeon, it is necessary to consider while implementing principles of management.

(5) Contingency : Contingency is one of the element to apply the principles of management. Achievement of goal can be made easier by a unit with taking required decision through usage of these principles in certain unavoidable situation. Such as to pay appropriate and reasonable wages to the employees. This criteria of being fair and reasonable depends upon the concern regarding necessity and contingency of the affecting factors.

2.1.4 Importance : Principles of management provides a vision to managerial behavior and highly affects the management works. Managers are using it for achievement of goals. These principles direct the managers for decision making. Thus, principles of management play a key role for a unit. Its importance can be described as follows :

(1) Increase in Managerial Efficiency : Principle of management is providing guidelines to

managers to perform task in different situation. Due to which improvement in functioning of a business unit and gain in managerial efficiency is also seen.

(2) Maximum Usage and Effective Administration of Resources : Mostly availability of the human and physical resources are limited in a business unit. It is unavoidable to make its maximum usage. Here, meaning of the word maximum is that to make usage of the resources through principles of management, whereas they can get maximum benefit with minimum costing.

(3) Helpful for Scientific and Logical Decisions : Decisions should be always based on facts, thoughtfulness, objectives and justifiable. Moreover, decisions should be timely, reality based and effective. Management principles provide a key role for taking appropriate decisions. Using management principles, decisions can be made appropriately, timely, without partiality and unbiased.

(4) To Cope up with the Changing Business Environment : Normally, Management Principles are an ordinary guide. But management principles are necessary to meet business environment in changing circumstances.

(5) To Fulfill Social Responsibility : Business is indivisible part of community. Profit is considered as the aim of the business, but it is not the only aim. Development and progress of society are also aims of business unit. By effective implementation of management principles, business unit can easily achieve aim of social responsibility.

(6) Useful for Research, Training and Development : Management principles are main part of management thoughts. Only by using the management principles, task of training, education and development is possible. Like, now Aptitude tests are taken for appointments in various business units. This Aptitude tests are prepared through research and by implementing and using management principles through which appropriate employees are appointed.

2.2 Thoughts of Management

Management thoughts are the outcome of researches, studies and results in the field of management. Every thought represents its unique observation. Many management gurus have represented different principle by separate opinions. Hence, so many branches-sub branches have been developed. It is called thoughts or approaches of management.

2.2.1 Thoughts of Classical Theory : The thoughts of management presented till the end of 19^{th} century is known as thoughts of classical theory. Main promoters of thoughts of classical theory are Frederick Taylor, Max Weber, Gilbreath, Henry Gantt and Henry Fayol. Taylor's contribution in thoughts of classical theory is very important. Scientific Management principles presented by Frederick Taylor also exist into the thoughts of classical theory of management even today. Approach of Scientific Management favors scientific principles by time and motion study instead of traditional methods. Main contribution of scientific principle lies into specialization in Management, progressive wages system, responsibility and scientific distribution of task. Contribution of Henry Fayol in thoughts of classical theory is also significant. He significantly contributed to thoughts of management by presenting general principles of management. He decided levels of different tasks in business unit and tried to decide limits of tasks. To perform managerial duty at different levels, he also provided universal principles of management as guidelines. Apart from this, there is a contribution of Max Weber into thoughts of Classical theory. Till the end of 19^{th} century, formats and size started to change due to industrial

revolution. As a result, need for changes in it arised due to some limitations of thoughts of classical theory like importance to financial motivation, less important to human approach and informal relations.

2.2.2 Thoughts of Neo Classical Theory : To remove some limitations of Thoughts of Classical Theory, some management experts made changes and established new approaches, which is called Thoughts of Neo Classical Theory. At the end of 19th century after industrial revolution, format of units/ industries was changed and a need was arised for new-kind of management. In the start of 20th century, Australian Industrial psychologist Elton Mayo's theory of Howthorne gave a new birth to behavior oriented thought. So, Elton Mayo is called promoter of 'Thoughts of Neo Classical Theory'. Thoughts of Neo Classical Theory emphasizes upon behavior approach and group behavior for management.

Additions were made to Thoughts of Neo Classical Theory like informal Organisation, human behavior, human relations, inspiration etc. are elements based on thoughts of classical theory. Elton Mayo, Herzberg, Rensis Likert, Chris Argyris, Mcgregor and Maslow are main contributors in this thoughts. In branches of Thoughts of Neo Classical Theory human relations or human behavior thoughts, social mechanism thought and social arrangement thought are main. Human behavior thought is as below :

2.2.2.1 Thoughts of Behavior Related : Management is an art of getting work from others. As Prof. Urvik said, 'you manage your men, your men will manage rest of all', likewise employee or a person is having an important place in unit. Since, the management is being done by a person, management study becomes a study of inter human relations. Main point of management task is of human behavior and human relations, hence behavior related thought emphasize on job satisfaction and increasing efficiency of employee by using psychological observations. Concepts like inter human relations, motivation, leadership, information communication process, disposal of industrial disputes are included in behavior related thoughts. Since, this approach is psychological, it seems that economic parameter has been neglected. Some writers logically say the human relations cannot be maintained at the cost of productivity, which is the main limitation of this approach.

2.2.3 Thoughts of Modern Management : A change was occurred in the format of industry and business units after 1960. As a result a need of special approach of management was arise. As management is not confining to only business unit, special professional class of managers were emerged. Where advocacy in this thoughts for psychology, social studies, statistics, mathematics and computer, information technology were made. Management Gurus like Koontz O'donnell, George R.Terry have contributed in this thoughts. Moreover, Peter F. Drucker, William Ouchi and C.K. Prahlad have also contributed in this thoughts.

2.3 Frederick Winslow Taylor's Principle of Scientific Management

Frederick Winslow Taylor was American mechanical engineer and an important contributor in classical thoughts. In the starting phase, he joined as apprentice in a factory. After contributing in various companies, he became a manager in Bethlhem Steel Company. During this period, F. W. Taylor for the first time presented principle of scientific management, and hence he is known as a father of scientific management.

In any business unit, normally two classes are important, i.e. Owners and Workers. Owner means Managers whose main purpose is optimization of profit and wealth, while employees are interested in higher wages and job satisfaction. As a result, conflict arises in maintaining harmony between two groups. Frederick Taylor challenged this traditional method and started to develop new method. Workers were asked to do work as per order in traditional method. This is called rule of thumb. There

was no voice of workers. Dominance of owners increased. This time Taylor presented new concept with scientific approach instead of rule of thumb, which is known as scientific management.

2.3.1 Meaning : Scientific Management is a mental revolution on the part of particular unit of employees in factory. It's a totally mental revolution towards their tasks, duties, colleagues and owners.

2.3.2 Definition : Taylor defined scientific management as "Knowing exactly what you want your man to do, and then see to it that they do it in the best and the cheapest way."

Since Frederick Taylor himself was an Engineer, he found that till workers will not get higher and motivated wage rate, they will not work efficiently. Without getting work done in the traditional way, to get higher productivity, scientific methods should be used to have lower production cost. As Managers do not lower wage rate and Employees may not work, he suggested adopting scientific approach.

As a challenge to traditional approach he presented scientific management as a revolutionary thought, where below stated matters were considered.

(1) Each worker should be assigned work as per his mental and physical ability.

(2) Each worker should be instructed to perform maximum work as per category.

(3) Each worker doing efficient work rapidly should be paid more wage ie. More than 30 % to 100 %.

2.3.3 Principles of Scientific Management : Frederick Taylor's scientific approach was a revolutionary act. He was far from traditional method. So that workers and owners may work with harmony. He provided scientific management principles, which are as under :

(1) Scientific Method : To do work, Scientific method should be adopted, abandoning traditional methods and thinking how best work can be done by analyzing work scientifically.

(2) Planning and Implementation : Instead of workers doing planning and implementation, it should be like Experts make planning and worker, should follow it.

(3) Job Analysis : Job analysis is the best way to get work done speedily with lower cost. Increased productivity can reduce cost of production after studying time study, motion study and fatigue study.

(4) Standardisation : Standardisation and simplicity are scientific process, which should be done in advance. Equipment, time, situation of work, resources etc. matters are considered for standardisation.

(5) Scientific Selection and Training : Selection of workers should be done appropriately and scientifically. For Scientific standards, benchmarks like education of employees, skill, guts, physical strength, training, etc. can be considered. Moreover, an employee should be assigned such work that must be according to his education, study and skill. There should be use of training to increase efficiency of workers from time to time. Also different kind of scientific tests should be used to know their work interest.

(6) Financial Motivation : Skilled workers should be given financial and other kind of motivations. Different kind of motivated wage schemes have been recommended for that. This wage system must be adopted on the basis of individual productivity of employee. Their wage rate should be decided not as per speculation, but should only be by scientific study.

(7) Economical : During the implementation of scientific management, scientific and technical base are not only considered but, emphasize on low production cost is also there. Cost estimation and cost control methods should be considered, deviations should be found and correct action should be taken.

(8) Mental Revolution : There should be mental revolution for achievement between owners and workers. Mental Revolution reduces stress between owners and workers and achievement of goals become easy.

2.3.4 Techniques of Principles of Scientific Management :

2.3.4.1 Time Study : Time Study means scientific study being done for time required to complete certain part of task. Whatever time is decided to finish this work in normal circumstances, is called standard time. As per Taylor, a task should be finished in prescribed time and its careful study is time study. Time study is useful for making optimum use of production equipments and achieving aims timely.

2.3.4.2 Motion Study : Motion Study means method of removing wastage of resources due to unnecessary and unproductive movement of men and material. If careful study is made when worker is doing movement at the time of working, then industrial fatigue of worker can be removed by removing wrong process of movement, and productivity can be increased. Main object of Motion Study is to find out a method which results in to minimum wastage of worker and it's implementation.

2.3.4.3 Differential Wage Rate Study : Differential wage rate study means wage given through wage related motivation based on time of work to workers. Frederick Taylor favored this motivational wage method. Each worker working in factory have different work efficiency. Considering this fact, efficient worker should get more wages, and worker having less efficiency should get lower wage in terms of more production. Considering this facts Frederick Taylor has given different wage rates.

2.4 Principles of Management by Henry Fayol

Henry Fayol who presented management principles, was French engineer and industrialist. He presented these principles in his book "Industrial and General Management" in 1916.

Henry Fayol, divided administrative principles of Industrial Unit in six parts for ease and clarification.

(1)	Technical Activities	It includes factory machineries and activities related production.
(2)	Commercial Activities	It includes activities like purchasing, sales, exchange of units.
(3)	Financial Activities	It includes procurement of capital, use of capital, fund maintenance, re-investment.
(4)	Safety Activities	It includes safety of employees, safety of assets, safety of goods (raw materials).
(5)	Accounting Activities	It includes financial statements and procuring necessary statistical analysis.
(6)	Management Activities	It includes planning, organisation, direction, co-ordination control activities.

The principles developed by Henry Fayol were totally new. He believed that to become successful Manager in any industrial unit, only knowledge is not essential, but it requires to be aware with suitable functioning method of respective industrial unit's format. Henry Fayol, based on his experience and knowledge, presented fourteen important principles of Management, which have proved very useful in management.

Management principles of Henry Fayol are as under :

(1) Division of Work
(2) Authority and Responsibility
(3) Discipline
(4) Unity of Command
(5) Unity of Direction
(6) Sub-ordination of Individual Interest to the General Interest
(7) Remuneration of Personnel
(8) Centralization
(9) Scalar chain
(10) Order
(11) Equality
(12) Stability of Personnel Tenure
(13) Initiative
(14) Esprit de corps (Feeling of oneness)

Presenting the said principles, Henry Fayol says that 'These are only directive principles. Success of these principles depends upon the sharp sense of management. It is a task of wisdom.' Explanation of these principles can be given as under.

(1) Division of Work : In management, more weightage is given on higher efficiency of employees and managers. Productivity can be increased by optimum use of production equipments. Moreover Division of Work is necessary to increase efficiency of employees and managers. Specialization is also possible through division of work. Division of Work should be done at managerial and factory level to take benefits of principle of specialization.

(2) Authority (power) and Responsibility : Power and responsibility are two sides of a coin. Power without responsibility and responsibility without power are incomplete. When a person is assigned a responsibility for some job, at same time power assignment is essential. While assigning the power, different parameters like post of employees, knowledge, qualification, experience, art of leadership, maturity, etc. should be considered, as a result enthusiasm of employees' rise and aim achievement becomes easy.

(3) Discipline : Optimum use of equipments and consistency of activities are very much necessary for industrial discipline. Discipline creates certain kind of harmonious environment. Industrial discipline established by certain kind of rules and code of conduct and as a result, governance takes place in unit. When employees are more, then control becomes easy through discipline and code of conduct. Employee's interest in job increases. Managers even can take work easily. Supervision, clear and appropriate contracts between workers and owners and appropriate implementation of punishments at every level are important for discipline.

(4) Unity of Command : Employees can not follow orders from more than one superior, hence this principle shows that employee should get order from only one superior for any job or activity. It means that employee should be responsible to only one superior for particular job or department. Due to this Principle, confusion never arises amongst employees in regards to order. If more than one orders are given, that creates confusion amongst employees and industrial discipline cannot be maintained due to that.

(5) Unity of Direction : Planning is an outline for future. This can be done through job division and specialization. If deviations are found during planning, then direction-guidance is provided. These directions should be given by superior authority. By doing this, co-ordination of all task and efforts can

be done easily. According to this principle there should be only one superior employees' group and this group should be doing job for only one purpose.

(6) Subordination of Individual Interest to the General Interest : Management is a collective activity. Hence there should be co-ordination between persons and departments. This results in an easy achievement of goals of Business Unit. This Principle shows that interest of individual or employee group should be considered as subsidiary against the interest of whole unit. This means that common interest should be prominent instead of individual interest.

(7) Remuneration of Personnel : Remuneration means return against the services provided by employees. According to this principle, Remuneration to employees of company should be suitable, ideal payment of wages makes stronger relationship between owner and employees. All employees do not work with the same efficiency in a unit. There are some efficient employees, who are giving more production and doing more work. They should be compensated against their efficiency. By doing this, worker turnover rate decreases. Promotional schemes like bonus, profit sharing, representation in managerial committee should be implemented for skilled workers.

(8) Centralization : There must be clarity that to which extent centralization or decentralization should be done to make successful management infrastructure. If powers are not delegated it is centralization. To make best use of employees' strength, principle of centralization should be adopted. Centralization has low success ratio in giant size units, hence centralization and decentralization is done as per the size of unit.

(9) Scalar Chain : This principle emphasize on creating chain from top level management to bottom level employees. Chain of power from higher administrative officers to bottom level employees should not be broken. Powers and responsibility should be vested as per their respective level. Employees working in a unit should be aware of who is responsible to whom. As a result a Scalar chain occurs, which moves from top to bottom and from bottom to top.

(10) Order : This principle emphasize on two parameters. Raw material arrangement and social arrangement. Each part of raw material should be at its appropriate place. Likewise, skilled employee should also be placed at right place. Arrangement should be done for recruitment of suitable employee in suitable place..

(11) Equality : Employees are a part of managerial system. Since the employees are human being, practical approach should be adopted to handle them. Superior should behave appropriately and uniformly while taking work from them. Efforts should be made to establish equality in unit by informal way instead of legal or traditional way. Behavior of employees is based on faithfulness, attitude, uniformity and justice.

(12) Stability of Personnel Tenure : Permanent and stable employees are asset of any business unit. An employee can develop himself by remaining to one unit and contributing in the achievement of goals of the business unit. As the employee remains for long time in any unit, his knowledge of system results into more productivity and also decrease labor turnover rate. There should be an arrangement for promotion; training, etc. for permanent employees.

(13) Initiative : As quality of entrepreneurship is necessary for Industrialists, in the same way there should be quality of initiation in employees. Industrialists should provide such atmosphere that initiation may be encouraged. Due to initiation, strength of independent working in an employee develops and it increases their leadership quality.

(14) Esprit de Corps (Feeling of Oneness) : Success of an industrial unit lies in mutual relations of managers and employees; hence there should be harmony in both classes. Managers should generate group feeling among employees. If all employees will work together then achievement of goals becomes easy.

Henry Fayol said that 'above list is not last list of management principles. Managers can add new principles based on their experience, research and knowledge. These principles can be implemented in all kind of activities like business, economic, political and social.'

2.5 Contribution of Peter F. Drucker in the Field of Management

Peter F. Drucker (1909-2005) as a wellknown managerial leader was also a famous writer, philosopher and an educator. There was a change in global business arrangement due to globalization. Need of development of new methods of management was arisen. Peter F. Drucker favored for more importance to human asset in business unit. Peter. F. Druker's important contribution was 'Management by Objective (MBO)' and principles of 'Self-regulations' are main. About Management by Objective he says that, there should be uniformity in aim of employees and managers for achievement of aim. Management by Objective is too much effective for different business formatted units. Their contribution lies in human resources management, marketing management and stress management. Hence, Peter F. Drucker is called Father of Modern Management.

What did you learn in this chapter ?

Principles of Management :

Meaning : If we say in simple words, it means some rules, principles are required for making comfortable men behavior in business unit. These principles are called management principles.

Concept : Management principles have direct relation with human behavior. Hence, there is space for addition of new principles with the changes from time to time. Management Principles are detailed and particular guide for decision making and its implementation.

Nature : (1) Universal acceptance (2) Flexible (3) General Guidelines (4) Based on Human behavior (5) Contingency.

Importance : (1) Increase in managerial efficiency (2) Maximum usage and effective administration of resources (3) Helpful for scientific and logical decisions (4) To cope up with changing business Environment (5) To fulfill Social responsibility (6) Useful for Research, Training and Development

Management Thoughts : Management thought is a presentation of unique thought presented time to time. Many management Gurus' have provided different principles by expressing different views in these thoughts, which is called management thought.

Thoughts of Classical Theory : Thoughts presented till the end of 19^{th} century is called classical thoughts. Frederick Taylor and Henry Fayol contributed in these thoughts through scientific management principles and management principles respectively.

Thoughts of Neo Classical Theory : In the start of 20^{th} century, Australian Industrial Psychologist Alten Meyo Horthon created this thought. Neo classical thought emphasized on behavior oriented approach and group behavior for management.

Behavior Related Thoughts : Behavior related thought emphasizes on job satisfaction and increases the efficiency of employees through psychological findings. Behavior related thought includes inter human relations, inducement, leadership, disposal of industrial disputes, information, communication, etc.

Modern Thought : A unique professional class was arisen with management not confining to only business unit, where advocacy was made for psychology, social studies, statistics, Mathematics and computer information technology.

Frederick Taylor's Principle of Scientific Management :

Meaning : Scientific Management is a mental revolution on the part of particular unit of employees in a factory. It's a total mental revolution towards their tasks, duties, colleagues and owners.

Definition : As said by Frederick Taylor, "Knowing exactly what you want your men to do and see to it they do it in the best and the cheapest way." workers and to see they do it certainly and least expense is Scientific Management.

Principles of Scientific Management : (1) Scientific Method (2) Planning and Implementation (3) Job analysis (5) Standardisation (6) Scientific Selection and Training (7) Economical (8) Mental Revolution.

Techniques of Principles Scientific Management :

Time Study : Time Study means scientific study being done for the time required for completion of certain part of task.

Motion Study : Motion Study means method of removing wastage of resources due to unnecessary and unproductive movement of men and material waste generated from unproductive movements unnecessary.

Differential Wage Rate Study : Differential wage rate study means method of encouragement related wages on the basis of time of workers' work.

Management principles of Henry Fayol are as under : (1) Division of Work (2) Authority and Responsibility (3) Discipline (4) Unity of Command (5) Unity of Direction (6) Subordination of Individual Interest to the General Interest (7) Remuneration of Personnel (8) Centralization (9) Scalar chain (10) Order (11) Equality (12) Stability of Personnel Tenure (13) Initiative (14) Esprit de Corps (Feeling of Oneness).

Peter F. Drucker's Contribution in the Field of Management :

He has mainly contributed to human resources management, marketing management and stress management. Hence, Peter F. Drucker is called father of modern management.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) What is principles of management ?

(A) Result of experience (B) Management decide it

(C) Decided by experiments (D) Managers decide it

(2) Why need arises to make changes in principles of management ?

(A) Change in assets (B) Change in capital

(C) Change in technology (D) Change in managers

(3) Who is the promoter of Scientific Management ?

(A) Luther Gulick (B) Fredrick Taylor (C) Henry Feyol (D) Peter F. Drucker

(4) Which thoughts were presented till the end of 19^{th} century ?

(A) Neo classical (B) Pre-classical (C) Classical (D) Modern

(5) Who was the promoter of Neo classical thought ?
(A) Harzburg (B) Henry Fayol (C) Fredrick Taylor (D) Elton Mayo

(6) Who said that "You save you employees, your employees will save yours" everything ?
(A) C. K. Prahlad (B) Prof. Urvik (C) Aargris (D) Peter F. Drucker

(7) Which Management Gurus given below have contributed in modern thought ?
(A) C. K. Prahlad (B) Elton Mayo (C) Max Webor (D) Henry Gentt

(8) Who had given general principles of management ?
(A) Fredrick Taylor (B) Peter F. Drucker (C) Henry Fayol (D) Chester Barnard

(9) Method of removing waste generated from unnecessary movement done in wrong directions from any work ?
(A) Time Study (B) Motion Study
(C) Different Wage Rates (D) Employee Observation

(10) Who was the founder of principles of management by objective ?
(A) Peter F. Drucker (B) Frederick Taylor (C) Henry Fayol (D) Max Webor

(11) Which activity from the following is possible by implementing labour division ?
(A) Aggregation (B) Specialization (C) Simplification (D) Integration

(12) If employee does not get appropriate compensation then what rises ?
(A) Labour turnover (B) Promotion of labour
(C) Absence of labour (D) Decline of labour

2. Answer the following questions in one sentence each :

(1) What is 'Principle of management' ?
(2) What is time Study ?
(3) What is unity of command ?
(4) What is management thoughts ?
(5) Which concepts are included in behavior related thoughts ?
(6) In modern thoughts which other subject are related with management ?

3. Answer the following questions in short :

(1) What is scientific management ?
(2) What does the principle of equality ?
(3) 'Principles of management are flexible - Suggest.
(4) In to which six parts, Henry Fayol divided his entrepreneur activities - Explain.
(5) What is 'Rule of Thumb' ?
(6) Explain the principle of unity of command.
(7) Explain Taylor's differential wage rate study.

4. Answer the following questions in brief :

(1) Discuss about importance of the principles of management.
(2) Write a short-note on modern thoughts.
(3) 'Principles of management are based on human behavior.' - Explain the statement.
(4) Explain behavior related thoughts.
(5) Discuss about Peter F. Drucker's contribution in management field.

5. Answer the following questions in detail :

(1) Describe the principles of scientific management.
(2) Describe in detail about classical thoughts.
(3) Describe Henry Fayol's principles of management.
(4) Describe in detail about Nature of management.

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3 PLANNING

What will you learn in this chapter ?

- Introduction

3.1 Planning

- 3.1.1 Concept
- 3.1.2 Definition
- 3.1.3 Characteristics
- 3.1.4 Limitations

3.2 Process of Planning

3.3 Types of Plan

3.4 Elements of Planning

Introduction

Business is an economic activity, which has the motive of earning profit. Business enterprise has to collect complete informations of various activities to be performed well in advance and consider matters like, who will do, what type of work, how, when and to what extent. Thus planning is forecasting the future in present. Planning is a universal process. Whether it is a battle-field, a play ground, a business unit, a political institute, a religious institute or a social institute, planning is required in every field.

3.1 Planning

What we want to achieve in future and how ? For this various alternatives are to be considered and from those the best alternative is to be selected.

3.1.1 Concept : Planning is to collect informations for the activities to be undertaken in business, consider them in advance and plan out how to do these activities.

3.1.2 Definition :

- **According to Bill Goetz,** "Task of planning is choosing."
- **According to George R. Terry,** "Function of planning means, assumption for results, policy to follow function, stages and to decide the method to be followed."
- Planning is an intellectual process to achieve goal.

3.1.3 Characteristics :

(1) **Universal Process :** Planning is a universal process. It is present in every field like business, politics, education, religion or a social field.

(2) **Primary Function :** Planning is the primary function of management. Management starts with planning. Other functions of management like organisation, staffing directing, controlling are implemented on the basis of planning.

(3) **Conscious and Mental Process :** Planning is a conscious and mental process because in planning, decisions are taken consciously and on the basis of calculative assumptions.

(4) **Flexibility :** Planning contains various calculations and assumptions. Business enterprise is affected by external factors therefore necessary changes should be made in planning as per time, circumstances and situations. Flexibility is the precondition for planning. Planning is not a static element.

(5) **Precise :** Planning is a process for the future. The matters considered for planning are to be studied exactly. Statistical data, collected informations, etc. must be perfect and precise.

(6) **Forecasting is Essential :** Forecasting is done by considering future uncertanities while making a plan for a business unit. Therefore, forcasting and planning are considered as the first function of management.

(7) **List of Alternatives :** Planning in any field includes various plans and alternatives e.g. There can be many alternatives to increase the sales in future like increase in advertisement, reduction in prices, training to salesman or declaration of attractive offers to increase the sale, etc. Selection of the best alternative out of it is to be done.

(8) **Concerned with Future :** Planning presumes uncertainities involved in future. Forecasting and assumptions are done later on. In short, planning is related with future because it is evaluating future at present and accordingly making arrangement for the same.

(9) **Continuous Process :** Planning is a continuous and perennial process. Planning is that process which begins with the establishment of the organisation and continuous till the end. As per time and circumstances, the plans are also required to be changed.

(10) **Objective Oriented Activity :** Planning is made to achieve pre-determined objectives of the business. Management decides future targets as per objectives of business. Accomplishment of objectives become easy if the targets are pragmatic. Thus planning is an objective oriented activity.

(11) **Requires Decision Process :** Planning involves selection of the best alternative. Various alternatives are considered and assumptions are made and the decision is taken to select the best alternative. Thus decision making process is necessary in planning.

Planning is vital for business and an outline for the future. Planning is necessary in every field. Hence, Government, private sector or any other sector make plans for their activities. Central Government of India has accepted the importance of planning and has constituted the planning commission. It consists of experts from various fields. The importance of planning is as follows :

(1) All activities are done systematically due to planning.

(2) Wastage of resources can be avoided.

(3) Planning reduces future uncertainities.

(4) Planning leads to precision.

(5) Useful for accomplishment of objectives.

(6) Smoothness in other managerial functions.

(7) Planning increases employees co-operation.

(8) Effective control becomes possible.

(9) Planning co-ordinates various activities.

3.1.4 Limitations : Planning is a universal process. None of the fields can work without planning. Planning is a guiding factor, which is neither perfect nor imperfect. As per critics and experts, the limitations of planning are as follows :

(1) **Uncertain Future :** Planning is based on assumptions and forecasting which is made for the future. But future is uncertain. Therefore assumptions are not fully correct. Uncertainities prevail in planning as it is related with future.

(2) **Expensive Process :** Experts have to be engaged for planning function. They are charging high fees. Moreover, the framing of plans require time, energy and money. Thus planning is an expensive process.

(3) **Time Consuming :** Planning involves collection of necessary informations, its classification, analysis and interpretation to decide alternatives for the business. Thus it is a lengthy and time consuming process.

(4) **Planning is Irrelevant :** Planning involves uncertainities. Planning becomes irrelevant due to time, circumstances or factors affecting business unit. In that case, planning is liable to fail.

(5) **Tends towards Rigidity :** Planning is adopted as a programme for the future. If any adverse situation occurs, managers or employees do not take the risk of deviating from the plan. They stick to the planning during implementation stage. Thus, planning leads to rigidity.

(6) **Uncertainity of External Factors :** Business units are affected by external factors which keep on changing. That hinders the success of planning.

(7) **Incomplete Information :** Necessary informations are to be collected for the planning process. Formulation and implementation of plan on the basis of incomplete and unclear informations may not give the desired result.

(8) **Restriction on Employees' Creativity :** Implementation of planning is done by employees of the business unit. Though employees have creativity, cannot make any changes in planning during its implementation. Thus planning restricts the creativity of employees.

(9) **Use of Faulty Methods :** While deciding assumptions and estimates, different mathematical and statistical methods are used. If these methods or informations are not appropriate, faulty decisions are taken. Thus planning is liable to fail.

Other than these, many other factors are affecting planning like changes in technology, prejudice of planner, ignorance of facts, problem of leadership, etc. Inspite of it, planning allows us to control the change. It is fact that there is no alternative for planning.

3.2 Process of Planning

Planning is an intellectual process. Planning is a map of the future, in which management plays vital role. Future is uncertain therefore decided plan is to be implemented stagewise as given below :

(1) **Determination of Objectives :** The first step in planning is setting the objectives. It is said that, if objectives are determined in proper manner, planning becomes useful to the management. Objectives should be pragmatic, it means they should be realistic and intellectual.

(2) **Clarifying Planning Premises :** After determining the objective, clarification of planning premises is must in the planning process. These premises means assumption or forecasting. Forecasting is made after the consideration of internal and external factors affecting the business unit. If the premises are not clear and precise, there is possibility of the failure of planning.

(3) **Collection and Analysis of Information :** After planning premises, necessary information has to be collected either directly or indirectly. After the collection of information, its classification, analysis and interpretation are to be done. It helps to make assumption to get the expected result in future.

(4) **Preparation of Alternative Plan :** After collecting, analysing and interpreting informations, alternative plan is to be made. A list of alternatives is to be prepared. E.g. to sale the goods either by producing or by purchasing.

(5) **Evaluation of Alternatives :** Various alternatives which are considered feasible are taken for detailed evaluation. Factors affecting the business unit and contribution of each alternative is considered.

It is an intellectual process. Mathematical and statistical methods are used for the evaluation of alternatives. Business unit prepare an ideal plan as a model with the help of 'Operation Research' [O.R.].

(6) **Selection of the best Alternative :** The various alternatives are evaluated, analysed and scrutinized for the selection of best alternative.

(7) **Formulation and Evaluation of Subsidiary Plan :** Different projects or alternatives have to be considered as per basic plan or in support of basic plan. These plans are known as subsidiary/ derivative plan. E.g., A car manufacturing company is taking a decision 'make or buy tyres', then it is known as subsidiary plan. As the subsidiary plan is prepared, it is necessary to evaluate the same so it will not obstruct the basic plan in future.

(8) **Evaluation of Plan :** After formulation and evaluation of subsidiary plan, entire plan is evaluated. When ever it is necessary, a business unit takes the help of expert and consultant to evaluate the plan. It helps to get correct opinion as well as to take the appropriate decision. When we proceed step by step, the principle of 'Look and Leap' is to be adopted. At every stage evaluation is necessary.

3.3. Types of Planning

(1) **Standing Plan :** Standing plans represent guide line for decisions in repetitive situation hence standing plan can be used reapetedly. When there is repetition of organisational activities and a standard policy are decided for prompt action, it is known as standing plan. Policies, methods and rules are decided for a long time period in planning process. It helps the subordinates to take prompt decision regarding the related matters. E.g., Procedure for delivery of goods as per order of customers or if credit policy is decided before hand on permanant basis, it will help the employees to take prompt decisions. No employee will need the permission of superior regarding the same.

(2) **Strategic Plan :** Business units decide the objectives according to their philosophy. It is to be decided, through which philosophy the business unit will function through out the life. It is known as business objectives. For the accomplishment of objectives, long term and short term strategies are decided. A business unit decides its plan after the consideration of its strength and drawbacks. Foresightedness and experience are essential for these plans. Effects of strategic plans are seen in the long term. Consistent decisions are to be taken for these plans. It means scope of decision is important in this plan.

(3) **Tactical Plan :** For the accomplishment of business objectives, short term plans are prepared by middle level of management, it is known as Tactical Plan. These are plans which usually span one year or less. These plans clarify short term objectives. Hence business activities remain goal oriented and take place in a systematic manner. It is concerned with what the departmental heads and employees must do. Specialised knowledge and skill are necessary for the formulation of these plans.

(4) **Operational Plan :** Operational plans are the specific result expected plans from the departments, work groups and individuals. Generally, these plans are for short duration as for one year. E.g., Monthly or quarterly production plans are made for achievement of objectives of annual production. These plans are made by departmental heads for the implementation of strategic plan. Implementation of this plan becomes easy, if it is made after the necessary discussion with concerned employees, as these plans are related with routine work. Operational plan is almost similar to tactical plan.

(5) **Single Use Plan :** A useful plan is prepared for achievement of special objectives. This plan is made for special activities. One time plan is applied to those activities which do not reccur. For example, for the activities like ship making, construction of house, packaging, printing, etc. this plan is important.

(6) **Contingency Plan :** Business unit has to co-ordinate with changing situations. Business environment is also keep on changing due to political, economical, social or natural factors. Due to these reasons, if changes are to be made in original plan or a new plan is made, it is known as contingency plan.

3.4 Elements/Components of Planning

Planning is an intellectual process. Planning is based on subsidiary planes and programmes, which are known as elements of planning. E.g., To prepare a budget for a business unit, first of all departmental budgets are prepared. After having the discussion regarding it, a Master bugdet for entire business unit is prepared.

(1) **Objectives :** The purpose of every business is to determine and fulfil objectives. While determining objectives, all the factors affecting business are to be considered. Objectives must be pragmatic. It should not be over ambitious.

(2) **Strategy :** Contrivance used for the accomplishment of pre-decided objectives of planning is known as strategy. It makes the business unit capable enough to face the competition or to survive against the other factors. Strategy is used in the field like army and sports. Strategy should be kept confidential from the competitors. An ideal strategy gives guarantee of success of a business unit.

(3) **Policy :** Decisions and strategies are decided by management for accomplishment of objectives are known as policy. Policy creates distinct image of the business unit. It gives an idea of efficiency and working style of the business unit. Like an objective, policy should be pragmatic and real. E.g., Policy of sale of goods on credit basis.

(4) **Method/Procedure :** Method is an arrangement for carrying out business programmes. Strategy depicts the arrangement of facing competition. Policy gives informations to fulfil the objectives while method refers to the best way of accomplishment of pre-determined objectives. E.g., A business unit tries to fulfil the objective of annual sale on the basis of figures available of quarterly sale. It helps to raise the chances of success. In short, method refers to the best way of performing a task.

(5) **Rules :** Rules are necessary to accomplish the functions of planning. Rules decides the procedure and give the clear understanding. It ensures discipline among the employees. Rules make accomplishment of objectives and supervision easy. E.g., "Use of mobile during working hours is prohibited", "No smoking at work place", etc.

(6) **Budget :** Budget is used as a tool of control for the accomplishment of business objectives. Different types of budget are prepared like capital expenditure budget, sales budget, production budget, production cost budget, cash budget, etc. Budget keeps control over the business activities and makes the management efficient one.

(7) **Programme :** Programme is a sequence of activities to be undertaken by a business unit. If the work is done according to programme, problems do not arise in accomplishment of objectives. The function of management is not only to see that the work carried out according to programme but also to compare it with the standards. Along with these, to take corrective step if any deviation is found.

What did you learn in this chapter ?

Concept of Planning : Planning is to collect informations for the activities to be undertaken in business, consider them in advance and plan out how to do these activities.

Definition : According to Bill Goetz, "Task of planning is choosing."

Characteristics : (1) Universal process (2) Primary function (3) Conscious and mental process (4) Flexibility (5) Precise (6) Forecasting is essential (7) List of alternatives (8) Concerned with future (9) Continuous process (10) Objective oriented activity (11) Requires decision process

Importance : (1) Activities in systematic manner (2) Avoides wastage (3) Reduces uncertainities (4) Leads to precision (5) Useful for achievement of objectives (6) Smoothness in other manegerial functions (7) Employees' co-operation. (8) Effective control (9) Co-ordinates various activites

Limitations : (1) Uncertain future (2) Expensive process (3) Time consuming (4) Planning is irrelevant (5) Tends towards rigidity (6) Uncertainity of external factors (7) Imcomplete information (8) Restriction on employees' creativity (9) Use of faulty methods

Process of Planning : (1) Determination of objectives (2) Clarifying planning premises. (3) Collection and analysis of information (4) Preparation of alternative plan (5) Evaluation of alternatives (6) Selection of the best alternative (7) Formulation and evaluation of subsidiary plan. (8) Evaluation of plan

Types of Plan : (1) Standing plan (2) Strategic plan (3) Tactical plan (4) Operational plan (5) Single use plan (6) Contingency plan

Component / Elements of Planning : (1) Objectives (2) Strategy (3) Policy (4) Method / Procedure (5) Rules (6) Budget (7) Programme

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) Mention first function of management.
(A) Organising (B) Planning (C) Directing (D) Controlling

(2) Planning is related to .....
(A) Past (B) Present (C) Production (D) Future

(3) What is the first step of planning process ?
(A) Defining objectives (B) Clarifying planning premises
(C) Preparing alternative (D) Formation of subsidiary plan

(4) Planning function means .....
(A) Routine function (B) Fixed function (C) Function of choice (D) Difficult function

(5) Decisions and strategies are decided by management for accomplishment of objectives are knows as .....
(A) Programme (B) Policy (C) Rules (D) Budget

(6) What is pre-condition for successful planning ?
(A) Long term (B) Short term (C) Organisation (D) Flexibility

(7) State the last step of planning process.
(A) Evaluation of plan (B) Selection of best plan
(C) Verification of planning (D) Determination of alternative

(8) Which of the following is the element of planning ?

(A) Continuous process (B) Controlling

(C) Directing (D) Rules

(9) Which of the following plans determines the objectives of business ?

(A) Standing plan (B) Strategic plan (C) Tactical plan (D) Single use plan

2. Answer the following questions in one sentence each :

(1) In which fields is planning found ?

(2) Give full form of O.R.

(3) What are the first and last functions of planning ?

(4) When is the principle of 'Look and Leap' adopted ?

(5) State types of budget.

(6) Mention reasons for the uncertainities in planning.

(7) What is planning premises ?

(8) What is method / procedure ?

3. Answer the following questions in short :

(1) What do you mean by determination of objectives ?

(2) What is planning.

(3) What is the need of strategy ?

(4) State the elements or components of planning.

(5) What is subsidiary plan ?

(6) What is final budget ?

(7) "Planning should be flexible." Why ?

(8) "Planning is primary function of management." Explain.

(9) What do you mean by policy ?

(10) "Planning is an expensive process." Why ?

4. Answer the following questions in brief :

(1) "Planning brings smoothness in managerial function." Explain.

(2) Explain any four elements or components of planning.

(3) Explain any four limitations of planning.

(4) Discuss the importance of planning.

(5) Explain operational and contingency plans.

(6) Discuss single use plan and contingency plan.

(7) Explain the following statements :

(i) "Planning is a conscious and mental process."

(ii) "Planning is irrelevant."

(iii) "Planning is concerned with future."

5. Answer the following questions in detail :

(1) What is planning ? Explain its characteristics.

(2) Give the definition of planning and explain its process.

(3) Explain elements or components of planning.

(4) Explain limitations of planning.

(5) Discuss types of plan.

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4 ORGANIZING

What will you learn in this chapter ?

- Introduction

4.1 Organizing
- 4.1.1 Meaning
- 4.1.2 Definition
- 4.1.3 Concept
- 4.1.4 Characteristics

4.2 Steps for the Organizing Process

4.3 The Structure of Organization
- 4.3.1 Linear Organization
  - 4.3.1.1 Meaning
  - 4.3.1.2 Formation
- 4.3.2 Functional Organization
  - 4.3.2.1 Meaning
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Introduction

The goal of the organization is set by planning. The success of Management is not only based on planning but also on the effective implementation of planning. The formal administrative structure that is formed to enable effective implementation of planning is called Organizing. When more than one persons are working towards the achievement of a common goal, the effective organization is essential. The success and goal achievement of any unit/work depends on proper division of work, distribution of authority and responsibility, delegation of authority among the employees. The objectives which are determined at the time of formation of organizing process, are methodically applied and for the same, organizing is inevitable. Hence it is said that Planning is the Brain of Business Enterprise, Co-ordunation is soul and Organization is its body.

4.1.1 Meaning :

- In general words...The structure formed in order to enable delegation of authority and responsibility towards the people actively engaged for common goal is organizing.

4.1.2 Definition :

- As per **Chester I. Bernard**, "The activity conducted by the co-operation of two or more people and their co-ordination is called Organizing."
- As Per **Louie Allen,** "Organizing is the process of identifying and classifying 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."

4.1.3 Concept : It is inevitable to have efficient organization for effective administration and management process. Most of problems of management arises due to ineffective organization in the management. Hence the business unit could not achieve its goal in the specific time. If the business unit has capable and effective organizing,

then through optimum use of resources, time, energy and money can be saved and problems in the activities of business can be avoided.

Organizing is the concept basically involved with a group of people. Where two or more people work together, the structure for the work accomplishment in an effective manner is called Organizing. Hence it is also known as arrangement. In an organization, authority and responsibility are delegated to group of people gathered to achieve a common objective and inter relationship is established among them. For this, the human body is an excellent example. The functions of the different parts of a human body is different but still all the parts of a human body is co-ordinated to one another.

4.1.4 Characteristics :

(1) **Goal Oriented Activity :** The Organizing is created for the sake of achieving the goal of any business unit. In the business unit, the main objective as well as departmental objectives or sub goals are also determined. In addition to that, there are also the individual goals of the employees. Hence Organization is a linear structure that co-ordinates with the goals of business, departmental goals and goals of employees. Hence it can be also referred as a goal oriented activity.

(2) **Planning Based :** Organization is made on the basis of planning and objectives determined by planning. Hence before organizing, it is necessary to have proper planning. The structure of any unit is based on its future implementation of plan. Hence it can be said that organization is based on proper planning.

(3) **The Delegation of Authority and Responsibilities :** The people working towards achievement of a common goal are allotted work as per their capabilities and their skills. At the same time, such a person is also informed about their Authority. Hence organizing is the structure to establish relationship of authority and responsibility among the people.

(4) **Importance to Human Element :** In Organizing, human beings are at the centre. The success of any organization is dependent on the people who are working in it. Hence for effective organizational structure, effective human relation establishment is necessary.

(5) **Flexibility :** When once the organization is formed there are chances for change in the same. Suitable changes can be made according to changing circumstances or situations. The changes or variations can be made when there are major changes in the business environment, technological advancement or new discoveries.

(6) **Establishment of Inter Relationships :** The organizing establishes inter relationship among work, positions or divisions. It gives clarifications about the relationships of one work with the other work and one division with the other divisions.

(7) **Monitoring and Control :** Monitoring control and co-ordination are the basic requirements of any organization. Whether the employee is performing his task as per the powers and responsibilities assigned to him or not ? For such matters provisions of monitoring and control are found in organizing.

(8) **Group Activities :** In an organization, many people work together for the accomplishment of a common goal. The organizing provides effective structure to them so that the group activity can be conducted properly.

(9) **Controlled Administrative Structure :** Organizing is a particular kind of controlled administrative structure. In any business unit, rules and controls are required in order to define relationships. The same is formed by organizing.

4.2 Steps for the Process of Organizing

The formation of organizing is a scientific process. According to Peter F. Drucker. "The lack of proper formation of organization can not sustain for longtime. Hence, the unit is slowly destroyed." It is through ensuring proper steps of the formation of organizing that the functional relations are established in a proper manner which should be done properly.

(1) **Clarification of Objectives :** Before formation of organizational structure, it is necessary to have the clearly defined goals and its proper understanding. The main and the sub goals should be properly interpreted and on the basis of which organization is formed. Hence the establishment of proper goals and with proper clarity is the first step towards proper organizing.

(2) **List of Functions :** After having clearly defined goals, with the help of organizational structure, the list of work to be done is prepared. At the time of preparing such a list it is ensured that not a single task is left or is repeated, and a special care is taken for the same. Hence the list of functions should be prepared on the basis of its proper consideration and the final distribution should be done.

(3) **Departmentation of Function :** Once when the list of functions is prepared, the work area similar in nature are classified and similar functions are placed together, then the division of work is done accordingly. Work is divided as per purchase area, sales area, accounts area, etc. and then work division and specialization is planned. The division is planned according to nature of unit, geographical area, work area, etc. for example, the division of business unit selling products in entire country, zone wise division of selling as per south, east, west, north zones. In the same way, work based distribution as per advertising task, packing task, distribution task etc. in sales department is also considered at the time of division of work.

(4) **To Determine Departmental Position and Abilities :** Once when the work is departmentalized properly, the task to have proper persons to handle the responsibilities are created as per positions and abilities are planned accordingly. For example, sales officer for sales department. At the same time, the sub posts or categories as per the persons to be appointed.

(5) **The Delegation of Power and Responsibilities :** Divisional heads, sub divisional heads and skill based heads are finalized and then all the heads should be given power and responsibilities so that they can perform their work well. In addition to that, clarification should be done of each person's post. So that each person will get the idea of the responsibilities assigned. It is also necessary to have the proper proportion of power and responsibilities.

(6) **Establishment of Inter Relationship :** After the proper distribution of work, and delegation of power and responsibilities among different departmental personnel, the formation of inter relations should be made clear. With the help of departmentalization, the power and responsibilities are decentralized but the same can be centralized with the help of formation of inter relations.

(7) **To Prepare Organizational Chart :** In order to enable the people to have the perfect idea of each one's positions, a proper map should be prepared. Such a chart should be properly prepared and the same should be displayed on the notice board.

4.3 Structure of an Organization

Effective Management depends on ideal organization. The structure of organization indicates types of organizations. The nature, size and responsibilities of business unit and its classification decides the type of organization :

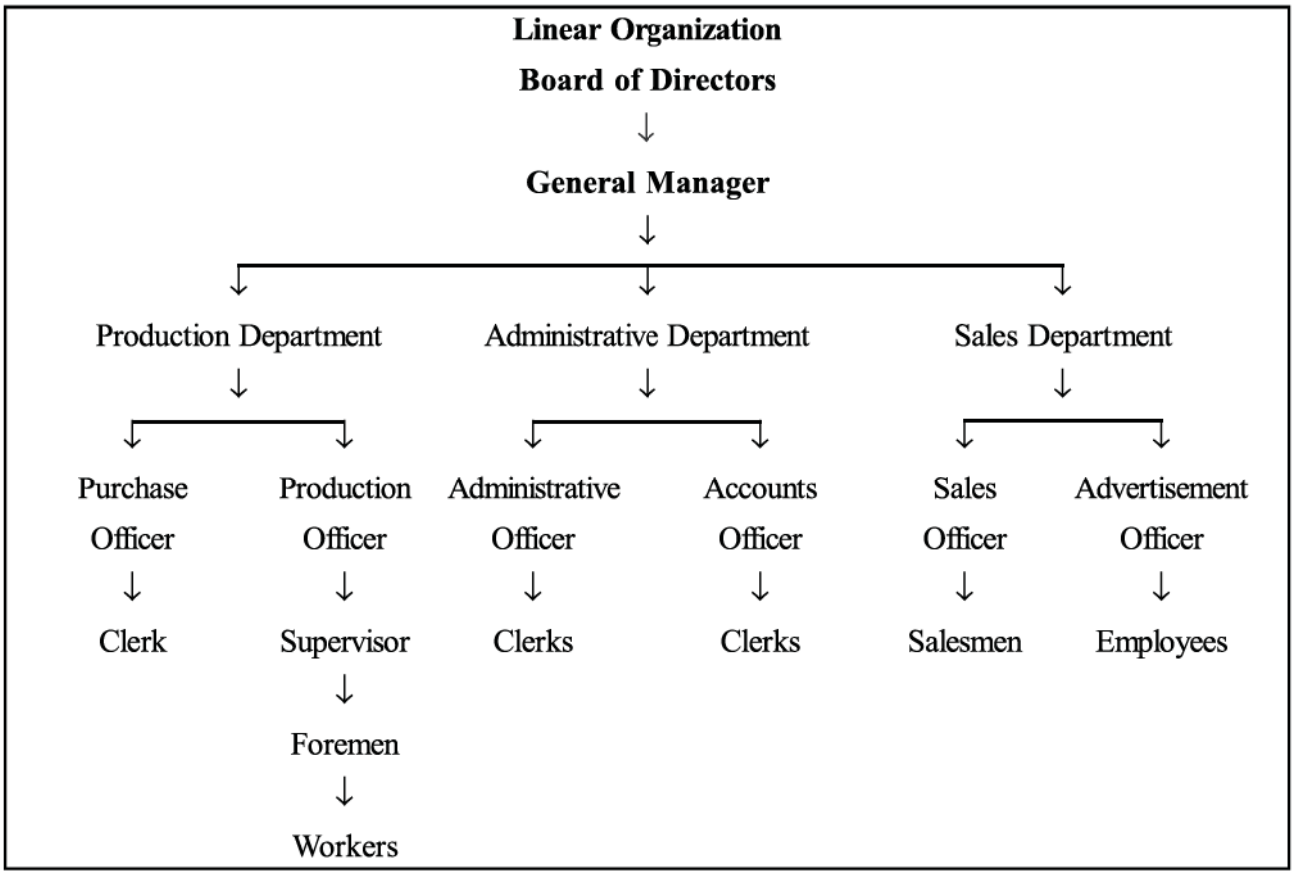
(1) Linear Organization
(2) Functional Organization
(3) Formal Organization
(4) Informal Organization
(5) Matrix Organization

4.3.1 Linear Organization :

4.3.1.1 Meaning : Linear organization is the most simple and ancient type of organization. Since many years it has been used in army and so it is also known as Army organization. In this kind of

organization, the centralization of power is done on top level. The distribution of power and responsibilities is done in straight line from top to bottom level. As the distribution of power is in straight line from top to bottom level, it is called Linear organization. In this, each employee is answerable to his or her superior authority. In this type, higher degree of power can be seen on top level and lower amount of power is seen on the bottom level.

4.3.1.2 Formation : In this type of organization, entire business unit is classified in different department. As per each section or area, a separate departmental head is appointed. This departmental head is answerable to the superior head of his or her own area. The area head is given all the necessary power needed as per his or her department. In this type of organization, division is not done according to the work but according to departments. Hence it is also known as departmental organization. The Linear organization structure can be best seen with the help of the following diagram :



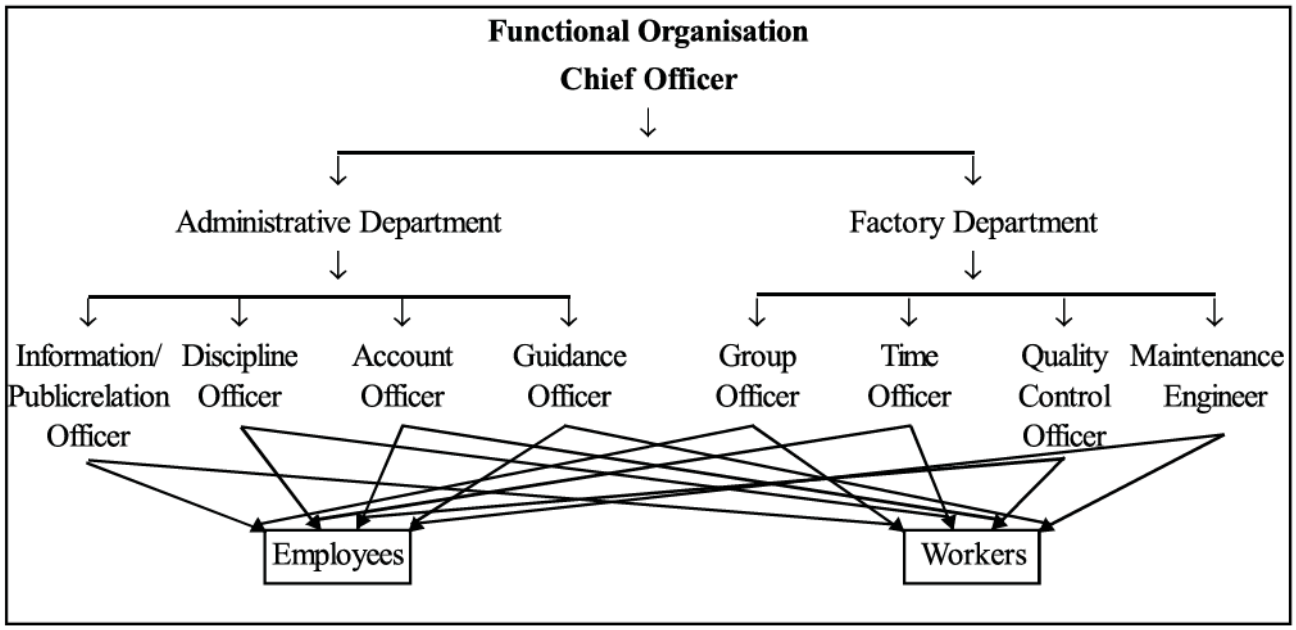
In Linear organization, the greatest power is seen with the Board of Directors. They take policy based decisions. The General Manager is assigned necessary powers from them. The General Manager is the main Administrative Head, whose work is to ensure that the lower employees follow the task and decisions taken by the board of director. The above given chart is divided into production department, administrative department and sales department, three parts. As per the important work in each department, Purchase, Production or Sales officers etc. are appointed. Such officers carry the entire responsibility of their own sections. Under such officers, supervisors, foreman and clerks, etc. work. Under the foreman, workers work. In this way, Linear organization ensures power from top to bottom and responsibilities flow on from bottom to top level.

Such kind of structure is more favourable where there is a small size of the organization and the work area is also limited and the problems of control and discipline are also limited.

4.3.2 Functional Organization :

4.3.2.1 Meaning : Linear organization gives more importance to department than work. This is the greatest limitation of this kind of structure. Keeping this limitation in mind, the work based organization came into existence. Linear organization has lack of specialized work as the stress is more on departments and less on functions. According to Linear organization structure, the administrators and officers in one unit have to perform many kind of tasks. It is obvious, all of them are not experts in all the work varieties. Hence a structure is formed in which, the experts with specialised knowledge are given special responsibilities in the particular unit, which is called functional organization. For example, personnel officer will look after the recruitment, transfer, promotions, etc. of that particular unit.

4.3.2.2 Formation : Functional organization gives special importance to work distribution and specialization. In this structure, the distribution of work is not done according to the departmental but according to the nature of work. For each kind of work different experts are appointed. Such experts are not only advisors, they are also administrative heads who are fully responsible to the task assigned to them. For example, the purchase officer is fully responsible for all type of purchase related work. The idea of this structure can be best obtained with the help of the following figure.



In work based organization, the supreme power rests with the Chief Executive Officer. As per the chart given above, the unit can be divided into two parts. Each unit has its own list of activities and work and in the same way is assigned to different officers. According to this, each officer can give orders to the employees under him to perform the task.

In this type of organization, it should be considered that not a single work remains unassigned and at the same time not a single work is assigned twice. Organizational units in which there is more variety to be seen in work, this kind of structure is more favourable.

4.3.3 Formal Organization :

4.3.3.1 Meaning : In order to achieve the predefined goals, the formal structure of relationship among persons and work is established which is known as Formal organization. Linear organization, Functional organization are the types of formal organization. In this type of organization, the necessary powers are given to enable the person to perform certain kind of responsibilities. In which, matters related to delegation of authority between superior officers are clarified.

4.3.3.2 Characteristics :

(1) Formal Structure : The Administrators form this Formal Structure very cautiously to achieve the desired goals.

(2) Lacking Flexibility : In this kind of structure, the place assigned to the employees are non changeable or non-alterable. Seldom can there be change, once the position is assigned.

(3) Delegation of Power from Upper to Lower Level : The delegation of power is done by superior officer and flows from upper level to lower level.

(4) Large size : The organization structure comprises of large size.

(5) Particular relations : Due to methodically planned formal structure, the relations among the employees are particularly formed.

(6) Communication : Communication is done only through a formal method. The informal communication has no place over here.

4.3.4 Informal Organization :

4.3.4.1 Meaning : Informal organization is the formation of internal relations formed on its own, in order to provide contribution to some result achievements, formed without any formal planning. The relations are developed among the people working inevitably together. Such relations develop and flourish on informal grounds. Such relations are not formally founded. Hence no formal or proper chart can be prepared for the same. It can be considered as a shadow of formal structure of organisation. It can be considered a subordinate structure to formal one.

4.3.4.2 Characteristics :

(1) Informal Structure : This type of structure is informal. It develops from inter relationships. This kind of structure is naturally formed when the employees working together work for a commonly defined goal.

(2) Based on Human Relations : This kind of structure is based on human relations. One similar kind of feelings, interests, values, hobbies, habits and beliefs play a role and the informal structure is formed. Due to this, the structure comes into existence.

(3) Ever Changing : The informal structure is ever changing. When an employee leaves one group and joins another work group, the new informal structure is created or changed, as per the change in work environment.

(4) Universal : This structure is universal. It is not only found in businesses. It is found everywhere, where there is presence of informal organization in all kind of human activities.

(5) Informal Communication : When the communication is done informally and is done through oral communication process, it is informal communication. Hence there are chances to have more opinions and less facts in it. This kind of communication is very fast.

(6) Small size : Most probably the size of this kind of organizational structure is very small because it is dependent on individual relationships. It is also formed as a result of the inter change of ideas. There can be more number of such groups but they are normally small in size.

(7) Lack of control : In this kind of communication circle, no control can be maintained as the person develops his or her circle with co-workers as per the needs.

(8) Complement to Formal Structure : This communication is developing from formal structure only. Hence it can be said to be complementing the formal structure.

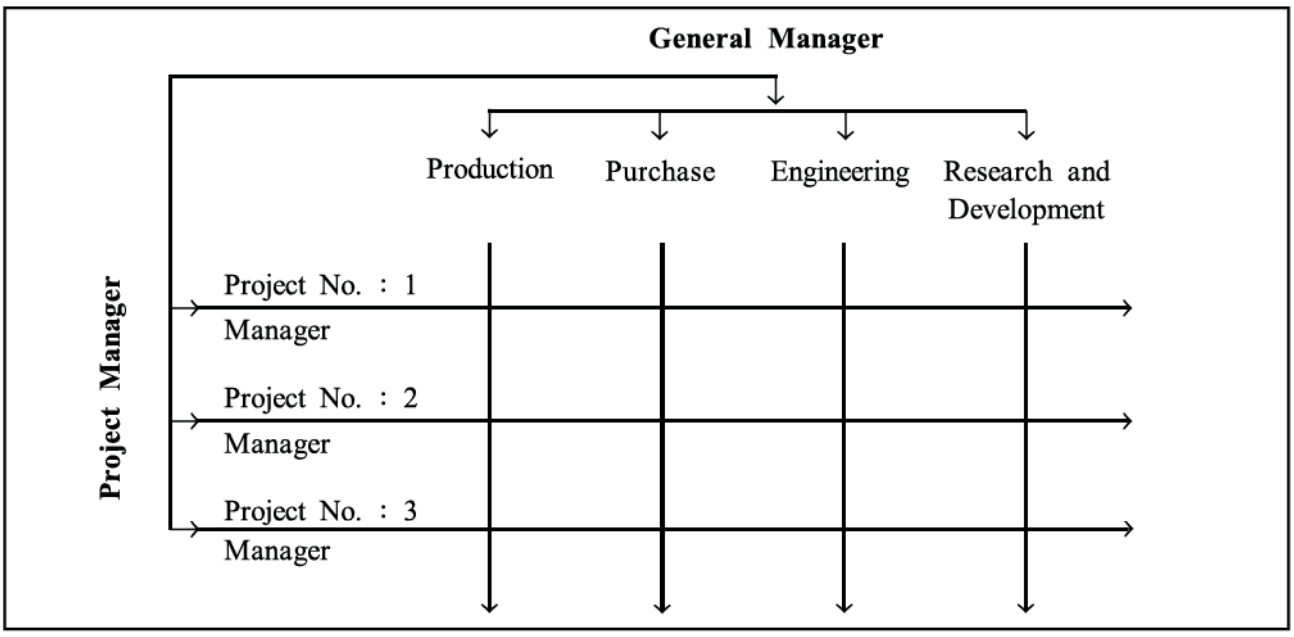
In the modern times, informal communication structure is used widely. This enables industrial talk and discipline and industrial disputes are lessened, hence this structure is more popular.

4.3.5 Matrix Organization :

4.3.5.1 Meaning : Matrix organization is a modern kind of organization, which has two different types of structures. One is the simple kind of structure, which forms the part of decision making and the second one is the technical problems solution based, which is called Project structure. The combination of both this results in Matrix organization. Hence matrix organization is a modern organization type which is involving work based and project based peculiarities. In this type of organization, the specialized work needs are given benefits. At the same time, project management benefits are also obtained. It is multi faced structure.

4.3.5.2 Design : In Matrix organization we find the combination of work based and project based organization. In this type of organization, each project manager is given different type of work responsibilities. As many Projects Managers are appointed as per the number of projects. The responsibility of the project manager is to successfully complete the project assigned to him. He is also responsible to complete it on time. The experts from different staff members are obtained from different work areas. Such kind of selected experts are divided into different groups. For example, computer expert, research expert, Manufacture and Creation special expert, technical expert, etc. These kind of experts are obtained from different work groups. Once when the work is done, they are sent to their respective work areas to which they belonged. The Matrix organization structure can be drawn in the following manner :

Maxtrix Organization



From the above diagram it is clear that in Matrix organization, the flow of authorities is double fold. For example, the General manager from upper level, passes on the the project heads to lower level in Linear manner. It is also mentioned here that all the project heads function independently. They obtain experts needed by them from different work groups or areas. This type of organisation is favareble where it is necessary to combined technology with functions.

4.4 Decentralization

When we study organizational structures, the following points emerge :

(1) Some business units are such when authority centralised at top level only and most of the decisions are taken by top level.

(2) In some business organizations the decision making is done by all the levels and the certain kind of decisions are taken as per the requirement of the work needed.

In the first type of organization, all the power rests on the upper level only and so it is called centralized structure but in the second type all the powers are distributed and all levels have specific powers and so are called Decentralization of Authority.

4.4.1 Concept : The thought of decentralization is very important from the view point of authority and responsibility. The administrators have to themselves decide whether to have centralized or decentralized power in the organization. Small sized organization can have centralized powers and the large sized organizations can have decentralized forms. This can bring success to the organization.

4.4.2 Meaning : The delegation of power from upper to lower level in orderly manner is known as decentralization of power.

4.4.3 Definition :

● According to **Henry Fayol**, "To assign powers to the superiors, to enable distribution of work, and to include in decision making process is called decentralization."

In this way, the allotment of decision making authority to that sphere of people, who need to take decisions is called decentralization of power. It does not mean that all the powers are given by the upper level administrators to the lower level but most of the powers are given, is called decentralization of power.

4.4.4 Importance : The success of management depends on the proper distribution of authority and responsibilities. In centralization of power, the hierarchy, non-scientifically taken decisions, non-cooperation, lack of specialization and more work load, etc. can be seen. Hence the idea of decentralization is becoming popular. In the modern times, in the business units, decentralization of power is seen in majority of the cases.

(1) Quick Decisions : In the decentralization, the person who has to take the decision in that work or activity is involved completely and has the power to take the decision and hence the decisions are taken quickly and effectively.

(2) Less Work Load on Top Level : The top level is the level where most of the policy matter related decisions are taken. With the help of decentralization of power, the decision taking authority is given to middle or lower level hence the work load on upper level is reduced.

(3) Increased in Motivation : Due to decentralisation employees get motivation and their self confidence increares. They are given independence on middle or lower levels and when they see their decisions becoming successful, their confidence boosts. They also get the experience on how to take such kind of decisions in such kind of situations.

(4) Increase in Management Abilities : In decentralization, the middle and lower level employees take decisions as per their powers and they are given independence for the same, hence they become efficient leaders, they develop skills to work in a co-ordinated manner, they develop able administrative skills and they learn to administer control. Hence the employees take decisions in different circumstances and they increase their abilities. In this way the future Managers emerge.

(5) Effective Control : The managers of all the levels have enough power and so they can exercise control on the levels in which the employees commits mistakes, they can take disciplinary actions, which becomes easy for them and hence an effective control is maintained.

(6) Harmony is Created : Due to decentralization at, all the levels employees are included in the decision making process and they are also given due importance. All the levels of officers and employees, that is the decision makers and the followers, they discuss things and then take proper decisions. In this process, one group comes in contact with the other group. In this way an environment of harmony is created.

4.4.5 Limitations : The place where the organization is running on a very small scale and the business secrets are to be maintained with great vigilance, in this case, decentralization cannot be accepted. Sometimes, due to common policy not implemented or co-ordination not maintained properly, decentralization is not successful.

4.5 Delegation of Authority

4.5.1 Meaning : According to legal view, power means, authority to take legal action. But in business units, power is to give orders and also to see to it that the orders are followed.

When the size of the organization becomes large, the upper level administrators assign some work to their helpers. They have to see, whether the orders are followed or not. In order to enable such helpers to perform their task well, some powers are vested upon them. This is called delegation of power. In this way, in ordinary words it can be said that to delegate power is to enable the other person to have power for doing the task well.

4.5.2 Definition :

- According to **Louis Allen,** "Delegation of power is such kind of process in which the administrator gives a part of the powers to his helpers along with duties, and the helpers, with the help of others, for the purpose of work performance, accepts such powers consciously." In the delegation of power the understanding of the responsibilities is the main thing. The helpers are given powers and they are responsible to get the work done but the final completion of the work and its responsibility rests with the upper level administrator only and he cannot free himself from that.

4.5.3 Importance : Delegation of power relieves upper level administration from more work. Hence they can focus upon policy matters. Due to which management is more efficient. Hence it can be said that power is the key to administration, but delegation of power is the key to organization.

(1) Work Efficient Management : Due to delegation of power, the officers working on higher level, have less burden of work and the routine work are hence distributed resulting in the focus on important areas. At the same time they can meet the objectives, due to which the business unit gets work efficient management.

(2) Development of Employees : Different employees working in the organization get an opportunity to work and take decisions due to decentralization of power. Due to which their confidence is improved. They can have a better decision making capacity and take logical decisions due to constant need of taking decisions.

(3) Motivation : Due to delegation of power, the employees have the chance to develop their abilities. Due to which they also gain psychological benefits. When the higher administrator delegates the power and enables decentralization to the helpers, such helpers not only get the work accomplished but at the same time gets boost to self-confidence due to such work accomplishment. Due to this, the right kind of motivation is obtained.

(4) Benefit of Specialization : In a single unit, it is possible that all the employees may not have abilities in all the fields and areas. It is obvious that such ability is not possessed by all but due to decentralization of power, different people are assigned different kind of work and hence the benefit of the specialized skills of such people is obtained in the matters of their abilities, skills and varieties of excellence.

(5) Co-ordination : Due to delegation the relationship of helper and upper officers are developed. The middle and lower level employees get the chance to take their decisions independently. In this way,

their opinions are respected and they are able to develop inter personal relations in the organization. This enables good co-ordination.

(6) Scope for Expansion : Due to delegation of power, the upper level officers are free to focus on new ideas for the expansion of the business. This enables long life to the organization and ease in doing business.

4.5.4 Elements of Delegation of Authority :

● According to **Louis Allen,** "Delegation of authority means assignment of responsibility and power to the subordinates by creating accountability for effective performance."

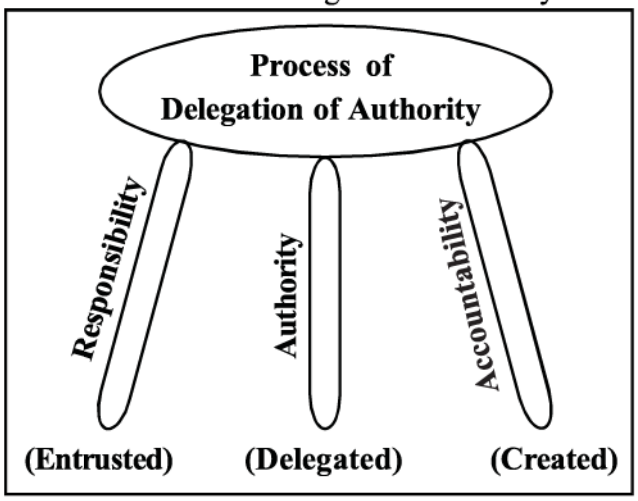
According to him, the following elements are included in the delegation of authority :

(1) Entrustment of Responsibility

(2) Conferment of Authority

(3) Creation of Accountability

In this way a tripod structure of the delegation of authority can be formed. All the three elements are equally important and independent still mutually connected. An effective organisational structure can be formed by balancing them.



4.5.4.1 Entrustment of Responsibility : Entrustment of responsibility is the duty assigned by the top level officer to the subordinates for a particular work. The responsibility is given to accomplish a particular task. It creates a relationship between superior and subordinate because the subordinate is expected to follow the orders given by the superior. Thus assignment of responsibility flows from top to bottom level.

4.5.4.2 Conferment of Authority : By giving power to a person, result can be obtained by work accomplishment. The administrators should provide enough power to the helpers or sub ordinates so that they can allot the work to the lower levels and get the work done. Hence delegation of authority is an important step towards allotment of power. This flows from upper to lower level. Normally, in this process, the power to give decisions and the power to give orders is given. This delegation of authority can be for various purposes. For example, Marketing Managers are given power to incur necessary expenditure in their work area, the appointment of employees, to take disciplinary actions against the employees, etc.

4.5.4.3 Creation of Accountability : The delegated authority holder has to provide proper explanation and follow reporting process to the top level management. This is known as accountability. He may surely be given powers to get the work done by others but finally the responsibility of getting the work done rests with the upper level administrators only. Hence the middle level authority holders should take care to ensure that the work is properly done by the lower level staff. The middle level authority holder cannot free himself from his responsibility of getting work done. This accountability flows from lower to upper level. This accountability cannot be passed on. For example, the Accounts Officer may give the work of writing accounts to his Accountant but when the Accounts are written, it is the Accounts Officer who has to check the accuracy of the work done and not the Accountant.

What did you learn in this Chapter ?

Introduction :

Meaning of Organizing : In general words... the structure formed in order to enable delegation of authority and responsibility towards the people actively engaged for a common goal is organizing.

Definition : As per Chester I. Bernard.... The activity conducted by two or more people and their co-operation is called Organization.

As Per Shri Louis Allen.....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.

Concept : Where two or more people work together, the structure for the work accomplishment in an effective manner is called Organizing. In which delegation of authority and responsibility is distributed to attain common goal.

Characteristics : (1) Goal oriented Activity (2) Planning based (3) The delegation of authority and responsibility (4) Importance to human element (5) Flexibility (6) Establishment of inter relationships (7) Monitoring and Control (8) Group activities (9) Controlled Administrative structure

Steps for the Process of Organising : (1) Clarification of objectives (2) List of functions (3) Departmentation of function (4) To determine departmental position and abilities (5) The delegation of power and responsibility (6) Establishment of inter relationship (7) To prepare organizational chart

Structure of an organization : (1) Linear organization (2) Functional organization (3) Formal organization (4) Informal organization (5) Matrix organization

Linear Organization

Meaning : The distribution of power and responsibilities is done in straight line from top to bottom levels. As the distribution of power is in straight line from upper to lower level, it is called Linear organization.

Formation : In this structure whole organisation is divided into various division/segment. Divisional officer is appointed for each segment. This divisional officer is responsible to higher officer for their functions. Divisional officer is assigned all powers for his segment. In this form, formation of organization is done according to division not as per function. So it is known as linear organization.

Functional Organisation :

Meaning : A structure is formed in which, the special knowledge based expert are given special responsibilities in the particular unit, which is called Functional organization.

Formation : Functional organization specially stresses work distribution and specialization. In this structure, the distribution of work is not done according to the units but according to the nature of work. For each kind of work different experts are appointed. Such experts are not only advisors, they are also administrative heads who are fully responsible to the task assigned to them. For example, the Purchase Officer is fully responsible for all type of Purchase related work.

Formal Organisation :

Meaning : In order to achieve the predefined goals, the formal structure of relations among persons and work is established which is known as Formal Organization.

Characteristics : (1) Formal Structure (2) Lacking flexibility (3) Delegation of power from upper to lower level (4) Large size (5) Particular relations (6) Communication.

Informal Organisation :

Meaning : Informal organization is that formation of internal relations automatically formed on its own, in order to provide contribution to some result achievements, formed without any conscious objective. The relations are inevitably developed among the people working together. Such relations are not formally formed. Hence no formal or proper chart can be prepared for the same. It can be considered as a shadow of formal structure of organization.

Characteristics : (1) Informal structure (2) Based on human relations: (3) Ever Changing (4) Universal (5) Informal communication (6) Small size (7) Lack of control (8) Complement to formal structure

Matrix organization :

Meaning : Matrix organization is a modern kind of organization, which has two different type of structures. One is the simple kind of structure, which is a part of decision making process and the other is a structure solving technical problems and is called Project structure. The combination results in Matrix organization.

Design : In Matrix organization we find a combination of function based and project based departmentalisation. In this type of organization, each project manager is given different type of work responsibilities. Project Managers are appointed as per the number of projects. The responsibility of the Project Manager is to successfully complete the project assigned to him one time. Thus, experts from different staff members are obtained from different function for project work and development. They are divided into different groups. For example, Computer experts and development research experts, Product design experts, technical experts etc.

Decentralisation :

Concept : The thought of decentralization is a very important from the view point of authority and responsibility. The administrators have to decide themselves to have centralized or decentralized power in the organization. The idea formed in advance, the benefits can be obtained. Small sized organization can have centralized powers and the large sized organizations can have decentralized forms.

Meaning : The delegation of power from top to bottom level in orderly manner is known as decentralization of power.

Definition : According to Henry Fayol, "To assign powers to the subordinates, to enable distribution of work, and to include them in decision making process is called decentralization"

Importance : (1) Quick decisions (2) Less work load on top level (3) Increase in motivation (4) Increase in managerial abilities (5) Effective control (6) Harmony is created.

Delegation of Authority :

Meaning : According to legal view, authority means to take legal action. But in business units, authority is to give orders and also to see to it that the orders are followed.

Definition : "According to Louis Allen, "Delegation of authority is such a process in which the manager gives his authority to his subordinates along with duties, and the subordinates with the help of others, for the purpose of work performance, accepts such authority consciously."

Importance : (1) Efficient Management (2) Development of Employees (3) Motivation (4) Benefit of Specialization (5) Coordination (6) Scope for Expansion

Elements of Delegation :

Entrustment of responsibility :

Entrustment of Responsibility is the duty assigned by the top level officer to the subordinates for a specific work. The responsibility is given to accomplish a particular task-person in authority and the person or people who follow is pre-determined, as the followers have to follow all the orders of the authority. Hence the flow of responsibility is from upper to lower level.

Conferment of Authority : The administrators should provide enough power to the helpers or sub ordinates so that they can allot the work to the lower levels and get the work done. Hence delegation of authority is an important step towards allotment of power. This flows from upper to lower level.

Creation of Accountability : The delegated authority holder has to provide proper explanation and follow reporting process to the top level management. This is know as Accountability. This accountability cannot be passed on. This accountability flows from lower to upper level.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) When more than one person is working towards the achievement of common goal, the structure so formed is called .....

(A) Planning (B) Organisation (C) Control (D) Directing

(2) What is possible from the following due to departmentalization of work ?

(A) Specialisation (B) Planning (C) Co-ordination (D) Directing

(3) Which organisation is called Army Organisation ?

(A) Matrix (B) Functional (C) Linear (D) Informal

(4) In which type of organisation, work is given more importance than department ?

(A) Linear (B) Functional (C) Informal (D) Matrix

(5) The Network framed naturally by human relations is called ?

(A) Informal Organisation (B) Linear Organisation

(C) Formal Organisation (D) Matrix Organisation

(6) A person who is at bottom level and receives orders is called ?

(A) Subordinate (B) Superior (C) Project Manager (D) Officer

(7) Organisation framed with the mixture of project structure and general structure is called ?

(A) Matrix Organisation (B) Linear Organisation

(C) Functional Organisation (D) Informal Organisation

(8) What is it called where authority is centrally delegated at higher management level ?

(A) Decentralisation (B) Centralisation (C) Decapitalisation (D) Transmission

(9) From the following, what should be implemented to prepare future managers ?

(A) Decentralisation (B) Centralisation (C) Decapitalisation (D) Work Distribution

(10) What can not be delegated from the following ?

(A) Authority (B) Responsibility (C) Accountibility (D) Work

2. Answer the following questions in one sentence each :

(1) What is organization ?

(2) What is called delegation of Authority ?

(3) What is Informal Organisation ?

(4) What is Matrix Organisation ?

(5) What is Responsibility ?

(6) What is accountability ?

3. Answer the following questions in short :

(1) "Organising is Body and Planning is a Brain of Business Enterprise" - Explain.

(2) "Distribution of Authority and Responsibility is a base of an Organisation" - Explain.

(3) "Formal and Informal Organisations are Complementary to each other." - Explain.

(4) When is Decentralisation Possible ?

4. Answer the following questions in brief :

(1) Describe characteristics of Informal Organisation.

(2) Explain Functional Organisation with its formation.

(3) Write a note on Matrix Organisation.

(4) Explain about Elements of delegation of authority.

5. Answer the following questions in detail :

(1) Explain types of organisation.

(2) Explain steps for the process of organisation.

(3) Explain characteristics of organising.

(4) Describe importance of decentralisation.

(5) Explain importance of delegation of authority.

●

5 STAFFING

What will you learn in this chapter ?

- Introduction

5.1 Staffing
- 5.1.1 Concept
- 5.1.2 Characteristics
- 5.1.3 Importance

5.2 Staffing as a Part of Human Resource Management

5.3 Process of staffing
- 5.3.1 Recruitment
- 5.3.2 Meaning
- 5.3.3 Sources
  - (A) Internal sources
  - (B) External sources
- 5.3.4 Selection
  - 5.3.4.1 Process of selection

5.4 Training and Development
- 5.4.1 Training
  - 5.4.1.1 Concept
  - 5.4.1.2 Importance
- 5.4.2 Development
  - 5.4.2.1 Concept
  - 5.4.2.2 Importance
- 5.4.3 Difference between training and Development

Introduction

After Industrial Revolution, Industries started production on a large scale. Initially there was no proper system for production. System of earning more profit at less cost began. As a result, exploitation of employees began. At the end of 19th century, dynamic management leaders realized that in production, sensitive staff is more important than inanimate machines. They also realized that machines do not work automatically but employees operate them. As a result they realized the need for a scientific system for employee's recruitment, selection, appointment, promotion, transfer and training.

5.1 Staffing

The function of staffing is also as important as other functions of management. It is a process of development of an individual. In the past, human element was not given due importance. Planning of business might have been done in the best possible manner and formation of organization also might have been proper but if the selection and training of the personnel is improper, then the organization cannot be successful. The success of an organization depends on the efficiency and attitude of its employees. Staffing is an activity of maintaining relations with the employees of the organisation.

5.1.1 Concept : In the ordinary sense, the term staffing is not merely recruitment but also includes acquiring employees, training and maintaining them in the organization.

In a wider sense, it includes recruitment, selection, training, promotion, transfer and post retirement activities.

5.1.2 Characteristics :

(1) Important Function of Management : Staffing is also one of the important functions of management like planning, organizing, directing, co-ordinating and controlling.

(2) Perennial Process : Organization cannot exist without employees. As long as organizational activities exist, employees and staffing will also exist.

(3) Concerned with Human Relations : The main objective of staffing is to acquire the right employees and make the best use of them. Employees are the only living factors of production. They have feelings and self respect. As it is related with human element, humanitarian behaviour is expected towards them.

(4) **Staffing is a Dynamic Process :** Because of proper staffing all the activities of an organization become dynamic.

(5) **Related with Other Managerial Functions :** Other managerial functions like planning, organizing, directing, co-ordinating and controlling are closely related with staffing.

(6) Wide Scope : Staffing is not merely an activity for labour welfare but is also concerned with acquiring, training and maintaining personnel and it also works for their development.

(7) **Capital Expenditure [Investment] :** The expenditure incurred for recruitment, selection, training and development of the staff is not an expense but an investment.

5.1.3 Importance : Staffing occupies an important place in the process of management. As more industries have been developed, the importance of staffing has also increased. Any organization without staff is like a mere skeleton. The inanimate machines can increase production but employees can give even better results. In comparison to other factors of production, the future of a business enterprise depends much on its staff. Staffing is the only living factor of production.

Personnel cannot be considered as physical resources because they have feelings, self-respect, intelligence, understanding and different skills.

An expert has rightly said, "Mind your men, men will mind everything for you."

Following points will clarify the importance of staffing :

(1) **Driving Force :** Contented and efficient staff is the driving force of an organization. Only an efficient staff can accomplish the objectives of business along with other factors of production.

(2) **Dynamic Activity :** Staffing infuses dynamism into business and performs all the activities of the business.

(3) **Important for Other Functions of Management :** Other managerial functions like co-ordinating, directing, controlling, planning, etc. cannot succeed without proper staffing.

(4) **Limbs of the Business Enterprise :** Planning occupies the place of the brain in the human body while staffing is like the limbs of an enterprise. Without them activities cannot be done in an organization.

(5) **Job Satisfaction among Staff :** Due to staffing, the complaints and problems of the employees can be understood and speedy solution is possible. Proper planning and distribution of work creates feeling of job satisfaction among the employees.

(6) **Harmony in Relations :** Staffing creates an environment of satisfaction among employees. It helps to establish cordial relationship between employers and employees.

(7) **Increases the prestige of the Organization :** A contented and efficient staff is an invaluable asset. It increases the prestige of the organization.

(8) **Continuous Process :** The very existence of business is not possible without its staff. As long as business activities continue, staff and staffing process will also continue.

5.2 Staffing as a Part of Human Resource Management

Human Resource Management is the process of planning for recruiting necessary staff and developing it for the achievement of enterprise objectives.

Most of the business enterprises, now a days, consider their staffing department as Human Resource Department (HRD). Generally staffing includes recruitment, selection and training. It also includes materialistic facilities, progressive wage system and employees' welfare while Human Resource Management includes growth and development of personnel. Formerly the meaning of staffing was confined to filling up of vacancies only, but, today it has become a part of Human Resource Management. In these days of global competition, the importance of human resource has increased. Considering other factors of production to be noteworthy, good results can be achieved by the recognition of the staff, its loyalty, efficiency, satisfaction and care.

The process of Human Resource Management can be divided into two parts :

(A) Concern with Man Power Planning :

(i) To plan for required staff in the organization and increase the staff through new appointments.

(ii) According to the time and situation necessary and selective reduction in staff.

(iii) Appropriate placement of staff.

(iv) To keep the staff constantly active and enhance their knowledge.

(B) Concern with Compensation and Development of Staff :

(i) To provide work related training to the staff; whenever necessary.

(ii) To provide a conducive environment to the staff and also opportunities to improve their proficiency.

(iii) To give proper compensation and benefits to the staff.

(iv) To recognize work related problems, find solutions for the same and implement them.

According to Human Resource Management, employees are not mere factors of production, but they are more than that. They are considered as the Human element. Management principles and functions are adopted to create stable staff. This reduces the rate of labour turnover. It increases the efficiency and job satisfaction of employees, by which, organizational objectives and employee objectives can be achieved.

5.3 Process of Staffing

According to an Industrialist, "Contented, experienced, creative and honest staff is an invaluable asset of business." Right from the establishment of an organization, the function of recruitment of staff is important. Recruitment of staff should be done on the basis of suitable qualifications, skills, knowledge and sincerity, and not on the basis of any influence, corruption or nepotism. And for this a scientific method of recruitment should be adopted.

5.3.1 Recruitment : Recruitment is a continuous process. Recruitment is to be made when a new enterprise is established, when an existing unit is expanded or when an employee resigns, dies or retires.

5.3.2 Meaning : In the ordinary sense "Recruitment is the process of looking for probable employees and making them apply for the job."

In a broader sense "Recruitment is the process of acquiring at the right time, in the right number, in the right place, persons with the right qualifications."

5.3.3 Sources of Recruitment :

	(A) Internal Sources		(B) External Sources
(1)	Promotion	(1)	Through Advertisement
(2)	Transfer	(2)	Through employment exchange
(3)	Friends and relatives of employees	(3)	Through educational institutions
(4)	Recalling retrenched employees	(4)	Through trade unions
(5)	Promotion with transfer	(5)	Through contractors and jobbers
(6)	Waiting list	(6)	Recruitment at the gate
		(7)	Modern methods

(A) Internal Sources :

(1) Promotion : Whenever any post is vacant or any new position is created, promotion should be given by the management on the basis of work of the existing employee, his ability, honesty, skill, loyalty and qualifications. Promotion of employees will boost their morale and loyalty. Promotion also results in increased salaries, status, power and responsibility.

(2) Transfer : If there is any shortage of employees in any department, it can be rectified by transferring to it, the surplus employees of another department, keeping in mind their qualifications. In this way shortage of employees can be rectified.

(3) Friends and Relatives of Employees : Whenever a vacancy comes up in an organization, employees are asked to recommend their qualified friends and relatives to the post. Recruitment is made after receiving applications from them. This helps to boost the morale of the employees and they feel proud to be a part of the recruitment process.

(4) Recalling Retrenched Employees : Former employees who were retrenched because of some reasons or who have joined elsewhere voluntarily can also be recalled by the management on the basis of their experience, knowledge and efficiency.

(5) Promotion with Transfer : Under this system, existing employees can be transferred with promotion to another branch under the same management on the basis of their efficiency, experience and loyalty e.g. An employee can be transferred with promotion to his native place or any other place of his choice. This will boost the morale and enthusiasm of the employee.

(6) Waiting List : A waiting list is the list of candidates who had applied in the past but could not be absorbed. Such a list is useful for recruitment at a later date. This helps to avoid the advertisement and recruitment process all over again. As and when required, candidates can be recruited from this list as per their order of merit.

(B) External Sources :

(1) Through Advertisement : It is an effective alternative for recruitment. Applications are invited through advertisements in newspapers, business journals and periodicals for specific posts. Apart from this, candidates can also apply online after seeing the advertisement on internet, TV or websites. A large number of applications can be received from distant corners of the country. Right candidate can be selected by this method.

(2) Through Employment Exchange : Public and private employment exchanges prepare a list of prospective candidates who are unemployed and in search of jobs. Keeping in mind their details like name, address, qualifications, experience, skills, etc, the employment exchange provides a list of such qualified but unemployed candidates as and when asked for, by business enterprise. They then may select suitable candidates from this list.

(3) Through Educational Institutes : Many enterprises make recruitments by this method in modern times. Technological institutes, colleges and Universities conduct campus recruitment and provide specialized and knowledgeable personnel to business organizations. The required personnel can be recruited by obtaining names from the heads of the concerned institutions by campus interviews. Such placement camps are arranged every year at various institutes like Indian Institute of Management (IIM), Indian Institute of Technology (IIT), etc.

(4) **Through Trade Unions :** Trade unions make a list of employees of an organization. Sometimes when there is less work or due to any other reason, workers are retrenched. Due to increase in work load whenever the need arises for more employees, such retrenched workers can be recruited with the help of trade unions. This often happens in Textile Industries, Mining Industries, etc.

(5) **Through Contractors :** In this system a contract is made between the business enterprise and the contractor for the supply of workers. The contractor takes the responsibility of arranging workers (labourers). The contractor is in constant contact with various types of labourers. As and when required, he arranges for labourers at fair wages. This often happens with workers for Construction Industries, Mining Industries, Tea Plantation, etc. In this method there is the possibility of workers being exploited. Generally unskilled labourers are supplied by this method.

(6) **Recruitment at the Gate :** Workers can be recruited by business enterprises by placing a notice at the factory gate. This method is more suitable for daily wages.

(7) **Modern Method :** In modern times recruitment can be made by the use of internet. Various agencies register the biodata of prospective candidates on their websites. Whenever there is a vacancy, these agencies or the business units can use this facility to get the required candidates. For this all the procedures are done online; like application, exams (tests), results and appointments. In this method the candidate can take maximum benefit if he is well-versed with computer and internet. Generally this method is suitable for recruitment of skilled employees.

5.3.4 Selection : Selection means to select the proper candidate from the applications received. Selection is a part of the recruitment process. The selection process varies from organization to organization, on the basis of size, type of organization and kind of employees required. There are three levels of management in all large enterprises; top, middle and bottom level management. At different levels of management, different types of qualified employees are required. The selection procedure for non-managerial staff is short and simple. While the selection procedure for top managerial positions is of a special nature and well planned. It is necessary to select the right person for the right job as selection of an employee is a very important aspect. The selection of a suitable, expert, experienced and loyal employee is an invaluable asset for the enterprise.

5.3.4.1 The Process of Selection :

(1) **Welcoming and Primary Meeting :** At this stage the candidate is welcomed by the enterprise. The receptionist makes the primary investigation and if the candidate is found suitable/eligible he will be sent to the recruitment officer. The recruitment officer collects information about the knowledge, skill and the working capability of the candidate. The main objective at this stage is to prevent the improper/ unsuitable candidate from applying in the initial stage. If the candidate is found suitable in the primary meeting, he will be asked to fill in the application form. This saves the time of the recruitment officer and the process also becomes simple.

(2) **Receiving and Screening of Applications :** The recruitment officer gets information about the educational qualifications, experience, knowledge and skill of the candidate. The candidate, along with application sends different documents of his qualifications like marksheets, experience certificates, etc. Filled in applications which are found incomplete or wrong are rejected, after screening.

(3) **Taking Necessary Tests :** Various types of tests are conducted for those candidates whose applications are accepted. Every enterprise conducts tests in its own way. Various tests are conducted to know their mental ability, skill, aptitude and efficiency, etc.

(i) **IQ Test :** IQ test is meant to assess the common sense, memory, smartness, power of decision making and thinking capacity, etc.

(ii) **Aptitude Test :** This test is meant to know whether the candidate has interest for the specific work or not, for which he is selected.

(iii) **Trade Test :** This test is meant to decide whether the candidate has the necessary skill to perform the expected job or not.

(iv) **Psychological Test :** This test is meant to know about the nature, self-confidence, attitude and habits of the candidate.

(4) **Personal Interview :** Candidates who succeed in the above tests are called for personal interview. A committee is formed for the selection of candidates. In this way, assessment can be made without any bias. The interview committee consists of representatives of the management, the departmental head, the personnel manager and experts from various fields. Work related questions are asked. Proper care is taken so that there is no deviation from the topic. At this stage the terms and conditions of the job can be made clear.

(5) **Checking References :** The information given by the candidate in the application form should be checked by referring to his present and past employers to get an idea of the correct situation. To get the right opinion about an employee, the information collected should be free from any bias. The opinion of the references given by the candidates helps in taking right decision.

(6) **Preliminary Selection :** If the matters gathered from personal interview and the past references are positive then the selection committee will make a list of selected candidates. This list usually includes more number of candidates than required.

(7) **Physical (Medical) Examination :** After preliminary selection of the required candidates they are sent to a specified hospital or doctor for medical examination. The main objective of this examination is to know whether the candidate is suffering from any serious illness or any other physical problem. Rest of the employees are kept in waiting list. In future, whenever any candidate is required, selection can be done from this waiting list according to their order of merit.

(8) **Appointment Letter :** After making the final selection, appointment letter is given to the selected candidate. In this letter, information regarding nature of work, work place, designation, rights and responsibilities, remuneration and other financial and non-financial details are given.

(9) **Induction into the Organization and Allotment of Work :** In modern organizations, after giving the appointment letter and before the allotment of duties, employees are given information regarding the policies of the organization, organization environment, superiors, colleagues and subordinates. After this, duties are allotted to the candidate.

5.4 Training and Development

5.4.1 Training : However efficient the recruited personnel might be, without experience and expertise, proper functioning of the organization is impossible. Training is the process of imparting theoretical and practical knowledge with the objective of acquiring proficiency in work. Training is not temporary but a continuous process. To increase knowledge, ability and proficiency of employees, the organization arranges training programmes.

5.4.1.1 Concept : In general terms "Training means providing theoretical and practical knowledge with reference to the work of the employees."

As stated by an expert, "Training means giving up-to-date information about the organization and also to increase efficiency, skill, aptitude, attitude and technical skill of the employees."

In short "Training means imparting knowledge and education with the objective of gaining proficiency in the business."

5.4.1.2 Importance :

(1) Modern Information : Training is necessary for apprising the employees about modern technological changes and research.

(2) Safety : Those workers who are handling machines are given information regarding operation of machinery so that accidents can be reduced. This nurtures aptitude for work in the employees and also leads to less fatigue and high morale.

(3) Increase in Job Satisfaction : Training improves understanding of the workers and when they are given the job for which they have been trained, it increases their enthusiasm which, in turn, increases their job satisfaction.

(4) Reduction in Rate of Labour Turnover : Training increases knowledge, skill and efficiency of the workers which, in turn, increases or improves their chances of promotion and income. Since it makes them more efficient, they do not think of changing their job which, in turn, decreases the rate of labour turnover.

(5) Increase in Profit : Training increases production and productivity thereby reducing cost of production and increasing profit.

(6) Reduction in Expenses : Training increases efficiency of the workers which increases production and decreases wastage of raw material. Supervision cost also reduces. Thus total expenditure is reduced.

(7) Growth and Development of Employees : Training results in the increase in skill, knowledge, ability and intelligence of the employees. This also results in personal growth and development of the employees.

(8) Other Benefits : Training improves quality of production. It enhances prestige of the organization and reduces stress. An environment of co-operation is created and loyalty, sincerity and enthusiasm of employees is increased.

A separate training department has to be maintained for training and special officers have to be appointed by big enterprises to provide training to new employees. Raw material may get wasted and stipend has to be paid to the trainees. Thus training is expensive but its benefits outweigh the expenses incurred. "Training is expensive but its absence is more expensive." So the amount spent on training should not be considered an expense but an investment in business.

5.4.2 Development : Top level management and departmental heads have more of intellectual work than physical work. So, special training is given to them. The objective of this training is to increase their mental ability and their efficiency in taking policy decisions. Due to this they become experts in technical knowledge and make strategic plans and policies. This type of training is called officer development in present time.In this industrial world many upcoming changes are taking place. So to enhance the ability of top level management, the organization has to undertake development oriented programmes.

5.4.2.1 Concept : Development is the process of imparting theoretical and practical knowledge to top level management and departmental heads.

The term development refers to a program which helps to achieve the predecided objectives of the organization by improving the capabilities of heads (officers).

5.4.2.2 Importance :

(1) Increase in Technical knowledge : With changing business conditions, it is necessary for the officers of organization to have technical knowledge because their functions are related with technical aspects. Developmental programmes provide guidance (knowledge) to use technical knowledge, machines and methods, so that positive decisions can be taken for organizations.

(2) Research and New Ideology : It increases the efficiency of departmental heads to work at the administrative level by providing them knowledge about new researches and ideologies.

(3) **Development of the Organization :** In present times developmental programs are necessary to take the organization to national and international levels by adopting new changes and strategies.

(4) **Optimum Use of Resources :** Developmental programs help to make optimum use of available resources. Apart from this it reduces unnecessary expenses, controls the cost of production thereby increasing the profit.

(5) **Solution to Problems :** Development programs are necessary for speedy and successful solution of newly arising problems of the organization.

(6) **Effective Supervision :** Development programs enhance the skill of officers who have technical skill and mental strength to keep effective supervision on business activities.

(7) **Reduce Stress :** Management and departmental heads often have to face many challenges and problems while managing the enterprise or business. So while taking decisions a lot of confusion or stress is created. Developmental programs help to reduce this stress.

(8) **Development Programs :** Such programs help the officers to meet future challenges and bring suitable changes in the business.

5.4.3 Difference between Training and Development :

Sr. No.	Main Points	Training	Development
(1)	**Meaning**	It is a process of imparting theoretical and practical knowledge to employees with the object of acquiring proficiency in work.	It is a process of imparting theoreitical and practical knowledge to top level management and departmental heads.
(2)	**Objectives**	The objective of training is to increase efficiency and productivity.	The objective is over all development of management and officers by enhancing their latent capacities and moulding their personalities.
(3)	**Centre Point**	Work is at the centre of training.	Future career and probable challenges are at its centre.
(4)	**Time and Expense**	It is a short term process and less expensive.	It is a long term and expensive process.
(5)	**Who Imparts ?**	Training is imparted by experienced employees, experts or supervisors.	For this the help of Educational Institutions and experts of various fields is taken.
(6)	**To Whom ?**	Training is given to staff at the bottom level.	Developmental programs are for executives and departmental heads working at top and middle level.

What did you learn in this chapter ?

Staffing :

Concept : In a wider sense staffing includes/means recruitment, selection, training, promotion, transfer and post retirement functions.

Characteristics : (1) Important function of management (2) Perennial/continuous process (3) Concerned with human relations (4) Dynamic process (5) Related with other managerial functions (6) Wide scope (7) Capital Expenditure.

Importance : (1) Driving force (2) Dynamic activity (3) Important for other functions of management (4) Limbs of the business (5) Job satisfaction among staff (6) Harmony in relations (7) Increases the prestige of the organization (8) Continuous process

Staffing as a part of Human Resource Management : Function of Human Resource Management. (1) Concerned with man power planning (2) Concerned with compensation and development

Process of Staffing :

(1) Meaning of Recruitment : In broader sense, "Recruitment is the process of acquiring at the right time, in the right number, in the right place, persons with the right qualifications."

Sources of Recruitment :

(A) Internal Sources : (1) Promotion (2) Transfer (3) References of friends and relatives of employees (3) Recalling retrenched employees (4) Promotion with transfer (6) Waiting list

(B) External Sources : (1) Through advertisements (2) Through employment exchanges (3) Through educational institutions (4) Through trade unions (5) Through contractors (6) At the gate (7) By modern methods

(2) Selection : It means checking the applications received and appointing the suitable candidate.

Selection Process : (1) Preliminary meeting to welcome (2) Receiving and screening of applications (3) To take necessary tests like IQ test, aptitude test, trade test and psychological tests (4) Personal interview (5) Checking past references (6) Preliminary selection (7) Physical examination (8) Appointment letter (9) Induction into the organization and allotment of duties

Training and Development :

Training : Concept : It is the process of imparting theoretical and practical knowledge with the objective of acquiring proficiency in work.

Importance : (1) Modern information (2) Safety (3) Increase in satisfaction (4) Reduction in rate of labour turnover (5) Increase in profit (6) Reduction in expenses (7) Growth and development of employees (8) Other benefits

Development : Concept : Development is imparting theoritical and practical knowledge to top level officers and departmental heads.

Importance : (1) Increase in technical knowledge (2) Research and new ideology (3) Development of the organization (4) Optimum use of resources (5) Solution to problems (6) Effective supervision (7) Reduce stress (8) Developmen programs

Difference between Training and Development :

Main Points : (1) Meaning (2) Objectives (3) Centre point (4) Time and expense (5) Who imparts ? (6) To whom ?

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) Employees are ..... for business.

(A) equal to capital (B) responsibility (C) strength (D) invaluable assets

(2) The main function of Human Resource Management is .....

(A) Increase in sales (B) Quality control (C) Man power planning (D) Production

(3) First step or stage of the selection process is .....

(A) Receiving and screening of applications. (B) Preliminary meeting and welcome.

(C) Personal interview. (D) Employment test.

(4) The procedure upto obtaining candidates' application is

(A) Recruitment function. (B) Ordinary function.

(C) Advertisement function. (D) Selection function.

(5) Which test decides the ability of the candidate ?

(A) IQ test (B) Aptitude test (C) Psychological test (D) Trade test

(6) Selection procedure for non-managerial staff is .....

(A) difficult. (B) short and simple. (C) expensive. (D) long and special.

(7) Which type of function of management is Staffing ?

(A) Productive (B) Objective oriented (C) Managerial (D) Administrative

(8) ..... is the second step after recruitment.

(A) To give promotion (B) Selection (C) Training (D) Transfer

(9) Which test is conducted to know the nature and self confidence of the employee ?

(A) IQ test (B) Trade test (C) Aptitude test (D) Psychological test

2. Answer the following questions in one sentence each :

(1) Give the full forms of :

IIM, IIT, HRM

(2) What is an organization without staff compared to ?

(3) State the names of various types of tests conducted for selection process.

(4) Which is the base of the selection process ?

(5) State the reasons for recruitment.

3. Answer the following questions in short :

(1) State the difference between recruitment and selection.

(2) State the internal and external sources of recruitment.

(3) What is development ?

(4) What is recruitment ?

(5) Give the meaning of training.

(6) Name the stages of the process of selection.

(7) Explain the term 'waiting list'.

(8) Staffing is not merely an employee welfare activity, Why ?

(9) What can be known through IQ and aptitude tests ?

(10) What can be known through trade test and psychological tests ?

4. Answer the following questions in brief :

(1) Write a note on staffing as a part of Human Resource Management.

(2) State the difference between Training and Development.

(3) "An efficient staff is an invaluable asset." Explain the statement.

(4) "Staffing is like the different limbs of the organization." Explain the statement.

(5) "Training is expensive but its absense is more so." Explain the statement.

5. Answer the following questions in detail :

(1) Explain the meaning and characteristics of staffing.

(2) Explain the importance of staffing.

(3) What is recruitment ? Discuss in detail the internal and external sources of recruitment.

(4) Explain the selection procedure.

(5) Explain the meaning and importance of training.

(6) Give the meaning of development and explain its importance.

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6 DIRECTING

What will you learn in this chapter ?

- Introduction

6.1 Meaning of Directing
- 6.1.1 Characteristics
- 6.1.2 Importance

6.2 Elements of Directing
- 6.2.1 Supervision
- 6.2.2 Functions of Supervisor

6.3 Motivation
- 6.3.1 Meaning
- 6.3.2 Characteristics
- 6.3.3 Hierarchy of needs by Maslow

6.4 Financial and Non-financial Incentives
- 6.4.1 Financial Incentives
- 6.4.2 Non-financial Incentives

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Introduction

Management functions include planning, organising, staffing and controlling. But implementation of decisions taken by managers is done by direction only. Decisions taken as per planning and organising are implemented by direction. The function of direction is to get the assigned work from employees. Without co-operation of people, achievement of business objectives is not possible. Directing includes supervision, giving orders and instructions and providing active leadership to the subordinates. The efficiency of employees in business depends upon direction. If the directing person is efficient, then an ordinary employee will give the best result. While the directing person is inefficient, even a good employee will not give expected result. Thus, efficient direction is an essential part of the management.

Function of direction and providing guidance to the business unit is like making a strategy for the war. It includes tools, material and use of man-power, the points at which special efforts are to be concentrated, the matter of complexity of economy and continuity of business should be considered. Where as it also includes moral and formal responsibilities of giving order.

6.1 Meaning

In general terms, "Direction means to guide the workers, make them aware of the work, supervise them and to maintain their enthusiasm for the work."

- Guidance given to the workers for the accomplishment of objectives is direction.
- According to **Koontz and O'Donnell**, "Direction is the executive function of guiding and observing subordinates."
- Direction is that function of management which gives orders and supervises the subordinates for the accomplishment of pre-determined objectives.

6.1.1 Characteristics :

(1) Goal Oriented Activity : The purpose of direction is to guide and motivate the employees, which leads to achievement of business objectives. Thus, direction is a goal oriented activity.

(2) **Function at Every Level of Management :** Direction is the function of management at all levels. Top level managers direct departmental officers regarding target, policy and administrative matters. In the same manner, at the bottom level, supervisors give orders and instructions to the foremen and jobbers, while jobbers and foreman direct the workers working under their control. Thus, direction moves from top level to the bottom level of management.

(3) **Continuous Process :** As long business activities will continue, the function of direction will also continue. Direction is provided to the employees regarding functions, procedure and interpretation of policy. Thus, direction is a continuous process.

(4) **Observation of Functions :** The purpose of direction is to see that, employees are working as per direction given to them or not. Direction is not merely the process of guiding and giving orders, but it is a process of observing whether work is done as per order or instruction or not.

(5) **Wider Scope :** Scope of direction is wider. It is not merely guiding and advising to the employees, but the manager has to provide understanding of decisions and to put the efforts for its implementation.

(6) **Communication :** Effective Communication is a pre-condition to give orders and guidance to the employees in direction. If communication process is not effective, it is difficult to give right direction, to the right employee at the right time.

(7) **Motivation :** It is necessary to motivate the employees, in order to extract the best efforts from them. Higher authorities give personal guidance to motivate the employees. Such guidance solves the problems and doubts of employees, generates faith in them therefore, they motivate to do better work.

(8) **Flow of Direction :** Direction is a downward process. It always moves from top level to bottom level management. Top level management gives guidance to the managers of middle level management and middle level management directs the workers of bottom level management.

(9) **Managerial Function :** Direction is a part of management like various other functions such as planning, organising, staffing, co-ordinating, communication and controlling.

6.1.2 Importance :

The efficiency of employees in business depends on direction. Achievement of business objectives is possible by motivating employees, by supervising their work and by providing proper guidance to them. Among all other managerial functions, direction has significant role.

(1) **Increase in Efficiency :** A business organisation becomes efficient only, when proper direction regarding departmental functions is given to the employees. Direction clarifies function of the employee, authority and responsibility. It boost their efficiency.

(2) **Assessment of Efficiency :** Assessment of employees' work is done through direction. Their evaluation of performance is done. Through direction, assessment and evaluation of the matters like whether the employees have done work as per direction or not, how much work is completed, how much efficiency is increased etc. can be done.

(3) **Motivation to employees :** Through direction, employees can be made aware about proper method, rules, policies of business. Their work related problems can be solved which motivates them for doing the work.

(4) **Effective Planning :** All the functions of a business cannot be planned by one person. A planner can chalk out a plan by collecting necessary informations through the subordinates.

(5) **Effective Organisation :** Due to direction, every employee becomes aware about his authority and responsibility. Therefore, orders and instructions given by the boss are followed properly, which makes entire organisation effective.

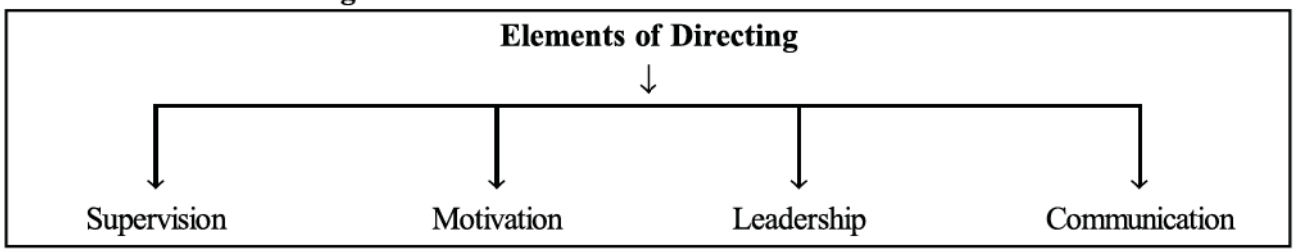
(6) Co-ordination and Co-operation : Co-ordination among employees can be maintained by direction. Employee's personal interest is integrated with the main objectives of the business. The leader providing direction co-ordinates the functions of the employees.

(7) Function of Control : Direction reduces the chances of work related mistakes and errors. Therefore, it becomes easy to get the work from employees as per decided targets. Thus, it makes controlling function easy.

(8) Increase in Enthusiasm : Due to direction, there is a change in attitude of employees towards the work. Their interest in work increases. They can bring solution, if any hurdle is created. As a result, there is continuity in work which boost up employees' enthusiasm.

(9) Finding Out Deviation : Through direction, it can be supervised that whether functions are done as per decided standards or not. So, the undesirable deviations can be regulated in the initial stage only. By taking effective steps, deviation can be controlled.

6.2 Elements of Directing



6.2.1 Supervision :

To supervise the work done by the workers is Supervision. Supervision function is mostly related with the internal working of the business. Supervision function is required more at bottom level of management. The one who does the observation of the work done by the workers and foremen is called Supervisor. Supervisor is responsible for the work of workers and foremen. He is the key person between the middle level management and the workers.

Supervision means to get the assurance that, subordinates have implemented the work given to them as per orders and instructions or not. And to get the assurance of maximum utilisation of human and physical resources for the achievment of business objectives.

Meaning :

- In simple term, Supervision means to supervise the function of employees.
- In the words of **R. C. Davis,** "Supervision is the function of assuring that the work is being done in accordance with the plan and instructions."

6.2.2 Functions of Supervisor :

(1) To plan the functions and to remove the hurdles.
(2) To provide necessary guidance and direction to complete the work on time.
(3) To supervise the employees constantly, to save time and labour.
(4) Supervisor does the function of integration of employees personal interest with the interest of productivity of business.
(5) To motivate and encourage the employees to increase their efficiency.
(6) To maintain feeling of oneness among the employees.
(7) To make communication work faster.
(8) To give guidance regarding use of new technology introduced in the business.
(9) To maintain discipline among employees.
(10) Supervisor does not keep control but provides training.
(11) Supervisor is friend, philosopher and guide for employees.

6.3 Motivation

Motivation is the internal feeling which encourages a person to work. There is a difference between capacity to work and the willingness to do so. The objective of management fails if the worker is capable but not willing to work. Among all the factors of production, only man is the factor which can increase production. Man is a living factor of production. He possesses special abilities and proficiency. Therefore, motivation is must.

Motivation is a wider concept. Where the man is performing, motivation function becomes necessary. Motivation includes financial incentives, non financial incentives, amenities, unsatisfied needs, etc.

6.3.1 Meaning : In general terms, 'Motivation means the process of stimulating people to perform action and to make it possible to have maximum work satisfaction.'

- As per **Jucious,** "Motivation is the act of stimulating someone or oneself to get the desired course of action."
- As per **Morgan,** "Motivation is that state of mind that leads workers towards objectives."

Thus, motivation is the process of inspiring people to get the expected result.

6.3.2 Characteristics :

(1) **Internal Inspiration :** Motivation is that strength or power which arises from the individual. Which makes the person realise that something is lacking and he gets inspiration which leads him to do certain activity.

(2) **Psychological Concept :** Motivation is a psychological phenomenon. Mental status of every person is different. Therefore the need of internal inspiration for every person is also different.

(3) **Increase Efficiency of Employees :** Workers are encouraged to produce more through motivation. Motivation boost their morale. Their productivity and efficiency tends to increase. Hence, profitability of business unit also increases.

(4) **Continuous Process :** Once motivation process has started, it remains continuous. Employees should be motivated to get the work done from them. Direction and guidance should be provided to them. Once they are encouraged, motivation cannot be stopped. It is a continuous process remains from beginning to end.

(5) **Reduction in Labour Turn-over Rate :** Motivation gives internal satisfaction to the employees. Motivation inspires the workers. Workers get remuneration as per work as well as satisfaction and respect which induce them to continue in the job and thus, the labour turnover rate decreases.

(6) **Achievement of Goals :** Motivation induces the workers to function effectively therefore, achievement of personal and business objectives becomes possible.

(7) **Wider Scope :** Motivation is a broad and splendor concept. Motivation includes different terms like need, motive, desire, emotion, aim, choice, will power, eagerness, temptation, etc.

(8) **Adopting Changes in an Organisation :** In modern time changes occur in industries and organizations, that constantly affects production, technology, raw material and other activities. Generally, the workers are not prepared to accept these changes quickly. However, they can be given proper understanding by motivation to accept these changes quickly and easily.

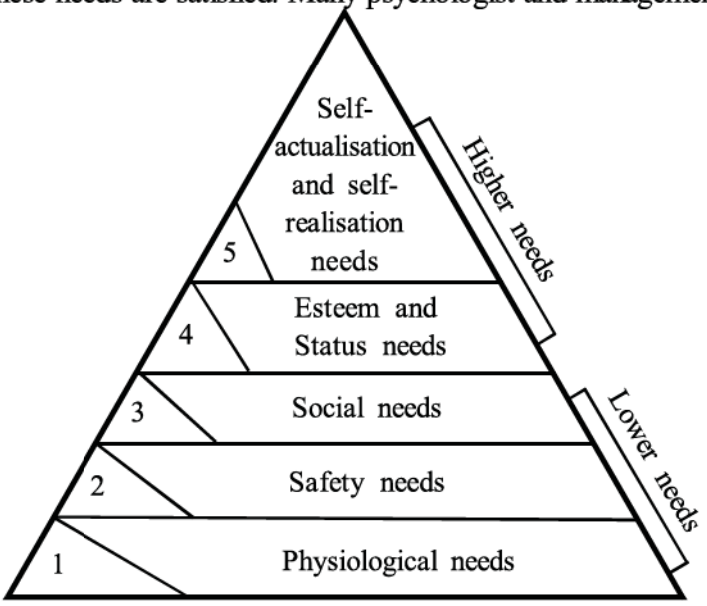
(9) **Tool to get Co-operation :** Motivation gives job satisfaction to the employees. As a result, they co-operate to their higher authorities.

(10) **Positive Attitude :** Motivation encourages positive attitude of the employee. When the problems of the workers are solved, they experience a feeling of respect for staffing as well as organization.

They work, as if they are a part of the organisation. Such a style of work makes possible the development of employees and business unit, which is the result of motivation.

(11) One of the Functions of Management : Motivation is an important part of the management. Managers have to get the work done from the living resources like employees and not from physical resources. Therefore, to motivate, is an important function.

6.3.3 Hierarchy needs by Maslow : Man's needs are varied. These needs are decided on the basis of his mental status. He is motivated, if these needs are satisfied. Many psychologist and management experts have made studies and formulated principles to arrange the needs in a proper order. The humanist psychologist Abraham Maslow had presented hierarchy of needs in his article 'Principle of Human Motivation' in 1943. Such five needs are arranged as per their priority.



(1) Physiological or Primary Needs : Physiological needs are basic needs of human being. Basic needs include food, water, clothing, shelter etc. Food is the basic need to sustain the body. A hungry person gives importance to food. It means that, he does not give importance to other needs till his basic needs of food, clothing and shelter are not satisfied.

(2) Safety Needs : After the physical needs are satisfied, the next need in the hierarchy is safety. It includes physical safety, job safety, safety against risk, regularity of wages etc. Therefore, man takes the measures like takes the insurance, opens the saving account either in bank or post office. Such a safety is necessary for mental peace.

(3) Social Needs : When the need for security is satisfied, the next in the hierarchy is the social need. It includes affection and love. Man is a social animal. He always wants love and affection from his family, relatives and society at large. Such needs include, feeling of getting love and respect from the family members, friends, relatives as well as by his colleagues at work place and by others in society.

(4) Esteem and Status Needs : Above 1 to 3 needs are low class needs. Esteem and status needs are also known as position need or high class need. It increases the longing to have one's self appraisal, the respect from collegues or officers and increase in reputation, his desire to get it increases.

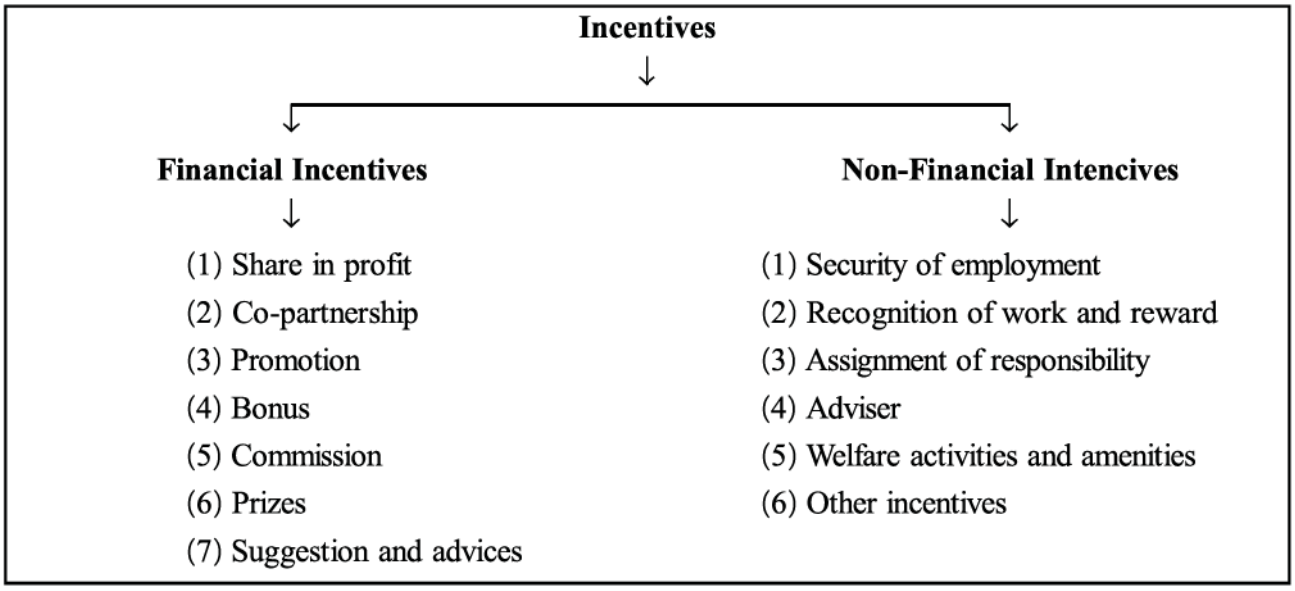
(5) Self Esteem and Self Actualisation Needs : After satisfying above four needs, man tries to satisfy self esteem or self actualisation need. Each person wants to get the top position by getting the achievement. One's name is considered with pride and in the best way, his skill is considered with all his best in his own work-field. E.g., Zakir Husain in playing tabla, Shivkumar Sharma in playing santoor, Sachin Tendulkar in the field of cricket, Amitabh Bachchan in the field of acting, Lata Mangeshkar in the field of vocal music, etc.

6.4 Financial and Non-Financial Incentives

Incentives : Business inspires their workers to maintain their work aptitude and increase their efficiency continuously, such inspiration is called incentives.

Incentive means which incites or has a tendency to incite action.

Incentives increase workers enthusiasm. Such incentives are helpful to employees to achieve their objectives. There are two types of incentives.



6.4.1 Financial Incentives :

Financial incentives are boon for skilled and proficient employees or workers. Since financial incentives boost their enthusiasm, courage, self-confidence and efficiency. It gives financial security to the employee and raises his social status. Owners having progressive and professional attitude of the unit, provide one of the following financial incentives to their employees.

(1) **Profit Sharing :** Surplus profit of the business is the result of the joint efforts of the workers and owner. Workers get a definite proportion of profit in the form of money other than their salary, it is called profit-sharing.

(2) **Co-partnership :** When employees or workers are taken as partners in ownership, management and distribution of profit, it is known as co-partnership. As these employees or workers are taken as co-partner, it becomes easy for owner to increase production and to maintain industrial peace.

(3) **Promotion :** The process of placing the staff in a higher and beneficial position is known as promotion. Hence, there is an increase in authority, responsibility, duties and salary. The efficiency of the staff increase and its morale is boosted.

(4) **Bonus :** Profit is the contribution of the workers also. Therefore, as per the law, certain percent of profit is given as bonus to the employees at the end of the year.

(5) **Commission :** Business owners in order to increase sales, decides sales target for the employees who are related with sales and in reference of these targets, different commission rates are decided. Employees related to sales are paid financial incentives as per their achievement in the sales, as a part of encouragement, is called commission.

(6) **Prizes :** In regards of outstanding performance or style of working, employees or workers are honoured for their services in the form of cash prize, certificate and medal by the business owner. Such

prizes are given in annual meeting, get together or by arranging a special programme by the business unit. Such recognitions in public boost encouragement, zeal and efficiency of the workers.

(7) **Suggestions and Advices :** Workers are constantly engaged in production. They may give suggestions and advice to the management to improve the production process and make it more efficient. The workers are paid monetary incentives for those suggestions and instructions that helps in reducing cost of production.

6.4.2 Non-Financial Incentives :

Incentives not based on money are Non-monetary incentives. Non-monetary incentives also boost morale of the employees.

(1) **Security of Employment :** For an employee, only salary is not important but security of job is also important. Job security inspires him to work with enthusiasm, thus production of the business unit increases.

(2) **Appreciation of Work and Reward :** Employees who surpass production targets decided by business unit, within the time, economically and efficiently, they are honoured publicly. Therefore, these employees are motivated at the same time other employees are also inspired to work.

(3) **Assignment of Responsibility :** To encourage the employees, officers assign special responsibility of giving training and direction to subordinates or others. Assignment of responsibility develops confidence of employees and they inspires to work more.

(4) **Adviser :** When a worker has been efficient for a long time his advice is sought in policy formulation to get advantage of his experience. When this happens, the worker feels that he is an important part of the company and feels encouraged.

(5) **Welfare Activities and Amenities :** Welfare activities and amenities given to employees also inspire them to work. Over and above wages, medical services, canteen facility, library, leave-with-pay, sports, entertainment activities, training facility and many more such welfare facilities are given to employees. Therefore, employees work with perseverance, enthusiasm and efficiency.

(6) **Other Incentives :** Many other incentives are provided to the employees other than above incentives. E.g., Housing facility, life insurance, free education to children, books, transportation facility to pick up and drop from residence to place of work, etc.

6.5 Leadership

Leadership is required, when people are working in group. In the industrial units, employees are working in group. Leadership is to be provided to these group. Leadership is a process of encouraging in a mutual way. Leadership is a base for efficient organisation. Leader by his attitude and behaviour channelises the efforts of the group members in a proper direction. He provides guidance to achieve decided targets, motivates to achieve objectives, inspiration, faith, etc. Thus, the leadership is a source of motivation for others.

6.5.1 Meaning : Leadership is the quality which influences the people to do efforts willingly in achieving goals.

- "Leadership is the art and skill of creating the desire in others, for achieving objectives."
- According to **Dr. George R. Terry,** "Leadership is the quality of influencing others to work willingly for the realisation of specified goals."

It is clear from above definition that, leader is an influential person of the group, who without any pressure provides guidance and inspiration and thus gets the expected work willingly done. This skill is knows as leadership.

6.5.2 Characteristics :

(1) Existence of Followers : A leader always provides leadership to followers. Therefore, existence of followers is must for implementation of leadership.

(2) Continuous Process : As long as business unit exists, leader has to provide leadership to the subordinates. Thus, leadership is a continuous process.

(3) Acceptance of Leadership : There must be the existence of leader as well as subordinates for leadership. The leader must be accepted by subordinates. Leader directs them and subordinates follow him.

(4) Creates Informal and Effective Relationship : Formally, leader is the head of specific groups. But informally the leader can influence the person coming into his contact and can stimulate them for achievement of objectives.

(5) Ideal Personality : Leader must be an ideal person. He influences his subordinates by his behaviour and nature. He is having in-born qualities, while some qualities are cultivated. Such a skillful person can only be a leader.

(6) Motivation : Leadership includes motivation of employees therefore, he first motivates employees to get the expected result.

(7) Harmony of Interest : Leadership brings harmony of interest among leader and his subordinates. Leadership becomes inefficient and useless if leader and his subordinates' interests are at variance.

(8) Effect of Situation : The success of a leader depends on certain circumstances. If there is change in situation, leader does not get the success.

6.5.3 Qualities of a Good Leader :

(1) Physical Qualities : Good health is a prime requisite for an effective leader. Other than this, physical structure, attractive physique, cheerful nature inspires the subordinates.

(2) Intellectual Qualities : A good leader should be intelligent. Intellectual qualities include decision making power, mental ability, grasping power, scientific approach, curiosity, reasoning ability, foresight as well as different skills like elocution, calculative skill, knowledge of inter-relation, human skills etc.

(3) Psychological Qualities : Pshychological qualities like pleasant personality, zeal, courage, sense of co-operation, tact, interest in work, affection, patience etc. are included.

6.6 Communication

Communication is an important part of management. Modern world is growing very fast in the field of science and communication. Due to progress in this sector, all the countries are coming close to each other. From commercial point of view, entire world has become global village. Communcation is a process of exchanging words, letters, instructions, thoughts, opinions etc. Manager must have informations of various departments of the unit. Therefore, bottom level has to send informations to the upper level in the form of report. The process of providing information is known as reporting. While communication includes giving orders and instructions, receiving reports, attending complains and solving them etc. Reporting is must for the communication.

6.6.1 Meaning :

One person passes clear information to another person so that, the latter understands the objective of the communicator and acts on it.

- Communication is the process of exchange of words, letters, instructions and opinions.
- As per **New Mann and Summer,** "Communication is an exchange of facts, ideas, opinions or emotions by two or more persons."

6.6.2 Characteristics :

(1) Goal Oriented Process : The objective of communication is not only the exchange of information but it also aims at the achievement of objectives. So special care is taken to see that, whether or not the receiver of information understands the information as intended.

(2) Clear Words and Language : The words and language used in communication should be clear. It should not have double meaning.

(3) Two-way Process : Communication is a two-way or bilateral process. Top managers send the necessary informations regarding objectives, policy, method, procedure and rules to the middle and bottom level management. While on the other hand, necessary informations in the form of report is received from middle and bottom level management.

(4) Continuous Process : Communication is a continuous and permanent process. Communication process starts from the beginning of the business and remains continue till the end.

(5) Many Equipments : In recent time, to make communication system more effective many equipments are used. Oral or written messages/correspondence, telephone, fax, internet, mobile phone, SMS, telex, etc. are used.

(6) Many Types and Methods : There are many types and methods of communication such as internal communication, external communication, written communication, oral communication and through signs, etc.

(7) Motivating Activity : Due to communication, the understanding of job increases in the officers and employees. So they are motivated to work more.

(8) Relation with Administrative Process : Communication mainly relates to the administration of the unit. Communication is used to collect information necessary to make right decisions and for proper administration. It is also used for solving the administrative problems and difficulties.

(9) Human Process : Communication is a human behavioural process. Whatever are the mediums of communication, but without the existence of human skills, communication does not take place. Moreover, at the time of communication fear, feelings, anger, etc. matters also affect the communication. Hence, it is called a human process.

Methods of Communication

Oral	Written	Visual	Audio	Audio-Visual	Silence
Conversation	Newspapers	Map	Tape-recorder	Film	Silent
Discussion	Magazines	Pictures	Radio	Television	Agreement
Dialogue	Pamphlet	Figures	Telephone	Internet	Silent
Talk	Advertisement	Graph	Teleconference	Computers	Disagreement
Lecture	Letter writing	Colours	etc.	Video-cassette	Gesture
Group	Manuscript	Symbols		etc.	etc.
Discussion	E-mail	Signs			
etc.	etc.	etc.			

6.6.3 Formal and Informal Communication : As per form, there are two types of communication.

(1) Formal Communication (2) Informal Communication

(1) Formal Communication : Any communication that depends on the structure of an organisation and its rules and regulations and is implemented for the accomplishment of business objective, is formal communication. This type of communication is formally linked between the superior and the subordinate. Its objective is of control and co-ordination. Such a communication is generally in writing. Formal communication is clear and easy to understand. Here, who will send information to whom is decided before hand. The form of information is also decided. It can be clear from the example given below.

(i) Notice or Memo is given as warning to the employees who are irregular and remaining absent without prior permission.

(ii) A letter given by superior to subordinate for his transfer or promotion.

Characteristics :

(1) In this communication system, superior and subordinates are formally related.

(2) Its clear objective is control and co-ordination.

(3) Formal communication is generally in written form.

(4) This type of communication system is accepted as policy of organisation.

(5) It is based on organisation structure.

(6) Formal organisation is formed for the accomplishment of business objectives.

(7) It is easy and clear to understand.

(2) Informal Communication : Communication system which depends on human relations and friendship among employees of an organisation is known as Informal Communication. Such a communication is more flexible and simple. There is no need of control and order in it. It can be explained orally or in a symbolic language. Informal organisation provides co-ordination and credibility to the organisation. E.g., Industrial manager instructs the labourer to work, sales manager gives informations and suggestions regarding presentation to the salesman in a easy going manner / informal manner.

Characteristics :

(1) It depends on the human relations.

(2) Control or order is not required.

(3) Can be explained orally or through symbolic language.

(4) Depends on human and friendly relations.

(5) It is flexible and easy.

(6) Process is not important in this communication.

(7) It gives more co-ordination and credibility to organisation.

(8) Informal communication is not supplementary but complementary to the formal communication.

6.6.4 Difference between Formal and Informal Communication :

No.	Points	Formal Communication	Informal Communication
1.	**Meaning**	Communication system which depends on rules, regulations and accomplishment of business objectives, is known as Formal Communication.	Communication system which depends on human relation and friendship is known as Informal Communication.
2.	**Purpose**	The purpose of formal communication is control and co-ordination.	The purpose of informal communication is to give more co-ordination and credibility to the organisation.
3.	**Base**	Due to rules and regulations, exchange of informations between two people takes place.	Due to personal and friendly relations, exchange of informations between two people takes place.
4.	**Control and Supervision**	It requires control and supervision.	It does not require control and supervision.
5.	**Flexibility**	It is less flexible.	It is more flexible.
6.	**Time**	It takes place at the work place during working hours.	It takes place at any place or during working hours.
7.	**Information in advance**	Here, sender and receiver of information as well as form of communication are decided before hand.	Form of communication and procedure are not decided before hand. It takes place as per time and situation.

6.6.5 Barriers of Effective Communication : The effectiveness of communication depends on the intellegence and loyalty of the officers and employees. Communications is a human activity, so human limitations such as affection, mistakes, estimations, misunderstanding, distrust, fear etc. come as barriers to it. Such barriers can be as follows :

(1) **Lack of Planning :** If the order of informations is not planned, sender will give wrong, unclear and incomplete informations.

(2) **Faulty Translation :** Employees working at middle level receives messages from top level. Such messages may not be in mother-tongue. After analysing, these informations are sent to bottom level. At that time chances of mistake in translation are there.

(3) **Unclear Messages :** Many times, in use of various mediums of communication, important matters are presented in an unclear manner. Words and sentences are arranged in improper manner. There is no co-ordination in messages. As a result, such messages are failed to give clear understanding to the receiver. Thus, it obstructs communication process.

(4) **Unclear Assumptions :** Many messages depend upon guess work and assumptions. If these are not clarified while transmitting messages, there may be change in their meaning and importance.

(5) **Shortage of Time :** Many time decisions are taken on the basis of informations. After getting informations, it is to be implemented. If informations are not available on time, then there is no meaning of it. Effectiveness of communication decreases.

(6) **Overburden in Communication :** In big industries, there is a constant and continuous exchange of communication. If information is transmitted and received by someone who may be over-burdened, then instead of maintaining preciseness of information, he will prefer to perform his functions. In such situation, if information is not transmitted in proper place, its purpose fails.

(7) **Ignorance Towards Messages :** Many time higher managers or bottom level employees remain inattentive and careless regarding messages. Therefore company does not get correct information. Hurdles in communication are created if, messages and informations are ignored.

(8) **Improper Selection of Media :** Specific mediums are selected to send and receive the informations, if these mediums are not selected properly, then berriers to communication are created.

(9) **Distrust and Fear :** In any organisation where there is an atmosphere of distrust and fear, every message is perceived with doubt. Information is changed due to the fear that correct information will lead to punishment or fine. Past experience must have shown that it has resulted in adverse consequences and punishment. Therefore, correct information is concealed.

6.6.6 Measures to Overcome the Barriers of Communication :

(1) Communication system should be arranged as per organisational structure and it should not obstruct the informations.

(2) Information given by sender should be precise. So, the receiver can understand properly.

(3) Various mediums of communication have different effects. Therefore, an appropriate medium of communication should be selected.

(4) Communication is a two way process, it should be arranged in the manner as informations must flow in both the directions easily.

(5) Feeling of mutual trust and co-operation is must between two parties.

(6) Communication channel should be shorter as much as possible so that, the flow of information will not stop and there will be no delay in communication.

(7) Communication system should be fast.

(8) Communication system should be goal-oriented.

(9) Broad-casting of unnecessary information increases the burden of communication. So the broadcasting of information should be proper.

(10) Time to time evaluation of communication system should be done, so as per changing situation, changes can be made.

(11) During the entire process of communication, sender should not have any personal interest in it. E.g. : message sender hides few messages or purposefully gives incomplete information or present it eccentrically.

What did you learn in this chapter ?

Direction :

Meaning : Direction means to guide the workers, make them aware of the work, supervise them and to maintain their enthusiasm for the work.

Characteristics : (1) Goal oriented activity (2) Functions at every level of management (3) Continuous process (4) Observation of function (5) Wider scope (6) Communication (7) Motivation (8) Flow of direction (9) Managerial function

Importance : (1) Increase in efficiency (2) Assessment of efficiency (3) Motivation to employees (4) Effective planning (5) Effective organisation (6) Co-ordination and Co-operation (7) Function of control (8) Increase in enthusiasm (9) Finding out deviation

Elements of Direction :

Supervision :

Meaning : "Supervision is the function of assuring that the work is being done in accordance with the plan and instructions." – R. C. Davis

Functions : (1) To plan the functions and removes the hurdle (2) To complete the work on time and provide guidance and direction (3) To supervise the employees constantly (4) Integrates employees interest with business interest (5) Provides motivation and guidance (6) Maintains the feeling of oneness/harmony (7) Communication must be faster (8) To give guidance regarding new technology (9) Maintains discipline (10) Do not provide control but provides training (11) Like a friend, philosopher and guide

Motivation :

Meaning : Motivation means the process of stimulating people to perform action and to make it possible to have maximum work satisfaction.

Characteristics : (1) Internal feeling (2) Psychological concept (3) Increase in efficiency of employee (4) Continuous process (5) Reduction in labour turn-over rate (6) Achievement of goal (7) Wider scope (8) Adapting changes in organisation (9) Tool to get co-operation (10) Positive attitude (11) One of the function of management

Maslow's Hierarchy of Needs : (1) Physical or primary need (2) Safety needs (3) Social needs (4) Esteem and status needs (5) Self-esteem and self-actualisation needs

Financial and Non-Financial Incentives :

Incentives : Business inspires their workers to maintain their work aptitude and increase their efficiency continuously, such inspiration is called incentives.

Financial Incentives : (1) Share in profit (2) Co-partnership (3) Promotion (4) Bonus (5) Commission (6) Prizes (7) Suggestion and advices

Non-Financial Incentives : (1) Security of employment (2) Appreciation of work and reward (3) Assignment of responsibility (4) Adviser (5) Welfare activities and amenities (6) Other incentives

Leadership :

Meaning : Leadership is the quality which influences the people to do efforts willingly in achieving goals.

"Leadership is the art and skill of creating the desire in others for achieving goals."

Characteristics : (1) Existence of followers (2) Continuous process (3) Acceptance of leadership (4) Creates formal and effective relationship (5) Ideal personality (6) Motivation (7) Harmony of interest (8) Effect of situations

Qualities of a Good Leader : (1) Physical Qualities (2) Intellectual Qualities (3) Psychological Qualities

Communication :

Meaning : One person passes clear information to another person so that, the latter understands the objective of the communicator and act on it.

"Communication is the process exchange of words, letters, instructions and opinions."

Characteristics : (1) Goal oriented activity (2) Words and language should be clear (3) Two-way process (4) Continuous process (5) Many equipments (6) Many types and methods (7) Motivation (8) Related with administration (9) Human process

Formal Communication :

Meaning : Any communication that depends on the structure of an organization and its rules and regulations and is implemented for the accomplishment of business objective is Formal communication.

Characteristics : (1) Superior and subordinate are formally linked (2) Objective is control and co-ordination (3) Generally in written form (4) It is accepted as policy of organization (5) Based on organisation structure (6) Formed for the accomplishment of business objectives (7) Easy and clear to understand

Informal Organisation :

Meaning : Communication which depends on human relations and friendship among employees of an organisation is known as Informal Communication

Characteristics : (1) Depends on human relations (2) No need of control-order (3) Use of oral or symbolic language (4) Depends on human or friendly relations (5) Flexible and easy (6) No importance of method/procedure (7) Gives more co-ordination and credibility (8) Its complementary to formal communication

Difference between Formal and Informal Communication : (1) Meaning (2) Purpose (3) Base (4) Control and supervision (5) Flexibility (6) Time (7) Information in advance

Barriers to Effective Communication : (1) Lack of planning (2) Faulty translation (3) Unclear messages (4) Unclarified assumptions (5) Shortage of time (6) Overburden of communication (7) Ignorance of messages (8) Selection of improper medium (9) Distrust and fear

Measures to Overcome the Barriers of Communication : (1) It should be arranged as per organisation structure (2) Message should be clear to understand (3) Proper selection of medium of communication (4) As it is a two-way process so messages should flow in both the direction easily (5) Feeling of mutual trust and co-operation is must between two parties (6) Communication channel will not stop and delayed (7) Communication should be fast (8) It should be goal oriented (9) Proper broad-casting of information (10) Time to time evaluation of communication should be done (11) During the process of communication, sender should not have any personal interest in it.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) What does direction include other than order, instruction and guidance ?

(A) Suggestion (B) Control (C) Supervision (D) Training

(2) At which level of management, direction is required ?

(A) Bottom (B) Middle (C) Top (D) All of them

(3) In which element of direction does supervise, rules and analysis is included ?

(A) Supervision (B) Motivation (C) Leadership (D) Training

(4) In directing process, by giving ..... objectives are achieved ?

(A) Motivation (B) Supervision (C) Training (D) Guidance

(5) Which is the first need as per Maslow's hierarchy of needs ?

(A) Physical needs (B) Safety needs

(C) Social needs (D) Esteem needs

(6) Which of these is related to financial incentives ?

(A) Promotion (B) Appreciation

(C) Job security (D) Appreciation of work and reward

(7) Which of the among is needed for the existence of leadership ?

(A) Supervisors (B) Planners (C) Sub-ordinates (D) Managers

(8) What do you mean by passing clear information from one person to another ?

(A) Communication (B) Correspondence (C) Courier (D) Reporting

(9) The process of sending information in the form of report from bottom level to upper level is ..... .

(A) Communication (B) Reporting (C) Correspondence (D) Postal services

(10) In which form is informal communication carried out ?

(A) Oral (B) Written (C) Written and oral (D) Formal

2. Answer the following questions in one sentence each :

(1) Define Direction.

(2) Which needs are included in physiological needs ?

(3) Who implements the decision taken at the stages of planning and organising ?

(4) Which function is referred/compared as a supervision function ?

(5) Which need is considered to be the most preferred need according to Maslow's hierarchy ?

(6) What do you mean by profit-sharing ?

(7) What is the effect of distrust and fear on communication ?

(8) What are the modern means of communication ?

3. Answer the following questions in short :

(1) Give the list of elements of direction.

(2) What do you mean by supervision ?

(3) What do you mean by motivation ?

(4) Explain the meaning of incentives.

(5) Explain the meaning of leadership.

(6) Explain formal communication in short.

(7) 'A supervisor's work is similar to that of a teacher.' Explain the statement.

(8) How does motivation help to reduce labour turn over rate ?

(9) What is co-partnership ?

(10) What do you mean by informal communication ?

4. Answer the following questions in brief :

(1) Explain the importance of direction.

(2) Explain the functions of supervision.

(3) What are the qualities of a good leader ?

(4) What are the features of Informal Communication ?

(5) Distingash between formal and informal communication.

(6) Write down any six measures to over come the barriers of communication.

5. Answer the following questions in detail :

(1) Define Direction and explain its characteristics.

(2) Define Motivation and explain its features.

(3) Explain the Maslow's hierarchy of needs with diagram.

(4) Explain Financial Incentives.

(5) Define Communication. Explain its characteristics.

(6) Explain barriers to effective communication.

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7 CONTROLLING

What will you learn in this chapter ?

- Introduction

7.1 Controlling
- 7.1.1 Meaning
- 7.1.2 Characteristics
- 7.1.3 Importance

7.2 Relation between Planning and Controlling

7.3 Stages of Controlling Process
- 7.3.1 Setting Standards
- 7.3.2 Gathering Information
- 7.3.3 Measuring Performance
- 7.3.4 Comparing Actual Performance with Set Standards
- 7.3.5 Corrective Measures

Introduction

A business enterprise is established for the achievement of specific objectives. Objectives can be for long term or short term. For the achievement of these objectives, various activities are planned. In order to implement these plans an organization is established. But, however perfectly or carefully planning may be done or an ideal organization may be established, many obstacles may arise while implementing the plans. The function of controlling is to remove these obstacles and to see that the work is performed exactly in conformity with the plan. Controlling is the process of checking the performance of the staff, to find out the deviations and remove the deviations by necessary corrective measures for the implementation of the plan.

7.1 Controlling

In the order of the management process, planning is the first step and controlling is the last step. Activities are planned and after that duties and responsibilities are assigned. In this way from the time that the work begins, the function of controlling also begins. The function of controlling is to check the progress of managerial tasks, compare the same with set standards through plans and to find the deviations thereof. The function of controlling is also to get information about such deviations, remove them and take corrective actions.

7.1.1 Meaning :

- In ordinary sense, controlling means to decide the activities to be carried out, evaluate, the same and if required, take corrective measures so that they are done in confirmity with plan.
- Planning determines objectives and controlling makes them effective.
- "Control of an undertaking consists of ensuring that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given and the principles which have been laid down. Its objective is to point out the mistakes in order that they may be rectified and prevented from recurring." - **Henry fayol**
- The implementation of control affects things, people and functions, and all other factors.
- According to **Peter F. Drucker**, "Controlling is to maintain a balance between efforts and results and between resources and objectives."

The essence of controlling is to see that functions are carried out according to predetermined standards and to regulate the activities.

7.1.2 Characterstics :

(1) **Related to Planning :** Planning and control are like two sides of the same coin. Planning performs the function of making plans while controlling ensures that activities are carried out according to the plan. Planning and controlling are like twins. Controlling is impossible without planning.

(2) **Functions at every Level of Management :** Controlling is performed at every level of

management. It is not confined to one department or section. Managers control their subordinates at every level. The extent of control depends on the level of management.

(3) **Continuous Process :** It is wrong to think that once control is exercised on the activities of the enterprise, work will always be done according to the plan. By keeping constant supervision over the activities of the personnel, constant efforts must be made to remove deviations. Quality control and cost control are important and constant activities.

(4) **It is an End Activity of Management :** In the management process planning decides objectives, organizing implements them, directing gives direction for the same and after this, the function of control begins. It is essential that all managerial functions are performed before control is exercised. Thus the function of controlling is that of regulating which begins only after the activities get initiated. Thus control is the end activity of management.

(5) **Related to Future :** Controlling is related to future. The manager has no control over past activities. But he can examine past activities and analyse them so that he can take benefit in future. The objective of control is to see that errors, wastage and losses which occured in the past are not repeated. Controlling is thus related to improvements in future.

(6) **It is a Constructive Activity :** Controlling is generally regarded as an attack on workers freedom. In fact this belief in incorrect. The function of control is to see that workers work as per the planning and that they are guided properly. Thus, controlling is not a negative, but a positive activity. Controlling rectifies mistakes and takes steps to ensure that mistakes are not repeated. Thus it is a constructive activity.

(7) **Internal Process :** Controlling is an internal process. Various activities of the business enterprise like production, sales, purchase, financial matters, financial accounts and working method of employees etc are an integral part of the control system. Due to these various activities, it becomes possible to have control over the business. Whereas, external factors like change in government policy, depression, inflation, changes in the psychology of people etc can not be controlled.

(8) **Dynamic Process :** The process of control is related to planning. It is an intellectual process based on planning and foresight. As the assumptions of different factors change, the goals of planning change and accordingly, fast changes are made in the controlling process.

(9) **Controlling is a Person-Oriented or Subjective Activity :** It is done for the improvement of the activities of workers, by the workers and for the workers. The person is at the centre of controlling. Controlling is exercised on workers by workers (managers). Every activity is performed ultimately by the persons. The errors and deviations are also due to human weaknesses. That is why we can say that control is very much person-oriented or subjective.

(10) **Controlling can be Formal or Informal :** In the context of the organization and production activities, control process is established formally. But with the passage of time an informal system of controlling can also the established. At times, such an informal system of controlling can also be more effective.

7.1.3 Importance : Controlling is an important stage of management. Controlling is necessary for the achievement of managerial objectives. But without controlling, an organization is like a chariot without a charioteer. Controlling does the work of verifying whether all the activities of the enterprise are being carried out in accordance with the plan which has been adopted, the orders which have been given and the principles which have been laid down. The main objective of controlling is to check the errors or short comings of the past and stop their recurrence.

(1) **Helpful in the Achievement of Objectives :** Controlling finds out errors in the enterprise

and takes corrective measures. As a result achievement of objectives becomes easy, as all activities are performed according to a plan.

(2) **Control on Activities :** Various activities of an undertaking and functional areas like organization, production, sales, employees, financial and quality aspects etc can be controlled.

(3) **Makes Planning Effective :** According to an expert, planning lays down the path and controlling helps to find the deviations and improve them. Thus due to controlling, achievement of objectives is possible and planning becomes successful.

(4) **Co-ordination between Various Activities :** Controlling is helpful in co-ordinating various activities of the business enterprise. It is only because of control that co-ordination is possible.

(5) **Evaluation of Activities :** The activities are compared with pre-determined standards and evaluated.

(6) **Removes Deviations :** Controlling aims at taking corrective action. It examines the causes of deviation and then takes corrective measures so that deviations can be reduced.

(7) **Necessary for Delegation of Authority :** Controlling is essential for the delegation of authority. After the work of delegation, it is the responsibility of the superior to supervise. He can delegate authority but not accountability.

(8) **Find out Errors :** Supervision and evaluation of activities of subordinates is necessary and this is done by controlling. Activities are observed by control. Controlling also helps to find out errors, difficulties, defects and deviations and remove them so that they are not repeated in future.

(9) **Long Term Planning :** Controlling helps to make long term plans. On the basis of the information which is gathered about present organizational activities, control can be used to make long term assumptions.

(10) **Helpful in Directing :** Controlling simplifies directing. It supervises the personnel, gives guidance and direction in their difficulties, so that activities are performed as planned.

(11) **Barometer of Efficiency :** In business enterprises if control is exercised efficiently, management becomes more efficient. So controlling is called the barometer of efficiency of management.

7.2 Relation between Planning and Controlling

Planning refers to a systematic and intellectual programme to achieve objectives. Planning clarifies the goals behind future activities. It is also an outline or plan of which activities are to be undertaken, when and in how much time they are to be completed and for that what resources are required so that goals can be achieved. Control is a process to monitor whether business activities are carried out according to the plan, set standards and given instructions; and if deviations are found, then corrective actions are taken. Whenever there is planning there is controlling and conversely whenever there is controlling planning pre-exists. Thus planning and controlling are interrelated.

(1) **Planning and Controlling are Two Sides of the Same Coin :** Planning and controlling are two very important and interdependent functions of the management process. The success of planning depends on controlling. Controlling finds out the deviations, takes necessary corrective action and also takes business activities in the right direction. Controlling is also not possible without planning. This is because, through controlling, it can be ascertained whether the objectives of planning are achieved or not. So where there is no planning, there is no need of controlling. Thus planning and controlling are two sides of the same coin.

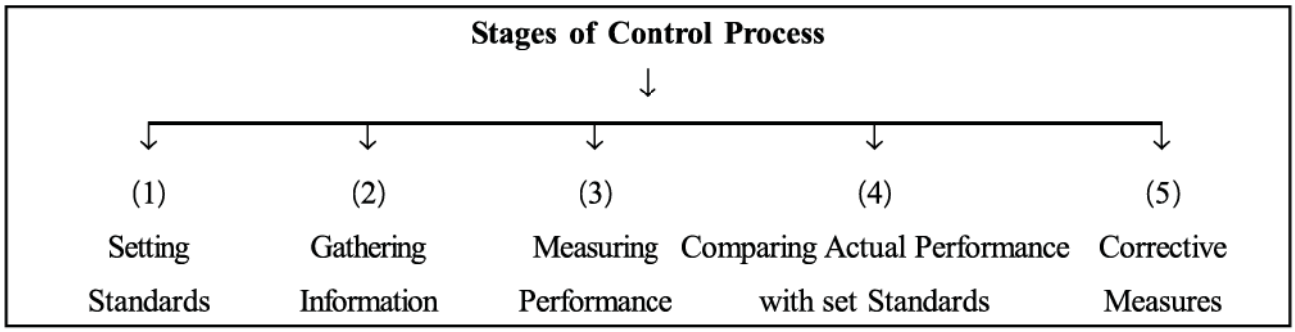
(2) Protection Against Change : Implementation of the programmes of a plan depends on internal and external factors. Internal factors can be regulated where as control is needed for external factors like government policy, competition, inflation, depression, scarcity of raw materials, change in the choices of people, change in fashion, etc. Thus taking into consideration the effect of external factors; controlling sees to it whether activities are carried out according to plan or not. Thus planning and controlling give protection against changes.

(3) Planning is a Pre-condition for Controlling : The function of planning is to make programmes to achieve the objectives of the business enterprise. While the function of controlling is to see whether the activities are performed according to the plan or not. The function of controlling is also to compare the actual performance with the set standards. If deviations are found the corrective action is taken. Thus planning is the pre-condition of controlling.

(4) Planning is the Father of Controlling : Controlling exists because of planning. Controlling keeps a check on activities decided in planning. So controlling does not exist without planning. Keeping this in mind planning is considered to be the father of controlling.

7.3 The Stages of the Controlling Process

Controlling is a universal and continuous process. Each business enterprise has its own specialities. So controlling process cannot be the same for all organizations. Still there are certain common stages of controlling mechanism which are as follows :



7.3.1 Setting Standards : Controlling process starts with the establishment of standards. Standards are measures of efficiency. In this the actual performance is compared and evaluated. The basis of controlling is pre-determined standards. Controlling sees to it whether activities are carried out in the organization according to these set standards or not. These standards can be qualitative or quantitative. The standards should be such that they can be understood by those who have to achieve them. The standards include physical, cost price, income, capital etc. Over and above this, standards can be profit targets, production targets, cost targets etc. Standards may be of long term or short term. Standards are decided at the top level management. Employees and subordinates are informed about the same. The employees then plan their work according to the given targets and they constantly strive to maintain these standards.

7.3.2 Gathering of Information : At this stage, information is gathered about the work done and the actual situation. Information is gathered by personal observation, oral reports and written reports.

7.3.3 Measuring Performance : Performance is to be measured to find out whether activities have been undertaken according to set standards. Such a measurement can be qualitative or quantitative or both.

7.3.4 Comparison of Work done with Set Standard : At this stage of controlling, information

about actual work done is sought or acquired. After that, it is compared with set standards. From this comparison it can be known whether the set standards have been achieved or not.

7.3.5 Corrective Measures : Corrective measures is the last stage in the controlling process. The activities are compared against set standards to find out deviations. If deviations are found out, necessary corrective measures can be taken. Any of the following three measures can be taken :

(1) No Change in the Condition : No corrective measures is to be taken when deviations are found to be normal or acceptable, as compared to set standards means there is no change in the condition.

(2) Change the Condition to Remove Deviation : If deviation from actual performance is more when compared to set standards, such deviations are to be examined and necessary corrective measure is to be taken.

(3) Change the Condition and Establish Fresh (New) Standards : When the established standards are not attained continuously, it means they are extraordinarily high and a change has become essential. In such a situation fresh or new standards are to be set by making required changes. Likewise when better results as compared to the established standards are continuously obtained, the set standards are changed and new higher standards are set.

The function of control is not only to find out deviations but also to take organizational activities towards the achievement of objectives. So controlling is a constructive process.

What did you learn in this chapter ?

Introduction :

Meaning of Control : In general control, means to find out which functions are carried out and evaluate them and if required to take necessary corrective measures so that work can be done according to the plan.

According to Peter F. Drucker controlling is to maintain a balance between efforts and results and between resources and objectives.

Characteristics : (1) Related to planning (2) Functions at every level of management (3) Continuous process (4) End activity of management (5) Related to future (6) Constructive activity (7) Internal process (8) Dynamic process (9) Person-oriented (10) Can be formal or informal

Importance : (1) Helpful in achievement of objectives (2) Controlling on activities (3) Makes planning effective (4) Co-ordination between various activities (5) Evaluation of activities (6) Removes deviations (7) Necessary for delegation of authority (8) Finds out errors (9) Long term planning (10) Helpful in directing (11) Barometer of efficiency

Relation between Planning and Controlling : (1) Planning and controlling are two sides of the same coin (2) Protection against changes (3) Planning is the pre-condition for control (4) Planning is the father of controlling

Stages of Controlling Mechanism : (1) Setting standards (2) Gathering of information (3) Measuring performance (4) Comparing work done with set standards (5) Corrective measures – (A) No change in condition (B) Change the condition to remove deviation (C) Change the condition and establish new standards.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) Which function of the management process sees that the work is performed according to planning ?

(A) Organization (B) Training (C) Directing (D) Controlling

(2) Controlling is not a ..... process.

(A) Continuous (B) Internal (C) Rigid (D) Dynamic

(3) ..... is the process of maintaining balance between efforts and results and between resources and objectives.

(A) Directing (B) Staffing (C) Co-ordinating (D) Controlling

(4) Controlling takes place at ..... level.

(A) Every (B) Top (C) Middle (D) Bottom

(5) Which is not the function of controlling ?

(A) Progress of activities (B) Comparison with set standards

(C) Determining objectives (D) Getting information about deviations

(6) Which function of management is known as the father of controlling ?

(A) Organization (B) Staffing (C) Directing (D) Planning

(7) ..... is the last function of management.

(A) Planning (B) Organization (C) Staffing (D) Controlling

(8) ..... is the first stage of the controlling process.

(A) Measuring performance

(B) Comparing actual performance against set standards

(C) Corrective action (D) Setting standards

(9) After knowing the deviations, what type of measures does the management take ?

(A) Give training (B) Remove the staff

(C) Corrective action (D) Appoint experts

(10) What should be done when the organization obtains better results than set standards ?

(A) Improve and set lower standards (B) Improve and set higher standards

(C) No change in set standards (D) To remove standards

2. Answer the following questions in one sentence each :

(1) With which functions of management is planning closely related ?

(2) At which level of management function does controlling take place ?

(3) Before which fucntion must all functions of management be performed ?

(4) Why is it necessary to measure performance ?

(5) What is deviation ?

(6) Which external factors jeopardize the very existence of a business ?

3. Answer the following questions in short :

(1) Give the meaning of controlling.

(2) 'Controlling is a continuous process' - Explain.

(3) How is controlling an internal process ?

(4) 'Controlling is a dynamic process' - Explain.

(5) 'Planning is the father of controlling' - Explain.

4. Answer the following questions in brief :

(1) Explain the relation between planning and controlling.

(2) 'Planning and controlling are two sides of the same coin' - Explain.

(3) 'Controlling is not a negative function.' - Justify the statement.

(4) Is controlling an end activity of management ? Why ?

5. Answer the following questions in detail :

(1) Explain the characteristics of controlling giving its meaning.

(2) Explain the importance of controlling.

(3) Explain in detail the various stages of the controlling process.

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8 FINANCIAL MANAGEMENT

What you will learn in this chapter ?

- Introduction

8.1 Concept and Definition of Financial Management
- 8.1.1 Characteristics
- 8.1.2 Objectives of Financial Management
  - (A) Objective of Profit Maximisation
  - (B) Objective of Wealth Maximisation
- 8.1.3 Importance of Financial Management

8.2 Financial Decisions
- 8.2.1 Decisions Related to Investment
- 8.2.2 Decisions Related to Financing
- 8.2.3 Decisions Related to Dividend

8.3 Capital Structure
- 8.3.1 Concept and Definition
- 8.3.2 Characteristics of Ideal Capital Structure
- 8.3.3 Types of Capital Structures
- 8.3.4 Factors Affecting Capital Structure
  - (A) Internal Factors
  - (B) External Factors

8.4 Working Capital
- 8.4.1 Meaning and Definition
- 8.4.2 Concept of Working Capital
- 8.4.3 Difference Between Gross Working Capital and Net Working Capital
- 8.4.4 Characteristics of Working Capital
- 8.4.5 Factors Affecting Working Capital

8.5 Fixed Capital
- 8.5.1 Characteristics
- 8.5.2 Factors Affecting the Need of Working Capital
- 8.5.3 Difference Between Fixed Capital and Working Capital

Introduction

In simple words management of finance means financial management. Finance is the blood of business. The existence of human life is not possible without the circulation of blood. In the same way, existence of business unit is not possible without finance. Business can not be started without adequate finance, it means finance is like foundation stone of each business. Finance is required to continue the business transactions regularly. In fact, money is the pivot around which all economic activities rotate. Financial management is a managerial activity which is related to planning and controlling of financial resources. Financial management utilizes financial resources in a such a manner that a satisfactory return is earned along with the optimum utilization of finance. The scope of financial management has widened with the passage of time.

8.1 Concept and Definition of Financial Management :

Financial management means management of finance functions in routine activities. Financial management includes all the aspects of financial activities of business. Finacial management takes decisions related to finance and executes them.

Definitions :

- According to **F. W. Paish** "In the modern economy, based on utilization of funds, financial management means acquiring of required funds at the required time."
- According to **Raymond J. Chambers** "Financial management means to take decisions about financial matters to implement then smoothly and to review, them."
- According to **Prof. M. Kimbal** "Financial management means acquisition of fund, its optimum utilization and its appropriate allocation."

All the above definitions clarify that the field

of financial management is so wide that it covers all the financial decisions of business, right from the inception of business to its end.

8.1.1 Characterstics :

(1) Branch of Management : Financial management is a branch of management which includes the function of planning and controlling for the use of finance.

(2) Wide Scope : The scope of financial management is so wide that it includes estimating the need of finance, acquirement, maximum utilization, proper allocation and its planning and controlling. It covers all financial operations, right from the inception of business to its end.

(3) Base of the Managerial Decisions : Financial management provides a base for managerial decisions. Decisions regarding production, sales, research, development etc. are based on financial management.

(4) Relation with Financial Decisions : Financial management is related with decision-making of investment, capital structure and dividend policy. In the process of decision making, financial management uses the modern mathematical techniques.

(5) Goal of Maximisation of Owner's Economic Welfare : Financial management adopts two approaches for the maximisation of owner's economic welfare : (i) Profit maximisation and (ii) Wealth maximisation.

(6) Key Position : Financial management is a managerial acitivity and holds key position in organisational structure of business unit.

(7) Relation with Other Areas of Management : Most of the activities of business such as production, sales, marketing research etc. are connected with finance. Financial management will be more flexible in formulating production policy, sales policy etc., if the financial management has sufficient funds. According to this interpretation financial management is related with different areas of management such as production management, marketing management, personnel management.

(8) Division into Two Parts : Financial management can be divided into two parts e.g., Management of long term fixed capital and management of working capital. Fixed capital management includes planning for expansion of fixed assets such as building, machines, land etc., while working capital management is necessary for day-to-day expenses.

8.1.2 Objectives of Financial Management : The objective of financial management should be "maximisation of the owner's economic welfare." Through the use of financial resources financial management aims at economic maximisation of the owners who are the shareholders of the company. Following are its two approaches for this as follows :

(A) Objective of profit maximisation (B) Objective of wealth maximisation

(A) Objective of Profit Maximisation : Profit maximisation means maximising income of the company. Investors purchase the shares of company hoping to get maximum dividend. According to this approach, company should earn maximum profit out of its available resources and dividend policy should be based on maximisation of profit. In addition, this approach suggests that company should accept profitable projects only. Company can increase earning per share through the objective of maximisation of profit.

(B) Objective of Wealth Maximisation : The objective of wealth maximisation is also known as 'Net Present Value'. The net present value creates wealth for the shareholders. Hence, the financial decisions resulting in increasing net present value should only be accepted by the company. The wealth maximisation approach is based on the concept of cash flow. Only cash flow is considered as a measurement and the accounting profit is ignored.

The net present value of wealth is the difference between present value of wealth and investment required.

Net present value of wealth = Present value of wealth − investment required.

Financial management should take such financial decisions by which wealth of the company is maximised. If the wealth of the company is maximised, it will be reflected in the price of the share of the company in the stock exchange. Market price of the share will increase in the share market. As a result, shareholders' wealth will be maximised. Due to this, shareholders' asset increases.

The objective of wealth maximisation is appropriate and universally accepted. The objective of wealth maximisation is superior to that of profit maximisation. **Prof. Solomon** has favoured the objective of wealth maximisation.

8.1.3 Importance of Financial Management : The importance of financial management has increased due to the current changes in business environment and contempory economic flows at Global level after 1950.

(1) **Estimation of Financial Needs :** Financial management estimates how much long term capital and short term capital will be required for the business.

(2) **Acquring Finance :** Financial management acquires finance at the minimum cost by selecting the sources economically.

(3) **Planning and Controlling :** Planning is combined with effective controlling to make economic utilization of finance.

(4) **Distribution of Finance :** It distributes finance among different departments in such a way that every department gets adequate finance.

(5) **Maintaining Liquidity :** It maintains liquidity by preparing cash flow statement and cash budget so that a definite cash balance can be maintained on hand.

(6) **Distribution of Income :** It determines what part of profit is to be distributed as dividends among the shareholders and what part of profit is to be reinvested in the business.

(7) **Management of Current Assets :** Cash, debtors, inventory, marketable securities, bank balance etc. are included in current assets. It formulates investment policy for these current assets.

(8) **Financial Decisions :** Financial management takes important decisions regarding capital budget, dividend policy, reinvestment of profit etc. and maintains co-ordination among various financial decisions e.g., Co-ordination between dividend policy and reinvestment of profit.

(9) **Raising Credit of Business :** Financial management significantly contributes in the progress and development of business. Efficient financial management generates financial facilities. So that employees, salary and creditors payment can be made in time. As a result, credit of the business increases.

8.2 Financial Decisions

Financial management is also known as finance function as it is related with the finance function. In this context financial management has to take important decisions with regards to the following three problems :

(A) Decisions related to investment (B) Decisions related to financing (C) Decisions related to dividend

8.2.1 Decisions Related to Investment : Long term fixed capital is invested in the fixed assets of the business. Financial manager has to take decisions regarding the selection of those assets in which capital fund is to be invested in future. Investment decision is called capital budgeting. Element of risk is involved in decisions related to investment. Hence investment decision should be evaluated in terms of expected return and risk. Various methods of capital budgeting are being used such as pay-back method,

rate of return method, discounted cash flow method etc. for taking investment decision when there are more than one alternatives with financial manager for the investment of finance.

Factors Affecting Investment Decision : (1) Need of total capital. (2) Estimated rate of return and profitability receivable in future from investment. (3) Estimated cash flow receivable from investment. (4) Element of risk involved in investment. (5) Requirement of working capital after investment. (6) Useful economic life of investment and its estimated life. (7) Significance of investment. (8) Capital rationing. (9) Certainity or uncertainity of earning in future.

8.2.2 Decisions Related to Financing : Investment decisions are connected with the assets of the company while financing decisions are connected with capital structure. Capital structure of the company consists of (a) equity shares (b) equity shares and preference shares (c) equity shares and debentures (d) equity shares, preference shares and debentures.

Capital structure is a mixture of owner's capital and debt. Financial manager has to take decision regarding the portion to be maintained between equity and debt in capital structure. A balance between equity capital and debt is necessary. Capital structure having a proper proportion of equity capital and debt is called optimum capital structure. Optimum capital structure is less risky and ensures maximum return.

Factors Affecting Financing : (1) Internal factors and (2) External factors.

(1) Internal Factors : Type or nature of business, size of business, growth of business, financial requirement, nature of assets and requirement, attitude of directors.

(2) External Factors : Condition of capital market, floatation cost of securities issue, attitude of investors, rate of interest prevailing in market, legal restrictions, institutional investors.

8.2.3 Decisions Related to Dividend : Dividend is a part of profit of a company which is distributed among its shareholders. Dividend is a return to shareholders on their investment. As per Companies Act, dividend can be paid in cash or cheque on paidup capital of share.

Financial manager has to decide what part of profit should be distributed as dividend and what part of profit should be retained in business. Retained earning in business is a significant internal source of finance.

Payment of dividend affects the market value of share of the company. If a major portion of profit is distributed as dividend, it decreases the ploughing back of profit. On the other hand if a major portion of profit is reinvested then less amount is left for dividend.

Factors Affecting Dividend : (1) Divisible profit of the company during the current financial year. (2) Estimation of income in future. (3) Rate of dividend paid by the company in the past years. (4) Need of ploughing back of profit in business. (5) Financial condition and financial needs of company at present. (6) Ratio of reserves with company. (7) Future planning of profitable investment. (8) Attitude of directors of company. (9) Taxation policy. (10) Legal restrictions. (11) Expectation of shareholders of the company. (12) Condition of capital market. (13) Growth rate of company. (14) Liquidity position of the company.

8.3 Capital Structure

8.3.1 Concept and Definition : There are two important aspects of financial plan : (1) To estimate need of capital-problem of capitalisation. (2) To determine sources of capital. problem of capital structure.

Company can obtain necessary capital funds from various sources. Company procures capital by issuing various type of securities such as equity share, preference share, debenture etc. In what proportion will the various type of securities be issued is determined by the financial manager.

Capital structure means the combination of different sources of capital like equity share, preference share, debenture, reserve and loan fund. With reference to this, accoding to **Gesternberg,** "Decisions regarding type of securities are reflected in the capital structure of the company."

Definitions :

- In simple words, "Capital structure" means the combination of different sources utilized by the company to raise necessary capital.
- According to **Hogland,** "Capital structure means proportion and magnitude of different securities issued and sources utilized by a company to raise its finance."

8.3.2 Characterstics of Ideal Capital Structure :

(1) **Simplicity :** Capital structure becomes easy in terms of administration, if lesser type of securities are issued.

(2) **Profitability :** The plan of capital structure should be such that profit remains optimum.

(3) **Adequate Finance :** Various sources should be combined in a such way that adequate finance can be obtained.

(4) **Flexibility :** Capital structure of the company should be flexible so that it can be changed as per the requirements and circumstances.

(5) **Economy :** Various sources should be combined in such a manner so that cost of capital is minimised.

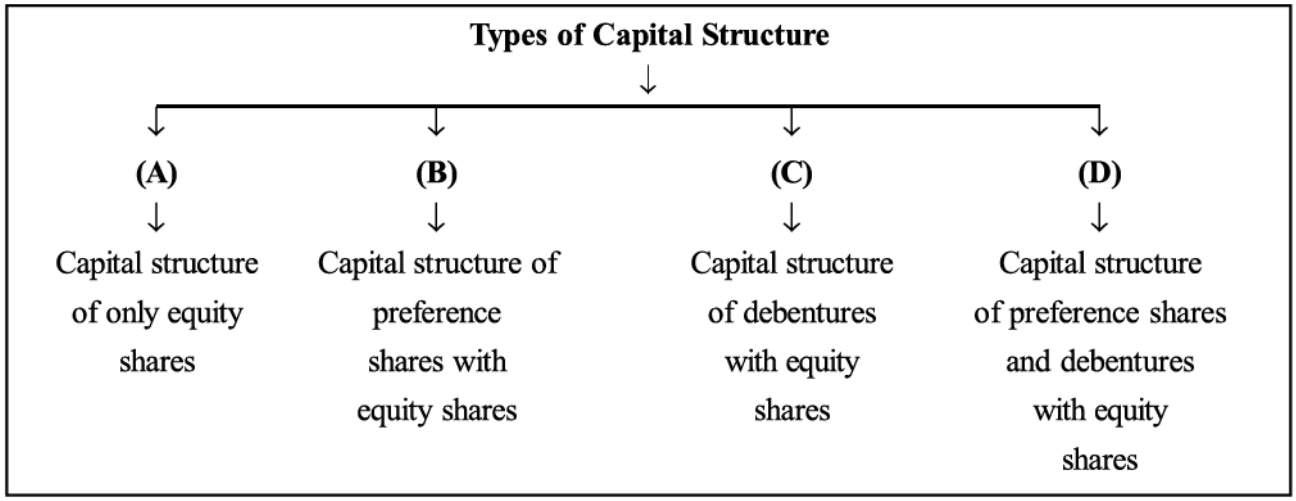
(6) **Balancing :** There should be a proper equilibrium between owner's capital and borrowed capital.

(7) **Liquidity :** There should be such type of provision in capital structure that the liability and debt can be paid in time.

(8) **Attractiveness :** It should be attractive so that various types of investors invest in the company.

(9) **Solvency :** The proportion of borrowed capital should not be so large that burden of interest can not be borne and risk of insolvency is raised.

8.3.3 Types of Capital Structure :



8.3.4 Factors Affecting Capital Structure :

Factors Affecting Capital Structure

(A) Internal Factors	(B) External Factors
(1) Type of business	(1) Condition of boom-depression in capital market
(2) Size of business	(2) Present rate of interest in capital market
(3) Estimation of business income	(3) Cost of capital expenses of issuing securities
(4) Nature and requirement of assets	(4) Legal restrictions
(5) Attitude of directors	(5) Taxation policy
(6) Financial requirements	(6) Institutional investors
(7) Duration of capital requirement	(7) Foreign institutional investors

(A) Internal Factors :

(1) Type of Business : More fixed capital is required in the large scale manufacturing units, while less fixed capital is required in trading units. In service unit, the fixed capital investment is determined on the basis of service.

(2) Size of Business : Due to large scale activities, big business units require fixed capital in large proportion. Small size industrial units require comparatively less fixed capital. Trading units require less fixed capital comparatively.

(3) Estimation of Business Income : Earning of business may be certain or uncertain. Company can depend on borrowed capital if future estimated earning is fixed and handsome.

(4) Nature and Requirement of Assets : If requirements of fixed assets are on large scale in business then the ratio of equity share will be high in capital structure Due to high investment in fixed assets, it is also considered whether fixed assets are to be purchased or to be acquired on hire-purchase or on lease.

(5) Attitude of Directors : If the directors of the company desire to retain the managerial control on company they do not issue equity shares in greater proportion and depend more on preference shares and debentures.

(6) Financial Requirements : Capital can be raised only by issue of equity shares if requirement of capital is on the small scale. Various types of securities are to be issued if large scale capital fund is necessary. Apart from this, how much finance will be required in future for long term objective, plans, possibility of future growth is also to be considered while formulating capital structure.

(7) Duration of Capital Requirement : If capital is required permanently company will prefer to issue equity shares. On the other hand, if capital is required for a short period, company will procure capital through debentures and preference shares.

(B) External Factors :

(1) Condition of boom-depression in capital market : For steady income in depression period the investors prefer to invest in debentures but not in equity shares. While in the period of boom investors

will prefer to invest in equity shares with expectation of higher dividend. Thus, formulation of capital structure based on present trends of capital market.

(2) **Present Rate of Interest in Capital Market :** If the present rate of interest is high in capital market, the trend is to issue equity shares to procure fund, because payment of high interest on borrowed capital becomes a burden on company. Debentures are also given a place in the capital structure, if present rate of interest is low.

(3) **Cost of Capital-Expenses of Issuing Securities :** When securities are issued to raise capital company has to incur expenses for issue of prospectus, underwriting commission, brokerage etc. Cost of capital is more as the expenses are more. The expenses incurred in issuing different types of securities are different. Although the expense on issuing debenture is lower than the issue of other securities.

(4) **Legal Restrictions :** Legal restrictions are also to be considered at the time of selecting capital structure. As per Companies Act, the company raising capital fund through securities has to issue equity shares compulsorily. In addition to this, rules of SEBI and RBI and provision of Companies Act are to be considered.

(5) **Taxation Policy :** Company follows the trend of issuing debenture to acquire more capital fund if taxation ratio is high, because the amount of interest paid on debentures is deductible from the income in lieu of taxation purpose. Naturally, equity shares become more popular if the income of dividend is tax free or the rate is lower on the dividend income.

(6) **Institutional Investors :** Insurance companies, banks, financial institutions of state and central government etc. invest in shares and debentures of the companies as per their established rules and conditions. Trends and conditions of all these institutions are considered at the time of formulating capital structure or at the time of alteration of capital structure.

(7) **Foreign Institutional Investors :** Foreign investor institution is such an institution which is established and registered out of India and whose objective is to invest in prescribed securities in India in primary and secondary markets. Foreign investment institution has to make registration with SEBI. Such institutions are permitted to purchase shares and debentures of Indian company.

8.4 Working Capital

8.4.1 Meaning and Definition : Fixed capital and working capital are required in all types of business. Fixed capital is required to purchase fixed assets such as land, building, machines etc. while working capital is required to pay day-to-day expenses. Working capital is generally employed in current assets of business such as raw materials, debtors, bill receivables, etc. It remains constantly circulating in business, therefore, working capital is called the life-blood.

Definitions :

- According to **Lincoln, Doris and Stevens,** "Working capital is the excess of current assets over current liabilities."
- According to **J. S. Mill,** "The sum of the current assets means the working capital."

8.4.2 Concept of Working Capital :

(1) **Gross Working Capital :** Working capital means sum of total investment in current assets of business such as stock of raw material and finished goods, debtors, bills receivable, short term securities etc.

Gross Working Capital = Total Current Assets

(2) Net Working Capital : Net working capital means current assets minus current liabilities.

Net Working Capital = Current Assets − Current Liabilities

When current liabilities are less than current asset, it is called positive working capital and when current assets are less than current liabilities, it is called negative working capital.

8.4.3 Difference between Gross Working Capital and Net Working Capital :

Sr. No.	Points of Differences	Gross Working Capital	Net Working Capital
(1)	**Meaning**	Gross Working Capital means sum total of current assets such as bill receivables, debtors, short term marketable securities, bank balance, cash, etc.	Net Working Capital means current assets minus current liabilities.
(2)	**Liquidity Position**	This concept does not indicate the liquidity position of the company.	This concept indicates liquidity position of the company.
(3)	**Financial Position and Measurement**	Does not give a true idea of the financial position of the company.	Gives the true idea of financial position of the company.
(4)	**Increase in Current Liabilities**	Increase in current liabilities increases the gross working capital.	Increase in current liabilities does not increase in net working capital.

8.4.4 Characteristics of Working Capital :

(1) Short Term Capital : Working capital is a short term capital.

(2) Investement in Current Assets : In working capital debtors, bill receivables, short term securities are included in current assets.

(3) Liquidity : Liquidity is the basic feature of working capital. All the current assets in which working capital is employed are converted into cash easily.

(4) Less Risk : Working capital circulates, for short term and it is convertible into cash easily, so the element of risk is less.

(5) Changing Form : The form is constantly changing in which working capital is employed. e.g., Raw materials converted into semi-finished goods and further into finished goods. Finished goods is converted into debtors if it is sold on credit, and into cash, if sold on cash basis.

(6) To Pay Day-to-Day Expenses : Working capital is required constantly to pay day-to-day expenses.

(7) No Depreciation : Depreciation is not calculated due to circulating capital in business and its form is constantly changing.

(8) Requirement According to Type and Form of Business : Requirement of working capital is dependent upon the form and type of business. Thus its ratio is different in each business.

8.4.5 Factors Affecting Working Capital :

(1) **Type and Nature of Business :** The need of working capital is dependent on type and nature of business. e.g., The trading units maintaining large stock of goods and selling the goods on credit require more working capital. The ratio of working capital changes as per the nature of industry. e.g., Gas company, electricity company require less working capital while in labour intensive industry larger working capital is required.

(2) **Size of Business :** The smaller the size of business unit, the lesser working capital is required and the greater the size and width of business the greater is the requirement of working capital.

(3) **Production Cycle :** Production cycle means time period between the procurement of raw materials and manufacturing of finished goods. As the production cycle get longer between raw materials and semi finished goods, the need of working capital is more. e.g., Cotton industry and jute industry require larger working capital as the production cycle period is long while bakery and dairy industry require comparatively less working capital because the duration of manufacturing process is short.

(4) **Production Policy and Type of Demand :** Larger working capital is required if the demand of produced goods is seasonal and business unit follows the steady production policy through out the year, e.g., Company manufacturing woollen clothes continues the production mostly for twelve months but the sales remains in winter season.

(5) **Stockpile of Rawmaterials :** Quantity of stockpile of raw materials becomes must its sources are limited or supplying is irregular or available in a certain season only. Hence big amount of working capital is invested in raw-material.

(6) **Credit Policy :** The need of working capital is less if the policy of sales of finished goods is on cash basis. But need of working capital increases if credit sales policy is adopted. In the same way less working capital is required if raw materials are easily available on credit and if purchase of raw materials are in cash it requires large working capital.

(7) **Conversion of Current Assets into Cash :** Less working capital is required in case of prompt collection from the debtors, sales of finished goods on cash, collection of bills receivable on the date of maturity. In converse condition, large working capital is required.

(8) **Stock Turn Over Ratio :** Less working capital is required if stock turn over rate is higher and more working capital is required if stock turn over rate is lower because working capital is blocked up in finished goods.

(9) **Operating Efficiency :** The managerial operating efficiency means getting maximum result with minimum efforts. The need of working capital can be reduced by efficient utilization of available resources and reducing or removing wastage by prompt collection.

(10) **Distribution of Profit :** The distribution of profit as dividend affects the cash because dividend is paid in cash. If company allots a major part of its profit as dividend more working capital will be required due to larger outflow of cash.

8.5 Fixed Capital

Meaning and Concept : Fixed capital means long term capital which is generally invested in business for five years or above. It is invested in fixed assets like land, building, machinery, plant, furniture etc. Thus existence of fixed capital is continued for a long period.

8.5.1 Characterstics :

(1) **Long Period :** It is invested in business for a long peirod of 5 years or above.

(2) **Different Ratio in Different Types of Business :** In the heavy industries like machinery-equipments and chemical industries the ratio of fixed capital is high. The ratio of fixed capital is relatively low in trading units.

(3) **Components :** Land, building, plant, machinery, vehicles, furniture etc. components are included in fixed capital.

(4) **Less Liquidity :** Ratio of liquidity is low as this type of capital is invested for long term in fixed assets so it can not be easily converted into cash.

(5) **Risk :** Fixed capital is blocked up in fixed assets for a longer period so risk of obsoleteness remains in it. Apart from this, changes in political, social and economic factors also tend to raise the ratio of risk.

(6) **Depreciation :** Depreciation is charged on the fixed assets in which fixed capital is invested. So the book value of fixed assets reduces.

(7) **Sources :** The sources of fixed capital are many. They can be promotors of the business, owner's of the business, various types of securities, financial institutions and ploughing back of profit, etc.

8.5.2 Factors Affecting the need of Fixed Capital :

(1) **Type and Nature of Business :** Industrial units involved in industrial activity such as shipping industry, iron and steel industry, mining industry, etc. require large fixed capital. Units providing services require comparatively less fixed capital.

(2) **Size of Unit :** Small sized units require comparatively less fixed capital than large size industrial units. Cottage industry requires less fixed capital than sugar industry or textile industry. While the units manufacturing vehicles require comparatively huge fixed capital as their size is large.

(3) **Use of Ownership/Lease :** If fixed assets like land, building, machinery are to be obtained on lease instead of purchasing, the investment of fixed capital decreases upto that extent and the risk of fixed capital also can be decreased.

(4) **Research Expense :** Industrial units have to undertake research in order to make their product more useful, to reduce the cost of production, to make the design or shape of the product attractive. Fixed capital is required for all these expenditures.

(5) **Modern Technology :** With the passage of time technology changes. Because of new inventions and modern technology old machinery has to be discarded and new machinery has to be installed for that fixed capital is required.

(6) **Government Assistance and Taxation Policy :** Government provides help in form of grant or subsidy to encourage industries and for balanced growth of various regions e.g., Government may provide assistance of land and industrial shade, so, to that extent requirement of fixed capital decreases.

Taxation policy of the government also affects the need of fixed capital. There will be an attraction to purchase new machinery in place of old machinery if government imposes the liberal policy of depreciation on machinery. For this requirement of additional fixed capital becomes prompt.

(7) **Establishment Expenses :** The establishment expense of sole properietorship, partnership firm and co-operative society is less as compared to that of the formation of a company. Company has to bear expenses on preparing documents such as registration fees, fees of experts, legal expenses etc. for which fixed capital is required.

8.5.3 Difference between Fixed Capital and Working Capital :

Sr. No.	Points of Differences	Fixed Capital	Working Capital
(1)	**Meaning**	Capital invested in fixed assets such as land, building, machinery, furniture is called fixed capital.	Capital invested in current assets such as stock of raw materials and finished goods, debtors, bills receivable etc. is called working capital.
(2)	**Period**	Blocked up for a long period in business.	Blocked up for a short period in business.
(3)	**Liquidity**	Ratio of liquidity is less as it is invested for a long period in fixed assets.	Ratio of liquidity is high as converted into cash easily.
(4)	**Risk**	Ratio of risk is high.	Ratio of risk is low.
(5)	**Requirement**	Required to purchase fixed assets such as land, building, plant and machinery.	Required for day-to-day expenses like wages, salary and to purchase rawmaterials.
(6)	**Sources**	This capital is obtained through issue of shares and debentures or obtained from financial institutions.	This capital is obtained through trade credit, bank overdraft, indigenous bankers.
(7)	**Depreciation**	Depreciation is calculated on fixed assets.	Depreciation is not calculated on working capital

What did you learn in this chapter ?

Concept and Definition of Financial Management : Management of finance function, means to take decisions related to financial matter, executes it acquire acquision funds and make its optimum utilization.

Characteristics : (1) Branch of management (2) Wide scope (3) Base of managerial decisions (4) Relation with financial decisions (5) Goal of maximisation of owner's economic welfare (6) Key position (7) Relation with other areas of management (8) Division in to two parts

Objectives of Financial Management :

(a) Objective of Profit Maximisation : According to this approach company should earn maximum profit out of its available resources. Company can increase earning per share through the objective of maximisation of profit.

(b) Objective of Wealth Maximisation : The objective of wealth maximisation is also known as 'Net Present Value'. Decisions resulting in net present value should be accepted by the company. Prof. Solomon has also favoured this approach.

Importance of Financial Management : (1) Estimation of financial needs (2) Acquiring finance (3) Planning and controlling (4) Distribution of finance (5) Maintaining liquidity (6) Distribution of income (7) Management of current assets (8) Financial decisions (9) Raising credit of business

Financial Decisions :

(1) Decisions Related to Investment : Investment decision is called capital budgeting. To take the decisions regarding the selection of those assets in which capital is to be invested in future. Various methods of capital budgeting are being used in investment decisions.

(2) Decisions Related to Financing : Financing decisions are connected with the capital structure. Financial manager has to take the decision regarding the portion to be maintained equity capital and debt. Optimum capital structure is less risky and ensures maximum return.

Factors Affecting Financing Decisions : (1) Internal factors and (2) External factors

(3) Decisions Related to Dividend : Dividend is a part of profit of the company. Dividend is a return to shareholders on their investment. Financial manager has to decide what part of profit should be distributed as dividend among the shareholders and what part of profit should be retained in business. Payment of dividend affects the market value of share.

Capital Structure :

Concept and Definition : Company procures capital by issuing various type of securities. Decisions regarding type of securities are reflected in the capital structure of the company. In what proportion will be the various type of securities to be issued is determined by financial manager.

Definitions : Capital structure means the combination of different sources of capital.

Characteristics of Ideal Capital Structure : (1) Simplicity (2) Profitability (3) Adequate finance (4) Flexibility (5) Economy (6) Balancing (7) Liquidity (8) Attractiveness (9) Solvency

Types of Capital Structure : (A) Capital structure of only equity shares (B) Capital structure of preference shares with equity shares (C) Capital structure of debenture with equity shares (D) Capital structure of preference shares and debentures with equity shares

Factors Affecting Capital Structure :

(A) Internal Factors : (1) Type of business (2) Size of business (3) Estimation of business income (4) Nature and requirement of assets (5) Attitude of directors (6) Financial requirements (7) Duration of capital requirement.

(B) External Factors : (1) Condition of boom-depression in capital market (2) Present rate of interest in capital market (3) Capital cost-expenses of security issue (4) Legal restrictions (5) Taxation policy (6) Institutional investors (7) Foreign institutional investors.

Working Capital :

Meaning and Definition : Working capital is used to pay day-toda expenses. It constantly circulates in business.

Concept of Working Capital :

Definition : Working capital means the excess of current assets over current liabilities.

(1) Gross Working Capital : Sum of total investment in current assets of business means working capital.

(2) Net Working Capital : Net working capital means current assets minus current liabilities.

Difference between Gross Working Capital and Net Working Capital : (1) Meaning (2) Liquidity Position (3) Financial position and measurement (4) Increase in current liabilities

Characteristics of Working Capital : (1) Short term capital (2) Investment in current assets (3) Liquidity (4) Less risk (5) Changing form (6) To pay day-to-day expenses (7) No depreciation (8) Requirement according to type and form of business

Factors Affecting Working Capital : (1) Type of nature of business (2) Size of business (3) Production cycle (4) Production policy and type of demand (5) Stockpile of rawmaterials (6) Credit policy (7) Conversion of current assets into cash (8) Stock turn over ratio (9) Operating efficiency (10) Distribution of profit

Fixed Capital :

Meaning and Concept : Fixed capital means a long term capital which is generally invested for 5 years or above in business.

Characteristics : (1) Long term (2) Different ratio in different types of business (3) Components (4) Less liquidity (5) Risk (6) Depreciation (7) Sources

Factors Affecting the Needs of Fixed Capital : (1) Type and nature of business (2) Size of the unit (3) Use of ownership/lease (4) Research expense (5) Modern technology (6) Government assistance and taxation policy (7) Establishment expense

Difference between Fixed Capital and Working Capital : (1) Meaning (2) Period (3) Liquidity (4) Risk (5) Requirement (6) Sources (7) Depreciation.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) By which other name is the objective of wealth maximisation known ?

(A) Social Welfare (B) Capital investment (C) Net present value (D) Trading on equity

(2) On which concept is the approach to the wealth maximisation based ?

(A) Profitability (B) Social responsibility

(C) Present value of wealth (D) Cash flow

(3) With what is financial management related ?

(A) Finance function (B) Finance market (C) Capital market (D) Stock exchange

(4) Decisions of investment means .....

(A) Capital cost (B) Capital budgeting

(C) Capital structure (D) Ploughing back of profit

(5) Capital structure having proper ratio of equity and debts means .....

(A) Optimum capital structure (B) Simple capital structure

(C) Working capital structure (D) Equilibrium capital structure

(6) Which of the following statements is not true with reference to the concept of net working capital ?

(A) Excess of current assets over current liabilities

(B) Does not show the liquidity position of the company

(C) Provides proper measurement for working capital

(D) Increase in current liability does not increse net working capital

(7) How many types of capital structure are there ?

(A) Two (B) Three (C) Four (D) Five

(8) From which capital is dividend paid ?

(A) Paid up capital (B) Authorised capital (C) Called up capital (D) Working capital

(9) Which statement is true with reference to fixed capital ?

(A) Invested upto 5 years in business

(B) Components are debtors, bill receivable, bank balance etc.

(C) Ratio of liquidity is less (D) Investment can be withdrawn easily

(10) With whom has the foreign investment institution get registered ?

(A) Company registrar (B) Court (C) Stock exchange (D) SEBI

(11) Excess of current assets over current liabilities means .....

(A) Positive working capital. (B) Negative working capital.

(C) Equilibrium working capital. (D) Gross working capital.

2. Answer the following questions in one sentence each :

(1) Financial management is related with which type of financial decision making ?

(2) Which are the approaches adopted by financial management to achieve maximum economic welfare of the owner ?

(3) Which objective is acceptable for financial management ?

(4) What does capital structure consist of ?

(5) In which form dividend can be paid to the shareholders ?

(6) Which type of shares must be issued by a company procuring capital fund by issuing securities ?

(7) For which type of security issue the expense is comparatively less ?

(8) With whom foreign investment insitution has to register itself ?

(9) What are the components of fixed capital ?

(10) Why depreciation is not charged on the assets in which working capital is invested ?

3. Answer the following questions in short :

(1) What does the objective of owner's maximum economic welfare mean ?

(2) What are the factors affecting investment decision ?

(3) "Capital structure is a mixture of owner's capital and debt." - Explain.

(4) What is meant by optimum capital structure ?

(5) "Working capital means circulating capital in business." - Explain.

(6) What is production cycle ?

4. Answer the following questions in brief :

(1) Explain the concept of financial management through various definitions.

(2) Explain the objectives of financial management.

(3) Write Notes : (1) Decisions related to investment (2) Decisions related to dividend

(4) State the factors affecting working capital.

5. Answer the following questions in detail :

(1) Explain the importance of financial management.

(2) Discuss the factores affecting the capital structure.

(3) Giving the definition explain the concept of working capital.

(4) Distinguish between :

(i) Gross working capital and net working capital.

(ii) Fixed capital and working capital.

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9 FINANCIAL MARKET

What you will learn in this chapter ?

- Introduction

9.1 Concept of Financial Market

9.2 Money Market
- 9.2.1 Meaning and Concept
- 9.2.2 Characteristics

9.3 Organised Money Market and Unorganised Money Market
- (A) Organised Money Market
- (B) Unorganised Money Market

9.4 Instruments of Money Market
- 9.4.1 Treasury Bills
- 9.4.2 Commercial Papers
- 9.4.3 Certificate of Deposits
- 9.4.4 Commercial Bills
- 9.4.5 Call and Notice Money

9.5 Capital Market
- 9.5.1 Meaning of Capital Market
- 9.5.2 Characteristics

9.6 Primary Capital Market
- 9.6.1 Meaning
- 9.6.2 Characteristics

9.7 Secondary Market/Stock Exchange
- 9.7.1 Meaning and Explanation
- 9.7.2 Characteristics
- 9.7.3 Functions

9.8 Concept of Demat Account

9.9 Depository
- 9.9.1 Meaning and Explanation
- 9.9.2 National Securities Depository Limited
- 9.9.3 Central Depository Services (India) Limited
- 9.9.4 Depository Services

9.10 Trading Procedure of Security

9.11 SEBI
- 9.11.1 Objectives
- 9.11.2 Functions

Introduction

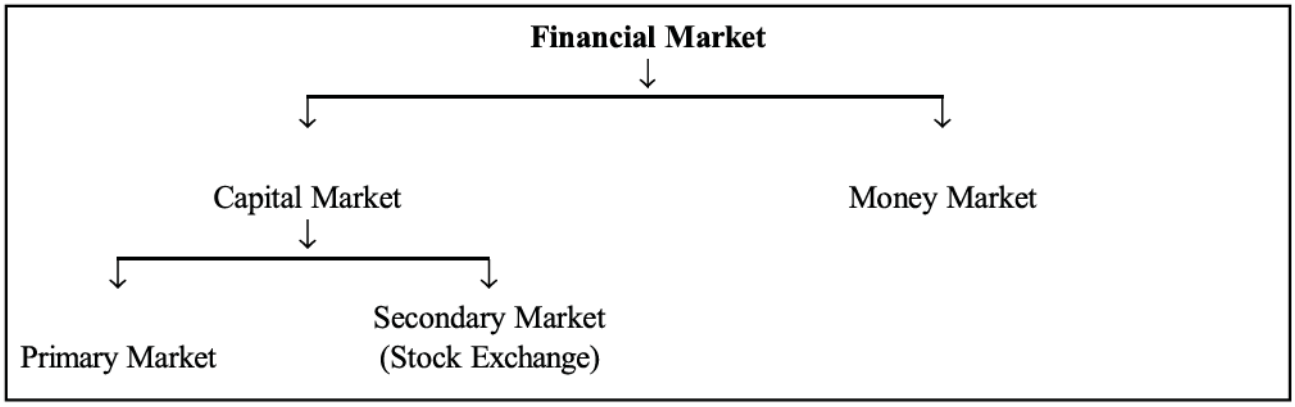
Indian financial structure is mainly divided into two part. Formal or organised financial market and unorganised financial market. Financial market is an important component of the organised financial structure. Organised financial structure consists of mainly four components : (1) Financial institutions (2) Financial instruments (3) Financial services and (4) Financial market. Financial market includes capital market and money market. Capital market is an organised market which provides capital in form of funds from the savings of the society. So capital market is a source of long term capital funds for industrial enterprise. Capital market becomes helpful in the economic growth of the country. Money market satisfies the need of capital through short term instruments such as treasury bills, commercial papers.

9.1 Concept of Financial Market

Financial market includes mainly capital market and money market. Financial market is an important component of financial structure where transactions are carried out on large scale. Investors can decide on their own when and where their savings should be invested based on the perception of trends of financial market. Participants in financial market include (1) Issuers of various type of securities, i. e. borrowers of money. (2) Purchasers of securities i. e. financiers. (3) Financial intermediaries, i. e. financial institutions

Financial market is mainly divided into two parts : (1) Capital market and (2) Money market. Capital market is a market of long term securities. e.g., Shares, debentures, bonds, etc. While money market is a market of short term securities such as treasury bills, commercial papers etc. Capital market is divided into two parts : (1) Primary market and (2) Secondary market. Secondary market includes stock exchange. Primary market is a market of newly issued securities. While

secondary market means stock exchange where existing securities are transacted which have been issued already.



9.2 Money Market

9.2.1 Meaning and Concept : Money market is a market for short term instruments (assets). Money market means a market for assets or instruments which are close substitutes for money.

Financial assets, having high liquidity are traded in money market. It is a market of borrowing money and lending money for a short term. It is a market for securities having a maturity period of one year or less than one year.

There are two parties in money market, one is lender and the other is borrower. Reserve bank, commercial banks, co-operative banks, shroffs etc. are mainly included in the group of money lenders; while farmers, traders, state governments, central government are the borrowers of money.

Money market is not a physical location like stock exchange, but group of various institutions trading or dealing in money.

Short and simple definition of money market can be given as follows :

Definition of Money Market : Money market is a market for dealing in short term financial assets, having high liquidity with close substitutes of money.

9.2.2 Characteristics :

(1) Money market is divided into two parts : Organised money market and Unorganised money market.

(2) It is a market for short term assets or instruments, the maturity period of which is one year or less than one year.

(3) Credit worthiness of participants in money market is important.

(4) Money market is not a fixed physical location but a collective structure of various institutions like Reserve Bank of India, commercial banks, financial institutions, mutual funds, insurance companies, etc.

(5) It is a market of financial instruments which are promptly convertible into cash. e.g. Treasury bills, call money.

(6) Sub-branches of money market also develop with economic and technological development, such as call money market, bond market, treasury bills market etc.

(7) Most of the financial instruments are debt instruments. Element of risk is less as compared to other financial instruments.

(8) The success and operation of money market depends on the banking system and financial institutions.

9.3 Organised Money Market and Unorganised Money Market

Money market of India can be divided into two parts :

(A) Organised Money Market (B) Unorganised Money Market

(A) Organised Money Market : As it is a formal money market, it consists of Reserve Bank of India, Commercial banks, Mutual funds etc. Organised money market in India is regulated by Reserve Bank of India.

Reserve Bank of India changes rate of interest to maintain adequate liquidity as per requirement in money market. Organised money market includes financial instruments like treasury bills, certificate of deposits, call money etc. Organised money market is being systematically co-ordinated and regulated by Reserve Bank of India.

(B) Unorganised Money Market : As the unorganised money market is informal, there is no regulation of any centralised institution on it. Activities are carried out without any rules and regulations. This money market consists of money lenders, landlords, pawn, indigenous bankers, shroffs etc. There is a lack of co-ordination among all these. The activities of unorganised money market have developed in rural areas of India, though it is also found in urban areas.

9.4 Instruments of Money Market

The maturity period of money market is either one year or less than one year. Secured and unsecured, both the types of instruments are traded in money market. The main instruments of money market are as follows :

(1) Treasury bills (2) Commercial papers (3) Certificate of deposits (4) Commercial bills (5) Call/Notice money

9.4.1 Treasury Bills : Treasury bill is a short term financial instrument which is issued by Reserve Bank of India on behalf of Government of India. Treasury bill is an important component of money market all over the world. Government procures borrowed money for a short period through treasury bill. It possesses cash liquidity as the maturity date of treasury bill is either 91 days, 182 days or 364 days. Treasury bill is a zero coupon bond because interest is not paid on it. It is issued at discount and redeemed at par. e.g., Treasury bill of ₹ 25,000 is issued at ₹ 23,500 and the investor is paid the value, at par i.e. ₹ 25,000 on maturity date. Thus the difference between these amount is a return for investor. Treasury bill is also known as 'T-Bills'.

9.4.2 Commercial Paper : Commercial paper became more popular at the world level after 1980. Reserve Bank of India issued commercial papers first time in January, 1990. Commercial paper is an unsecured and short term document like promisory note. It is an instrument to procure short term fund. It is issued by corporate institutions having high credit worthiness whose financial condition is strong. It is a negotiable instrument and therefore transferable. Corporates and financial institutions can issue commercial paper for minimum seven days and maximum one year. It is regulated by Reserve Bank of India. It is issued for ₹ 5 lac or its multiples at discount and it is also known as finance paper, industrial paper and corporate paper.

9.4.3 Certificate of Deposits : Certificate of deposits is unsecured, negotiable instrument to procure short term finance. Scheduled commercial banks and financial institutions can issue it. Certificate of deposits is quite different from fixed term deposit receipt. Certificate of deposits is negotiable and can be sold; while fixed term deposit receipt is not negotiable and can not be sold. Scheduled commercial banks are free to issue as per their requirement within the limit of some conditions. The price of certificate of deposit must be minimum ₹ 1 lac.

9.4.4 Commercial Bills : When goods are purchased on credit, the trader selling the goods draws a commercial bill on the other trader purchasing the goods. Commercial bill is negotiable and arises out of business transactions. It is an unconditional order to pay certain amount in full.

There are many types of commercial bills such as exchange bill, hundi, inland bill, demand bill, foreign bill etc.

When a bill is drawn by the seller on buyer, this bill becomes "Trade Bill" and when this bill is accepted by the commercial bank, this bill becomes "Commercial Bill." This bill is discounted by commercial bank deducting discount. If the bank requires money, it can rediscount it with the financial institutions. Generally, commercial bills are for the period of 30, 60, 90 days.

9.4.5 Call and Notice Money : Commercial banks have to maintain minimum cash balance as per the rules and regulations of Reserve Bank of India, which is called cash reserve. One bank borrows money from the other bank to maintain minimum cash balance. All the banks have to maintain ratio of cash reserve. For this reason, call money market becomes the important component of money market. Call money market includes call money and notice money. No mortgage is to be given for call money and notice money.

Call Money : When money is borrowed or lent for one day it is called call money. It is a transaction one day. Mostly banks are the participant in call money so it is called "Inter-Bank-Call Money" market.

All the commercial banks have to maintain cash reserve ratio as per the rules and regulations of Reserve Bank of India. So the bank having shortage of cash borrows money from the other bank who has excess of cash. In short, loan of one day is called call money.

Notice Money : When money is borrowed or lent for 2 to 14 days, it is called notice money.

9.5 Capital Market

Financial market is mainly classified into two parts : (1) Capital market and (2) Money market- Capital market includes two markets : (1) Primary market and (2) Secondary market

9.5.1 Meaning of Capital Market : Capital market is an organised market which provides funds in the form of capital to industrial enterprises through the savings of the community. It is a source of long term capital fund for industrial enterprises. Long term securities like shares and debentures are traded in capital market. Capital market is a market for all types of securities like industrial securities and government securities. Capital market becomes helpful in the economic growth by mobilizing the savings of community.

9.5.2 Characteristics :

(1) It is a market for long term capital fund.

(2) Instruments of capital market include government securities, debt instruments, securities of industrial enterprises like shares, debentures.

(3) Investment of fund is in long term securities.

(4) Regulation of the SEBI is on capital market in India.

(5) Title of ownership of securities like shares, debentures is transferred.

(6) Provides liquidity to financial assets (securities).

(7) Capital market is divided into two parts :

(i) Primary market and (ii) Secondary Market

9.6 Primary Capital Market

9.6.1 Meaning : It is a market of newly issue securities. So, primary market is called market of newly issued securities. The investors buy only newly issued securities as it is a market for new issued securities. Primary market means a market for selling new securities in order to raise capital fund.

9.6.2 Characteristics :

(1) It is a market for newly issued securities.

(2) New securities are sold and investor can buy.

(3) There are numerous intermediaries in primary market like book running lead manager, registrar of issue, sharebroker, etc.

(4) New capital is issued through prospectus in primary market.

9.7 Secondary Market-Stock Exchange

9.7.1 Meaning and Explanation : The oldest and first stock exchange of India was formed on 9th July, 1875 as a "The native share and stock brokers' Association." Which is known as Bombay Stock Exchange today. Ahmedabad Stock Exchange started in 1894.

Stock exchange is an organisation which provides facilities to share brokers and investors to buy and sell shares, debentures and other securities. It is an organised market for the trading of existing securities. The place providing facility to buy and sell securities means stock exchange.

• According to **K. L. Garg,** "Stock exchange means a place for buying and selling industrial and financial securities like shares and debentures of a company, government securities, municipal securities."

9.7.2 Characteristics :

(1) **Registered Corporate Body :** It is registered established corporate body to bring out rules and regulations in the transactions of securities.

(2) **Approval of Government :** Stock exchange have to obtain approval of the central government as per the provision of Securities Contracts (Regulation) Act, 1956.

(3) **Organised Market :** It is an organised market for dealing in existing listed securities.

(4) **Membership :** Membership of stock exchange must be obtained for dealing transactions in stock exchange.

(5) **Market of Securities :** Stock exchange is an approved organised market for buying and selling of securities.

(6) **Listing of Securities :** The securities which are listed on stock exchange are transacted in stock exchange.

(7) **Management :** The administration and management is conducted by board of directors.

(8) **Strict Control Over the Members :** The board of directors exercises strict control over the members through the disciplinary powers granted to them.

(9) **Organisational Structure :** The organisational structure of stock exchange is in the form of public company.

(10) **Regulation of Stock Exchange :** All the stock exchanges in India are regulated by SEBI and Securities Contracts (Regulation) Act.

9.7.3 Functions :

(1) Liquidity : Stock exchange provides continuous market for purchase and sale of securities. Investors can purchase and sale securities whenever they want. It is possible because stock exchange provides ready market. To accord liquidity to the securities is an important function of the stock exchange.

(2) Valuation of the Securities : Valuation of securities is possible on the basis of demand and supply of the securities. The investors can know the value of their securities. The valuation of securities can also be useful to the government and creditors. Other factors like dividend declared by the company, factors affecting money market are also important in determining the valuation of securities.

(3) Conversion of Savings into Capital : The individuals of the society who have savings and wants to invest in securities can easily purchase securities. Their savings are converted into capital.

(4) Intermediary in the Creation of Capital : Stock exchange itself does not create capital, but provides the platform for the purchase and sale of securities. It plays the role of intermediary.

(5) Safety in Transactions : The transactions are carried out as per the rules in stock exchange. The brokers working in stock exchange perform their role under the regulation of SEBI. So, the transactions are carried out safely. The stock exchange provides safety to investors as the transactions are carried out in stock exchange as per the rules and regulations of stock exchange.

(6) Growth of Capital Market : Savings of public can be diverted towards industrial flow due to stock exchange. Industries as company form get long term capital which encourages savings of public towards investment in securities. So, economic development of the country is possible along with the development of capital market.

(7) Facilities to Perform Activities : Stock exchange provides facilities to its members to perform their activities. So, the members of the stock exchange can protect the interests of the investors.

(8) Necessary Facilities for Speculation : Healthy speculation keeps the stock exchange alive. Stock exchange provides necessary facilities for the transactions of speculation within the legal structure.

(9) Information Provider : Stock exchange provides that type of information which can be useful to the various parties. E.g. : Information about changes in the price of securities, flow of purchase and sale of securities etc. is useful to the investors, companies, government, SEBI. All these information are useful to government in formulation of economic policy, financial policy. Above this, it indicates the economic condition and growth of company and nation. It is a mirror reflecting the economic condition of the country. So, the stock exchange is called the barometer indicating economic condition of the country.

(10) Listing of Securities : If company desires that the transactions of securities are conducted in the stock exchange, it may get its securities listed on stock exchange. Investors have more trust in listed securities.

(11) Guidance to Investors : Stock exchange discloses the collected information of listed companies. On the basis of this information investors can decide which investment in securities of company is to be withdrawn and to be invested in which type of securities of the company.

9.8 Concept of Demat Account

In the past, companies provided shares in physical form to the share holders. Generally the shares which were in the paper form were known as share certificates. Share transfer form was to be duly filled for the transfer of shares and physical shares were to be sent to the company along with it. This entire procedure was lenthy and tedious. To eliminate all these difficulties, securities like shares, bonds, government securities, units etc are preserved in electronic form. These physical securities are maintained in electronic form by the depository institutions.

Dematerialisation means conversion of physical securities into electronic data through computer. This dematerialisation is known as demat in short. Investors get option under Depository Act 1996 to hold securities either in physical form or dematerialised form. Investor have to open demat account with Depository Participant, if he wants Depository services. Depository Participant is either representative or agent of depository. Depository provides demat service through his representative or agent. An investor will have to give dully filled form requesting to Depository Participant for opening demat account.

9.9 Depository

9.9.1 Meaning and Explanation : In India, a company registered under Companies Act can perform work as Depository. Depository Act came in force from August 1996. Depository have to obtain certificate of registration from SEBI before starting its operation.

Operation of depository is regulated by Depository Act and SEBI. Demat account and dematerialisation are at center of the depository process.

The primary function of depository is to convert physical securities into electronic form and to preserve it into electronic form. Above this, to provide service related to transactions of securities.

At Present there are Two Depositories in India : (1) NSDL-National Securities Depository Limited and (2) CDSL-Central Depository Services (India) Limited.

Above both the depository provide their services through intermediaries who are their representative or agent who are called Depository Participant. Banks, financial institutions, share broker can work as a Depository Participant.

9.9.2 NSDL-National Securities Depository Limited :

NSDL is a public company formed under the Companies Act. It was registered with SEBI in 1996. NSDL was promoted by National Stock Exchange and with the collaboration of some financial institutions. It is managed by board of directors as the NSDL is incorporated in the form of public company under Companies Act. NSDL performs its functions through depository participants appointed by it. Fees is charged from depository participant and not from the investor customers. Investor has not to pay any expense directly to NSDL. Depository participant charges some fees from the customer/ investor. This institution provides online service for dematerialisation, rematerialisation, electronic settlement of transactions, crediting right and bonus shares in customer's account, freezing customer's account, etc.

9.9.3 CDSL - Central Depository Services (India) Limited : Central Depository Services (India) Limited (CDSL) was incorporated in 1999 with collaboration of Bombay Stock Exchange and banks. The objective of CDSL is to provide easy and safe services to investors. The list of participants registered with it is published time to time on its website. CDSL provides online depository service all over India.

All over India, all services of depository of CDSL and NSDL are available to investors at door as the depository participants are connected electronically with them. The centralised system of NSDL and CDSL keeps an eye on every transactions.

9.9.4 Depository Services :

(1) Dematerialisation and Rematerialisation : It maintains physical securities of investors in electronic form through dematerialisation. It preserves securities in demat account. As a result there is no fear of theft and destruction of securities. In this sense, depository is considered as a bank maintaining securities. The rematerialisation of demat securities is also made as per the desire of investor.

(2) Easy Transfer of Securities at Less Expenses : Prompt transfer of securities takes place due to depository service. It decreases the paper work. Problems connected with the transfer of physical shares are removed. E.g. : Fake transfer, bad delivery. Moreover saving occurs in brokerage expense, postage expense, courier expense, stamp duty etc for the investor. Only single share can also be transferred due to depository.

(3) Prompt Settlement of Transaction : Settlement of transaction becomes speedy due to depository. The depository participant transfer securities promptly. The securities or cash are received immediately with the settlement of transaction. Investor does not require a correspondance with the company. The settlement of transactions among various parties take place through electronic system.

(4) Record in Customer's Account : Receivable bonus shares, over and above the right shares shares allotted through public issues are credited in customer's account by electronic system.

(5) Facility to Mortgage : It provides facility to mortgage securities and to obtain loan against securities.

(6) Facility to Freeze or Close Account : In case of going abroad for a long period or closing the account for a short period, it provides facility of freezing the account for that period.

(7) Record and Storage of Information : It keeps the record of each transaction connected with securities in demat account. Information remains safe and is stored in such a way that it is available when required.

(8) Link between Investor and Clearing House : Provides service as a link between investor and clearing house in the transactions of securities and in the settlement of transactions.

(9) Service through Internet : Depository provides service to investor through its depository participant through internet at fair price. Provides latest information to customer of his account.

9.10 Trading Procedure of Securities

Few years ago, share brokers used to gather in the stock exchange of India at a fixed time. They were dealing in transactions on the floor by outcry and with the different signs of hands. Now, online screen based electronic trading has come into existence in place of old traditional system. Online trading system is in existence in all the stock exchanges of India. National stock exchange and over-the-counter exchange have adopted screen based online trading system right from their inception. Bombay Stock Exchange and National Stock Exchange have introduced fully self automated screen based trading system all over the nation. The screen based trading system of National Stock Exchange is known as NEAT-National Exchange for Automated Trading and screen based trading system of Bombay Stock Exchange is known as BOLT-BSE Online Trading.

Investors can buy and sell their securities online because of internet trading system. The order for purchase and sale of securities are placed by investors through the use of internet in such a manner that

they can be executed through broker. The procedure of purchase and sales of securities online can be stated as follows.

(1) To Open Demat Account : An investor has to open a demat account with depository participant because buying and selling of only demat securities can be carried out on internet.

(2) Order to Buy-Sell : Investor/Customer who wants to sell securities has to place the order to broker. Purchase and sale price as per script are to be stated clearly at the time of placing the order. There are two types of order in purchase and sale of securities.

(i) Limited Order : Limited order is one in which order is executed at the price specified by the customer. The price of purchase and sale is pre determined. Retail investors and fund houses place this type of order.

(ii) Market Order : Market order is one in which order is executed at the latest quoted price on the trading screen or at the offer price in market.

(3) Execution of Order : Broker executes the order as the order is received by broker. Broker places the order in stock exchange. Broker can deal in transaction from his office through online trading on behalf of the customer.

(4) Contract Note : Contract note is that in which a broker makes a note after buying – selling of securities as per the order of customer. Contract note is a confirmation of the day on which transaction is dealed. Generally, the broker sends Contract note to the customer within 24 hours after transaction is dealed. Name of the security, its number, price of transaction, order number, brokerage, taxes applicable etc are stated in Contract note. Contract note is a document of transaction done.

(5) Settlement of Transaction : The settlement of transaction of purchase-sale of securities is through settlement house in Bombay Stock Exchange. While NSCCL-National Securities Clearing Corporation Limited performs the settlement of transaction done in National Stock Exchange. Settlement of transaction occurs after a day of transaction or trade.

(6) Payment of Amount and Delivery of Security : If the customer has purchased the shares, payment for the same is to be done prior to the pay-in day. If the shares have been sold, delivery of shares is to be done prior to pay - in day. If customer has purchased shares, delivery is done to him on pay-out day. Customer receives money on pay-out day, if shares are sold by the customer.

Pay-in day means the day when the seller of the shares makes delivery of the shares sold to stock exchange through intermediary. Pay-out day means when stock exchange makes delivery to the purchaser of shares and makes payment to seller of shares.

(7) Inform to Customer of Settlement of Transaction : Broker will make the payment to the customer through bank in case of sale of securities, and in case of purchase of securities broker will make direct payment from the bank account of the customer. Settlement of transaction is informed to the customer through demat account.

9.11 SEBI - Securities and Exchange Board of India

SEBI has come into existence as a statutory body as on January 30, 1992 under the Securities and Exchange Board of India Act 1992. Its head office is in Mumbai. While regional officers are at Kolkata, Delhi and Chennai, SEBI is a statutory body regulating stock exchanges in India.

9.11.1 Objectives :

(1) To protect the interest of investors in securities.

(2) To encourage the development of securities market.

(3) To regulate the securities market.

9.11.2 Functions :

(1) To Regulate the Business in Stock Exchange : SEBI regulates the business in stock exchanges and the operations of the stock exchanges. It monitors whether the specified rules and guidelines are followed or not by share brokers, sub-brokers, merchant bankers. It keeps an effective control on the entire working of the stock exchanges.

(2) Protection of the Interest of the Investors : The fundamental function of the SEBI is to protect the interest of the investors. So, it enforces the intermediaries to obey the specified rules and regulations.

(3) Registration and Regulation of Intermediaries : It registers the intermediaries working in stock exchange like merchant banker, share broker, sub-broker, registrar of securities and monitors their functions. It makes planning for the training of intermediaries.

(4) Registration and Regulation of Mutual Funds : It registers and monitors mutual funds and regulates their working. For this, SEBI has determined rules and regulations which are followed by mutual funds.

(5) To Prevent Fraudulent Trade : It takes necessary steps to prohibit fraudulent trade in stock exchanges.

(6) To Cancel Registration of Brokers : It cancels the registration of share brokers who do not follow rules and guidelines determined by SEBI and failed to provide necessary information to SEBI.

(7) To Regulate the Merger and Take Over of the Companies : It regulates merger and take over of the companies for preserving the interest of investors. SEBI has issued guidelines so that merger and take over do not take place at the risk of small investors.

(8) Guidelines with Reference to Public Issues : It has issued different guidelines for both, first time capital issue by new company and capital issue by existing company coming in market for capital.

(9) Self Regulation : SEBI is active for the self regulation followed by intermediaries of stock exchange. It encourages the intermediaries to promote their professional unions.

(10) Maintaining Stock Exchanges as an Efficient Market : It maintains stability and efficiency of stock exchanges through regulations, restrictions and guidelines.

(11) Inspection of Books : If necessary, it inspects the books of securities issuer company, depository participant and beneficiary owner.

(12) Monitoring and Inspection of Stock Exchange : SEBI can monitor and inspect whether regulations laid down for stock exchange are followed or not, whether stock exchange organisation system and its working is followed as per SEBI Act or not. If necessary, it conducts inquiry, inspection and audit of the accounts of the intermediaries.

(13) Guidelines : SEBI has issued guidelines time to time for share broker, and sub broker, merchant banker, trustees of debenture, buy back securities by company etc.

(14) To Obtain Annual and Periodical Reports : It receives report in form of various statements for obtaining information about working and activities of stock exchanges.

(15) Research Work : SEBI undertakes the research work so that, all the above functions can be done effectively.

What did you learn in this chapter ?

Concept of Financial Market : Financial market is an important component of financial structure. Financial market includes mainly Capital market and Money market.

Money Market : Money market is a market of borrowing money and lending money for a short term. It is a market for securities having a maturity period of one year or less than it.

Characteristics : Two parts, maturity period, credit worthiness, physical location, convertible into cash, sub-branches, debt instruments, base of success.

Organised Money Market and Unorganised Money Market : Divided into two parts : (1) Organised money market and (2) Unorganised money market

(1) Organised Money Market : Regulated by Reserve Bank of India. Includes financial instruments like treasury bills, certificate of deposits, call money.

(2) Unorganised Money Market : No regulation of centralised institution as it is a informal, consists of landlord, shroffs.

Instruments of Money Market :

(1) Treasury Bills : It is short term government security. Issues at discount, posseses cash liquidity.

(2) Commercial Paper : It is short term document like promisory note. Issued by corporate body. Issued at discount.

(3) Certificate of Deposits : This is unsecured negotiable and short term financial instrument.

(4) Commercial Bills : It arises out of business transaction. It is drawn by seller of goods on the purchaser. Bank provides credit to its customer discounting the bill.

(5) Call and Notice Money : Call money is a transaction for one day. Call money means loan of one day. When money is borrowed or lend for 2 to 14 days, it is called Notice money.

Capital Market : It includes two markets : (1) Primary market and (2) Secondary market

Meaning of Capital Market : It is a source of long term capital fund for industrial enterprises. Capital market becomes helpful in the economic growth through mobilizing the savings of community.

Characteristics of Capital Market : (1) Long term market (2) Instruments are securities (3) Investment in securities (4) Regulation of SEBI (5) Transfer of ownership of securities (6) Provides liquidity (7) Two parts

Primary Capital Market : Primary market is called market of new securities. It is market for selling new securities in order to raise capital fund.

Characteristics : (1) Market for newly issued securities (2) Purchasing by investors and direct selling of securities (3) Intermediaries (4) Issues through prospectus.

Secondary Market (Stock Exchange) : Oldest and first stock exchange of India is Bombay Stock Exchange. It is a market for trading of listed securities.

Characteristics : (1) Registered corporate body (2) Approval of government (3) Organised market (4) Membership (5) Market of securities (6) Listing of securities (7) Management (8) Strict control over the members (9) Organisational structure (10) Regulation of stock exchange.

Functions : (1) Liquidity (2) Valuation of securities (3) Conversion of savings into capital (4) Intermediary in creation of capital (5) Safety in transactions (6) Growth of capital market (7) Facilities to perform activities (8) Necessary facility for speculation (9) Information provider (10) Listing of securities (11) Guidance to investors

Concept of Demat Account : Dematerialisation means conversion of physical securities into electronic data through computer.

Depository : It is a company registered under Companies Act. It has to obtain certificate of registration from SEBI.

Two Depositories in India : (1) NSDL and (2) CDSL.

National Securities Depository Limited-NSDL : Public company formed under the Companies Act. It was registered with SEBI in 1996. NSDL performs its function through the depository participant appointed by it. All services provided by NSDL are as provided by depository.

Central Depository Services (India) Limited-CDSL : Incorporated in 1999. It publishes time to time on its website the list of participants registered with it. The centralised system of CDSL and NSDL keeps an eye on every transaction. Provides all the services as provided by depository.

Depository Services : (1) Dematerialisation and rematerialisation (2) Easy transfer of securities at less expense (3) Prompt settlement of transaction (4) Record in customers account (5) Facility to mortgage (6) Facility to freeze or close account (7) Record and storage of information (8) Link between investor and clearing house (9) Services through internet

Trading Procedure of Securities : End of old traditional system of transaction on the floor by outcry. Online trading system in all the stock exchanges. Investors can buy and sell their securities online.

Procedure of Purchase and Sale : (1) To open demat account (2) Order to buy and sale (3) Execution of order (4) Contract note (5) Settlement of transaction (6) Payment of amount and delivery of security (7) Inform to customer of settlement of transaction

Objective of SEBI : (1) To protect the interest of investor (2) To encourage the development of securities market (3) To regulate the securities market

Functions : (1) To regulate the business in stock exchange (2) Protection of the interests of the investors (3) Registration and regulation of intermediaries (4) Registration and regulation of mutual funds (5) To prevent fraudulent trade (6) To cancle registration of brokers (7) To regulate the merger and take over of the companies (8) Guidelines with reference to public issues (9) Self regulation (10) Maintaining stock exchanges as an efficient market (11) Inspection of books (12) Monitoring and inspection of stock exchange (13) Guidelines (14) To obtain annual and periodical reports (15) Research work.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) Securities market having maturity period of one year or less than means .....

(A) Capital market. (B) Primary market. (C) Money market. (D) Secondary market.

(2) Who regulates organised money market ?

(A) SEBI (B) State Bank of India

(C) Reserve Bank of India (D) Financial Institutions

(3) Who issues treasury bills on behalf of Indian Government ?

(A) State Bank of India (B) Reserve Bank of India

(C) Central Bank of India (D) Financial Institutions

(4) Which statement is false with reference to commercial bills ?

(A) Government Security (B) Origin out of Business Transactions

(C) Discounted by Commercial Banks (D) Negotiable Instrument

(5) Market for sale of new issues securities means .....

(A) Stock exchange. (B) Primary market. (C) Secondary market (D) Speculation market

(6) Whose approval is to be obtained by stock exchange under securities contracts (Regulation) Act, 1956 ?

(A) Central Government (B) SEBI

(C) Reserve Bank of India (D) Finance Minister

(7) In which year Depository Act came into existence ?

(A) 1991 (B) 1992 (C) 1995 (D) 1996

(8) From whom certificate of registration is to be obtained by a depository before starting its operation ?

(A) Stock Exchange (B) Central Government

(C) SEBI (D) Reserve Bank of India

(9) How many types of orders are there in purchase-sales of securities ?

(A) Two (B) Three (C) Four (D) Five

(10) Under which Act, SEBI came into existence ?

(A) Companies Act (B) Securities Contracts (Regulation) Act

(C) National Companies Act

(D) Securities and Exchange Board of India Act (SEBI Act)

2. Answer the following questions in one sentence each :

(1) What is the time period for the maturity of instruments of money market ?

(2) At what price treasury bills are issued ?

(3) Which financial instruments are traded in money market ?

(4) When was Bombay Stock Exchange established ?

(5) By whom are stock exchanges regulated in India ?

(6) By whom are depository services availed ?

(7) When did Depository Act come into force ?

(8) When did NSDL establish and start its operation ?

(9) Which is the first depository of India ?

(10) By which name screen based trading of National Stock Exchange and Bombay Stock Exchange are known ?

(11) What is meant by Contract note in the purchase-sales procedure of securities ?

3. Answer the following questions in short :

(1) What is unorganised money market ?

(2) What are the instruments of money market ?

(3) Which instrument of money market are negotiable ?

(4) What is the main difference between call money and notice money ?

(5) How does stock exchange provide liquidity element to securities ?

(6) Stock exchange is a mirror indicating economic condition of the country – How ?

(7) What is dematerialisation ?

4. Answer the following questions in brief :

(1) What is treasury bill ?

(2) Give the meaning of capital market and clarify its characteristics.

(3) "Primary market means a market of new issued securities" – Explain and state the characteristics of primary market.

5. Answer the following questions in detail :

(1) What is money market ? State its characteristics.

(2) What are the characteristics of stock exchange ?

(3) What are the functions of stock exchange ?

(4) Write a Note :

(a) National Securities Depository Limited (b) Central Depository Services Limited

(c) SEBI

(5) Explain the purchase-sale procedure of securities in stock exchange.

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10 MARKETING MANAGEMENT

What will you study in this chapter ?

- Introduction

10.1 Market Process
- 10.1.1 Meaning
- 10.1.2 Functions of Marketing Process
- 10.1.3 Difference between Marketing and Selling

10.2 Ideologies / Concepts and Views
- 10.2.1 Concept Production
- 10.2.2 Concept of Product
- 10.2.3 Concept of Selling
- 10.2.4 Marketing Concept
- 10.2.5 Social Concept

10.3 Marketing Mix
- 10.3.1 Concept
- 10.3.2 Product
  - 10.3.2.1 Concept
  - 10.3.2.2 Branding
  - 10.3.2.3 Labelling
  - 10.3.2.4 Packaging
- 10.3.3 Price
  - 10.3.3.1 Concept
  - 10.3.3.2 Factors Affecting Pricing
- 10.3.4 Place (Distribution)
  - 10.3.4.1 Concept
  - 10.3.4.2 Channels of Distribution and its Types
- 10.3.5 Promotion
  - 10.3.5.1 Meaning and Introduction of its Components
  - 10.3.5.2 Advertisement
    - 10.3.5.2.1 Meaning
    - 10.3.5.2.2 Role (Functions)
    - 10.3.5.2.3 Objection Against Advertisement
  - 10.3.5.3 Personal Selling
    - 10.3.5.3.1 Concept
    - 10.3.5.3.2 Characteristics of a Good Salesman
  - 10.3.5.4 Sales Promotion
    - 10.3.5.4.1 Concept
    - 10.3.5.4.2 Techniques
  - 10.3.5.5 Publicity and Public Relation
    - 10.3.5.5.1 Concept of Publicity
    - 10.3.5.5.2 Role (Functions)
    - 10.3.5.5.3 Meaning of Public Relation
    - 10.3.5.5.4 Role (Functions) of Public Relation

Introduction

Consumer is the king of market in modern age. Every firm or an organization continuously strives towards fulfilling the needs of the consumers and satisfying them. Industrial revolution resulted in a speedy growth of production and the basic and primary needs of consumers are being fulfilled. Consequently producers have started placing new and differentiated products in the market resulting in competition among producers. Technological revolution has helped in placing differentiated products in the market. In this way the firms are striving continuously through innovations to fulfill the requirements of goods and services.

10.1 Marketing Process

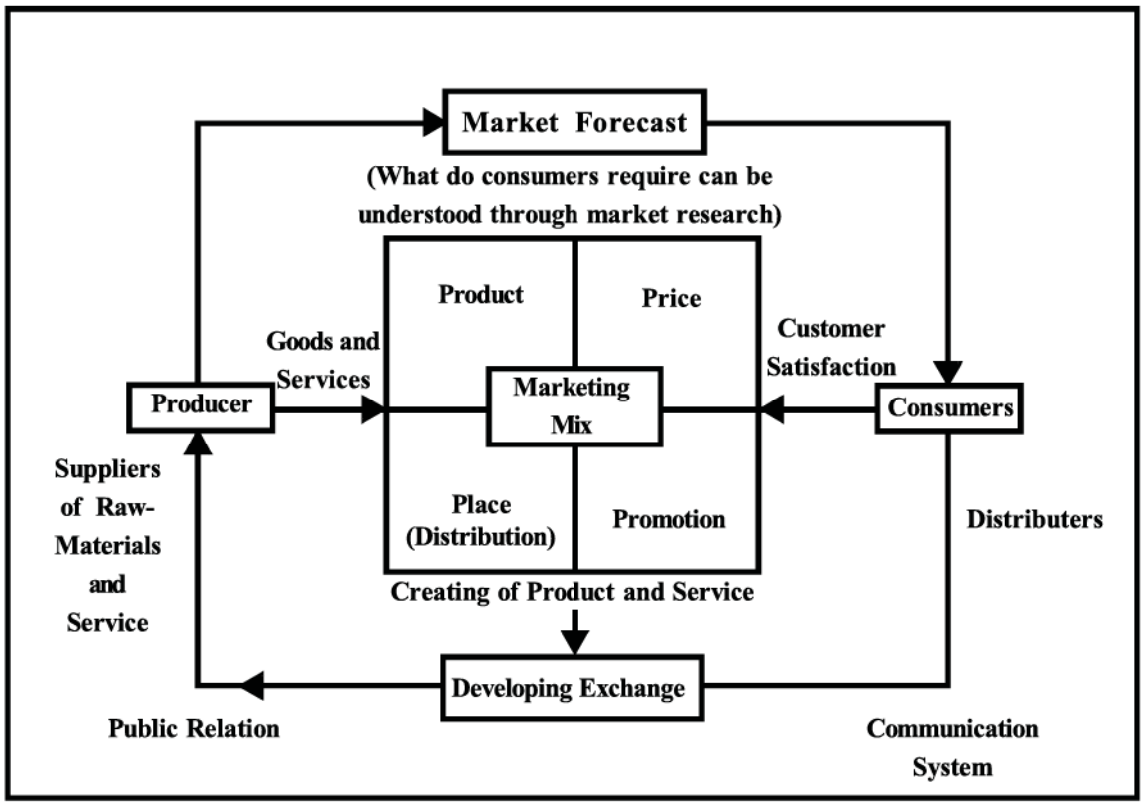
In the marketing process efforts are being made to work more efficiently, innovatively and effectively. Consumable goods and services are produced and made available to the consumers wherever he needs it. As the life style and his approach to life changes, the needs of man also changes. With this change, it becomes important for the market process to fulfill the requirements of consumers.

10.1.1 Meaning : The firms produce goods and services keeping in mind future needs of the consumers. Marketing process is one in which balance is made between the needs of the consumers and the product mix. On the basis of consumer's preferences, the nature of the product is decided and according to the purchasing power of the consumers the price is decided. Exchange is developed between two parties-buyers and sellers in the marketing process. Through exchange the producers fulfill their business objectives and buyers satisfy their needs.

Definition :

- The American Marketing Association define 'Marketing as a business activity, in which his products or services are diverted from the producer to the consumer.'

Diagram for Market Process



- According to Kapoor and Iacobucci, 'Marketing is a mutual exchange between consumers and firms.'

- Accoreding to Stuntent "Marketing is a total system of business activities which are designed to plan a product, to determine its price and to distribute goods which can satisfy wants of the consumers and reach the target as well as objectives of organisations."

- Prof. Philip Kotler stated that, 'Marketing is a social process, in which private groups based on their requirement, produce valuable products and independently exchange goods and services.'

10.1.2 Functions of Marketing Process :

(1) Market Research (2) Collection of Materials (3) Transformation of raw materials into consumable products (4) Standardisation and gradation of product (5) Labelling of product (6) Price determination

(7) Packing of product (8) Storage of products (9) Transportation facilities (10) Insurance of the products (11) Financial arrangement (!2) Advertisement (13) Arrangement of sales and distribution (14) Selling (15) After sales services

(1) Marketing Research : The first and initial work in marketing is market research. In simple words it can be said that it is a process of collecting information regarding consumers taste and preferences. In large scale production, risk is higher in the present days. It is essential to have knowledge regarding consumer's preference. Whether the product will be accepted or not by consumers. On this basis, future forecast can be done. We get information regarding demand, price, competition etc. For this there are number of methods to collect data e.g. questionnaire method, observation method etc.

(2) Collection of Product : In many cases products are manufactured at different place and they need to be collected centrally which is known as collection of products. Producers are scattered. Some products are seasonally produced, some products are produced on a small scale and some products need further processing and for all these reasons product collection is required.

(3) Transformation of Raw Material into Consumable Products : In many products it becomes necessary for further processing to make it consumable. These process are executed at the place where raw material is stored. By making product consumable its market value enhances. Care should be taken to see whether the processing is done according to the consumer's requirement. For e.g. cleaning of cereals, pulses and ripening of fruits, etc.

(4) Standardisation and Gradation : Product standardisation is a process in which it is determined that how goods should be. The quality of the product standards regarding size, colour, smell, taste, nutrients etc. are there. Many products requires government standardization too. Standardization procedure is done alongwith gradation. In gradation different quality products are classified differently. Through that different prices are fixed for different quality products. Appropriate price can be charged from the consumers. Due to product standardization and gradation, consumers develop faith on the quality of the product. The gradation of agricultural products is done in India by Market Department of Government and the Bureau of Indian Standard does it for Industrial products.

(5) Labelling of the Products : A label differentiates the product of one producer from that of other competitors. Label is a unique identity of that product. Consumer indentifies the product only through that label. Consumers are not cheated by fake products because of a label. Advertisement become easy because of the labeled product. Labelling ensure the product quality. Often, producer gives a name for the product which is known as brand. Brand can be in the form of name, symbol, number, producers name or a design. Brand name is kept on label of product.

(6) Price Determination : A producer obtains various estimation of expenses regarding his production of goods which includes production cost, product packing, insurance, distribution, advertisement etc. To this basic cost, profit component is added to determine the sale price. While determining the price, demand for the product and price of the competitor's product also is considered. Price determination should be done before packing because it is mandatory to print the price of the product on the pack.

(7) Packing the Product : Packing provides protection to the product as well as attract consumers towards product. The direction for use of the product is also sometimes written on a packing. Packing can be also called as a garment for the product. Packing makes the use of product easier. Products can be easily transferred from one place to another place due to packing. Packing helps to preserve product quality and its features. Consumers become aware of the price from the packing itself. Different materials are used for packing different products e.g., paper, plastic jars, tinned boxes, glass jar, etc.

(8) Storage of Products : It is essential to place products in the market on the basis of the demand for the product. It become necessary to build a balance between demand and supply of goods. Production is done on the basis of future demand. This results in the need for storing. While storing, it becomes necessary to maintain the quality of the product. Storage makes movement of product easier and helps in availability of products in the market.

(9) Transport Service : Different types of transport services are used to ensure constant supply of raw materials and to enable finished product to reach the consumer. The movement of products take place through road ways, railways, waterways and airways. For e.g. car manufacturing company transport cars in containers.

(10) Take Insurance of the Product : In present time, number of risks arise while storing and transporting the product like, theft, fire, decoit, loss due to riots, sinking of product in water etc. Producers and distributors insure against such risks. Modern producers and distributors take different types of insurance like fire insurance, property insurance, accident insurance, marine insurance, riot insurane etc.

(11) Financial Arrangement : For all activities of marketing management, working capital has to be arranged. To satisfy these requirements well planned financial arrangement is required. A financial manager has to take decisions on how much finance is required ? For which marketing activity ? And when is it required ? For certain seasonal product, advertisements are required in particular season only and so financial arrangement can be done well in advance. Marketing manager's main duties are to create financial availability at the right time and organize advertisement compaigns, distribution channels, branding of the product and market research etc. and to synchronize all these activities.

(12) Advertisement : Advertisement strategy is based on the expected demand and availability of finance. The process and functioning of marketing depends on the type of product, strategy of advertisement of competitors and the extent of effectiveness of media. Advertisement contributes towards creating demand for product. This is the reason why after advertising, the demand for such products and services increase. In most cases, local advertisement campaign proves to be more effective.

(13) Sales and Distribution System : It is essential that products must reach to the consumers from the producer's place speedily and economically. For which appointment of distributors is necessary. In most cases producers arrange this through a centralized agency (for an entire district or a state) and reduces the burden of the sales. According to the type of product the system of sales and distribution is created. If demand for products is very high and continuous in nature, then all the methods are adopted simultaneously. In the distributionship, it is necessary that the products must reach to the wholesalers and retailers on time. In some cases producers are selling the product at the place of production.

(14) Selling : Selling refers to a process of exchange in marketing management in which the product is handed over to the consumer in exchange for money. The role of middlemen is very important in selling function. More aggressive distributor can generate more sales. Very often, the producer directly sells the product to the consumer. Personal selling is the most effective form of selling.

(15) After Sales Services : Marketing does not end with the selling of the product but it includes to get a permanent and happy consumers, listen complaints from consumers, replacement of defective product and service and repair product. For certain products, demonstration is to be done at the residence of consumers. For products like air conditioners, television, grinder, refrigerators; technical knowledge is essential and arrangement for after sales services is to be done for which a network should be created.

10.1.3 Difference between Marketing and Selling :

Sr. No.	Point of Difference	Marketing	Selling
(1)	**Meaning**	Marketing is an identification of the needs of the consumer through the process of creating profit and consumer satisfaction.	Exchange of goods or service for money is known as selling.
(2)	**Area of Work / Scope**	The area of work is very wide which includes understanding the requirement of consumer, develop new products, determining price and provide after sale service.	The area of work is limited which includes the transfer of ownership of products from the seller to the consumer.
(3)	**Objective**	Earning profit through customer satisfaction.	Earning profit by selling products and services.
(4)	**Parties**	Suppliers of product, middlemen involved in sale distribution, consumers are the parties involved in marketing.	Buyers and sellers are the parties involved.
(5)	**Begnning and End**	Marketing process begins with market research and goes till after sales service.	Sales starts after production and ends with providing goods or service to consumer.
(6)	**Need for Capital**	Storing products, gradation, packing, labeling, transportation of goods requires considerable working capital.	Due to the restricted area of operation, working capital requirement is less.
(7)	**Direction of Efforts**	Efforts are made in manufacturing the product as per the need of consumer and making them reachable to consumer.	Making efforts towards preparing consumers to accept the existing product.

10.2 Ideologies/Concepts/Views of Marketing Management

Present marketing is not accidental. It has developed over a period of time. Marketing is an intense activity of fulfilling the desires and wants of the consumers. Business firm keep in mind various philosophies or concepts and develop marketing programmes for marketing. There are five main concepts.

10.2.1 Production Concept : In this concept emphasis is placed on product availability and price. Consumer prefers a cheap product. This concept is known as production oriented concept. Wherever

quality is not given importance but availability and low price is preferred, than it is said that production concept is followed. According to this concept, the producer does not believe in giving any extra facility or feature in the product. In underdeveloped countries this concept is widely seen.

10.2.2 Product Concept : This concept emphasis on quality of the product. Here it is believed that consumer insists on the quality. Hence many business units are seen to be continuously improving the quality. Good quality product are available at a relatively higher price. Those who follow this concept, continuously concentrate on research and development.

10.2.3 Selling Concept : This concept is also known as sales based concept which emphasizes on selling process. It appeals and attract the consumer to buy the product directly or indirectly. Aggressive marketing methods are adopted, various methods of sales promotion are adopted like advertising, campaign, direct selling etc. Here efforts are made to create demand. Without sales promotion efforts, complete reaction from the consumers cannot be received.

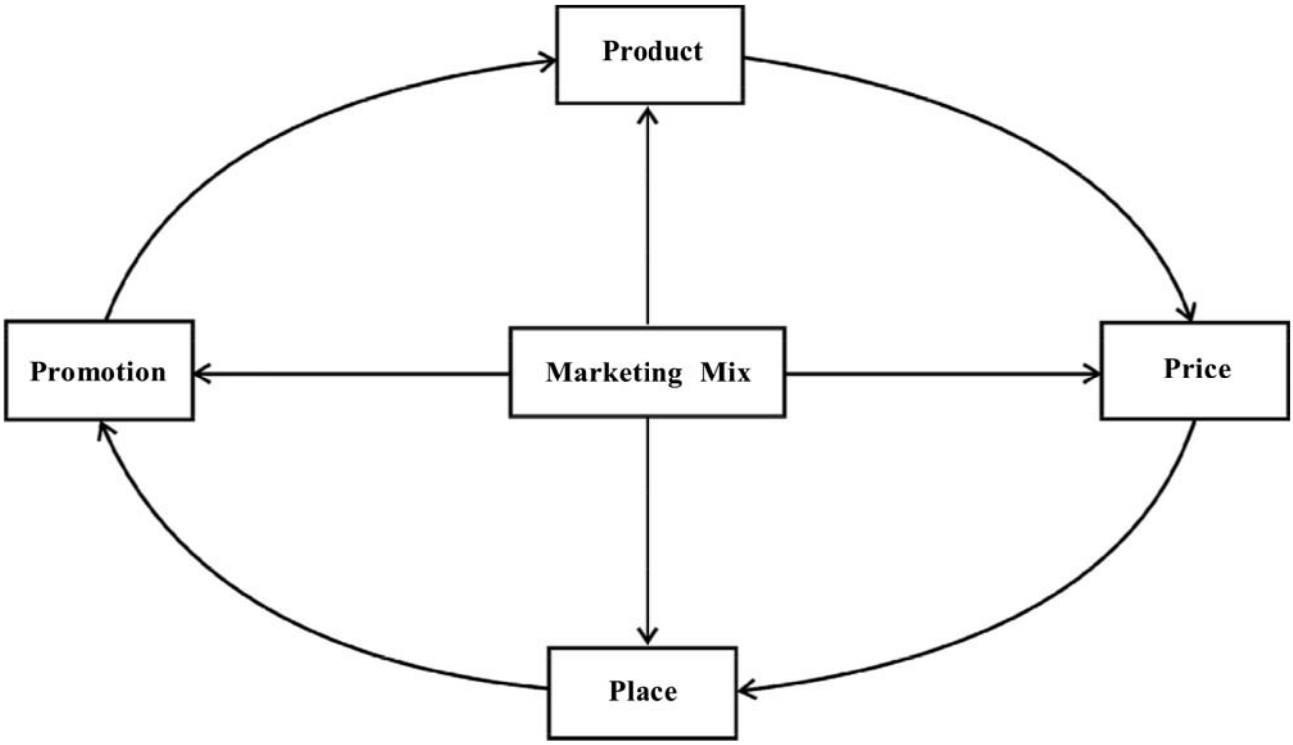
The complete emphasis is not given on the need of consumer. But all the efforts are made in converting goods in to cash. This concept ignores consumers' dissatisfaction.

10.2.4 Marketing Concept : This concept can be called as user based concept. Production is undertaken by taking up research on preferences, habits, desires etc. of the consumers. All marketing policies are formulated by keeping consumers in the center. Consumer is the king of the market-such philosphy will be reflected in the marketing activities. "The aim of this concept is to provide effective and efficient product as compared to competitors." Consumers' satisfaction is the objective of this concept. Marketing concept is the most modern of all the above concepts which benefits number of firms, consumers and society. In present time in India's business field, huge industrial units have adopted marketing concept.

10.2.5 Social Concept : It is also known as societal oriented concept. Marketing concept has been criticized as it gives priority only to the consumer's preferences. In the marketing concept efforts are made to know the wants of the consumers and satisfy them but due to that in the long run, interest of the consumer, society and the country were at risk. Alongwith that there is wastage of resources also. According to this concept marketing management should be done in such a way that consumers' wants are fulfilled and at the same time it creates least harm to environment. That is the reason why number of firms have reduced the use of plastic in packing and reduced air pollution through control of emissions from industrial units. There is a spread of an ideology where ready to eat food is available but at the same time it should not be harmful to health and it should be pure and healthy. To control the consumption of junk food, some states have imposed "fat tax" too. In the same way controlling of air and noise pollutions have been emphasied.

10.3 Marketing Mix

10.3.1 Concept : To launch a product in the market successfully and to maintain its importance in the market, a number of policies that are adopted by a producer is known as marketing mix. Marketing mix is a group of constituent forces which are under the control of firms and which is used to promote consumers satisfaction. A business unit does not have any control on external environment but they have direct control on internal forces which directly influence the consumers. But these factors affect the consumers. Marketing mix helps in attaining the marketing objectives of a firm. The four constituents in the marketing mix are known as 4Ps (1) Product (2) Price (3) Place (4) Promotion.



10.3.2 Product : Product can be goods or services which can satisfy the want of a consumer. Product is the starting point of marketing which can satisfy the want of a consumer. Hence product is the base for marketing process.

10.3.2.1 Concept : There are number of decisions involved in product mix. It includes features, packaging, branding, labeling and after sales service. All types of marketing activities which are required to satisfy the consumers are included. It also includes placing the product in the market, do changes in the product, give after sales service, complaint redressal regarding product. Apart from these, branding, packaging, labeling activities are included.

10.3.2.2 Branding :

Meaning : To distinguish own product from the products of competitors, branding is essential. For this the producer labels-a name, logo, design or number which can help the consumers in identifying the product. It gets legal approval for its protection and it is called a trademark. A brand provides identity for the product. While deciding the name of the product, its features are kept in mind. The product name should convey a particular meaning and easy to remember. Often the philosophy of the organization is kept in mind while deciding the name or a symbol.

Definition : "When the product of one producer is to be easily identified from that of products of other producers and no one else can copy it by using name, logo, number, design on the label etc. it is known as branding."

Features :

(1) Through branding, consumers experience a feeling of consistency in quality of the product.

(2) While labeling and creating designs or symbols, various colors are used. Specific colors or designs are used to symbolize.

(3) Whatever logo is chosen is printed on the packing.

(4) Brand of a firm shows the features, advantages, uses, personality and culture of the product.

(5) Symbol is a unique identity.

(6) Symbol is a verbal and visual identity.

(7) Product with a symbol can be sold in the market at a high price.

(8) Sellers can sell the product with a symbol, easily and more.

10.3.2.3 Labelling :

Concept : Labelling is a piece of paper pasted on the primary packing of the product which shows the information of the product in detail. Generally labelling provides all information in detail about the product. In which weight, size, price, date of manufacturing, ingredients, expiry date etc. of the product are shown. It helps the consumers. It indicates the procedure and the uses of the product. Quite often it provides directions for opening the packing too. Every packing should have brand name-compulsorily. Most producers provide toll free number to contact them for any complaint.

Functions :

(1) Helps in identifying the product.

(2) Gives full information about the quality and type of the product.

(3) All information regarding product is provided to the consumer.

(4) Direction of use of product is given to the consumer.

(5) It creates attraction for the product which helps in advertisement and personal service.

(6) It complies with the legal requirement.

10.3.2.4 Packaging : Packaging performs the function of decorating the product. Packaging is in the form of plastic bags, cloth bags, cardboard box, plastic barrels, boxes etc. The success of many products lie in their packing. Packaging is a function to provide the protection to the product. Packaging is always necessary. Packing makes product attractive. It helps in transporting the product easily. Product can better be used when it is packed. It can be used for advertising too.

10.3.3. Price : Price determination of a product is most important for any business unit. Price is very important for both the buyers and sellers in the market. Demand for a product is inversely related to the price of that product. When price of the product rises, demand tends to fall and when price fall the demand rises. Price determination process of any business unit determines the market situation. A firm's income and profit depends on the price of product. Every firm has to fix reasonable price for the product.

10.3.3.1 Concept : Price refers to the value paid by the consumer for the physical, economic, social and psychological satisfaction received from the product. Price is the economic value of a product, which is generally depicted in the form of money.

10.3.3.2 Factors Affecting Pricing :

(1) Production Cost : The most important aspect in price determination is production cost. It includes, raw material cost, production cost, administrative cost, sales and distribution expenses etc. While determining price of a product, cost of production is considered. While a new product is launched,

number of expenses are incurred. Such expenses are included in the selling price of the product. No price can be fixed lesser than the cost of production.

(2) **Demand for the Product :** Demand for the product and the price of that product are directly related. Factors like consumers taste and preference, number of consumers, their purchasing power, number of competitors in the market affect the demand for a product. When demand for a product is high, the price of the product can be kept high but when the demand for the product is low, price is to be kept low. When competitors are more or when the demand of a product of competitors is high, the producer has to fix the price in such a way that it is same as that of competitors. When competitors are less, price can be kept high and more profit can be earned.

(3) **Competition in the Market :** The extent of competition affects the product price directly. Producer fixes competitive price when the number of competitors are more and competition is high. Price is fixed on the basis of the objectives like to beat competitors or to make their entry difficult or to expel them from the market. If the prestige of the firm is high in the market, it can charge more price from the consumers than the competitors.

(4) **Governmental and Legal Controls :** Those business units which enjoy monopoly usually charge high price. Government imposes control on such business units to protect the interest of the people. Prices of many products are highly fluctuating, and therefore number of legal controls are imposed. These factors have to be taken into consideration while determining product price. Government imposes certain regulatory control on product which are essential for life e.g. lifesaving drugs, petrol, diesel, paper for daily newspaper etc.

(5) **Price Determination on the Basis of Objectives :**

(A) **Maximum Profit :** This objective is aimed, when monopoly is in existence and when the product is produced after having incurred heavy research expenses.

(B) **To Acquire Dominant Position in the Market :** In most cases to acquire dominant market share, prices are kept at a very low level to attract consumers.

(C) **To Sustain Competition :** When competitors are more and when competition is high, the business firms are ready to fix prices lower than or at par with that of his competitors.

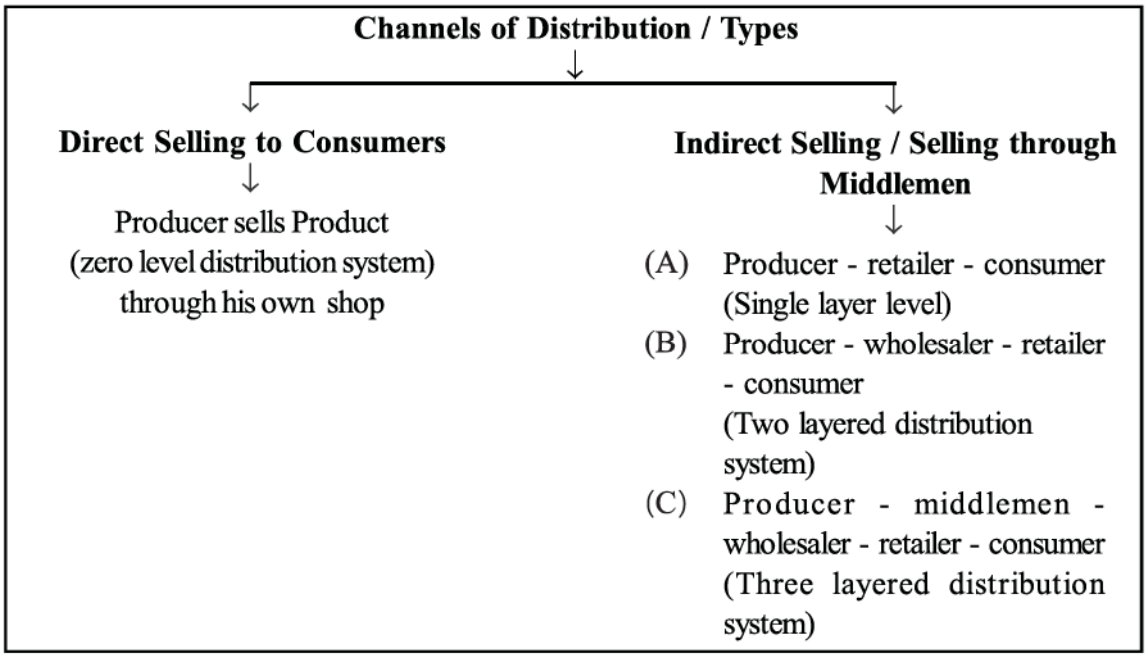
(6) **Economic Condition :** Existing economic condition plays an important role in determining the price of the product. If the economic condition of the country is good, price can be fixed at a higher level and if there is a recession, product price is reduced.

(7) **Buying Behavior :** Consumer behavior plays an important role in product price determination. Factors that determining consumers' behavior include, consumers' habits, social, cultural, individual, personal and economic condition. Due to these factors, the attitude towards the product may change and ultimately product do not get desired or expected response from the consumers. It is desirable to determine the price of the product after considering all these factors.

10.3.4 Place (Distribution) :

10.3.4.1 Concept : Distribution refers to an arrangement of making the final product available at a place where it is required, when it is required and in whatever quantity it is required. When the existing and expected consumer group is huge and widespread and are spread in heterogeneous geographical areas, distribution plays a very vital role. Producer does not come into direct contact with the consumer but has a link through various middlemen. For e.g. all car manufactures have distributors, throughout the country. Thus distribution system is designed on the basis of type of product, number of consumers, geographical area etc. Care is taken to make the product reach to consumers at lowest possible cost. In this function handling and storage of product are included. The distributors provide required information to manufacturers.

10.3.4.2 Channels of Distribution :



(1) Direct Sales : In this the producer himself supplies product to the buyer. Producer supplies it from his factory or his own shop or show room. This method of distribution is the shortest and easiest method of distribution. Apart from this selling through post, door-to-door selling by salesman, sales through on-line shopping are also included. In this type of distributing system there is no layer/level. Hence is known as zero level distribution system.

Producer ⟶ **Consumer**

The reach by the producer to the larger consumer group is not possible. It is also not useful for all types of products. There are few limitations of this method.

(2) Indirect Sale - Sale by Mediator : Indirect sale refers to the distribution by the producer through one or more mediators. In this method the producer can reach vast consumer group through mediator. This method used when the price of the product is low and it is more necessary in daily life. For e.g. cooking gas cylinder distribution system.

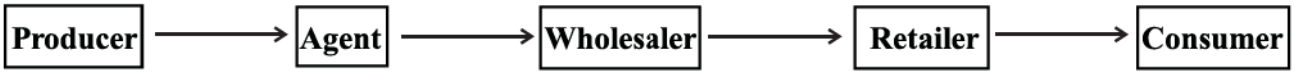
(A) Single level Distribution : In this distribution system retailer is the only mediator who acquires the product from the producer and distributes it to consumer. Generally, for specialised products such distribution system is adopted.

Producer ⟶ **Retailer** ⟶ **Consumer**

(B) Double Level Distribution System : In this distribution system wholesaler and retailer enable the products to reach the consumer. Wholesaler buys the products from the producer in large quantities and sells it to the retailers in small quantities who in turn sells it to the consumer. The risk of sales reduces for the producer as wholesaler purchase in lump sum. Moreover, wholesaler provides storage and ware housing-services too. Sometime producer frames the retailing network for each wholesaler so that the products can reach to the final consumer. Daily use products like soap, toothpaste, battery, and shaving cream, etc. can be easily distributed under this distribution system.



(C) Three Level Distribution System : In this distribution system consumer and producer have three mediator in between them. The products reach the agents or middlemen from producer and then he sends it to various wholesalers. These wholesalers then distributes it to the retailers. The producers are only in direct contact with agents or middlemen. As producer deals with only agents regarding product and monetary transactions, the dealings become convenient. This method is useful when the production is limited or when the product is accepted to everyone.



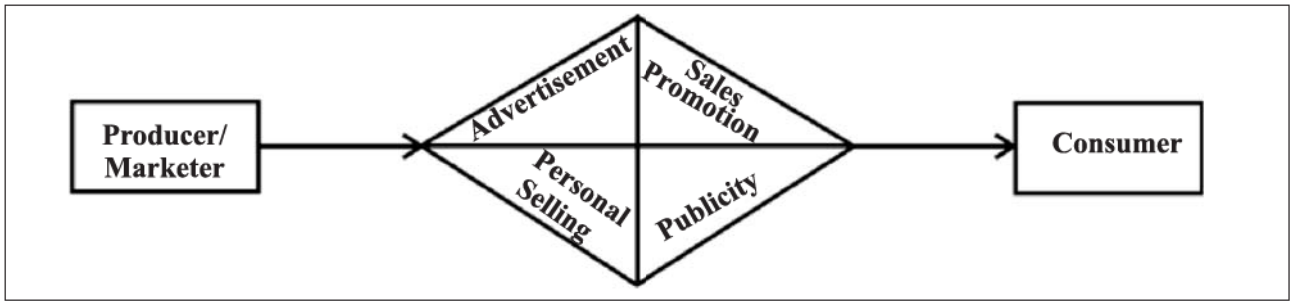
10.3.5 Promotion :

10.3.5.1 Concept : Promotion is an important part of marketing mix. An important function of promotion is to provide information regarding new product to the existing consumers and the potential consumers. In the process of promotion, producer tries to explain, to existing consumer as well as to the potential consumers for the purchase of products. This converts potential consumers into actual consumers. Promotion creates attraction towards the product. Through promotion demand for the product can be increased and the business unit can create an impression in the market.

Introduction of Components : Promotion mix is such a group of tools which provides the information about the product and services to the consumers and persuade them to buy the product. Promotion mix includes advertisement, personal selling, sales promotion and publicity.

Every business unit uses promotion tools to different extent. Promotion mix is determined after considering attitude of consumer for purchase of product, nature of product, price of product, etc.

Promotion Mix



10.3.5.2 Advertisement :

10.3.5.2.1 Concept : Producer uses different medium to advertise the product or service to the people. Thus, it can be said that the most important, famous and acceptable tool of promotion is advertisement.

Definition : Advertisement is paid form of non-personal information of goods and services in which advertiser's identity is easily traced. Those products which have low demand in the market can be promoted with the help of advertisement. Advertising can be done through TV, radio, dailies, magazines, internet, etc.

10.3.5.2.2 Role (Functions) of Advertisement :

(1) **Creates Demand :** Through advertisement one can give information regarding the availability of product in the market which leads to rise in demand for the product. The consumers are informed about the different uses of a product for e.g. cold coffee. For new products, advertisement becomes inevitable. When consumer get a knowledge of the product, initially they purchase it on an experimental basis. Thus advertisement increases the demand for the product.

(2) **Benefit of Large Scale Production :** With the help of advertisement, one can reach to the potential consumers. As a result, business unit gets more return than advertisement cost . This leads to higher demand of product. This leads to large scale production and ultimately to cost minimization and increase in profitability.

(3) **Product Awareness :** Through advertisement, information about product and its advantages is given to the potential users. Sometimes consumers' do not know how to use new product which can be done through advertisement. When a product has more than one usages then through advertisement such information is passed on to the potential consumers. Producer ensures the consumer regarding the quality of the product which increases the faith on the product. By showing the satisfaction of the users of the product, faith on the product can be created.

(4) **Helpful in Employment Generation :** Due to advertisement, demand for a product or service increases which leads to rise in production and employment opportunities. Apart from this people employed in the field of advertising like copy writers, advertising distributors, film makers, etc.

(5) **Betterment of Standard of Living :** Advertisements lead to knowledge of better products to the consumer. This enables the consumer to use better quality of products or services. Better and improved product usage leads to improvement in the standard of living of the people. Day to day functioning become easy.

(6) **Maintenance of Quantum of Sales :** Continuous advertising leads to remembrance of new product in consumer's mind. That is the reason why at the time of purchase, consumer shows a prompt preference for a particular brand of product and that maintains the sales at a consistent level. In other words, it can be said that advertisement proves very effective to withstand competition from the competitors. Market share is maintained with the help of advertisement.

10.3.5.2.3 Objections Against Advertisement :

(1) Actually advertisement is an inseparable part of promotion, but there are many evils of advertisement. Due to advertisements, consumer is attracted towards the product and purchases it. At that time he does not think, whether the product is useful or not. Unnecessary expenditure is a social evil.
(2) Higher expenses by the upper class creates inferiority complex for the poor.
(3) Advertisement is an expensive activity. Often the business units spend huge amount on advertisement and includes that cost in the price. Hence the product to the consumer is sold at a higher price.
(4) With intention to attract consumers and portrait competitors as inferior advertisement is used.
(5) Goods of sub-standard quality also is being sold by creating attractive advertisement.
(6) Many times unimpressive advertisements for unnecessary products are shown.
(7) Very often consumers get information regarding bidi, cigarettes, liquor, chewing tobacco, etc. which results in harmful effects in the long run due to addiction.
(8) Companies which produce almost identical products, undertake large scale advertisements which forces other competitors also to advertise.
(9) Advertisements, in most cases are exaggerated which leads to cheating with the consumer.

10.3.5.3 Personal Selling :

10.3.5.3.1 Concept : Advertisement conveys the information of the product of a business unit to the consumer but sometimes, it does not give required result. Hence marketing manager rely to the next alternative of promotion which is personal selling. Generally in personal selling, seller directs and explains about the product to the prospective consumer. Personal selling creates faith in the minds of prospective consumers. Any doubt regarding the product in the minds of prospective consumers can be cleared by the seller. Personal selling not only creates awareness about the product but also creates a preference for the product.

Meaning : According to Prof. Philips Kotler, "Salesman is that person who represents the business unit to the consumer and his job is to highlight the nature of the product, demonstrate the product, and explain its usefulness to the consumer and clear doubts. Through personal selling the business unit creates a definite type of relationship with the consumer."

10.3.5.3.2 Characteristics of Good Salesman : Every product requires personal selling. Seller always identify prospective consumers. During demonstration, the interaction that takes place between salesman and the prospective consumers and converts him into actual buyer. Through personal selling salesmen understands about consumers fashion, habits, orientation, likings, preferences etc. Such information becomes very important for a marketing manager.

The following are the characteristics of a good salesman :

(1) Salesman should be smart, interactive and physically fit.

(2) Salesman should be good in communication, intelligent and efficient.

(3) The most important quality about a salesman is his ability to talk with the potential consumers' style of presenting the product before a customer and the ability to convince a customer.

(4) The salesman should have all the necessary information about the product he is presenting before a customer.

(5) Honesty can be said to be an essential quality in a salesman. A salesman should be honest and should be having good character. He should be sincere and regular in his work.

(6) A salesman is the representative of his company, therefore he should be polite. Company's good image depends mainly on his behavior.

(7) An ideal salesman should be always enthusiastic, disciplined and ambitious.

10.3.5.4 Sales Promotion :

10.3.5.4.1 Concept : Sales promotion is an important component utilized along with advertisement and personal selling in promotion.Advertisement and personal selling mainly give information about the product while sales promotion gives prompt reason to buy the product. Sales promotion is a group of techniques which quickly attracts the customers and results into sales.

Definition : According to Kotler, sales promotions are short-term incentives that encourage the customer to buy the product or service. Sales promotion have quick effects on customers.

10.3.5.4.2 Sales Promotion Techniques :

(1) Sale : When the product is offered at lower price than its actual price, it is known as sale. Generally such techniques used by business units to reduce closing stock.

(2) Discount : When actual price charged for a product is less than its original price it is known as discount. Sometimes defective products are sold at discount so that customer would get attracted.

(3) **Advertisement Coupon :** In this technique the marketing manager checks the effectiveness of the advertisement and customers are also given the benefits. Here, the customers are told to bring the cutting of the advertisement or the packing material on which they are given monetary benefit on their purchasing.

(4) **Gift :** Sometimes a small gift is given along with the main product. For e. g. giving 1 soap free on purchasing 3 soap bars. Sometime more quantity is given in the same price for e. g. giving 20% more shaving cream at the same price.

(5) **Additional Gift :** Looking at the requirements of the customers free additional gifts are given along with the main product. For e. g. giving toothbrush with a toothpaste. Sometimes, product not related with the main product is given as a gift. For e. g. giving one ballpeen free on purchasing four units of a soap.

(6) **Lucky Draw :** In this technique the customer is given a coupon as a code and on a particular day results are declared and prizes are given to the winners. For e. g. Bharat petroleum gives prize winning coupons on buying of petrol of ₹ 200/- or more.

(7) **Facility of Interest Free Loans :** This technique is used when the product is high priced and the customer cannot afford to pay the amount all together. For e. g. giving interest free loans on buying a television set. Here a customer can begin the usage of product by paying a small amount for it.

(8) **Distributing Samples :** Sometimes samples are distributed for good items or low price products. Generally the samples are distributed only for the customer to experience the product. Shampoo, soap, oil, etc. are distributed free of cost in small sachet.

(9) **Organizing Competitions :** The producers organise competition in order to promote his new product. For e. g. the company making crayons for children would collect information about the customer by organizing drawing competition for them before launching new colors in the market. Here the winner gets the new product as a prize.

10.3.5.5 Publicity and Public Relation :

10.3.5.5.1 Concept of Publicity : Any form of non personal presentation of goods, services or ideas done through public media which is free of charge is known as publicity. The business unit doesn't have to pay any charge for this. Sometimes it is considered as a part of public relations. This is done by addressing public or giving a presentation or an interview in newspaper or on radio or on T.V channel, giving donation, inaugural function of an office by a film star or a cricketer.

10.3.5.5.2 Role of Publicity :

(1) Publicity is considered to be the most reliable in all promotion mix.

(2) For publicity, the company has not to pay anything therefore it is the cheapest promotion tool.

(3) Sometimes publicity includes the task of public relations in which the marketing manager can give more information with less efforts.

(4) Mass communication with reliability make publicity more effective.

(5) Publicity helps sellers and distributors, as potential customers get informed about product or the company, it gives direct effect on selling efforts of sellers and distributors.

10.3.5.5.3 Concept of Public Relations : A company makes use of public relations for maintaining its prestige. Public relations is a group of activities that are designed or presented in such a way that it creates and maintains good impression of the company towards different parties involved with it.

Public relations include the following activities :

(1) Giving news in the newspaper about the company.

(2) Publishing the speech of director of the company.

(3) Planning activities like seminar, workshops, competitions or sports activities.

(4) Circulating news letter of company.

(5) Informing society about public welfare activities organised by the company.

(6) Planning social or cultural programmes.

10.3.5.5.4 Functions of Public Relation :

(1) Maintaining good relations with audio visual media is very important for creating good image of the company. Good relations with them can help the company to communicate with society about the product of the company or company itself.

(2) When the company develops a new product and introduces it in the market as a part of customer awareness programme, information about the product can be given officially.

(3) Matters such as company's news, employee's achievements, company's achievements and awards or prizes won by the company can be published with the help of companys newspaper or a magazine which can help to create good image of the company.

(4) Different parties involves with the company can come to know about companys' futuristic policies by giving directors speech on different media.

(5) By organizing social activities and cultural programmes, society can be informed about company's social responsibility which helps to create good impression of the company.

(6) Public interest activities such as maintenance of garden, repairs of roads, health check-up, tree plantation etc. can help to solve the problems in the society and in creating social image of the company.

What did you learn in this chapter ?

Marketing Process : Marketing is a process through which the goods or services are moved from producers to the customers.

Functions of Marketing Process :

(1) Marketing research (2) Collection of Goods (3) Transformation of raw material into consumable Goods (4) Standardisation and gradation (5) Labelling (6) Pricing (7) Packing (8) Storage of goods (9) Transportation (10) lnsurance (11) Financial Arrangement (12) Advertisement (13) Arrangement of Sales and Distribution (14) Sales (15) After sales services

Difference between Selling and Marketing : (1) Meaning (2) Scope (3) Objectives (4) Parties (5) Beginning and end (6) Capital requirements (7) Direction of efforts

Concepts of Marketing Management : Different concepts to understand and implement the marketing management.

(1) Production Concept : It focuses on offering the product to consumer at the lowest cost.

(2) Product Concept : Producing better quality product and selling it at a high price, assuming that customer is quality conscious.

(3) Selling Concept : It focuses on an aggressive selling and promotion technique to raise stock turnover rate.

(4) Marketing Concept : The customer is in the centre and product is made from the view point of customer satisfaction.

(5) Social Marketing Concept : The concept of social responsibility- There should be protection of the social interest which means maintaining a balance between the satisfaction of customer and the interest of the society.

Marketing Mix : There are four components of marketing management that can achieve goal of the business unit by achieving customer satisfaction. They are product, price, place and promotion. They are also known as 4 Ps also.

(A) Product : That can satisfy the customer's need.

Branding : Branding means any type of sign, symbol or design which is intended to differentiate the product from competitor's product.

Characteristics : (1) Quality (2) Use of colors in symbols (3) Sign/symbol on packing (4) Name of brand emphasizing the basic features or benefits or usages of the product (5) Identification of the product (6) Verbal & visual indentity (7) Sale on high price (8) Easy for the salesman

Labeling : Display of information such as product size or weight, price, date of manufacturing, ingredients, Expiry date, Method to use the product, etc.

Functions : (1) Easy identification of the product (2) Sufficient information about type and quality of the product (3) Information about product (4) Method of usage (5) Create Attractiveness (6) Satisfy legal and ethical needs.

Packaging : Covering of a product to protect, it is known as packaging.

(B) Price : Value paid by a customer for a product or service for his physical, economical, social or psychological satisfaction.

Factors Affecting Price : (1) Cost of product (2) Demand of product (3) Competition in the market (4) Government and legal restrictions (5) Objective oriented pricing (6) Economic conditions (7) Buyers' behavior

(C) Distribution : It refers to an arrangement of making the final product available at place where it is required, when it is required and in whatever quantity it is required.

Types of Distribution : (1) Direct sales (2) Sales through middlemen

(1) Direct Sales or Selling to the Customer : The manufacturer or seller directly sells to the customers.

(2) Indirect Salses/Sales Through Middlemen : Using indirect means with intermediaries.

(A) One Level : Only one mediator between a buyer and a seller.

(B) Two Level : Two mediator between a buyer and a seller.

(C) Three Level : Three mediator between a buyer and a seller.

(D) Promotion : lt is an important marketing mix that creates attraction toward the product among the customers and converts potential customers into actual customers. In promotion advertisement, sales promotion, publicity and personal selling are included.

Advertisement : Producers use different mediums to advertise goods or services and they pay for that

Functions : (1) Creates demand (2) Advantages of large scale production (3) Information about product (4) Helps in job creation (5) Raises living standard (6) Maintains sales

Objections Against Advertisements : (1) Unnecessary purchasing-a social evil (2) Inferiority to poor (3) Expensive activity (4) To beat the competitors (5) Inferior quality product (6) Unimpressive presentation / obscenity (7) Information regarding unwanted goods (8) Forces to advertise others (9) Exaggeration.

Personal Selling : The job of presenting the product before the potential customers solving their doubts and converting them into actual buyers by a salesmen.

Characteristics of a Good Salesman : (1) Smart, efficient, interactive, physically fit (2) Efficient in communication (3) Style of presentation of new product (4) Technical information (5) Honesty (6) Politeness (7) Enthusiasm.

Sales Promotion : Short-term benefits offered to the customers that inspire the customer to buy the product.

Sales Promotion Techniques : (1) Sale (2) Discount (3) Advertisement coupon (4) Gift (5) Additional gifts (6) Lucky draw (7) Interest free loan (8) Distribution of samples (9) Organising competitions.

Publicity : Impersonal communication about the product of the company with help of mass media without paying any charges for it.

Role : (1) Most reliable (2) Free of cost (3) Includes public relations (4) Effective use of mass media (5) Helps the salesman and the middlemen.

Public Relations : Maintaining good relationship with all the parties involved with the company and creating good image of the company among them.

Role : (1) Good relationships with newspaper editors (2) Information about new products (3) Achievements of the company and its employees (4) Director's speech (5) Organizing social and cultural programmes (6) Public interest activities

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) What is Market Mix in marketing management ?

(A) Product, production, physical distribution and price

(B) Product, transportation, market and customer

(C) Product, competitors, government and others

(D) Product, price, promotion and physical distribution.

(2) In marketing management, ... is at the centre.

(A) Product (B) Production (C) Customer (D) Profit

(3) What is the main objective of branding ?

(A) Making the product more durable (B) Manufacturing the product according to law

(C) Advertising the product

(D) Differentiating company's product from the competitors

(4) When the manufacturer sells the product directly to the customer, what can be said about the levels in distribution channel ?

(A) One (B) Two (C) Three (D) Zero

(5) What is to be done by promotion ?

(A) increasing the price. (B) increasing the sales.

(C) increasing the production. (D) making necessary changes in the product.

(6) Which of the following is the function of a salesman in personal selling ?

(A) Presentation of product before the potential customer

(B) Packing the product

(C) Personal use of the product (D) Appointing new salesman

(7) Because of promotion techniques.....

(A) the customer get inspired to buy the product quickly.

(B) the customer doesn't try to understand the product.

(C) the middlemen stops selling the products to the customer.

(D) the retailers stop purchasing goods from the middlemen.

(8) Which of the following is the function of a marketing manager ?

(A) Making the goods consumable (B) Storages of goods

(C) Market segmentation (D) Sales

(9) What can happen because of excessive advertisement expenses ?

(A) It raises price of the product (B) The product becomes more attractive

(C) It improves quality of the product (D) The product is available everywhere

(10) ln public relation, an effort is made to create the positive environment among all the parties involved with the business towards the company.

(A) This statement is true.

(B) This statement is true only for the middlemen.

(C) This statement is true only for the potential customers.

(D) This statement is false.

2. Answer the following questions in one sentence each :

(1) What is marketing management ?

(2) Give meaning of market research.

(3) What is personal selling ?

(4) What is sales promotion ?

(5) What is promotion-mix ?

(6) What is branding ?

(7) Give meaning of 'publicity'.

3. Answer the following questions in short :

(1) List out the advantages of labeling.

(2) What is the need of 'storage of goods' ?

(3) What is marketing-mix ? What it includes ?

(4) State any two characteristics of branding.

(5) State any two characteristics of a good salesman.

4. Answer the following questions in brief :

(1) Explain the difference between selling and marketing.

(2) Explain the role of public relation.

(3) Explain the selling concept in marketing management.

(4) Mention the characteristics of a 'good salesman'.

5. Answer the following questions in detail :

(1) Explain the functions of marketing.

(2) Explain the factors affecting the price of a product.

(3) Explain the sales-promotion techniques.

(4) Explain in detail the role of advertisement.

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11 CONSUMER PROTECTION

What will you learn in this chapter ?

- Inroduction

11.1 Consumer Protection – Meaning, Concept and Importance

- 11.1.1 Meaning
- 11.1.2 Concept
- 11.1.3 Importance
  - (A) Importance of consumer protection from the view point of business
  - (B) Importance of consumer protection from the view point of consumer

11.2 Consumer Protection Act - 1986

- 11.2.1 Meaning of consumer protection
- 11.2.2 Rights and Responsibilities of Consumers
- 11.2.3 Institutions for Dispute Settlement
- 11.2.4 Available Solutions (Remedies)

11.3 Consumer Awareness

- 11.3.1 Role of Consumer Organizations and Non-Government Organizations

Introduction

It is proven that in a free market, consumer is the king of the market. The earlier slogan that "Consumer should be aware" has changed to "Seller should be aware". It is found that to increase their share and to survive in the ever - increasing competition, producers of goods and services adopt unethical, exploitative and unfair practices. Due to such malpractices, consumers are being cheated. Consumers are forced to pay a higher price and at the same time they are experiencing insecurity due to defective products, health hazards due to adulteration and also due to wrong and misleading advertisements, sales of duplicate products, black marketing and hoarding of goods. The needs to protect consumers from unethical practices are on the rise. Such consumers who fall prey to various malpractices tend to put their lives to danger by unknowingly consuming such products. This is absolutely not justifiable.

11.1 Meaning, Concept and Importance of Consumer Protection

11.1.1 Meaning : Consumer protection means providing shield to consumer from the unethical, exploitative and unlawful practices of sellers or manufacturers.

11.1.2 Concept : The consumers either do not have the capacity to unite and become aware or do not have information regarding the legal measures in the event of consumer exploitation.

11.1.3 Importance : The expliotation of consumers can be predomanently categorised under three heads.

(1) **Phyiscal and Mental Exploitation :** Consumers are disappointed and angry when they are forced to purchase sub-standard quality products or duplicate ones. The inferior ingredients used in the product, leads to physical problems.

(2) **Economic Exploitation :** Consumers are facing financial losses due to hoarding of goods, black marketing and charging higher price than the printed price.

(3) **Against Public Interest :** Public interest is not safeguarded when some products are produced by using certain materials which can cause harm to environment.

Meaning of Consumer : According to the Consumer Protection Act a consumer is "a person who receives goods or services against an exchange. He pays or agrees to compensate partly or fully or promises to compensate on a future date or has participated in some future payment plan. Any user

of the product or service who uses it on the basis of the permission of the purchaser is a consumer. But the one who purchases on a resale basis or for further production is not included under the definition of a consumer."

11.1.3 Importance of Consumer Protection : The list of the functions of consumer protection is broad and detailed. The functions is not limited to only spreading awareness regarding consumers' rights and responsibilities but also solving the genuine complaints of consumers. Just to legally protect consumers is not the end of the work. Consumers also should unite for their good and at various levels, consumer protection forum should be set-up.

Business units also understand the importance of the work of consumer protection. They can also maximize consumers' welfare and protect them from malpractices earnestly.

(A) Importance of Consumer Protection from the View Point of Business :

(1) Use of Public Resources and Wealth : As every business is utilizing public resources and wealth continuously, it becomes their responsibility to promote social welfare by producing such goods and services which are useful to the society.

(2) Social Responsibility : It is proven that business has social responsibility towards various stakeholders' group. Business returns are based on sale which is made to the consumers. Consumers also are the main stakeholders among the various groups of stakeholders. Business units safeguard the interest of various other groups in the same way they should do so honestly for consumers also.

(3) Part of the Society : Any business is a part of a society. Every seller is a customer of another seller. If consumer exploitation is inevitable then every person will have to experience exploitation. Hence, every seller should adopt such a policy which will increase the faith of the buyer and distance him from consumers' exploitation.

(4) Impression on the Society : Business impacts the habits of the people of society, their life styles, thoughts, living standards, food habits, fashions, clothing etc. Thus can be changed through advertisement. That is why business policy should be proper and good business ethics remains the moral responsibility of the businessmen.

(5) Consumers' Protection is Good for Business : Business units have relaised that consumer's wellbeing is essential for the wellbeing of business. The basic requirement of a competitive market is to reach out to the consumers and produce goods according to consumers' preferences. Those manufacturers who fail to understant this, will lose market to their competitors. Therefore, it is in the interest of the business that the producer realises that he should develop his business by protecting and understanding the preference of the consumers. A satisfied consumer does not just not purchase the product again, but also recommends the product to various groups of people in the society which will attract new consumers.

(6) Principles of Trusteeship and Consumer Protection : According to Gandhiji's principle of Trusteeship, whatever wealth the society has given to person should be used for the welfare of the people of the society. According to Gandhiji "Consumer is the most important person visiting the place of business. He is not dependent on the seller but we (sellers) are dependent on him. He does not interfere in our work but he is the objective of our business. He is not an outsider for our business but he is a part of our business. We do not favour him by providing a product of his choice but he does a favour by giving an opportunity to serve him".

(B) Importance of Consumer Protection from the View Point of Consumer :

(1) Extensive Exploitation of Consumers : It is widely seen that business units are trying to increase their profit by producing sub-standard, adulterated and duplicate products and resorting to misleading advertisement, black marketing, hoarding of goods and other unethical and exploitative policies. Such wrong and irrelevant policies adopted by business units have resulted in a need for consumer protection.

(2) Ignorance of Consumers : Consumers are not aware about laws which empower them with rights or even if they are aware, they hesitate in taking legal steps or they have insufficient and misleading information. The prime importance is to spread awareness among the consumers regarding the laws which are in existence and the procedure therein.

(3) Lack of Unity among Consumers : An an individual a consumer always proves himself weak but if a large group of consumers unites and form a consumer protection forum, it becomes easy and effective to protect their interests. Such organizations have become active in India too. But till such organizations become strong, protection of consumers through law becomes essential.

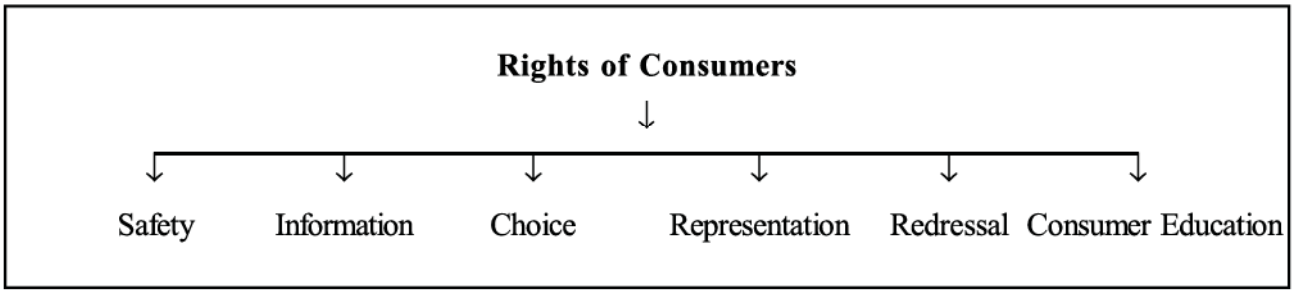
11.2 Consumer Protection Act-1986

Of the various measures adopted for consumer protection, Consumer Protection Act is the most important one. The main aim of this act is to protect the rights of consumers by guarding their interests. This Act protects consumers from defective products, services, irrelevant business policies and cheating. Through the legal system, a triple level layer has been set up to protect the interests of consumers in which at the district level, state level and national level facilities are set up for immediate registration of complaints and their quick redressal at less cost.

11.2.1 Meaning of Consumer Protection : Consumer protection refers to the measures taken against the manufacturers and sellers who adopt various means to exploit consumers for earning high profits to fulfil their greed.

11.2.2 Rights and Responsibilities of Consumer :

(A) Rights of Consumer : Every consumer should get his due rights so that he can get protection from exploitation. Consumer Protection Act gives 6 rights to consumers. The Consumer Protction Forum which has been set up under the direction of Consumer Protection Law, encourages and protects the rights of consumers.



(1) Safety : Every consumer is entitled to get protection from products which are harmful to health. For instance, sub-standard electrical appliances can cause dangerous injuries to the consumer and hence such appliances should not be used. Standardised and superior quality appliances should be used so that consumers can be protected.

(2) **Information :** Consumer should get all information regarding the products like, ingredients, manufacturing date, directions for use, price, quality, purity etc. For this, legally, a manufacturer is bound to display all informations either, on the packing or on the lable.

(3) **Choice :** Every consumer has a right to choose and hence they have a right to choose either goods or services. He must get them at a competitive price, right quantity, right place and right time. This right to selection on part of the consumer has brought in market variety in goods and services by way of quality, brand, price, size etc. by the producers. e.g. In the two wheeler range, there are wide varities to satisfy the requirement of the consumers and if one wants to purchase a motor cycle, he gets variety for selection with variations regarding engine, power, color, design, etc.

(4) **Representation :** If a consumer is dissatisfied with a product or a service, he has the right to complain. Hence, most business units have set-up their own complaint redressal department. In India, many organizations which work for consumer protection help consumers to intitiate the process of complaint.

(5) **Redressal :** If a consumer gets sub-standard quality of goods or services as compared to what he has been promised to get then accordingly, he should get relevant relief. Consumers are eligible for various types of relief under the Consumer Protection Act like replacement of goods or services or repair of the product or part. If there is any damage to the consumer a compensation is offered, Consumer has right to complain and there is equal right for redressal.

(6) **Consumer Education :** Every consumer has the right to know and also remained in formed throughout his life. Consumer should get right quality, quantity at the given time, place and at an ideal price.To get assurance for all these; the consumer has the right to get educated. If a product or a service is sub -standard as against the assured quality, he should know that he is entitled to legal relief. Most business units and organizations who work for consumer protection are actively working to educate consumers.

Apart from this, the United Nations Organisation (UNO) has issued a directive recommending two more rights for the consumers (i) Basic Needs (ii) Hygienic Environment.

(i) **Basic Needs :** Basic Needs refer to the requirement of goods and services for a decent living.

(ii) **Hygienic Environment :** Hygienic environment is a protection from various types of pollution so that an individual can lead a quality life. Every individual has the right to get pollution-free air, water, food and land.

Responsibilities of a Consumer : We are all aware that without responsibilities, rights cannot be available. Every consumer should be conscious about the purchase of product or service, its use and after-consumption responsibilities.

(1) **Conscious Use of Rights :** Every consumer has number of rights which are legally available and the use of these rights require complete knowledge about it.

(2) **Beware of Misleading Advertisements :** Very often sellers and producers, in order to promote sales, resort to wrong and misleading advertisements. e.g. Consumption of a specific product will increase the energy level in a person immediately or specific types of drink will incrase the height of person in a short span. While taking a decision regarding purchase of a product, such

misleading advertisement should be overlooked and the consumer should compare the product with other products. Inappropriate advertisements should be discontinued by drawing attention of the advertisers. If there are discrepancies between the informations provided in advertisements and the actual product, such discrepancies should be highlighted to the advertisers.

(3) **Care During Purchase :** No producer or seller should provide false incentive for the sake of selling the product. Consumer should emphasize on getting all the necessary informations regarding the product or service in question like - name of manufacturing unit and address, quality, quantity, direction for use, expiry date, ingredients, manufacturing date, weight, guarantee or warranty period and other conditions.

(4) **Solicit for a Bill :** Whenever a consumer purchases a product or a service, he should ask for the bill from the seller. If the purchased product or service is damaged or of a sub-standard quality or does not fulfill the characteristics of a product and if the consumer wants to complain to the Consumer Protection Forum, it is mandatory to submit the proof of purchase in the form of a bill. Every seller is bound legally to give a bill as a proof of his purchase.

(5) **Solicit a High Quality :** Special emphasis should be laid for a permanent soloution from sub-standard quality of product and service. Problem of adulteration, duplicate products etc. are common. While purchasing, care should be taken to confirm whether it has got quality control certificate and standardization mark.

(6) **Registration of Genuine Complaints** : If there is any violation of consumer rights after the purchase of a product or a service, complaint should be registered by the consumer to the concerned authority. Very often consumers tend to ignore minor problems or violation of consumers rights which is not a correct approach. This trend encourages the seller to continue his exploitative tendencies. On the other hand, there are instances where consumers misuse their available rights and claim larger compensation for minor damages, which is also inappropriate.

(7) **Spread of Consumerism :** Every consumer should take active part in the set-up of Consumer Protection activity in spreading awareness among consumers regarding their well being and their rights.

(8) **Environmental Protection :** Every consumer should contribute to environmental protection. After the use of goods, the wastes should be disposed without spreading dirt or pollution. This is the primary responsibility of the consumer.

(9) **No Involvement in Unethical Activities :** When consumer is making purchase, he must follow legal matters. He should not involve himself in black marketing. hoarding of goods or any such kind of unethical practices. Thus, for customers first condition is to fulfill all the responsibilitis before he should insist for his legal rights.

11.2.3 Grievences Redressal Organizations : A three layer mechanism has been set-up for complaint redressal of the consumers. These three levels are at the District Level, State Level and National Level. Generally, a consumer is the one who uses goods or services.

If there is any defect in product, consumer can take the help of dispute settlement organization.

He can register complaint individually or in the capacity of a representative of consumer Association at the District, State or Central level as the case may be. If the grievances are common, the consumers can do so collectively too. If the consumer is dead his legal heirs or his representative can do so. The main objective of maintaining the three tier redressal system is to make it fast and economical.

Three-Tier Redressal System :

National Level Commission

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State Level Commission

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District Level Forum

(A) District Level Forum : This is the basic or primary level. At the district level, every State Government set up this forum. There are atleast three members appointed by the State Government, one as the President and there should be atleast two more. The President should be legally qualified and experienced. Out of these three, atleast one should be a woman member. If the price and compensation demanded for the disputed product or service is ₹ 20 lakhs or less, the redressal process can take place at the District Level Forum. After receiving the complaint, the District Level Forum sends it to the other concerned party by the district level forum. If needed, the district forum can send the product for the laboratory for testing. The district level forum listens to both the parties and if needed gets the product tested in the laboratory and based on the statement of the laboratory solves the dispute. If either of the parties is not happy with the judgement, then he can appeal at the State Level Commission for re-examination within 30 days of the judgement of District Level Forum.

(B) State Level Commission : It is the responsibility of the State Government to set up a State Level Commission. Atleast Three members including one as President should be appointed who should be legally qualified. There should be atleast one woman member. If the price and compensation demanded for the disputed product or service is more than ₹ 20 lakhs and equals to or less than ₹ 1 Crore, the redressal process can take place at the State Level Commission. Any consumer who has dissatisfaction over the judgement of the District Level Forum can apply to the State Level Commission within a period of 30 days. After receiving the complaint, the State Level Commission sends it to the accused. It listens to both the concerned parties, if needed it will send the product to the laboratory for testing. The consumer redressal will be taken on the basis of the presentation of both the parties and report of the laboratory. If any party is not statisfied with the State Level Commission, then within 30 days of the judgement of State Level Commission, it can appeal for re-examination with the National Level Commission.

(C) National Level Commission : The responsibility of setting up this commission lies with the Central Government. Along with one President, atleast four other members are appointed and thus there will be atleast five members. The President will be either existing or a retired judge of the Supreme Court. Out of the members appointed, atleast there will be one woman member. If the price and compensation demanded for the disputed product or service is more than ₹ 1 Crore, the National Level Commission can be approached. Any party who is not satisfied with the judgement of the State Level Commission will be handled by the National Level Commission. When a complaint is registered with the National Level Commission, it will be sent to the accused party. The National Level Commission listens to the arguments of both the parties and if it is needed will get the product tested in a laboratory and considers the report to settle the dispute. If the judgement of the National Level Commission does not satisfy either of the parties, they can appeal for re-examination with the Supreme Court in due course of time.

This directly implies that if the parties concerned are not satisfied with the dispute settlement of District Level Forum, they appeal to the State Level Commission within 30 days of the judgement of District Level Forum and if they are dissatisfied with the State Level Commission, they can go to the National Level Commission within 30 days of the judgement of State Level Commission and if the parties concerned are not satisfied with the dispute settlement of National Level Commission, they can knock the doors of Supreme Court within reasonable time limit after the judgement of National Level Commission.

11.2.4 Available Remedies / Reliefs for Consumers : If the consumer court accepts the complaint, it can allow one or more reliefs out of the following in the favour of consumer :

(1) It can direct to remove the defects existing in the product or the service.

(2) It can direct to refund the money for the defects in the product or the service.

(3) It can order to exchange defective product with the new (fresh) product.

(4) If due to the negligence on part of the seller, there the consumer has to suffer any loss or injury, he can be compensated for the same.

(5) If the case so demands, penalty also can be imposed on the seller.

(6) Unfair and prohibitive business practices can be stopped and can order not to repeat the same in future.

(7) Production and sales of harmful products can be stopped.

(8) Harmful products can be stopped from being sold.

(9) If defective product or deficency in service is found, atleast 5% of amount of total sales should be ordered to deposit in Consumer Protection Fund or to any institution or person working with the objective of utilizing the amount for a specific purpose.

(10) It can direct to remove misleading advertisements and introduce improvised advertisements.

(11) It can order to make reasonable payment to the affected party (Consumer) by way of compensation.

11.3 Means & Methods of consumer Awareness

Consumer himself, industrial units, government and private institutions together are working towards consumer awareness. Most of the consumers are not aware of their rights and responsibilities and in the event of exploitation, they have no idea regarding what types of efforts should be taken. Consumers are made aware of their rights and responsibilities by various consumer awareness programmes. When consumers' rights are violated, necessary information and legal aid are extended to them. Every year, 15th March is celebrated as World Consumer Rights Day.

(1) Lok Adalat : Most industrial units organize Lok Adalat for the genuine complaints of their consumers. The consumer represents his case in this court.Redresal is done mostly then and there itself. This Lok Adalat enables quick effective redressal of the consumer complaints at a low cost. e.g. Bharat Sanchar Nigam Ltd. (BSNL) organizes Lok Adult frequently.

(2) Public Interest Litigation-PIL : Every one is not capable enough to file complaints individually in a court either because of economic reasons or due to lack of time. There are certain aspects which affect an entire society rather than an individual or groups of individuals. An affected person or a group or any common man of the society can write an application on a plain paper to the High Court of the concerned State or directly to the Supreme Court. If the court feels the application to be relevant, it can be converted into a case and after hearing the arguments of both the parties, judgement is given by the respective court.

(3) Eco Friendly Products : Those industrial units which produce their products with very less pollution, are allowed to use "Eco Mark" which is given by the Environment Department of the government of India. Due to this "Eco Mark", consumers will be encouraged to purchase that product and this, in turn, will give impetus to such industries which protects environment.

Role of Consumers' Union and Non Government Organizations (NGOs) : In India a number of consumers' union and Non-Government Organisations are actively working towards maintaining and protecting the interests of consumer. NGOs that are non-profit making organizations

are set up to improve public welfare. They have their own independent constitution. They are free from Government interference. They work towards maintaining and protecting the welfare of consumers. The various functions of these organizations are :

(1) Educating about the rights of consumers through seminars, conferences and workshops.

(2) Publishing periodicals, notices, booklets etc. to spread awareness regarding consumers' problems legal awareness, eligibility of compenasation and other favourable information.

(3) Consumers are informed about the comparison of various products and services available in the market, quality analysis by the authorised laboratories and their reports.

(4) Support to provide the consumers legal informations and aid for the legal formality.

(5) Essential support is provided to the consumers to oppose unethical, exploitative and unfair sales practices of the sellers.

(6) Complaints are registered in the consumer court to protect the interest of the consumer.

(7) All required assistance is provided to a consumers who want, to complain in the Consumer Court.

(8) Consumers' satisfaction and their related information are compiled and published.

(9) Films and informations are released to educate consumers.

(10) Consumer education programmes are organized in schools and colleges. and students are educated for consumer protection.

(11) Awareness is created against food adulteration.

(12) To provide support to Government institutions which work towards spreading consumer awareness.

A number of institutions working in the field of consumer awareness and out of that some are mentioned below :

(1) Cunsumer Education and Research Centre (CERC), Ahmedabad.

(2) Consumer Protection Council (CPC), Ahmedabad.

(3) Voluntary Organisation in Interest of Consumer Education (VOICE), Delhi.

(4) Consumer Guidance Society of India (CGSI), Mumbai.

(5) Consumer Unity and Trust Society (CUTS), Jaipur.

Consumer Co-ordination Council, (CCC), Delhi co-ordinates the work of various other institutions working for consumer protection. Various private agencies which work towards consumer protection are members of Consumer Co-ordination Council. Consumer awareness activity is also done by Consumer Department of Government of India who, by advertisements under the heading 'Jago Grahak Jago', and providing National Consumer Helpline (NCH) tollfree number, web site, etc. help the consumers.

In India, much is being done in the field of consumer awareness. Rise in education has resulted in an increase in consumer awareness regarding their rights. Consumer rights have been included in the syllabus of school and college syllabi. Necessary changes have been made in legal provisions. Work is going on speedily towards resolving the disputes of consumers in consumer court. In this way work is going on in the direction of consumer awareness, but there is scope for more work as India is a big country with a high population.

What did you learn from this chapter ?

Meaning of Consumer Protection : Providing shield to consumer from the unethical, exploitative and unlawful practices of sellers or manufacturers.

The Exploitation of consumers can be categorised under three heads : (1) Physical and Mental Exploitation (2) Economic Exploitation (3) Against Public Interest.

Meaning of Consumer : According to the Consumer Protection Act a consumer is "a person who receives goods or services against an exchange the pays or agrees to compensate partly or fully or promises to compensate on a future date or has participated in some future payment plan. Any user of the product or service who uses it on the basis of the permission of the purchaser is a consumer. But the one who purchases on a resale basis or for further production is not included under the definition of a consumer."

Importance of Consumer Protection :

Importance of consumer protection from the view point of business : (1) Use of Public Resources and Wealth (2) Social Responsibility (3) Part of the Society (4) Impression on the Society (5) Consumers'protection is good for business (6) Principle of Trusteeship and consumer protection

Consumer protection from the view point of consumer : (1) Extensive Exploitation of Consumers (2) Ignorance of Consumers (3) Lack of Unity among Consumers.

Consumer Protection Act - 1986 :

Rights of the Consumers : (1) Safety (2) Information (3) Choice (4) Representation (5) Redressal (6) Consumer Education.

Additional Rights of Consumers through United Nations Organization Directive : (i) Basic Needs (ii) Hygenic Environment.

Responsibilities of Consumers : (1) Conscious use of rights (2) Beware of misleading advertisements (3) Care during purchase (4) Solicit for a bill (5) Solicit a high quality (6) Registering of genuine complaints (7) Spread of consumerism (8) Environmental protection (9) No involvement in unethical activities.

Dispute Settlement Institutions According to Consumer Protection Act :

(1) District Level Forum : When the price and compensation demanded for the disputed product or service equals to or is less than ₹ 20 lakhs, it will be dealt by District Level Forum for its listening and settlement. In District Level Forum, atleast 3 members are appointed by state government, out of whom one is the President and one should be a woman member. If either of the parties is not satisfied by the judgement of the Distict Level Forum, then within 30 days, it can appeal to the State Level Commission for reconsideration.

(2) State Level Commission : If the price and compensation demanded for the disputed product or service is more than ₹ 20 lakhs but equals to or less than ₹ 1 crore, the State Level Commission listens the dispute and settles it. If any party is dissatisfied by the judgement of the District Level Forum and if it is brought to the State Level Commission, it will be heared by them. The State Government appoints atleast 3 members out of which one will be the President and one should be a woman member. If any party is not satisfied with the judgement of the State Level Commission, then within 30 days, it can appeal to the National Level Commission for reconsideration.

(3) National Level Commission : If the price and compensation amount demanded for the disputed product or service exceeds ₹ 1 Crore, the National Level Commission listens to the dispute and settles it. If either party is not satisfied by the judgement of the State Level Commission, it will be handled by the National Level Commission. Atleast five members are appointed by the Central Government out of which one is the President and one should be a women member. Any party can appeal to the Supreme Court in reasonable time if they are not satisfied by the judgement of National Level Commission.

11.2.4 Available Remedies / Reliefs for Consumers : If the consumer court accepts the complaint, it can allow one or more reliefs out of the following in the favour of consumer : (1) It can direct to remove the defects existing in the product or the service. (2) It can direct to refund the money for the defects in the product or the service. (3) It can order to exchange defective product with the new (fresh) product. (4) If due to the negligence on part of the seller, there the consumer has to suffer any loss or injury, he can be compensatee for the same. (5) If the case so demands, penalty also can be imposed on the seller. (6) Unfair and prohibitive business practices can be stopped and can order not to repet the same in future. (7) Production and sales of harmful products can be stopped. (8) Harmful products can be stopped from being sold. (9) If defective product or deficency in service is found, atleast 5% of amount of total sales should be ordered to deposit in Consumer Protection Fund or to any institution or person working with the objective of utilizing the amount for a specific purpose. (10) It can direct to remove misleading advertisements and introduce improvised advertisements. (11) It can order to make reasonable payment to the affected party (Consumer) by way of compensation.

Means & Method of consumer Awareness : (1) Lok Adalat (2) Public Interest Litigation (3) Eco -Friendly Products

Consumers' Unions and the role of Non-Government Organization : Non profit earning consumers' unions and non government organizations work for maintaining and protecting the interest of the consumers. Their work includes (1) Educating about the rights of consumers through seminars, conferences and workshops. (2) Publishing periodicals, notices, booklets etc. to spread awareness regarding consumers' problems legal awareness, eligibility of compenasation and other favourable information. (3) Consumers are informed about the comparison of various products and services available in the market, quality analysis by the authorised laboratories and their reports. (4) Support to provide the consumers legal informations and aid for the legal formality. (5) Essential support is provided to the consumers to oppose unethical, exploitative and unfair sales practices of the sellers. (6) Complaints are registered in the consumercourt to protect the interest of the consumer. (7) All required assistance is provided to a consumers who want, to complain in the Consumer Court. (8) Consumers' satisfaction and their related informations are compiled and published. (9) Films and informations are released to educate consumers. (10) Consumer education programmes are organized in schools and colleges. and students are educated for consumer protection. (11) Awareness is created against food adulteration. (12) To provide to Government support institutions which work towards spreading consumer awareness.

Institutions Working in the Field of Spreading Consumer Awareness : (1) Consumer Education and Research Centre-(CERC), Ahmedabad (2) Consumer Protection Council-(CPC), Ahmedbad (3) Voluntary Organization in the Interest of Consumer Education-VOICE, Delhi (4) Consumer Guidance Society of India-(CGSI), Mumbai (5) Consumer Unity and Trust Society-(CUTS), Jaipur etc. Consumer Co-ordination Council (CCC), Delhi compiles and co-ordinates the activities of all other institutions working on consumer protection.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) When was the Consumer Protection Act passed ?

(A) 1956 (B) 1932 (C) 1986 (D) 2015

(2) Who has introduced the principles of Trusteeship ?

(A) Jawaharlal Nehru (B) Subhash Chandra Bose

(C) Indira Gandhi (D) Gandhiji

(3) Out of the following, which has not been included in the Consumer Protection Act 1986, as consumers' right ?

(A) Protection (B) Basic Needs (C) Awareness (D) Choice

(4) Which one of the following options is not included as Redressal Forum according to the Consumer Protection Act ?

(A) Lok Adalat (B) District Level Forum

(C) State Level Commission (D) National Level Commission

(5) How many members exist in the District Level Forum ?

(A) Total 3 (B) Atleast 3 (C) Atleast 5 (D) Total 5

(6) Members of which commission are appointed by the Central Government ?

(A) District Level (B) State Level (C) National Level (D) International Level

(7) In which court, can the public interest litigation be filed ?

(A) Criminal Court (B) Civil Court (C) District Court (D) Supreme Court

(8) With which consumer protection organizational set up, Ahmedabad is connected ?

(A) Consumer Education and Research Centre (B) Consumer Guidance Society of India

(C) Consumer Unity and Trust Society (D) Consumer Co-ordination Council

(9) Which organization works towards compilation and co-ordination of the work of the various institutions working for consumer protection ?

(A) Consumer Protection Council (B) Consumer Protection and Research Council

(C) Consumer Co-ordination Counil (D) Consumer Unity and Trust Society

(10) Which of the following is not done by consumer protection institutions ?

(A) Educating the people regarding consumer rights

(B) Publish information which has consumer interest

(C) List of consumers given to the industries (D) Protect the interest of consumers

2. Answer the following questions in one sentence each :

(1) Who is the king of the market in a free market system ?

(2) Under which heads can consumer exploitation be divided ?

(3) According to the principles of Trusteeship who is the important person in an organization ?

(4) Which two rights are favoured by the United Nations Organisation in its directive for the consumer ?

(5) What proof should compulsorily be produced by the consumer to prove his purchase ?

(6) If the complainant is not satisfied by the judgement of District Level Forum, then to whom should he appeal for reconsideration and within what period ?

(7) If the complainant is not satisfied by the judgement of State Level Commission, then to whom should he appeal for reconsideration and within what period ?

(8) If the complainant is not satisfied with the judgement of the National Level Commission, then to whom should he appeal for reconsideration and within what period ?

(9) In which courts can public interest litigation be filed ?

(10) Give full forms of the following abbreviations :

(i) CERC (ii) CPC (iii) VOICE (iv) CGSI (v) CUTS (vi) CCC (vii) NCH

3. Answer the following questions in short :

(1) What are the ways in which producers can exploit the consumers to increase their sales of goods and services ?

(2) Explain about consumers' exploitation.

(3) Write a note on the Principles of Trusteeship and Consumer Protection.

(4) Explain consumer protection from the point of view of consumers.

(5) How does Lok Adalat help in creation of consumer awareness ?

(6) Write in brief about Public Interest Litigations (PIL).

4. Answer the following questions in brief :

(1) State the importance of consumer protection from the viewpoint of of business.

(2) What are the rights made available to consumers as per the Consumer Protection Act ?

(3) Define consumer and state who can complain to the dispute settlement institutions ?

(4) How is consumer awareness created ?

5. Answer the following questions in detail :

(1) Explain the responsibilities of consumers according to Consumer Protection Act.

(2) Explain the 3 tier dispute settlement system according to the Consumer Protection Act.

(3) What types of relief and compensation are available to the consumer according to Consumer Protection Act ?

(4) Explain the working of Consumer Protection Institutions and Non-Government Organizations for protection and manintenance of consumers' interest.

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12 BUSINESS ENVIRONMENT

What will you learn in this chapter ?

- Inroduction

12.1 Meaning and Importance

12.2 Factors affecting Business Environment

- (1) Economic Factors
  - (a) Economic System
  - (b) Extent of Economic Development
  - (c) Sectoral Growth and Intersectoral Combinations
  - (d) National Income and Percapita Income
  - (e) Distribution of National Income
  - (f) Monetary Policy
  - (g) Fiscal Policy
  - (h) Other Factors
- (2) Social Factors
- (3) Cultural Factors
- (4) Technological Factors
- (5) Political Factors
- (6) Legal Factors

12.3 Liberalization, Privatization and Globalization

- 12.3.1 Liberalization : Meaning and Effects
- 12.3.2 Privatization : Meaning-Positive Effects-Negative Effects
- 12.3.3 Globalization : Meaning-Positive Effects-Negative Effects

Introduction

Every business in some way or the other is related to different variable factors of the society like, economic, social, cultural, technological, political and legal or groups like consumers, competitors, suppliers of raw materials, employees etc. e.g. A business sells its produce or service to the consumers. It gives employment to the employees. It purchases raw materials from the suppliers. It keeps competing with the product and service of the competitors. Hence, no business can be operate itself being aloof from the society. Various surrounding factors affect the business. A group of such factors is known as business environment. The one thing that is true of business environment is that it is quite uncertain. There are three types of business units with reference to business environment (1) The business units that expect the environmental aspects well in advance and bring necessary changes. (2) The business units that bring necessary changes based on the existing environmental situation. (3) The business units that are not in a position to adjust to the existing environment easily.

12.1 Meaning :

Economic, Social, Cultural, Technological, Legal factors are all included in business Environment. There are number of groups like, consumers, employees, competitors, suppliers of raw materials who are all part of business environment. Business environment is a combination of various environments which creates new challenges and new opportunities. Any decision taken in business activity will have to take note of this aspect. There are so many factors and obstacles involved in business environment which are not in any way under the control of an entrepreneur, firm, manager or industry. A firm or manager will have to work in the existing business environment. Due to the continuous change in the situation of a county, the policy also keeps changing.

Thus, business environment is constantly changing because of its changing factors and its effect is always there on business, directly and indirectly. It is imperative for a manager to keep an eye on such factors and change the process of management accordingly. Business environment can lead to obstacle as well as opportunities. The various obstacles arise due to economic conditions, rituals and habits, governmental controls, availability of raw materials, availability of trained employees etc. E. g. Due to political and bureaucratic set up of India, foreign direct investments are less when compared with China.

On the other hand, there is a continuous rise in the demand for airconditioners due to improvement in economic status of the consumers and then changing preferences. Due to this, domestic as well as the multinational companies are bringing in various models in the Indian market. There is expansion and growth of new business opportunities due to improved technology, continuous research and development and improvement in standard of living.

Importance :

(1) Advantage of Early Entry : A study of business environment enables a business unit to understand the opportunities in the market in a better way and hence introduce the product in the market. There is also possibility of change brought in the existing product even before its competitors, and earn profit. e.g. For years, the two wheeler market was dominated by scooter, and sales of motor cycles was negligible. A cycle manufacturing company forecasted that the demand for motorcycles will increase in future and it collaborated with a foreign company for technology and made motorcycles popular. Though at present due to various reasons there is no prevalence of collaboration, it still continues to dominate the motorcycle market with the maximum share.

(2) Sensitivity of the Management : Management has become increasingly sensitive towards the factors affecting business environment. Profit becomes the major objective of every business unit and constant study of factors affecting business increases the profitability. e.g. A unit which was dominating the camera market for years in India, decided to produce printer and copier machine to increase a production capacity and its profitability.

(3) Grab Opportunities : Business environment opens out various opportunities which, when grabed, can lead to increase in profit. For this, an understanding of environment is essential. For instance, in the international market there is a continuous rise in the prices of petrol and diesel which has led to rise in the demand for fuel efficient vehicles. Many producers have stopped using steel in the vehicle and in its place, light weight yet tough fibre material is being used. This had led to more profitability for these companies.

(4) Identifying Dangers : Continuously changing business environment has a number of dangers. Consumers reject certain products. If such dangers are identified well in advance, changes can be introduced. For instance, though radio was popular in the initial years but after the introduction of television, it lost its importance. Later, when service of radio changed with the introduction of F.M. (Frequency Modulation) band, various frequencies and bands were introduced. Each band has its own announcer in the form of (RJ) Radio Jockey and MJ (Music Jockey) and their style is different from the traditional patterns of announcement. This has led to a rise in the popularity of radios once again.

(5) Helpful in Policy Decisions : A business man will have to understand and analyse the business environment if he redesigns his policy decisions, he will be placed in a much better situation. e.g. Insurance business in India. (1) Life Insurance (2) General Insurance. After Independence, insurance business was nationalized and after 1991 as a part of change in the financial policy, the existence of private companies in the insurance business was accepted. In later years, in the private Indian insurance companies foreign direct investment of multinational insurance companies also got accepted. In this way, various business houses in different business fields also started working in the insurance field. Government gives priority to the insurance business. In this environment business enterprises have set up private insurance companies, and have multinational insurance companies participating as direct partners. Through this, they have concentrated on the development of insurance business.

(6) Continious Study : Managment is made to study the business environment on a continuous basis. This has lead to a continuous rise in the size and profit of the business. A study of business environment enables the manager to know future trends like situation of capital market or future demand for the products produced by the business. Through this, a business unit can take up proper planning e.g. In the field of computers, there is a continuous innovation in new softwares and hardwares and those who are involved in this field should be constantly updated. This alone can lead to a continuous development in this field.

12.2 Factors Affecting Business Environment :

Factors affecting business environment can be divided into two broad classifications :

Factors Affecting Business Environment

Internal Factors

(1) Business Objectives
(2) Employees
(3) Managerial Systems

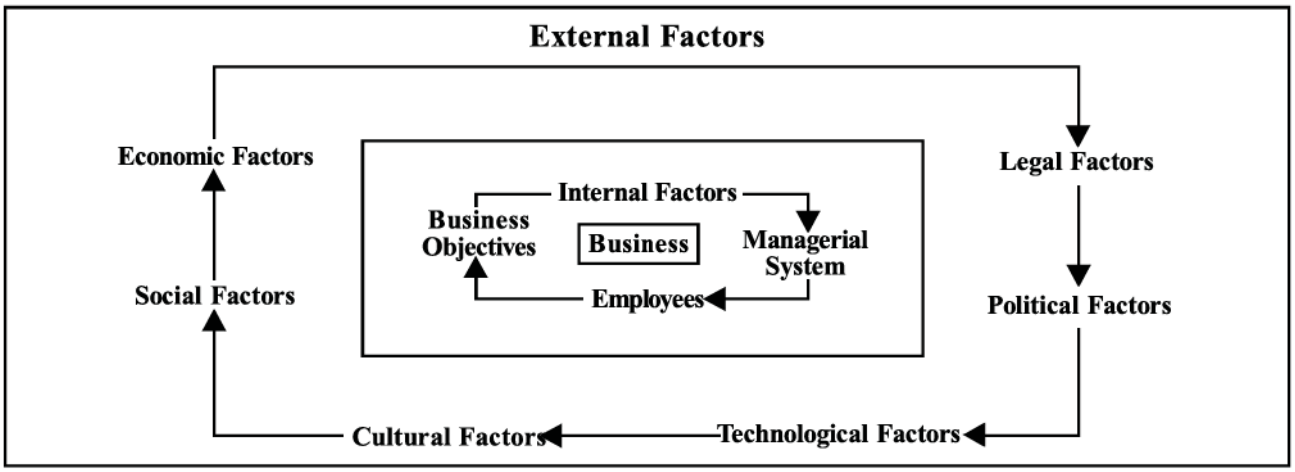
External Factors

(1) Economic Factors
  (a) Economic Systems
  (b) Degree of Economic Development
  (c) Regional Development and International Integration
  (d) National and Percapita Income
  (e) Distribution of National Income
  (f) Monetary Policy
  (g) Fiscal Policy
  (h) Other Factors
(2) Social Factors
(3) Cultural Factors
(4) Technological Factors
(5) Political Factors
(6) Legal Factors

(1) Internal Factors : Internal factors in a business environment are those which can be largely controlled by the managers. Such factors can be changed by the manager according to the requirement e.g. objectives of business, employees, organizational system, etc.

(2) External Factors : External factors are those which are mostly not under the control of the managers. Business should be changed according to such external factors. These factors can be classified as economic, social, cultural, technological, political, legal etc.

Factors Affecting Business Environment :



(1) Economic Factors : The business decisions of any society or country have a direct impact of special features or the limitations of that economy or society. The size and the nature of business development are predominantly dependent on economic aspects and the following are the important aspects.

(a) Economic System : The working of any economic system and the direction of economy is primarily decided by the economic system. If capitalistic system is prevalent, it means the policy adopted will be that of free trade. In this system, all the major decisions are taken by the producer himself and this boosts the business. In the capitalistic system, governmental intervention is relatively low. As against this, in a socialistic system, all major decisions are taken by the government and individual incentive is nominal. India has adopted a mixed economy in which certain sectors have business freedom while certain others will have governmental dominance. In this way, economic system plays a major role in determining the structure of business in the country.

(b) Degree of Economic Development : The answer to the question, whether a country is developed, developing or underdeveloped from the point of view of an economy can be seen from the favourable or unfavourble business structure. Developed country is such a country in which the level of gross national income and per capita income is high, all the available resources are fully developed and that encourages growth and development of business and industry. Developing country is that where national income and per capita income are showing rising trends, the use of existing resource is on the rise and the living standard of the people is on the rise. Business opportunities increase in such countries.The social structure also undergoes transformation which becomes favourable for business. In underdeveloped countries, income levels are very weak and it weakens the growth. This makes development of business very weak. There is unutilization and underutilization of available resources. Hence, overall situation of slow economic development can become an impediment to business development.

(c) Sectoral Growth and Intersectoral Combinations : Agricultural, Industrial and Service sectors play key roles in economic development of a country.

Agricultural sector can be termed as a primary sector if a major section of population earn their livelihood from agricultures. Development of agricultural sector leads to the aggregate development of an economy. Major economic resources are used only in primary aspects, if an economy is predominantly agrarian. This makes indusrial growth very slow.

Minerals and Metals are used in the industrial sector. The production of physical goods is also related to more use of manpower too. Innovation and modernization process gets an impetus which increases business opportunities.

Social and economic services comprise the service sector. If transport, communication, banking, tourism, education, health etc. develop, then investment possibilities in business increases and there is corresponding rise in the development possibilities too. Thus, as there is a greater tendency towards service sector from agricultural and industrial sector, the business opportunities keep increasing. But any society can develop only when all the sectors can bring about growth jointly. e.g. To bring prosperity in agriculture, there is an increase in demand for fertilizers, good seeds, mechanization and to make it reach, the services of service sector is needed.

Thus agriculture, industry and service sector are dependent on one another and the development of one sector is responsible for the development of the other sector. So sectoral changes bring about a favourable environment for industrial business.

(d) National Income and Per capita Income : A rise in national income creates a favourable situation for a business unit. The national income rises and if the population does not rises proportionately, the rate of rise in per capita income will be more than the rate of rise in national income. When national income and per capita income rise, there will be a rise in demand for goods

and services and other basic necessities which will be favourable for business. When income rises, the demand for superior quality goods i.e. luxurious goods and branded clothes also rises.

(e) Distribution of National Income : The distribution of national income explains the economic differences between different sections of the society. Higher the inequalities of income, more will be the demand for luxurious and prestigious goods and services. Changes in the distribution of national income impact has on the demand for goods and services.

(f) Monetary Policy : Monetary policy includes changes in interest rates, inflation rate, credit creation, credit availability etc. For instance, if the interest rate on housing loan is reduced, there will be a rise in the demand for houses and also for all industries which are related to housing like cement, steel, furniture, sand, raw dust, bricks, etc.

(g) Fiscal Policy : Fiscal policy depends on the tax structure and governmental expenditure. Following are the main objectives of fiscal policy :

(i) Maximum utilization of resources and factors (ii) Distribution of resources in the best possible manner to achieve fast economic development (iii) Bring about equal distribution of resources in the best possible way. (iv) Stabilise prices of goods and services.

There are two important aspects seen in the fiscal policy :

(i) How can the tax structure be made effective for individual, units and the entire industry. (ii) How much is the effect of public expenditure on economic activities.

(h) Other Factors : Other factors like raw materials, its supply, components of machinery, financial facilities, manpower and its productivity etc. have positive and negative effects on economic factors.

(2) Social Factors : All the business activities originates, grows and ends in the society. Business activity cannot be separated from the society. Society represents groups of people, social institutions, social traditions etc. Society is dynamic and hence the life style, practices cannot remain the same. They keep changing and bring changes in business environment also.

The beliefs of the people, the ideologies of life of people cannot remain same and so people give importance to their decisions and rituals to achieve their development. Which economic activity should be done? How to do it ? To what extent it should be done ? All these decisions are affected by religion, caste, sect, social norms etc.

Such trends are prevalent in countries, where social institutions are dominant. In certain types of business caste and religious groups are involved. Overall it can be seen that those classes of societies which are aloof from social constraints, experience a much faster rate of development. Such societies are open to new ideas and business activities get a greater incentive there.

(3) Cultural Factors : Cultural factors of a society affect business activities. Factors like, traditions, practices, life style, habits etc. are included which affect the decision making of a business unit.

Business management ignores the cultural factors most of the times and this may lead to possibility of risk of failure. Even the strong management has failed due to the neglecting cultural factors. On the other side, various products which are not economically acceptable have become acceptable because of cultural factors and they have become successful.

Cultural factors are constantly changing and these changes are constant and periodical.

(4) Technological Factors : Technological factors include, decision regarding what type of technology should be used. They also include issues like that type of technology should be used to produce goods and services, so that there can be maximum ease for the people in its use. Due to an improvement in Research and Development (R&D) and import of technology from abroad, there is a fast change in the technology. At one stage, India believed that use of machines should be kept at its lowest to enable employment generation. But due to liberalization of industrial policy, it has been accepted that mechanization should be maximized. Many industries are using robot for qualitative and continuous production of various goods. To enable people to derive maximum advantage, almost all banks have adopted E-banking and M-banking, which have been made simple and easy to understand. Internet connected computers can be helpful in E-banking operations and internet connected smart phones can be helpful in M-banking operations.

(5) Political Factors : Factors related to government and financial ideologies of the ruling party are known as political factors. Ideology of Political party framing the government, lobbying efforts by the interest group, political party's influence on the framing and implementation of laws, etc. are the political factors. e. g. In West Bengal, there was a large opposition for "Nano" Car project of Tata group which forced Tata group to leave West Bengal and at the same time, Gujarat Government provided various incentives to the same project to be set up near Sanand which was accepted by Tata, showing that Gujarat Government offers favourble environment for industries, due to which the industrial growth of Gujarat increased.

(6) Legal Factors : Legal factors are those which are the Acts approved by the Parliament and/or the Assembly. Every business unit will have to mandatorily follow the Acts approved by these two.

Any business activity is practically meant for the development of the entire society. Business activities are designed with the objective of attaining speedy economic development and increasing the welfare activities. There is a direct relationship between development of business and welfare of society. Hence, the government is aware that business development should be fast and its benefits of maximum distribution should not have adverse impact on the society. To streamline business activities, various laws are passed like Industrial Development and Regulation Act 1951, Essential Commodities Act 1955, Trade Mark Act 1999, Standard of Weights and Measures Act 1976, Consumer Protection Act 1986, etc.

Based on the requirement of changing times, certain laws are amended and some laws are removed. Monopolies and Restrictive Trade Practices Act 1969 has been removed, and competition act 2000 has been introduced which has led to more number of Indian companies showing their presence in the world consequent upon changing laws.

12.3 Liberalization, Privatization and Globalization

After independence, mixed economic system was accepted but as changes were made to suit to varying situations, as required results were not seen, after July 1991, Indian Economy started the process of Liberalization, Globalization and Privatization.

12.3.1 Liberalization :

Meaning : The period in between 1947 to 1991 was of the environment of control for trade and industry in India. Liberalization in simple terms is a movement of business and trade from a controlled to an open and free system. Till July, 1991 various types of controls and barriers were imposed. But as a part of new liberalized set up, the Indian Government started reducing the intensity of controls in a phased manner. In certain sectors, controls have been removed completely or to a maximum extent.

Effects of Liberalization :

(1) Earlier there was a barrier to foreign direct investment in Indian industries but now such restriction has been removed. Its maximum limit which was very low, gradually, it has been increased. To attract foreign investors and businessmen, various economic and non-economic incentives and exemptions are being given.

(2) To attract more foreign investments in the field of share market, the procedure of purchase and sale of shares have been made completely transparent by taking various steps. To change the nature of shares from physical to electronic (Dematerialisation - DEMAT) has been introduced. The purchase and sale of shares and the transactions of money involved therein, has been made more transparent and the procedures are based on international indicators.

(3) Steps are being taken by the government to make tax structure more simple and transparent. Sales Tax, Excise Duty are being simplified and procedure to introduce GST (Goods and Services Tax) has already implemented since 1st July, 2017, which is a very important step in simplification of tax structure. Controls on tax system has been minimized.

(4) The symbol of Indian currency '₹' has been introduced. Indian currency (INR) is given relief under certain terms and conditions in forex market.

(5) Licence Raj has almost been removed from India. Before liberalization, most industries were dependent on licence and now as part liberalization, the quantum of licence is almost nil.

(6) Collected efforts are being made to increase the exports of India. Various incentives are being given to Indian industries to promote exports. Import duties are also being reduced.

(7) As foreign exchange situation is improving, Foreign Exchange Management Act (FEMA) is prevalent and the old - Foreign Exchange Regulation Act (FERA) has been cancelled. The type of change in the Act helps to understand that there are no barriers for the entry of foreign exchange but the flow of foreign exchange is to be managed, so that it is made available for the development of business.

(8) Various changes have been made in Monopolies and Restrictive Trade Practices Act (MRTP Act) and number of relaxations have been made in the Act. Still certain unwanted controls of business practices are continued with restrictions.

(9) At present, Reserve Bank of India has given freedom to various banks to decide the deposit and lending rate of interest, subject to certain conditions. This practice was not there earlier.

(10) Imports of goods and services have become easier. Payment of foreign exchange has become simple in recent years, subject to certain terms and conditions. Availability of foreign exchange for the purpose of foreign tours, sending children for foreign education or for the purchase of property in the foreign country, is made very easy.

From the above mentioned points, it is proved that the Indian economy is moving fast, towards liberalization from a controlled economic system.

12.3.2 Privatization :

Meaning : Privatization refers to transfer of control and management of public sector enterprise to private sector or in other words, the process of passing on the ownership and management of public sector unit to private firms.

Concept : After Independance, it was expected that public sector will play a major role in fulfilling various objectives of the economy. To provide infrastructural facility and develop key industries, public sector should play a major role. Immediately after independence, the private sector was not ready to invest in such fields where expected returns was lowere. The government started providing infrastructural facilities by encouraging public sector development and thus began production of goods and services through public sector enterprises. In various five year plans, public sector was given utmost importance.

Post 1991, as a part of economic policy, privatization was also accepted and that resulted in a change in the role of public sector. Continuous loss making units have been structurally changed and few others were closed. Many public sectors offered equity shares to the general public and increased public private partnership. When shares are sold to private enterprise, it was known as privatization. When public sector units offer its capital for the participation of general public, it is known as disinvestment. Government of India has started separate ministry for disinvestment.

Government started giving greater importance to education and other infrastructural facilities. Another important reason for the privatization is the increasing inefficiency and non-achievement of target. Inefficiency in public sector is due to a number reasons. Following are a few : (1) Bureaucracy (2) Obsolete technology (3) Rising corruption and bribery (4) Absence of accountability (5) Growing influence of labour unions (6) Political interference, etc.

Favourable Effects of Privatization : (1) Rise in productive efficiency (2) Absence of political interference (3) Qualitative goods and services (4) Systematic marketing (5) Use of modern technology (6) Hierarchical set up for accountability (7) Creation of competitive environment (8) Advantage of research and development (9) Advantage of modernization and innovation (10) Maximum utilization of factors of production (11) Availability of infrastructural facilities.

Negative Effects of Privatization : (1) Exploitation of employees (2) Misuse of powers by top management (3) Unequal distribution of income and wealth (4) Absence of job security (5) Priority to profit (6) Consumer exploitation etc.

Inspite of various negative effects of privatization, government has been giving more importance to privatization. Government has given number of public sector units to private sector. Still government holds 51 % or more of equity capital but it has sold shares to private sector or general public which continues even now. Thus the period in between 1951 to 1991 was dominated by public sector but after 1991 its importance started diminishing and private sector's domination started increasing due to privatization.

12.3.3 Globalization :

Meaning : When any country permits foreign companies to do business in their domestic economy and allows domestic companies to do business globally, it is known as globalization.

Concept : Earlier every country used to protect its industries from foreign competition and globalization was not acceptable. In the beginning, the companies of developed countries used to set up industries or start selling their goods and services in developing and undeveloped countries for which developing and underdeveloped countries give permission. Subsequently, developing and uner developed countries also allow their companies to do business in other countries. Actually, globalization is a two way activity. When multi national companies get permission to start industries

in other countries, in the same way domestic companies can also do so in developed countries. In this way internationalization of industries can be seen.

To develop business and industry of the entire world, an arrangement was needed at the international level which resulted in the formation of World Trade Organisation (WTO). This organization takes effort to develop business and trade all over the world. It enables its member countries to eliminate the barriers that arise in the path of globalization. India is a member of WTO since its inception and hence the process of globalization has become slightly easier.

As a part of the policy of globalization, India has accepted the GATT (General Agreement on Trade and Tarrif) and it has accepted foreign products and services to enter the country subject to certain conditions. Globalization has enabled a fast growth of service sector. The borders of countries started extending for banking, insurance, transportation, communication and these services can be extended to other countries. The world has shrunk to a global village. The international consumer market has developed and now India has also started playing a major role.

Positive Effects of Globalization : (1) Large scale production (2) Increased competition leads to greater consumer protection (3) Consumers get improvised, technically upgraded product at an economical price (4) Opportuinites of employment generation (5) Consumers will be able to use quality products and service at a low price (6) Speedier generation of infrastructural facilities in the country (7) Increased importance of education has led to increase in spread of education (8) Easier to set up new industries (9) The whole world is becoming a global village (10) Freedom from political bureaucracy and red tapism.

Negative Effects of Globalization : (1) Arrangement for market set up becomes difficult and costly. (2) Rise in the production of luxurious goods and services at the cost of necessities (3) New problems arises because of the the change in human mentality (4) Rise in inequalities of income and wealth distribution. (5) Spread of economic situation of one country or continent to other countries quickly (6) Competition is at the cost of ethical values (7) Larger units get more profit and small scale units experience difficulty to survive (8) When the spread of education is relatively lesser than the spread of development, the competitive ability of employees become weak (9) Multinational companies show more loyalty to their home country rather than to the host country (10) Internationally renowned companies influence the monetary policy of the country which is suitable to them by collaborating with the political parties.

What did you learn in this chapter ?

Meaning : Business environment includes economic, social, cultural, technological, political, legal factors. Apart from these, various groups like consumers, labourer, competitors, suppliers of raw materials etc. are also included in this business environment.

Importance : (1) Advantage of early entry (2) Sensitivity of management (3) Grab opportunities (4) Identifying dangers (5) Helpful in policy decisions (6) Continuous study

Factors affecting business environment : (1) Internal factors (2) External factors

(1) Internal factors : (1) Business objectives (2) Employees (3) Managerial system, etc.

(2) External factors : (1) Economic Factors : (a) Economic System (b) Degree of Economic Development (c) Regional Development and International Integration (d) National Income and Per Capita Income (e) Distribution of National Income (f) Monetary Policy (g) Fiscal Policy (h) Other Factors

(2) Social Factors (3) Cultural Factors (4) Technological Factors (5) Political Factors (6) Legal Factors

Liberalization : An effort to quit the path of control and try to achieve progress through the path of liberation is known as liberalization.

Effects of liberalization : (1) Acceptance of foreign capital investment in Indian industry and business (2) Transparency in the purchase and sale and delivery, payment system in the share market (3) Simple tax structure (4) New sign of Indian currency '₹' and subject to certain conditions, Indian rupee is free against the foreign currency (5) Elimination of licence raj (6) Integrated effort to increase exports (7) Widespread changes in the laws relating to foreign exchange (8) Changes in the Monopolies and Restrictive Trade Parctices Act (9) Conditional freedom to banks for fixing rate of interest (10) Ease to import goods and services

Privatization : Transfering of ownership and management from the control of public sector to private companies or private industrial units is known as privatization.

Positive Effects of Privatization : (1) Rise in productive efficiency (2) Absence of political interference (3) Quality goods and services (4) Systematic marketing (5) Use of modern technology (6) Hierarchical set up for accountability (7) Creation of competitive environment (8) Advantage of research and development (9) Advantage of modernization and innovation (10) Maximum utilization of factors of production (11) Availability of infrastructural facilities.

Negative Effects of Privatization : (1) Exploitation of employees (2) Misuse of power by top management (3) Unequal distribution of income and wealth (4) Absence of job security (5) Priority to profit (6) Consumer exploitation, etc.

Globalization : When any country allows foreign companies to do business in their domestic economy and domestic companies allow to do business globally, it is known as globalization.

Positive Effects of Globalization : (1) Large scale production (2) Increased competition leads to greater consumer protection (3) Consumers get imporivsed, technically upgraded product at an economical price (4) Opportuinites of employment generation (5) Consumers will be able to use quality products and service at a low price (6) Speedier generation of infrastructural facilities in the country (7) Increased importance of education has led to increase in spread of education (8) Easier to set up new industries (9) The whole world is becoming a global village (10) Freedom from political bureaucracy and red tapism

Negative Effects of Globalization : (1) Arrangment for market set up becomes difficult and costly (2) Rise in the production of luxurious goods and services at the cost of necessities (3) New problems arises because of the the change in human mentality (4) Rise in inequalities of income and wealth distribution (5) Spread of economic situation of one country or continent to other countries quickly (6) Competition is at the cost of destruction of ethical values (7) Larger units get more profit and small scale units experience difficulty to survive (8) When the spread of education is relatively lesser than the spread of development, the competitive ability of employees become weak (9) Multinational companies show more loyalty to their home country rather than to the host country (10) Internationally renowned companies influence the monetary policy of the country which is suitable to them by collaborating with the political parties.

Exercise

1. Select the correct alternative and write answer to the following questions :

(1) In which year the Industrial Development and Regulation Act came into force ?

(A) 1951 (B) 1955 (C) 1969 (D) 1986

(2) In which year did Essential Commodities Act came into exsistence ?

(A) 1951 (B) 1955 (C) 1969 (D) 1986

(3) In which year did Trade Mark Act came into existence ?
(A) 1951 (B) 1955 (C) 1999 (D) 1986

(4) In which year Standardized Weights and Measures Act came into existence ?
(A) 1951 (B) 1955 (C) 1976 (D) 1986

(5) In which year did Consumer Protection Act came into force ?
(A) 1951 (B) 1955 (C) 1969 (D) 1986

(6) In which year did liberalization privatization and globalization started in India ?
(A) 1951 (B) 1991 (C) 2001 (D) 2011

(7) How is India's currency symbolised ?
(A) Rupees (B) Rs. (C) ₹ (D) Я

(8) At present, which act is prevelant for foreign exchange in India ?
(A) FERA (B) FECA (C) FESA (D) FEMA

(9) Which of the following is not the benefit of privatization ?
(A) Increase in Productivity (B) Absence of Political Interference
(C) Exploitation of Employees (D) Use of Modern Technology

(10) Which of the following option is benefit of privatization ?
(A) Misuse of power by the top bureaucrats
(B) Unequal distribution of income and wealth.
(C) Exploitation of consumers
(D) Production of quality goods and services

2. Answer the following questions in one sentence each :

(1) Give only names of factors related to business environment.
(2) Give name of groups related to business environment.
(3) Which are the two main classification of factors of business environment ?
(4) Give only names of internal factors affecting business environement.
(5) When can there be an increase in per capita income ?
(6) Which aspects are included in monetary policy ?
(7) Which aspects are included in fiscal policy ?
(8) Which aspects are included in cultural factors ?
(9) What initiative have the banks taken to simplify banking operations and understand the procedure ?
(10) What is essential to get benefits of "E-banking" and 'M-banking' ?

3. Answer the following questions in short :

(1) Give the meaning of business environment and list out the factors affecting business environment.
(2) Why is continuous study of business environement required ?
(3) Give the meaning of economic factors affecting business environment and state the aspects included in it.
(4) State the social factors affecting business environment.
(5) Which political factors are affecting business environment ?
(6) Give the meaning of liberalization.
(7) What is privatization ?
(8) Why is globalization important ?

4. Answer the following questions in brief :

(1) Explain the meaning and importance of business environment.

(2) Give the meaning of economic factors affecting business environment and explain them in detail.

(3) Write notes on social and cultural factors affecting business environment.

(4) What is liberalization ? What steps are taken by the Indian government as a part of liberalization ?

(5) What is privatization ? Write a note on effects of privatization.

5. Answer the following questions in detail :

(1) Give the meaning of business environment and state the importance of the study of business environment.

(2) "Business environment creates opportunities as well as obstacles" - Explain.

(3) State the technological factors, political factors and legal factors affecting business environment.

(4) What is privatization? State the factors which led to privatization and explain the favourable effects of privatization on the Indian economy.

(5) Give the meaning of globalization and explain it in detail.

(6) Give your views on the positive and negative effects of globalization on the Indian economy.

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PROJECT WORK

1. Meet social or any other type of leader - Prepare a report on the good qualities of a leader.
2. Prepare an organisational report and chart of any organisation. Prepare a note on the functions of each Position / Designation.
3. Visit any organisation. Prepare a report on recruitment and selection of any one candidate working within that organisation.
4. Visit any organisation. Prepare a report and chart regarding employees working at different levels of management and state the differences in their functions.
5. Visit any organisation. Prepare a report on various financial and non financial incentives given by the organisation, to motivate their employees.
6. Select any event in your school like Independence Day (15^{th} August) Celebration, School's sports day, schools opening day, Teacher's day Celebration day etc. Prepare a report on any one event.
7. Prepare a report on the steps to be taken for improvement of attendance of irregular students. (Prepare any one project report from 1 to 7)
8. Find five complaints of consumer exploitation and also give a report on their remedial action.
9. Collect and report - Any two objectionable advertisement with reasons of its objection.
10. Collect five printed advertisement and clarify the messages given through each advertisement.
11. Prepare a note on distribution channel used by any company for its any one product.
12. Contact any NGO who has registered a complaint against any defective product or inefficient service and report on the steps taken by them.
13. Visit any reddressal agency. Prepare a report on five different cases of consumer exploitation.
14. Visit any company and prepare a report on factors affecting business environment. (Prepare any one project report for 8 to 14)

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ABBREVATIONS

1. NATURE AND SIGNIFICANCE OF MANAGEMENT

I.I.M. : Indian Institute of Management
B.B.A. : Bachelor of Business Administration
M.B.A. : Master of Business Administration
C.E.O. : Chief Executive Officer
H.R.M. : Human Resource Management

2. PRINCIPLES OF MANAGEMENT

MBO : Management by Objectives

5. STAFFING

HRM : Human Resource Management
IIM : Indian Institute of Management
IIT : Indian Institute of Technology

8. FINANCIAL MANAGEMENT

RBI : Reserve Bank of India

9. FINANCIAL MARKET

BSE : Bombay Stock Exchange
NSE : National Stock Exchange
OTCEI : Over The Counter Exchange of India
Demat : Dematerialisation
NSDL : National Securities and Depository Limited
CDSL : Central Depository and Securities Limited
SEBI : Securities and Exchange Board of India
NEAT : National Exchange for Automated Trading
BOLT : BSE On Line Trading

10. MARKETING MANAGEMENT

BIS : Bureau of Indian Standards

11. CONSUMER PROTECTION

PIL : Public Interest Litigation
NGOs : Non Government Organisations
CERC : Consumer Education and Research Centre
CPC : Consumer Protection Council
VOICE : Voluntary Organisation in Interest of Consumer Education
CGSI : Consumer Guidance Society of India
CUTS : Consumer Unity and Trust Society
CCC : Consumer Co-ordination Coucil
NCH : National Consumer Help Line
UNO : United Nations Organisation

12. BUSINESS ENVIRONMENT

FDI : Foreign Direct Investment
MNC : Multinational Corporation
FEMA : Foreign Exchange Management Act
FERA : Foreign Exchange Regulation Act
WTO : World Trade Organization
GATT : General Agreement on Trade and Tariff
FM : Frequency Modulation
RJ : Radio Jockey
MJ : Music Jockey
E-banking : Electronic banking
M-banking : Mobile banking
DEMAT : Dematerialisation
R&D : Research and Developmen
MRTP Act : Monopolies and Restrictive Trade Practices Act