CHAPTER-1

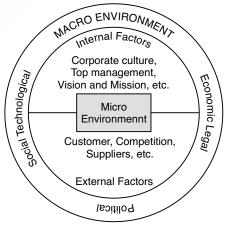
BUSINESS ENVIRONMENT



Revision Notes

- Meaning: Business environment can be defined as the sum total of all the forces, factors and institutions which are external to the business enterprise and beyond its control, but they exercise tremendous influence on the functioning and growth of the enterprise.
- **Features:** The main features of business environment are as follows:
- 1. **Totality of external forces:** Business environment includes all the forces, institutions and factors which directly or indirectly affect the business organisation.
- **2. Specific and General forces:** Business environment includes specific forces such as investors, customers, competitors and suppliers which affect the business directly and general forces like social, economic, legal and political factors that affect the business enterprises indirectly.
- 3. Interrelatedness: All the forces and factors of business environment are inter-related to each other.
- **4. Dynamic:** Business environment is highly dynamic. It is not static or rigid. It keeps on changing due to frequent changes in government policy, demand, new technology, etc.
- 5. Relativity: The impact of business environment may differ from company to company or country to country.
- **6. Uncertainty:** It is very difficult to predict the changes of business environment as environment is changing at a very fast pace like IT sector and fashion industry.
- Importance of business environment:
- 1. It enables the firm to identify opportunities and get first mover advantage.
- 2. It helps the firm to identify the threats and early warning signals.
- 3. It helps to adjust and adapt to rapid changes.
- 4. It helps in tapping useful resources.
- 5. It helps in formulation of plans and policies.
- 6. It increases the efficiency and performance of the enterprise.
- Dimensions of Business Environment: There are two main dimensions of business environment:
 - 1. Micro Environment

2. Macro Environment



Dimensions of Business Environment

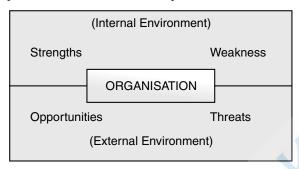
1. Micro Environment: Micro Environment refers to those internal and external factors which exercise a direct influence on the working and performance of an individual business organisation. It has two broad categories as follows:

- (i) Internal factors: It refers to all those factors which exist within a business firm. These factors are controllable because the firm has control over these factors. The main internal factors which influence business organisations are as follows:
- (a) Top management structure
- (b) Corporate culture
- (c) Mission and objectives
- (d) Human and other resources
- (ii) **External factors:** The external factors refer to those individuals and groups or agencies with which business organisation is constantly interacting.

Micro Environment consists of the following external elements:

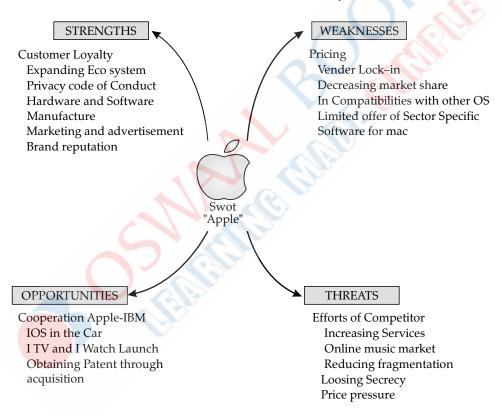
- (a) Customers: Including individual households, government departments, etc.
- (b) Competitors: A company may have both direct and indirect competitors.
- (c) **Suppliers:** Suppliers refers to the people and group who supply raw materials.
- (d) Middlemen: Middlemen like agents, wholesalers, and retailers serve as a link between the company and its customers.
- (e) **Financers:** The shareholders, financial institutions, debenture holders and banks provide finance to the company. Financial capacity policies and attitude of financers are important factors for the company.
- 2. **Macro Environment:** Macro Environment is the general environment or remote environment which may affect all business enterprises. Macro Environment is also known as indirect action environment. Forces in the macro environment are uncontrollable and non-measurable. Success of an enterprise depends on its ability to adapt to the macro environment. Macro environment consists of the following components:
- (i) Economic Environment: It refers to the nature of economy (capitalist, socialist or mixed) economic policies of the government. It includes gross domestic product, income level at national income, per capita income level, monetary and fiscal policy of the government, etc.
- (ii) Social Environment: Social Environment consists of the customs and traditions of the society in which business is existing. It includes the standards of living, taste, preferences and education level of the people living in the society where the business exists. The businessman can not overlook the components of social environment as these components play very important role in the business.
- (iii) **Political Environment:** Political Environment constitutes all the factors related to government affairs such as the type of government in power, attitude of government towards different groups of societies, policy changes implemented by different governments etc. The political environment has an immediate and great impact on the business transactions so businessmen must scan the environment very carefully.
- (iv) Legal Environment: Legal environment constitutes the laws and various legislations passed in the parliament which affect the business transactions. Trade Mark Act, Essential Commodity Act, Weights and Measures Act, etc are common legislations passed by the government.
- (v) Technological Environment: Technological environment refers to the state of technology in the area of manufacturing, mining, construction, transportation, etc. The businessman must closely monitor the technological changes taking place in the competitive business environment. Technological changes always bring quality improvement and more benefits for customers.
- SWOT is the acronym for strengths, weaknesses opportunities and threats. It is formed for analysing and
 formulating an effective strategy that can capitalise on the opportunities and neutralise the threats faced by an
 organization. SWOT analysis is a systematic and logical approach to understanding the environment of a business
 organisation.
- **Strength (S):** Strength is an inherent capability of the company which it can use to gain strategic advantages over its competitors.
- Weakness (W): Weakness is an inherent limitation of the company which creates strategic disadvantages for it. The firm may face problems due to poor management and ineffective policies etc.

- Opportunity (O): An opportunity is a favourable condition in the company's external environment which enables
 it to strengthen its position. Economic liberalisation and globalization offer opportunities to companies which
 want to enter banking, insurance and telecommunication sectors.
- Threat (T): Threat is an unfavourable condition in the company's external environment which causes a damage or risk to its position. competition from multinational corporations is a threat to Indian firms.



SWOT- Model of Environment Analysis

Example:



©≕ Key Terms

- **Socialist Economy:** Socialist Economy refers to all means of production, farms, factories, etc., that are belong to the government.
- Capitalist Economy: In this economy, economic decisions regarding production are taken by private entrepreneurs who are solely guided by the expected rate of profit based on consumer's preferences- actual or anticipated.
- Mixed Economy: In the Mixed Economy system, all three sectors exist together, that is the private sector, public sector and joint sector.

CHAPTER-2

FINANCE AND CAPITAL



Revision Notes

Business Finance

Business finance refers to the money employed in the business. It is the arrangement of cash and credit in the business firm at all times.

Business finance may be defined as planning, raising, managing and controlling all the money and capital funds required in connection with the business.

• Importance of Finance for Business

Finance is the lifeblood of business. No business firm can carry on its operations smoothly and successfully without the finance. **Importance of finance for business is as follows:**

(1) In business, finance is required for

- (i) Establishing an enterprise
- (ii) Purchase of fixed assets and current assets
- (iii) Expansion, growth and modernisation of business
- (2) The firm can meet its liabilities in time.
- (3) The firm can take advantage of business opportunities.
- (4) The firm can carry on its business smoothly and without any interruptions.
- (5) The firm can face recession, trade cycles and other crises more easily and confidently.

Source of finance for different types of business firms

Capital requirements differ according to the nature and size of business. Sources of finance for different types of business firms are as follows:

(1) Source of finance for sole proprietorship firm

- Own capital and retained earnings.
- (ii) Loans from friends and relatives.
- (iii) Loans from banks and financial institutions.
- (iv) Long-term loans from state financial corporations.
- (v) Short-term finance from commercial banks.

(2) Source of finance for partnership

- (i) Own capital contributed by partners in an agreed ratio.
- (ii) Retained profits.
- (iii) Loan from commercial banks and financial institutions.
- (iv) Short-term loans from suppliers of raw materials and finished goods.

(3) Source of finance for joint stock company

- (i) Issue of shares.
- (ii) Retained profits.
- (iii) Issue of debentures and bonds.
- (iv) Long-term loans from financial institutions.
- (v) Short-term loans from commercial banks.
- **Financial Planning:** Financial Planning is the process of determining the objectives, policies and procedures, programmes and budgets to deal with the financial activities of an enterprise. Financial planning involves both short-term and long-term planning. The steps in financial planning are as follows:
 - (i) Determination of financial objectives.
 - (ii) Estimation of capital requirements.
 - (iii) Determination of kinds of securities to be issued.
 - (iv) Formulation of financial policies, procedures and budgets.

• Features of Financial Planning:

- (i) Sound financial planning must provide a simple financial structure.
- (ii) Foresight must be used in financial planning.
- (iii) Financial planning must enhance the optimum utilisation of the capital.

• Importance of Financial Planning

The importance of financial planning is discussed below:

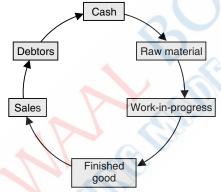
- (i) Facilitates collection of optimum funds: Financial planning estimates the precise requirement of funds which helps to avoid wastage and over-capitalisation situation.
- (ii) **Preparation for future challenges:** Financial planning helps the firm in preparation of plans for meeting challenges in future. It makes the firm better prepared to face uncertain events in future.
- (iii) Helps in operational activities: The success or failure of production and distribution function of business depends upon the financial decisions as right decision ensures smooth operation of production and distribution.
- **(iv) Helps in fixing the capital structure:** Financial planning is necessary for tapping appropriate financial sources at right time. It helps the management in fixing the appropriate capital structure.
- (v) Helps in coordination: It helps in achieving coordination between various functions by providing clear financial policies and procedures.
- (vi) Linking present and future: Financial planning links present financial resources and future financial requirements. It attempts to achieve a balance between the inflow and outflow of funds.
- (vii) Financial control: Financial planning serves as the basis of financial control. The management attempts to ensure utilisation of funds in tune with the financial plans.
- Factors affecting Capital structure: Capital structure refers to the proportion of debt and equity used for financing the operations of a business. The factors which determine the capital structure of a business firm are:
 - (i) Risk Consideration: Use of debt increases the financial risk of business. Business also have to face operating risk. If the risk of business is lower, they can use more debt. In case of higher business risk, firm's capacity to use debt decreases.
 - (ii) Capital Market condition: The company should consider the stock market condition before deciding the capital structure. During the bull phase, people are ready to invest more in equity but during the bear phase investors prefer debt which has fixed rate of interest.
 - (iii) Control: Issue of debt does not cause a dilution of management's control over the business however, issue of equity reduces the holding of management in the company.
 - (iv) Tax Rate: Interest on debt is a tax deductible expense. When the tax rates are high, debt becomes cheaper. Dividend is paid out of after-tax profit so it is not tax deductible.
 - (v) Flexibility: If a firm uses excessive debt in their capital structure, they restrict the firm's potential to raise further debt. To maintain flexibility, firm should maintain.
 - (vi) Regulatory Framework: All the companies operate under the regulatory framework provided by the law. Raising the funds from the banks or financial institutions require fulfillment of various norms. Mostly those sources of finance are preferred which have easy and less legal and regulatory framework.
 - (vii) Cost of debt: Cost of debt has a direct influence on the extent of debt to be used in the capital structure. If the interest rate on the debt is less, more debt can be used rather than equity. In case of higher cost of debt, equity is preferred over debt.
 - (viii)Cash Flow: The company should keep in mind the future cash flow of the firm. Firms with higher cash flow can raise more debt as it involves fixed cash payment in the form of interest and principal amount.
- Meaning of Fixed Capital: Fixed capital refers to the funds required for the acquisition of fixed assets that are to
 be used repeatedly over a long period of time. Fixed assets are those assets which are required for permanent use
 by the company and are not meant for resale.

Factors affecting Fixed Capital

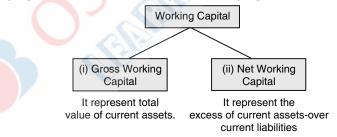
The various factors that affect the fixed capital are as follows:

(i) Nature of the business: Fixed capital requirement varies according to the nature of the business. Manufacturing companies require heavy investment in fixed capital such as land, building and plant and machinery while trading enterprises require less fixed capital.

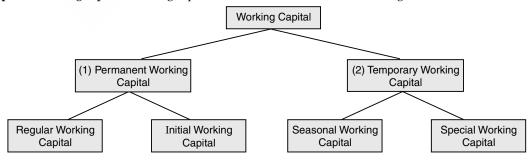
- (ii) Size of the business: A large-scale enterprise generally requires more fixed capital than a small-scale enterprise because of the increased scale of operations. For example: Public utility concerns like railways and electric supply companies require huge investment in fixed assets.
- (iii) Types of technique: Type of technique affects the fixed capital requirement. A capital intensive company requires more investment in fixed capital as a large investment is required in plants and machinery. However, the firms using labour intensive technique requires less fixed capital.
- **(iv) Growth Prospects:** Where a company wants to take growth opportunities, it would require more investment in plant and machinery to increase the productive capacity of the firm which increases the fixed capital requirement.
- (v) Diversification: Diversification involves increasing the product line of the business. If a company diversifies its operations, it requires a higher amount of fixed capital.
- (vi) Level of Collaboration: If the companies are preferring collaborations or joint ventures, then, companies will need less fixed capital as they can share plant and machinery with their add full stop after collaborators. But if the company prefers to operate independently then there is more requirement for fixed capital.
- Working Capital: Working Capital is that portion of capital which is required for holding current assets like stock
 of materials and finished goods, bills receivable and cash for meeting current expenses like salaries, wages, rent
 etc. Working capital is also known as "Circulating capital or revolving capital" because it keeps on circulating or
 revolving in business.



The term working capital is used in two forms: gross working capital and net working capital.



Types of working capital: Working capital can be divided into two broad categories:



(1) Permanent working capital: It refers to the minimum amount of working capital which is required to operate the minimum level of business activity. It is permanently locked up in current assets. It can be of two types:

- (i) **Regular working capital:** It is that part of working capital which is required for continuous business operations. It represents the excess of current assets over current liabilities.
- (ii) Initial working capital: That part of working capital which is required at the time of starting of a business.
- **(2) Temporary working capital:** It is that working capital which is required in addition to the permanent working capital. It is required to meet seasonal and special needs of the business. It can be of two types:
- (i) Seasonal working Capital: It means additional working capital which is required during a particular season.
- (ii) Special working capital: It is that part of working capital which is required to meet future contingencies in the business.
 - Factors affecting working capital: The amount of working capital required by an enterprise depends upon the following factors:
 - (i) Nature of business: The working capital requirement is affected by the nature of business. A trading concern needs less working capital as sales are made quickly on receipt of material. Wholesalers and manufacturers require more working capital as they have to sell on credit and maintain a huge inventory. Services also have low working capital requirement as they sell on cash basis and do not need much inventory.
 - (ii) Scale of operations: The size of the concern has a direct relation with the working capital requirements. Big enterprises need higher working capital for investment in current assets.
 - (iii) Business cycle fluctuation: During boom period the market is flourishing and hence, more working capital is required to meet the increasing demand and sales.
 - (iv) Technique of production: If a company is using labour intensive then company will have to maintain more working capital to make payments to the labour.
 - (v) Growth prospects: Firms planning to expand their activities will require more amount of working capital as for expansion they need to increase scale of production.
 - (vi) Inflation: If there is an increase or rise in price then the price of raw materials and cost of labour will rise. It will result in an increase in working capital requirement.
 - Comparison between Fixed and Working capital:

Basis	Fixed Capital	Working capital
Definition	Fixed capital is invested in fixed assets like building, plant and machinery, furniture, etc.	Working capital is invested in current assets like raw materials, debtors and bills receivable, etc.
Nature	It remains fixed in the business.	It fluctuates from time to time.
Term	Fixed capital is invested for long time period.	Working capital is invested for short time period.
Purpose	Fixed capital helps in generating income.	Working capital is kept to meet day-to-day expenses.
Source	Fixed capital is raised from long term and medium term sources of finance. Its main sources are shares, debentures etc.	Working capital is raised from short term sources of finance. Its main sources are commercial bank, trade exalt, public deposits etc.

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Key Terms

- Inflation: Inflation is a general increase in the prices of goods and services in an economy.
- Shares: Shares are units of equity ownership in a corporation.
- Trade Cycle: A trade cycle refers to fluctuations in economic activities specially in employment, output and income, prices, profits etc.
- Capital Structure: It means the proportion of debt and equity used for financing the operations of business.

CHAPTER-3 SOURCES OF FINANCE FOR A JOINT STOCK COMPANY

Topic-1

Owners' Funds

Concepts Covered• Equity shares - features, advantages and disadvantages. • Preference shares - features, types advantages and disadvantages; distinction between equity shares and preference shares. • Bonus and rights issue, ESOP and Sweat Equity Shares - meaning. • Distinction between bonus shares and right shares. • Retained earnings - meaning, merits and demerits.



Revision Notes

- **Meaning:** A joint stock company requires two types of finance:
 - (1) Long-term finance (2) Short-term finance. Long-term finance can be raised by issue of shares, debentures, retained earnings, long-term loans, etc.
- Sources of Long-Term Finance:
 - (1) Equity shares
 - (2) Preference shares
 - (3) Retained earnings

- (4) Debentures
- (5) Loans from commercial banks
- (6) Loans from financial Institutions.
- Equity shares: Equity shares represent the value of an investor's stake in a company. The investors in the equity share hold the right to vote, share profits and claim the assets of the company. It is the Owner's Capital, therefore, it is also known as owner's equity.
- Features of Equity Shares: The features of equity shares are:
 - (i) Owner's capital: Equity share holders are the actual owners of the company and they bear the primary risk.
 - (ii) Voting right: Equity shareholders are the actual owners of the company so, they have voting rights.
 - (iii) Participation in management: They have the full right to participate in the management of the company.
 - (iv) **Permanent capital:** Equity Capital is permanent in nature because it is repaid in the last in the event of winding up of the company.
- Advantages of Equity Shares: Equity shares have advantages from the company's point of view and from the shareholder's point of view. These are as follows:
- From company's point of view:
 - (i) Permanent capital: Equity capital is permanent in nature as it is refunded only at the time of winding up of the company. There is no liability to repay it. At the time of winding up equity shares are paid in last.
 - (ii) No charge on assets: Equity shares do not create any charge on the assets of the company. The company is free to use its property for raising loans.
 - (iii) No burden on earning: Equity shares impose no burden on the company's resources because the dividend on such share is payable only at the discretion of the management.
 - (iv) Unlimited source: Through the equity shares a company can raise a huge amount of finance.
- From investors'/shareholders' point of view:
 - (i) Voting rights: Equity shareholders enjoy voting rights and controlling power over the company.
 - (ii) **Pre-emptive right:** Equity shareholders have right to get the first new issue of shares by the company. Such shares are called Right shares.
 - (iii) Limited Liability: The liability of the equity shareholders is limited to the face value of shares subscribed by them.
- Disadvantages of Equity Shares:
- From company's point of view:
 - (i) Danger of over capitalisation: Capital raised from equity shares is not refundable during the lifetime of the company, so there is a possibility of over capitalisation resulting in a lower rate of earnings and dividend.
 - (ii) No trading on equity: When the whole finance is raised through equity shares, the benefit of trading on equity is not possible.

• From shareholder's point of view:

- (i) **High risk:** Equity shareholders have high risk as they have to go with the market conditions and prices of these shares keep on fluctuating.
- (ii) **Unhealthy speculation:** There is unhealthy speculation in the prices of equity shares. Directors and officers of the company may also involve in the speculation on the basis of internal knowledge of management.

• Preference Shares:

Meaning: Preference shares are those which carry the following two rights:

- (i) They have a right to receive dividend at a fixed rate before any dividend is paid on the equity shares.
- (ii) In case of winding up, they can claim their funds before the equity shareholders.

• Types of Preference Shares:

- (i) Cumulative preference shares: These shares are those preference shares the holders of which are entitled to recover the arrears of preference dividend before any dividend is paid on equity shares.
- (ii) Non-cumulative preference shares: The holders of such shares get a fixed amount of dividend out of profits of each year. If no dividend is declared in any year such shareholders get nothing.
- (iii) Participating preference shares: These are those shares which have special right to participate in the surplus profits, if any, after dividend has been paid to equity shareholders.
- (iv) Non-participating preference shares: Such shares get only a fixed rate of dividend every year and do not carry a right to participate in the surplus profits.
- (v) Redeemable preference shares: These shares are those which will be repaid by the company within a certain period in accordance with the terms of issue.
- (vi) Irredeemable preference shares: These shares are those the capital of which cannot be refunded before winding up the company.
- (vii) Convertible preference shares: The shareholders of these shares have a right to get their preference shares converted into equity shares at a fixed rate, after the expiry of a specified period as mentioned in the memorandum.
- (viii) Non-convertible preference shares: These shareholders do not have a right to convert their preference shares into equity shares.

• Features of Preference Shares:

- (i) Rate of dividend: Preference shares are paid dividend at a fixed rate.
- (ii) Payment of capital: They have a preferential right to receive payment of capital before any payment is made to equity Shareholders.
- (iii) Arrears of dividend: If in any year dividend is not paid on these shares than the arrears of dividend may accumulate.

Advantages of Preferences Shares:

- (i) Flexibility: Preference shares are flexible as they can be repaid, when the company does not need it.
- (ii) No charge on assets: Preference shares do not create a charge on the assets of the firm. The company keep its fixed assets to be used for raising loan in future.
- (iii) No burden on finance: Preference shares do not put any burden on financial position as dividend is paid only out of the profits.
- (iv) Safety of funds: Money invested by preference shareholders always remain safe and their capital gets high returns.

• Disadvantages of Preference Shares:

- (i) Costly source: The cost of raising finance through preference shares is greater than that of debentures so they are a costly source of finance.
- (ii) Legal formalities: When company issues preference shares, they have to follow several legal formalities which creates problems in raising finance.
- (iii) Low appeal: Preference shares have little appeal to investors. Most of the investors want security.
- (iv) Lack of voting right: Preference shareholders do not carry any voting right in the company.
- (v) No capital appreciation: Preference shareholders get only fixed rate of dividend and their capital does not appreciate. They are paid fixed amount at the end of certain (fixed) period.

Distinction between Equity shares and Preference shares:

Basis	Equity Shares	Preference Shares
1. Nominal value	Generally low	Generally high
2. Degree of risk	Very high risk because dividend is not fixed.	Comparatively low risk because of fixed rate of dividend
3. Right to dividend	After dividend is paid on preference shares	Prior to dividend on equity shares
4. Refund of capital	Repayment after all other obligations are refunded	Prior to refund of equity capital.
5. Voting rights	Voting rights exists	No voting rights
6. Appeal	To the bold adventurous investors	To the cautious and conservative investors
7. Redemption	Not redeemed during the life of the company	Redeemable preference shares are redeemed during the life of company.

 Bonus Shares/Bonus issue: When a company have large amount of undistributed profits, they issue fully paid up shares to their existing shareholders, free of charge. This is known as Bonus shares.

Issue of Bonus shares is also known as bonus issue or capitalisation of profits of the company.

A Company must follow certain conditions before issue of bonus shares. These are as follows:

- (i) There should be adequate undistributed profits.
- (ii) SEBI guidelines must be followed in case of bonus issue.
- (iii) Board of directors of the company must pass a resolution for making the bonus issue.
- (iv) Articles of Association of the company must permit the issue of bonus shares.

• Rights Share or Right issue:

Right issue is an invitation to the existing shareholders to purchase additional new shares in the company. When a company wants to raise its subscribed capital by issue of new shares, it can give an issue offer to the existing shareholders to purchase the shares at a price lower than the market price. Such an issue is called rights issue. These shares are offered to existing members at a price lower than the market price. This right is called preemptive right.

Employee Stock Option Plan (ESOP)

An employee stock option plan is a scheme under which an employee of the company is given a right to purchase a specified number of its shares at a particular price (usually below the market price) during a given period of time under Section 62 (1) (b) of the Companies Act, 2013. A company may offer shares to its employees under a scheme of Employee stock option by passing a special resolution in the annual general meeting of the company.

• Sweat Equity Shares:

A company may issue sweat equity shares as per section 54 of Companies Act, 2013. Sweat equity shares means equity shares issued by the company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available intellectual property rights. Such shares can not be resold by their holders within a period of 3 years. This is called lock-in period.

Following conditions are prescribed for issue of sweat equity shares:

- (i) They must be of a class of shares already issued.
- (ii) One year must have lapsed since company commenced business.
- (iii) The issue must be authorised by a special resolution.
- (iv) The share must be issued as per the SEBI Regulations.

• Retained earnings/ploughing back of profits:

Retained earnings or ploughing back of profits refers to the process of retaining a part of the net profit every year and reinvesting it in the business.

Merits:

- (i) It is an economical source of finance.
- (ii) Shareholders get regular dividend on this.

- (iii) The financial position of the firm remains fully flexible.
- (iv) It can be used to stabilize the rate of dividend on equity shares.

• Demerits:

- (i) Heavy reinvestment of earning year after year may cause dissatisfaction among shareholders.
- (ii) It may lead to unbalanced industrial growth.

Difference between Bonus shares and Rights Issue:

Basis	Bonus shares	Right issue
1. Meaning	When a company have large	Right issue is an invitation to the
	amount of undistributed profits,	existing shareholders to purchase
	they issue fully paid up shares to	additional new shares in the
	their existing shareholders, free	company. When a company wants
	of charge, This is known as Bonus	to raise its subscribed capital by issue
	shares	of new shares, it can give an issue
		offer to the existing shareholders to
		purchase the shares at a price lower
		than the market price.
2. Objective	The objective is to distribute the	Its objective is to increase the
	accumulated earnings without	affordability of stock for small
	paying dividends. This improves	retail investors. This increases the
	creditworthiness of the company.	liquidity in market.
3. Face Value	Remains same after the issue of	Reduces in proportion to the split
	bonus shares	ratio.
4. Future dividend	Remains same	Decreases due to decrease in face
		value
5. Regulation	It is regulated by the provisions of	It is regulated by the Companies
	the Articles of Association and SEBI	Act.
	guidelines.	

©≕ஈ Key Terms

- Floatation cost: Cost involved in the issue of securities.
- Financial risk: Risk of inability to meet fixed financial charges.

Topic-2

Borrowed Capital: Debentures

Concepts Covered • Debentures: Meaning, kinds of debentures, advantages, disadvantages, distinction between shares and debentures.



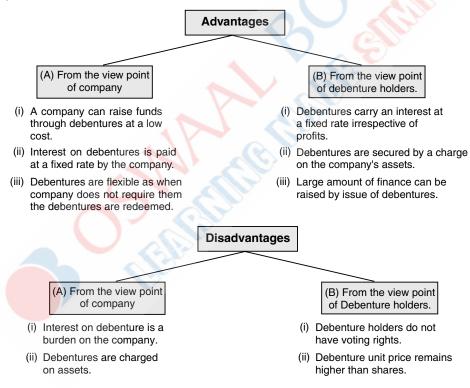
Revision Notes

- Meaning of Debentures: According to Section 2 (30) of the Companies Act, 2013 the "debenture includes stock, bonds and any other instrument of a company, whether constituting a charge on the asset of the company or not."
- Types or Kinds of Debentures:
 - (i) Secured or Mortgage Debentures: These debentures are those which are secured by having a charge on particular assets of the company. It is called a floating charge. Fixed charge denies the company from dealing with mortgaged assets, whereas the floating charge does not restrict the company from using the assets.

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- (ii) Unsecured or Naked Debentures: These debentures are those which are not given any security. The holder of such debentures are treated as unsecured creditors at the time of liquidation of the company.
- (iii) **Registered Debentures:** Registered debentures are those which are payable only to those holders whose name and addresses are recorded in a register of the company called 'Register of Debenture holder'.
- **(iv) Bearer Debentures:** Bearer Debentures are those which are payable to the bearer or holder of the debenture. These are transferable by mere delivery and the company does not keep any record of name and addresses of the debenture holder.
- **(v) Redeemable Debentures:** Redeemable debentures are those debentures which will be repaid by the company at the end of a specified period or by instalments during the life time of the company.
- **(vi) Irredeemable or Perpetual Debentures:** These are those debentures which are not repayable by the company during its life time. These debentures are payable only at the time of liquidation of company.
- (vii) Convertible Debentures: Holders of these debentures are given an option to convert them into equity shares or other securities at a stated rate of exchange after a certain period.
- (viii) Non-convertible debentures: These instruments retain the debt character and cannot be converted into equity shares.

• Advantages of Debentures:

Advantages of Debentures are as follow:



• Distinction between Shares and Debentures:

Basis of	Shares	Debentures
Difference		
Capital v/s Loan	A share is a part of capital of the company,	A debenture is a part of loan and so, the
	therefore share holders are the owners of	debenture holders are the creditors of the
	the company.	company.
Dividend	A shareholder gets dividend from the	A debenture holder gets interest from the
V/s interest	company.	company.
Profit	Dividend is paid only when there are	If the rate of interest is fixed then it must
	profits.	be paid irrespective of profit/loss.

Unsecure or secure	A share is always unsecured hence they	Debentures are secured on the assets of
	bear more risk.	the company hence, they bear no risk.
Voting rights	Shareholders have voting rights in the company.	A debenture holder do not have any voting right in the company.
Payment of share capital is made after		Payment of debenture is made before the
	repayment of debentures.	repayment of share capital.

Topic-3

Borrowed Funds: Long-term Loans and Short-term Sources of Funds

Concepts Covered • Loans from commercial banks and Financial Institutions-Loans from commercial banks and Financial Institutions - meaning, advantages and disadvantages.
• Short-term sources of funds. • Short-term sources of funds – different types of short-term financial assistance by Commercial Banks; public deposits, trade credit, customer advances, factoring, Inter corporate deposits and installment credit.



Revision Notes

• Loans From Financial Institutions:

Meaning: Indian Government has set up several special institutions in the country to provide long term and medium-term finance to business organisations. These institutions have become a major source of finance for the modernisation and expansion of the existing concerns. These institutions are not simply financial institutions. They also provide promotional, technical and managerial services. IFCI (Industrial Finance Corporation of India), IDBI (Industrial Development Bank of India), ICICI, (Industrial Credit and Investment Corporation of India), SIDBI (Small Industries Development Bank of India) are well-known development banks in the country. In addition, the LIC, General Insurance Corporation, SFCs (State Financial Corporations), NIDC, NSIC, UTI, etc., also help in providing finance to industries. These financial institutions have become the biggest source of finance for businesses in India.

Short-Term Loans From Commercial Banks

Commercial banks usually provide short-term finance because most of their deposits are short-term deposits. However, in some cases, commercial banks also provide term loans for medium and long periods especially to Micro, Small and Medium Enterprises (MSMEs).

Meaning: Under a term loan, a bank advances a fixed amount in lump sum to the borrower for a specified period. The Interest is charged at a fixed rate on the sanctioned amount. The loan is advanced against the security of some assets or on the personal guarantee of the borrower.

- Advantages: The main advantages of institutional finance are as follows:
 - (1) Special financial institutions provide underwriting facilities to new companies.
 - (2) The rate of interest and repayment procedures are convenient and economical.
 - (3) A company can obtain expert advice and guidance for the success and planning.
- Disadvantages: The main disadvantages of financial institutions are as follows:
 - (1) A number of formalities and documents are involved in the finance process.
 - (2) Many deserving concerns may fail to get assistance for want of security and other conditions laid by these institutions.
 - (3) Sometimes these institutions place restrictions on the autonomy of management.
- Loan and Advances: A loan is a direct advance made in lump sum which is credited to a separate loan account in
 the name of the borrower. The borrower withdraws the full amount in cash immediately and undertakes to repay
 it in one or more instalments.
- Cash credits: It is a revolving credit agreement under which a borrower is allowed to borrow upto a certain limit.
 Unlike a loan, it is a running account from which the amounts can be withdrawn and paid back from time to time, subject to the stipulated amount.

The bank can refuse credit when the creditworthiness of the borrower is unsatisfactory or when there is shortage of funds. The maximum amount known as the 'limit' is determined in accordance to the financial position of the borrower.

- Bank overdrafts: It is a kind of a temporary financial accommodation extended by a bank to its regular customers. Under this arrangement, a customer having a current account with the bank is allowed to withdraw a specified amount. A business enterprise can enter into this arrangement to take care of a temporary (a few days) shortage of working capital. Interest in charged on the amount actually overdrawn and not on the amount sanctioned by the bank.
- Trade Credit: Trade credit is the credit extended by one business firm to another as incidental to sale or purchase of goods and services. In other words, Trade Credit is the credit extended by sellers to buyers at all levels of production and distribution process down to the retailer.
- Installment Credit: Installment credit refers to the facility of buying machinery, equipment and other durable goods on credit. The buyer has to pay a part of the price of the assets at the time of delivery and the balance is payable in a number of instalments. The supplier charges interest on the balance due and the interest is included in the amount of instalment itself. Some suppliers provide instalment credit through finance companies and commercial banks. A business firm may also buy fixed assets on hire purchase basis. Under this arrangement, the ownership of the asset remains with the supplier until all the installments are paid by the buyer.
- Factoring (Accounts Receivable financing): It refers to an arrangement whereby the book debt [trade debtors]/
 sale or mortgage of book debt, is assigned to a bank and the payment is received against the debts balance in
 advance from the bank. This facility is provided by the bank on the payment of specified charges.

• Customer Advances

In certain cases, manufacturers or suppliers of goods require the customers to deposit an advance payment at the time of booking before the delivery of goods. The customers advance represents a part of the price of the goods ordered by the customers to be supplied at a later date. This arrangement is used in case of products which are in short supply or which involve a waiting period for delivery, *e.g.*, automobiles, telephone connection, etc.

CHAPTER-4

BANKING LATEST TRENDS



Revision Notes

Meaning of RTGS

Real Time Gross Settlement (RTGS) is a system of transferring of funds from one bank to another bank on a real-time and gross basis. Real Time' means there is no waiting period in payment-transaction. The transaction is settled as soon as it is processed. Gross settlement means the transaction is made on one-to-one basis without bunching or netting with any other transaction.

RTGS system is controlled by the central bank of the country. In RTGS system, every bank along with the central bank is linked electronically. Every bank maintains its account with the central bank.

• Features of RTGS are as follows:

- (i) RTGS facility is available only to CBS enabled bank branches which are connected electronically.
- (ii) RTGS facility is available within specified time. Presently, it is available between 9.00 a.m. and 4.30 p.m. on weekdays and 9.00 a.m. and 2.00 p.m. on Saturday, excluding bank holidays.
- (iii) RTGS is primarily meant for transferring funds involving a large amount. Presently, minimum amount which may be transferred through RTGS is ₹ 2 lakh. There is no limit on maximum amount.
- (iv) Inter-bank transactions are settled on real time and gross basis. Thus, funds receiving bank credits account of the beneficiary within two hours after receiving instruction from the central bank.
- (v) Banks levy service charge on transfer of funds through RTGS. Presently, per transfer charge is as follows: ₹ 25 for transfer of ₹ 2 to ₹ 5 lakh and not more than ₹ 50 for transfer of more than this amount. However, receiving customer is not required to pay any charge.

National Electronic Funds Transfer

National Electronic Funds Transfer (NEFT) is a system that facilitates individuals and organisations having bank accounts to transfer funds from their accounts electronically to individuals or organisations having bank accounts. Transfer of funds from one bank branch to another or from one bank to another is settled in batches.

• Features of NEFT are as follows:

(i) NEFT facility is available to NEFT-enabled bank branches. A NEFT-enabled bank is one which is electronically connected and has been authorised by the Reserve Bank of India.

- (ii) Inter-bank transactions involving transfer of funds are settled in batches for which time duration is specified. Any transfer taking place after this time is settled in the next settlement cycle.
- (iii) There is no lower or upper limit on transfer of funds through NEFT.
- (iv) In case one does not have a bank account, the maximum amount that can be transferred through NEFT system is ₹ 49999.
- (v) There is no minimum or maximum amount that can be transferred through NEFT when one has a bank account.
- (vi) NEFT transactions take place in batches.
- (vii) NEFT cannot be used to receive foreign remittances.
- (viii) The sender of funds has to pay the following charges for NEFT:

Transaction Amount	NEFT Charges
Amounts upto ₹ 10,000	₹ 2.50 + Applicable GST
Amounts above ₹ 10,000 and upto ₹ 1 lakh	₹5 + Applicable GST
Amounts above ₹ 1 lakh and upto ₹ 2 lakh	₹ 15 + Applicable GST
Amounts above ₹ 2 lakh and upto ₹ 5 lakh	₹ 25 + Applicable GST
Amounts above ₹ 5 lakh and upto ₹ 10 lakh	₹ 25 + Applicable GST

(ix) The receiver of funds has to pay no charges.

Difference between RTGS and NEFT

Basis	RTGS	NEFT
1. Processing	Transactions are settled on real-time basis and individually.	Transactions are settled after a specified time and in batches.
2. Amount Limit	Minimum ₹ 2 lakhs, no upper limit on transfer of funds.	No upper or lower limit on transfer of funds.
3. Number of Transfer	No limit on number of transfer per day.	Limit of 6 transfers each weekday and 3 transfers on Saturday.

Demand Draft

A demand draft is a negotiable instrument similar to a bills of exchange. A bank issues a demand draft to a client (drawer), directing another bank (drawee) or one of its own branches to pay a certain sum to the specific party (payee).

The following are the essential features of a Demand Draft:

- (i) It is drawn by one office of a bank upon another office of the same bank.
- (ii) It is payable on demand; and
- (iii) Its payment has to be made to the person whose name is mentioned therein or according to his order.

Electronic Banking (E-Banking)

Electronic banking means banking transactions carried out with the help of computer system. Any user having a PC and a browser can access the bank website and avail the banking services.

• E-banking gives the following advantages:

- (i) Customers get 24 hours and 365 days-a-year services.
- (ii) Customers can make the permitted transactions from residence or office and even while travelling.
- (iii) Customers feel a sense of security. They do not face the risk of carrying cash.
- (iv) Unlimited access to the bank increases customer satisfaction.

• E-banking offers the following benefits to banks:

- (a) The bank gains a competitive advantage.
- (b) Centralised data base reduces load on branches.

• E-banking have the following disadvantages:

- (i) It adds to cost as it requires computer or mobile device all the time that too with internet facility.
- (ii) Illiterate people or the ones living in rural areas with no internet access derive no advantage of this facility.

• The main forms of electronic banking are as follows:

1. Electronic Funds Transfer System (EFTS): Under this system, money can be transferred from one account to another account. For example, a bank transfers wages and salaries directly from the company's account to the accounts of employees of the company.

The main examples of EFT are as follows:

- (a) Direct credits: Salary, pension, dividend on shares, interest on debentures, commission, royalty, etc. are directly credited to the bank account of a person.
- (b) Direct Debits: Loan instalment, school fees, insurance premium, telephone bills, electricity bills, water bills, club membership fee, credit card dues, etc. are directly debited from the bank account of the account holder.

Electronic funds transfer offers the following advantages:

- (i) Payments are made on due dates.
- (ii) There is no loss in transit.
- (iii) There is no mishandling of cash.
- (iv) Transactions are effortless.
- 2. Automatic Teller Machine (ATM): ATM is an automatic machine. A customer can withdraw or deposit money with the help of this machine by inserting his ATM card and typing his personal identity number (PIN). It provides 24 hours money without a human cashier, clerk or bank teller.
- 3. **Debit Card:** A person can get a debit card by depositing money in the bank. The card holder can make payment for the goods purchased or services. When the customer presents his debit card the terminal automatically transfers money from the buyer's account to the seller's account. Debit card can also be used to withdraw money from the ATM.

Features of Debit card are as follows:

- (a) Issued by bank to the account holders at the time of opening a savings or current account.
- (b) Meant to facilitate withdrawal of money through ATM.
- (c) Used to check account balance, transfer money etc.
- (d) Used for shopping and making online payments.
- (e) Can be used to the extent customer has balance in his/ her bank account.
- 4. Credit Card: Anybody having good reputation can obtain a credit card from a bank. A person need not have money in his bank to get a credit card. The card holder can buy goods and services with the help of credit card. He keeps on depositing the money used as per the agreement with the bank.
- Features of Credit card are as follows:
- (a) Issued by finance company or a bank.
- (b) Issued at the discretion of issuer after satisfying himself of the credit worthiness of applicant.
- (c) Allows holder of credit card to buy merchandise without actually paying for it at the time of sale.
- (d) User has to pay monthly bill which include the transacted amount along with fee for using the card.
- 5. **Tele Banking:** Under this system, the personal computer of a customer is linked by telephone to the bank's computer. The customer can get information about the balance in his account and latest transactions on the telephone. This facility is available round the clock.
- 6. **Core Banking Solution (CBS):** Under this system a customer becomes 'customer of the bank' rather than 'customer of a branch'. By opening a bank account in one branch the customer can operate the same account in all the CBS branches of the same bank anywhere across the country. It offers the following facilities:
 - (a) Cash withdrawal facility from any of the CBS branches.
 - (b) Updating of pass book at all CBS branches.
 - (c) The facility of centralised corporate limits in all the CBS branches.
- 7. SMS Alert: Under this service, customer gives his/her mobile number. The bank records the mobile number in its computer system in the customer's account. Whenever, a transaction takes place in the customer's account the customer receives information about withdrawal and deposits by an SMS on his/her mobile phone. The SMS states the nature and amount of transaction, date of the transaction and the balance in the account on that date.

Advantages of Mobile Banking:

- **(i)** Available 24*7.
- (ii) It is secure.
- (iii) It is convenient.
- (iv) Cost saving technology.
- (v) Novel way of selling banking and service products by bank.

Difference between Debit cards and Credit cards:

Debit Card	Credit Card
Debit card is issued to bank account holder at the time of opening a savings or current account.	Credit card is issued at the discretion of issuer after satisfying himself of the credit worthiness of applicant.
Debit cards are used to withdraw money from ATM.	Money cannot be withdrawn through a credit card.
Debit card holder gets an e-statement on a regular basis.	Credit card holder gets monthly bill for its use.
Debit card is useless if the holder's account does not have the required balance.	Credit card extends credit for the holder and is not linked to any bank account.

• Immediate Payment Service

IMPS provides robust and real time fund transfer which offers an instant, 24×7 , interbank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS. IMPS is an emphatic service which allows transferring of funds instantly within banks across India which is not only safe but also economical. Currently on IMPS, 590 members are live which includes banks & PPIs.

• Digital Banking

Digital banking refers to the use of digital technologies and platforms to perform various banking activities and transactions. It enables customers to access and manage their bank accounts, conduct financial transactions, and avail banking services through online or mobile channels. Digital banking includes features such as online account opening, balance inquiries, fund transfers, bill payments, loan applications, and other banking services accessible through digital interfaces. It offers convenience, accessibility, and flexibility to customers, allowing them to conduct banking activities anytime and anywhere without the need to visit a physical bank branch.

• UPI (Unified Payments Interface)

UPI is a real-time payment system developed by the National Payments Corporation of India (NPCI). It is a mobile-based platform that facilitates instant fund transfers between different bank accounts in India. UPI eliminates the need for traditional payment methods such as cash, cheques, or even entering bank details for transactions. Users can link their bank accounts to a UPI-enabled mobile application and make payments or receive funds by simply providing a unique virtual payment address (VPA) or scanning a QR code. UPI has gained widespread popularity in India and has revolutionized digital payments, enabling secure, convenient, and interoperable transactions.

E-Wallet

An e-wallet, also known as a digital wallet or mobile wallet, is a digital application or platform that allows users to store, manage, and transact with their financial information, such as credit or debit card details, bank account information, or digital currencies. E-wallets provide a secure and convenient way to make payments for various goods and services. Users can load funds into their e-wallets and use them for online and offline transactions, including purchases at retail stores, online shopping, bill payments, or peer-to-peer transfers. E-wallets often offer additional features such as loyalty programs, financial management tools, and the ability to store multiple payment methods in a single digital wallet.

©=rr Key Terms

• ATM: Automated teller machines (ATMs) are electronic banking outlets that allow people to complete transactions without going into a branch of their bank.

CHAPTER-5

MANAGEMENT: INTRODUCTION, IMPORTANCE AND LEVELS



Revision Notes

• Meaning of Management:

Management is essential for all organisations big or small, profit or non-profit. Management is necessary so that individual may make their best efforts towards the group objective. According to the modern concept, management is a process of getting things done through others with the aim of achieving goals effectively and efficiently.

• Modern Definition insists on:



- (i) Management as a process: Management is a process which denotes the functions that managers perform to get things done. These functions include planning, organising, staffing, directing and controlling.
- (ii) Management as a discipline: The term 'management' has been used to denote neither the activity nor the personnel who perform it, but as a body of knowledge, a practice and a discipline. Here management refers to the principles and practices of management as a subject of study.
- (iii) Management as a group: Management has become a very common term. People use the term 'management' to denote a *team or group of managers who run an organisation*. Management of an enterprise is represented by the group of people who performs managerial functions for the accomplishment of its goals. These people are individually known as 'Managers'.
- **(iv) Management as an Activity:** Like various other activities performed by human beings such as writing, playing, eating, cooking etc., management is also an activity because a manager is one who accomplishes the objectives by directing the efforts of others.
 - According to Koontz, "Management is what a manager does".
- Objectives of Management: The main objectives of management are as follows:
 - (i) **Profitability:** Management must make sure that the firm is earning sufficient profits to meet its different needs. It is necessary for the survival, growth and expansion of the business.
 - (ii) Quality goods at fair prices: Management should provide quality goods at reasonable prices. For this purpose management has to reduce costs by stopping wastage of materials.
 - (iii) **Rightful decision-making:** Right decision at right time is an important part of management for the success of an organisation.
 - (iv) Change and Innovation: An organisational environment is dynamic so keeps on changing on a day-to-day basis. Management should aim at technological and other innovations so that the organisation can face the challenges successfully.
 - (v) Discipline and morale: Management helps in improving discipline in the organisation with the help of authority, responsibility and control process. It motivates people through monetary and non-monetary incentives.

- Characteristics of Management: The basic features or characteristics of management are as follows:
 - (i) Management is Goal-oriented: The purpose of management is to achieve the goals of the organisation. For instance, management of a business aims at satisfaction of customers, earning of profits and increasing the goodwill and image of the business. The success of management is judged by the extent to which organisational goals are achieved.
 - (ii) Management is all Pervasive or Universal: Management is essential for effective performance of any organised activity. Thus, it is universal in nature.
 - (iii) Management is a Continuous Process: Management is a continuous process, *i.e.*, its functions are repeated time and again. It is an ongoing process of planning the activities and execution of plans through organising, staffing, directing and controlling.
 - (iv) Management is a Group Activity: Management is an integral part of any group activity. It is essential to undertake any organised activity. It involves the use of group efforts in the pursuit of well defined goals or objectives. It requires team work and coordination of efforts of group members for the achievement of organisational goals. Managers of production, finance, marketing and human resource departments of the business work as a team to accomplish the business objectives.
 - (v) Management is a Dynamic Function: Managers continuously monitor the changes in the social, economic, political and legal environment. They make necessary changes to deal with the changing environment. In fact, management of change has become an important function of the management of dynamic organisations. In order to be successful, the management must change its goals and plans according to the needs of the environment.
 - (vi) Management is a Science as well as an Art: Management is an organised body of knowledge consisting of distinct concepts, principles and techniques which have wide application. So it is treated as a science. The application of these concepts, principles and techniques requires specialised knowledge and skills on the part of the manager. Since the skills acquired by a manager are his personal possession, management is viewed as an art. The skills can be learnt through training and experience.
 - (vii) Management is Intangible: Management is intangible. It cannot be seen but its presence can be felt in the way things are managed in the organisation. For example, when we are not able to produce the desired quantity, we say it is the result of poor management.
- Nature of management: The nature of management can be analysed in terms of art, science and profession.
- Management as an art due to following reasons:
 - (i) Personal Skill: Management is an art as in it, one has to use his personal skills and knowledge in solving many complicated problems to achieve the objectives of the enterprise. It is an art of dealing with people to accomplish desired results. It is personalised like most arts in the sense that every manager has his own method of doing things. Hence, there are differences in the performance of different managers despite possessing equal technical qualifications.
 - (ii) Practical Knowledge: Just as a person cannot be called a musician even if he knows the technicalities of music unless he plays musical instruments, similarly, a person cannot be called a manager even if he learns by heart the principles of management, unless, he can apply these principles in practice while taking managerial decisions. Management does not merely mean the knowledge but practice which makes it effective and useful.
 - (iii) Result-oriented approach: Management aims at achieving maximum productivity at the lowest costs. It is concerned with accomplishment of objectives. In this sense it is a result-oriented approach. It has to ensure that, projects are completed on time, targets of production and sales are achieved, a fair return on capital investment is secured and so on.
 - (iv) Regular Practice: One cannot be a good manager unless he regularly practice this art of decision-making and leadership. As an artist, the manager always tries to attain higher goals in order to reach the stage of absolute perfection. This efficiency and effectiveness is attained through regular practice. An experienced manager moulds the enterprise according to the situations and also alters the environment itself.
 - **(v) Creativity:** Management is one of the most creative art as it is concerned with getting work done through others by motivating them to work and by co-ordinating their activities.
- Management is a Science due to following reasons:
 - (i) Systematised body of knowledge: As a science, management has an organised body of knowledge built up by management practitioners, thinkers and philosophers over a period of time. Management science is a body of systematised knowledge accumulated and accepted with reference to the understanding of general truths concerning management.
 - (ii) Use of scientific methods: The process of management makes use of scientific methods for observation. Frederick W. Taylor, the Father of Scientific Management applied scientific techniques to studies of planning, organising, staffing, motivating, etc.

- (iii) Continued observation: The principles of management have been developed after continued observation. The knowledge of management has principles that have universal application. The knowledge of management has been accumulated and accepted with reference to general truths. Hence, there are certain fundamental principles of management which can be universally applied.
- Management as a profession: Management is a profession due to following reasons:
 - (i) Body of specialised knowledge and techniques: Management is an organised body of knowledge build up by management practitioners, thinkers and philosophers over a period of time. In this sense, modern management is certainly a profession. A.P.M. Fleming has rightly remarked that modern management is "a technique quite apart from the technology of the particular works concerned."
 - (ii) Formalised methods of acquiring training and experience: Today, the management science is fully equipped with formalised methods of acquiring the body of knowledge in theory and practice. A larger number of formal institutes in various countries, including India impart management education and training. Several tools of management have been developed such as Business Psychology, Business Law, Statistics, Dataprocessing, Operation Research and Cost Accounting, etc. Today, the business houses prefer to employ those managerial personnels who have obtained a professional degree in management from some recognised institute.
 - (iii) Establishment of professional associations: Professional Management Associations are being established in most of the countries to (i) regulate the behaviour of members; (ii) to create a code of conduct for guiding the activities of the profession; and (iii) to promote and build up the image of management as a profession. In India, there is an All India Management Association. The main function of this association is to manage and co-ordinate the research work in the various areas of management. However, norms of managerial behaviour have not yet been established and there are no uniform methods of entry.
 - (iv) Code of Conduct: Members of a profession have to abide by a code of conduct which provides rules and regulations, norms of honesty, integrity and professional morality. There exists a standard code of conduct in the traditional professions such as law and medicine. But there exists no uniform code of conduct in the sphere of management. There are no restrictions or licensing on the entry of management profession. Judged from these standpoints, management cannot be regarded as profession.

• Importance of Management:

Peter F. Drucker refers to management as the dynamic life-giving element of every business enterprise. Management is the thinking organ that provides vision to the business. It is also the integrating force for the accomplishment of business objectives. The importance of management to a modern business is discussed below:

- (i) Accomplishment of Organisational Goals: It is the management which determines the goals of an organisation and of various departments and functional groups. The goals are communicated to the employees to seek their cooperation.
- (ii) Efficient Utilisation of Resources: Management ensures efficient utilisation of resources to reduce costs and increase profits. Through planning and organisation, management eliminates all types of wastages and achieves efficiency in all business operations. Management motivates worker to put in their best performance. This would lead to the effective working of the business.
- (iii) Coordinate the Activities of Individuals: Management establishes sound organisation for the accomplishment of the desired objectives. It clarifies authority-responsibility relationships among various positions in the enterprise. It fills various positions with persons having the right qualification and training. Management also provides the workers with proper environment and encourages the spirit of co-operation.

 Management deals with integration of human and non-human resources in order to achieve organisational
 - Management deals with integration of human and non-human resources in order to achieve organisational objectives. It directs and coordinates the activities of individuals and groups in the use of materials, methods and machines. It, thus, brings order to endeavours of different groups.
- (iv) Accomplishment of Personal Objectives: Management leads the group members to inspire them to achieve their personal objectives while working for the organisational objectives. Management helps them to satisfy their physical, social, and psychological needs so as to develop a cooperative and committed team.
- (v) Development of Society: Efficient management of resources is equally important for the development of society. According to Peter Drucker, "Management is the crucial factor in economic and social development." The development of a country virtually depends upon the quality of management of its resources. Efficient management of resources helps in the development of nation in the following ways:
 - (a) Provision of good quality products and services;

- (b) Creation of employment opportunities;
- (c) Technological innovations for the betterment of society; and
- (d) Contribution to economic growth and development.
- (vi) Vision and Foresight: Management keeps itself in touch with the external environment and provide vision and foresight to the enterprise. It helps in predicting what is going to happen in future which will influence the working of the enterprise. It also takes steps to ensure that the enterprise is able to meet the demands of changing environment.
- Levels of management refer to the hierarchical structure within an organization, consisting of different managerial positions and their respective responsibilities. The three primary levels of management are typically recognized as top-level management, middle-level management, and lower-level management. Let's discuss the meaning and functions of each level:
- Top-level management (Strategic Management): Meaning: Top-level management consists of executives, such as CEOs, presidents, and board members, who are responsible for making high-level strategic decisions that affect the entire organization.
- Functions:
 - Establishing organizational goals and objectives.
 - ➤ Formulating overall business strategies and plans.
 - Making major decisions regarding resource allocation.
 - ➤ Representing the organization to external stakeholders.
 - Setting policies and guidelines for the entire organization.
 - Monitoring overall performance and ensuring long-term success.
- Middle-level management (Tactical Management):

Meaning: Middle-level management includes positions such as department heads, branch managers, and division managers. They serve as a link between top-level and lower-level management.

• Functions:

- > Translating top-level strategies into actionable plans.
- Implementing organizational policies and guidelines.
- Coordinating and supervising lower-level managers.
- Setting departmental goals and targets.
- Allocating resources within their departments.
- Facilitating communication between different levels of management.
- Evaluating and reporting departmental performance to top-level management.
- Lower-level management (Operational Management):

Meaning: Lower-level management consists of supervisors, team leaders, and front-line managers directly responsible for overseeing the day-to-day operations of specific work units or teams.

• Functions:

- Assigning tasks and responsibilities to employees.
- Providing guidance and support to employees.
- Monitoring and controlling daily operations.
- > Ensuring efficient utilization of resources.
- Training and developing employees.
- Maintaining discipline and resolving conflicts.
- ➤ Reporting operational issues to middle-level management.

©≕ஈ Key Terms

- Management of work: Management translates work in terms of goals to be achieved and assigns the means to achieve it.
- Management of people: The task of management is to make people work towards achieving the organisational goals, by making their strengths effective and their weaknesses irrelevant.
- Management of operations: This requires a production process which entails the flow of input material and the technology for transforming this input into the desired output for consumption.



CHAPTER-6

PRINCIPLES OF MANAGEMENT

Topic-1

Principles of Management: Introduction

Concepts Covered • Concept of Principles of Management, • Nature, • Need/ Importance of Principles of Management.



Revision Notes

• Concept of Principles of Management

The principles of management are statements of fundamental truth which can be used by managers as guidelines for decision-making and action under different situations. Over the years, a number of management thinkers including Henry Fayol, F.W. Taylor and James D. Mooney have derived certain generalisations from their experience as managers. These generalisations were termed as principles of management.

• Nature of Principles of Management:

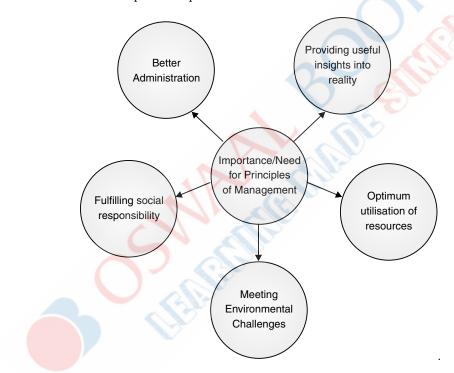
- (i) Universal application: The principles of management are universal in nature, which means they can be applied to all types of organisations irrespective of their size and nature. Their results may vary and application may be modified but these are suitable for all kinds of organisations.
- (ii) General guidelines: Management principles are not static or absolute statements. These cannot be applied blindly in all the situations. The applicability of management principles depends on conditions and nature of organisation. The manager must apply these principles according to the size and nature of organisation keeping in mind the requirements of the organisations.
 - Management principles give guidelines to solve the problems. These principles do not provide readymade solution for all the problems.
- (iii) Flexibility: The principles of management are relative and not absolute. They are dynamic, not static. These principles should be applied carefully according to the organisational needs and prevalent situations.
- (iv) Influence on Human Behaviour: The principles of management are meant for influencing human behaviour and getting higher performance from them. They guide them about how to respond to different situations.
- (v) Evolutionary/formed by practice and experiments: The management principles are developed only after deep and thorough research work. They are not developed overnight and they are not the personal feeling of any person. Proper observations and experiments are conducted before developing them. These are the expressions of deep experiences of leaders of management thoughts. Therefore, they are evolutionary in nature.
- **(vi) Contingent:** Management principles are contingent or dependent upon the situations prevailing in organisation. Their application and affect depends upon the nature of organisation. The application of principles has to be changed according to the nature, size and type of organisation.

• Need for Principles of Management

The need or significance of management principles arises because of the following reasons:

(i) Provides Useful Insights into Reality: The knowledge of management principles makes it easy to analyse the manager's job and define the scope of his duties. The nature of management can be clearly highlighted by properly understanding the principles. It is through the application of management principles that a manager can deal with complex business problems.

- (ii) Optimum Utilisation of Resources: The management principles insist on planned activities and systematic organisation of men and materials in the organisation. Principles are designed to get maximum benefits from the human efforts and other resources.
- (iii) Meeting Environmental Challenges: Every business operates in a dynamic environment. Changes in economic, social, political, technological and legal environment create challenges for the business. The managers can apply the management principles suitably to deal with different kinds of situations. They need to be flexible and careful in dealing with various environmental challenges.
- (iv) Fulfilling Social Responsibility: Management itself is a part of society and it takes inputs from the society and supplies output to the society. If the management is efficient, the resources of the society will be better utilised. Better products at lower prices will be made available to the society. This will improve the quality of life of the people. Management principles have an important role in developing efficient managers who will work for social objectives.
- **(v) Better Administration:** Proper understanding of the principles of management helps the managers in formulation of effective plans and policies.



Topic-2

Taylor's Scientific and Fayol's Principles of Management

<u>Concepts Covered</u> • Taylor's Principles of Scientific Management, • Fayol's principles of Management.



Revision Notes

• Taylor's Principles of Scientific Management

F.W. Taylor laid the foundations of management as a science consisting of fundamental principles. He was the expert to suggest the use of scientific methods. Therefore, Taylor is known as the "father of scientific management".

"Scientific management is the art of knowing exactly what you want your men to do and then seeing that they do it in the best and cheapest way".

—F.W Taylor

The basic principles of scientific management are as follows:

- (1) Science, not Rule of Thumb: This principle requires development and application of scientific methods. Taylor advocated that the traditional 'rule of thumb' methods should be replaced with the scientific methods.
- **(2) Harmony, not Discord:** There should be healthy cooperation between employer and employees. Taylor advocated a complete mental revolution on the part of both management and workers.
- **Maximum**, **not restricted output:** Conflict between management and workers should be avoided. Both have a common interest in increasing productivity.
- **(4) Division of Work and Responsibility:** Taylor suggested separation of planning from operational work. Management should concentrate on planning the job of workers and workers should concentrate on performance of work.
- (5) Scientific Selection, Training and Development of Workers: Workers should be selected and trained keeping in view the job requirements. Each and every worker should be encouraged to develop his full potential.

• Fayol's Principles of Management

Background and History of Fayol

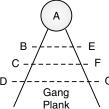
Henry Fayol was born in France in 1841. He got a degree in mining engineering in 1860 and started working as an engineer in a coal mining company. In 1888, he was promoted as the managing director of the company. At that time the company was in a situation of insolvency. He accepted the challenge and applied his managerial techniques to bring out the company from this situation and he succeeded. When he retired after 30 years the company was a leading coal-steel company with strong financial background.

Principles of Management Developed by Fayol

- (1) Division of Work: According to this principle the whole work must be divided into small units and instead of assigning the whole work to one person, one unit of work should be assigned to one person according to the capability, qualification and experience of the person.
- (2) Authority and Responsibility: Authority means power to take decision. Responsibility means obligation to complete the job assigned on time. According to this principle, authority without matching responsibility may bring negative results and excess of responsibility without matching authority will not allow the worker to complete his job on time. There is a need to bring parity between both for best results.
- (3) Discipline: Discipline refers to general rules and regulations for systematic working in an organisation. Discipline does not mean only rules and regulations but it also means developing commitment in the employees towards organisation as well as towards each other. *Fayol* insists that discipline is required at superior as well as subordinate level.
- (4) Unity of Command: According to this principle, an employee should receive orders from one boss only because if he is receiving orders from more than one boss then he will get confused and will not be able to understand that whose orders must be executed first.
- (5) Unity of direction: There should be one head and one plan for a group of activities having the same objective. In other words, each group of activities with the same objective must have one plan of action and must be under the control of one superior. Without unity of direction, unity of action and coordination of efforts are not possible.
- (6) Subordination of Individual Interest to General Interest: The business enterprise is superior to its individual employees. The interests of the business organisation must prevail upon the personal interests of the individuals. This principle calls for reconciliation of goals of individuals with those of the organisation.
- (7) **Remuneration of Persons:** According to this principle, employees in the organisation must be paid fairly or adequately to give them maximum satisfaction. The employees should be paid fair wages and salaries, which would give atleast a reasonable standard of living.
- (8) **Centralisation and Decentralisation:** Centralisation refers to concentration of authority of power in few hands at the top level. Decentralisation means even distribution of power at every level of management. According to *Fayol*, a company must not be completely centralised or completely decentralised but there must be combination of both depending upon the nature and size of the organisation.

(9) Principle of Scalar Chain: Scalar chain means line of authority of chain of superiors from highest to lowest rank. Fayol insists that this chain must be followed strictly in the organisation. Every information must pass through every key of this chain, no skipping of any one key should be allowed.

According to scalar chain principle if D wants to contact F, then he will have to move through D-C-B-A-E and F. If this chain is broken then there are chances of communication gap in the organisation. But sometimes following scalar chain becomes a long process and if some important information has to be passed, it gets delayed. So in case of emergency and urgent information, *Fayol* permitted a shortcut in the chain which is called "*Gang-Plank*". Gang-plank permits direct communication between the employees working at different positions without following the scalar chain. For example: C can communicate directly to F using a gang plank.



- (10) Order: There must be material and social order in an enterprise. Material order implies "a proper place for everything and everything in its right place." Similarly, social order means "a place for everyone and everyone in his appointed place". The right man in the right job is very important for the successful functioning of an organisation.
- (11) Principle of Equity: Equity refers to kind, fair and just treatment of employees. Employees will put their maximum efforts only when they are treated with kindness and justice. If a manager is biased in dealing with employees, then employees will get dissatisfied and will not contribute to their maximum capacity.
- (12) Stability of tenure: Reasonable security of service should be provided to all employees. Stability of tenure helps to develop loyalty and attachment on the part of employees.
- (13) Initiative: Employees at all levels should be encouraged to think out of the box and execute the assigned tasks in a better way. Initiative is source of strength for an organisation. Therefore, subordinates should be inspired to suggest improvements in the formulation and implementation of plans.
- (14) Esprit de Corps: Management must encourage and promote team spirit, unity and harmony. This will bring coordination in organisation. A manager should replace "I" with "We". This will give rise to mutual trust and belongingness among team members. It will minimise the need for using penalties.

©≕ Key Terms

- **Mental Revolution:** Change in the attitude of workers and management towards one another from competition to cooperation. It means that management and workers should transform their thinking.
- Foremanship: Position or office of being a foreman or supervisor.
- **Standardisation:** It refers to the process of setting standards for every business activity; it can be standardisation of process, raw material, time, product, machinery, methods or working conditions.

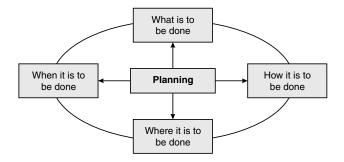
CHAPTER-7

PLANNING



Revision Notes

• **Planning:** It means setting objectives and formulating an action plan to achieve them. It includes deciding in advance-what to do, how to do and who is to do it.

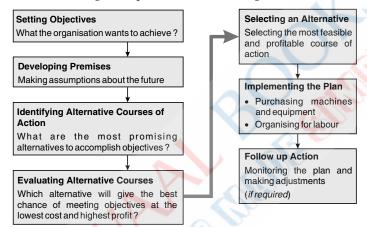


Meaning of Planning:

According to M.E. Hurely, "Planning is deciding in advance what is to be done". It involves the selection of objectives, policies, procedures and programmes.

• Steps in Planning Process

Planning process involves certain logical steps as shown in the diagram:



• Process of Planning:

- (i) Setting objectives: Objectives are set for the entire organisation and its each department.
- (ii) Developing premises: Assumptions about future events are established.
- (iii) Identifying alternative courses of action: All the alternative courses of action are identified.
- (iv) Evaluating alternative courses: The positive and negative aspect of each alternative is evaluated.
- (v) Selecting an alternative: The most feasible, profitable and with least negative consequences alternative is selected as plan.
- (vi) Implementing the plan: The selected plan is put into the action.

Features of Planning

- (i) Planning focuses on achieving objectives: It defines objectives and prepares action plan to achieve them.
- (ii) Planing is primary function of management: It lays down the basis for all other functions of management.
- (iii) Planning is pervasive: It is required in all organisations, at all levels and in all departments.
- (iv) Planning is continuous: Once a plan is framed and implemented, it is followed by another plan and so on.
- (v) Planning is futuristic: It involves looking ahead and preparation for the future.

Importance of Planning

- (i) **Provides directions:** By stating in advance how the work is to be done.
- (ii) Reduces the risks of uncertainty: By looking ahead, anticipating changes and developing managerial responses to them.
- (iii) Reduces overlapping and wasteful activities: By coordinating the activities and efforts of different divisions, departments and individuals.
- **(iv) Promotes innovative ideas:** By intelligent application of mind and imagination and farsightedness to make a concrete plan.
- (v) Facilitates decision making: By making a choice amongst the alternative courses of action.
- (vi) Establishes standards for controlling: Against which actual performance is measured.

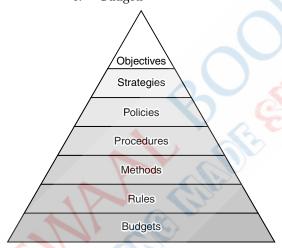
• Limitations of Planning

- (i) Leads to rigidity: Once a plan is drawn, the managers may not be in a position to change it.
- (ii) May not work in a dynamic environment: It is difficult to assess future trends accurately, which is essential for effective planning.
- (iii) Reduces creativity: Middle level and lower level managers have to just implement the plans framed by top management without any deviations.
- (iv) Involves huge costs: Cost is incurred on discussion with professional experts for preliminary investigation, etc.
- (v) Time-consuming: A lot of time is consumed in the collection and analysis of data, choice of alternative, etc.
- (vi) Planning does not guarantee success: Previous successful plans may not work again in the future. It is not a solution to all the problems.

• Different types of plans are as follows:

- 1. Objectives
- 2. Strategy
- 3. Policies
- 4. Procedures

- 5. Methods
- 6. Rules
- 7. Programmes
- 8. Budgets



1. Objectives

Objectives are the ends towards which the activities are directed. They are the end result of every activity.

Features:

- 1. End result of activities.
- 2. Measurable in quantitative terms.
- 3. Can be for the long-term or short-term.
- 4. Represent the end point of planning.
- 5. To be achieved within a given time period.

2. Strategy

A strategy is a comprehensive plan to achieve the organisational objectives.

The dimensions of strategy are:

- (a) Determining long-term objectives.
- **(b)** Adopting a particular course of action.
- (c) Allocating resources for achieving the objectives.

Features:

- 1. Provides the broad contours of an organisation's business.
- 2. Future decisions defining the organisations direction and scope in the long-run.
- 3. Consistent and directs future goals.

3. Policies

Policies are the guiding principles which govern action usually of routine and repetitive nature. They are general statements which guide thinking and action of the organisational members.

Features:

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- 1. Design to implement the strategy.
- 2. Instructions and guidelines to be followed.
- 3. Based on objectives.

4. Procedures

Procedures are required steps established in advance to handle future conditions. The sequence of steps to be followed by employees in different situations must be predetermined so that everyone follows same steps. The procedure can be defined as the exact manner in which an activity is to be accomplished.

Features:

- 1. Series of the tasks to carry different activities of a department.
- 2. Goal oriented
- 3. Chronological order

5. Methods

Methods can be defined as formalised or systematic way of doing routine or repetitive jobs. The managers decide in advance the common way of doing a job.

Features:

- 1. Provides the prescribed ways or manner in which a task has to be performed.
- 2. Considers the objective.
- 3. May vary from task to task.

6. Rules

Rules are specific regulations which must be followed by the employees in an organisation. Rules serve as boundaries of behaviour. They are specific statements telling the employees what must or must not be done.

Features:

- 1. Specific statements that inform what is to be done.
- 2. Don't allow any flexibility or discretion.
- 3. Involve punishment for non -compliance.
- 4. Code of conduct.
- 5. No compromise or change unless a policy decision is taken.

7. Program

A Programme is a concrete scheme of action worked out by the management to accomplish certain objectives. A programme is action based and result oriented. It provides practical guidelines to managerial activities.

Features:

- 1. Enhances systematic working.
- 2. Designed for the definite objective.
- 3. Designed for effective use of resources

8. Budgets

A budget is a single-use plan since it is prepared for a particular period of time. A budget is a statement of expected results expressed in quantitative terms. Since it is a statement of expected results, it is also used as an instrument of managerial control.

Features:

- 1. Statement of expected results expressed in numerical terms.
- 2. Quantifies future facts and figures.
- 3. Acts as a a control device.
- 4. A fundamental planning instrument.

©=₩ Key Terms

- **Premises:** Something which is supposed or assumed.
- Dynamic: Continuously changing or developing.

CHAPTER-8

ORGANISING

Topic-1

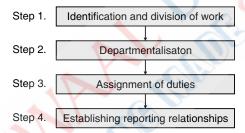
Organising: Introduction, Process and Structures of Organisation

Concepts Covered • Meaning, Process, Importance, Structure of organisation (Functional and divisional; • Formal and informal organization).



Revision Notes

- Meaning of organising: Organising is an important function of management concerned with bringing together various resources and establishing relationships among them for the accomplishment of specific objectives. According to Theo Haimman, "Organising is the process of defining and grouping the activities of the enterprise and establishing a relationship with them."
- Steps in the process of organising.
 Organising Process:



- (i) Identification and Division of Work: The first step in the process of organising involves identifying and dividing the total work to be done into small and manageable activities (called jobs) so that duplication of efforts and resources can be avoided and the burden of work can be shared among the employees.
- (ii) Departmentalisation: The second step in organising is grouping similar / related jobs into larger units called departments or divisions. This grouping process is called 'Departmentalisation'.
- (iii) Assignment of Duties: Once departments have been formed, it is necessary to allocate work/jobs to the members of each department in accordance with their skills and competencies. In other words, the work must be assigned to those who are best fitted to perform it well. It is essential for effective performance.
- **(iv)** Establishing Reporting Relationships: Merely allocating work is not enough. Authority-responsibility relationship is established so that each individual may know from whom he/she has to take orders and to whom he/she is accountable.

• Importance of Organising

In order to perform tasks and meet goals successfully, a business enterprise must perform organising function properly. The following points highlight the crucial role that organising plays in any business enterprise:

- (i) Benefits of specialisation: Organising leads to systematic allocation of jobs amongst the workers in accordance with their skills and competencies. A worker performs a specific job on a regular basis, which allows him / her to gain experience in that area. This reduces the workload, enhances productivity and leads to specialisation.
- (ii) Effective administration: Organising clarifies jobs / duties and authority-responsibility relationships. This helps to avoid confusion and duplication and enables proper execution of work. Managing the enterprise becomes easy and this brings effectiveness in administration.
- (iii) Expansion and growth: Organising helps in the expansion and growth of an enterprise. It allows a business enterprise to add more job positions, departments and even diversity in its product lines. This helps to increase customer base, sales and profit.
- (iv) Clarity in working relationships: The establishment of working relationships under 'organising' clarifies lines of communication, and specifies who is to report to whom. This helps in fixation of responsibility and removes ambiguity in transfer of information and instructions.

- (v) Optimum utilisation of resources: The proper assignment of jobs avoids overlapping/duplication of work, which helps in avoiding confusion and minimising the wastage of resources and efforts. Thus, organising leads to the best possible use of all material, financial and human resources.
- **Structure of organisation:** The various types of organisational structures are:
- Functional Structure: Functional structure is the type of organisation structure formed by grouping the jobs of similar nature under major functions and organising them as separate departments. Functional departments are the most widely used basis for organising activities. It is found in almost every enterprise at some level in the organisation structure as it leads to better planning and control of the functions on which the survival and growth of the enterprise depend. It facilitates the performance of various functions.

Merits of Functional structure

- (i) Specialisation: Functional structure leads to functional and operational specialisation as emphasis is placed on specific functions which leads to better utilisation of manpower.
- (ii) Better control and coordination: It leads to better control and coordination as the employees perform similar
- (ii) Efficiency: Functional structure enhances the efficiency which increases the profits of the firm.
- (iv) Economical: There is minimum duplication of efforts which leads to lower costs.
- (v) Ease of supervision: All the functions like production, finance etc. get due attention. **Demerits of functional structure**
- (i) Lack of coordination: The information has to exchanged across functionally differentiated departments whihe creates problem in coordination.
- (ii) Conflicts: If the interests of different departments are not compatible, there can be conflicts between them.
- (iii) Difficulty in fixing responsibility: It becomes difficult to hold a particular department responsible for any problems.
- (iv) Inflexibility: Employees are trained in a single function only so they cannot be shifted to other departments.
- (v) De-emphasis on organisational objectives: More emphasis is given on departmental objectives rather than the overall organisational objectives.



• **Divisional structure:** Under the divisional structure, the activities of the organisation are divided into a number of divisions/units which are coordinated by the central head quarter. This structure is most suitable for big firms dealing in multiple products and operating in different geographical regions.

Merits of divisional structure:

- (i) Specialised products: The divisional head gains experience in all functions related to a particular product.
- (ii) Greater accountability: Each product department is treated as a profit centre and is accountable for its own profits and losses. This enables fixing responsibility in case of poor performance.
- (iii) Flexibility and initiative: Each division functions as an independent unit which leads to faster decision making.
- (iv) Expansion and growth: New divisions can be easily added without disturbing the existing operations.

Demerits of divisional structure:

- (i) Conflicts: There may be conflicts between different departments with reference to allocation of funds.
- (ii) Expensive: There is duplication of resources in various departments which increases the costs.
- (iii) Ignorance of organisational interests: Managers pay more focus on their product while ignoring the goals of the organisation.
- (iv) Misuse of authority: Greater autonomy to divisional heads may lead to misuse of authority.
 - Formal organisation: Formal organisation refers to the organisation structure which is designed by the management to achieve organisational goals. It specifies clearly the authority-responsibility relationship among various jobs positions.
 - According to Louis Allen: "The formal organisation is a system of well-defined jobs, each bearing a definite measure of authority-responsibility and accountability"
 - **Informal organisation:** Informal organisation is that type of organisation which is created when people working together in the formal organisation interact or communicate with each other during the work. It is based on personal attitudes, sentiments, emotions, likes and dislikes.
 - According to Keith Dawis: Informal organisations is a network of personal and social relations not established by the formal organisation but arising spontaneously as people associate with one another.



Key Terms

- **Organising:** Management function which is concerned with bringing together various resources and establishing relationship among them.
- Line organisation: A Direct chain of command through which authority flows from top to bottom.
- Line and staff organisation: Organisation which is having the features of both line and functional organisation. Staff experts are employed to suggest the line officers about work.
- Functional organisation: Under this organisation each major function is organised as a separate department.
- **Divisional Structure:** Under this activities of the organisation are divided into a number of divisions.
- Formal organisation: Organisation structure in which authority-responsibility relationship among various jobs positions are clearly specified.

Topic-2

Delegation and Decentralisation of Authority

Concepts Covered • Delegation of authority: meaning and importance. • Centralization and decentralization: Merits and Demerits.



Revision Notes

- Delegation of Authority is the most important function of management. It involves granting authority to subordinate so that they can perform the assigned duties. In other words, delegation is the process to get the results through others.
- According to Haimann, "Delegation of authority merely means granting of authority to subordinates to operate within prescribed limits."
- **Importance of Delegation:** The importance of delegation is as follows:
 - (i) Effective Management: Delegation lightens the burden of the top executives. It enables them to assign the routine activities to the subordinates and concentrate on vital functions like planning, decision-making and control. Thus, a manager can increase his effectiveness by using the skills of subordinates through delegation of authority.
 - (ii) Basis of management hierarchy: Delegation of authority establishes superior-subordinate relationships, which are the basis of the hierarchy of manager. Everyone knows who has to report to whom.
 - (iii) **Development of Subordinates:** Delegation of authority allows the subordinates to take decisions independently and learn new skills. Thus, it is a technique for developing managers for the future.
 - **(iv) Motivation of Subordinates:** Some employees like to have more responsibility as it will satisfy their ego. Such employees feel motivated when they have delegated authority. They get higher job satisfaction. They produce better performance as a result of trust reposed by the superior in them.

Decentralisation

Concept by Decentralisation: Decentralisation refers to systematic delegation of authority at all the levels of management and in all departments of the organisation.

According to Louis Allen: Decentralisation refers to systematic efforts to delegate to the lowest level, all authorities except which can be exercised at central points.

• **Centralisation:** It refers to retention of power or authority in a few hands *i.e.*, management in other words. An organisation is centralised when the decision making authority is in the hands of top level.

Difference Between Centralisation and Decentralisation:

S. No.	Centralisation	Decentralisation
(i)	Centralisation of authority refers to systematic and consistent retention of authority for decision making at top level management.	Decentralisation means systematic dispersal of authority in all departments and all levels of management for taking decisions.
(ii)		The top management retains only authority for overall coordination and control of the organisation. Other works authority are delegated.

(iii) Centralisation of authority at the top level of management.

Decentralisation of authority takes place at the middle and lower of management.



- **Delegation of authority:** It is the process of granting of authority to subordinate for better work.
- Centralisation: Concentration of power or authority in top management hand.
- **Decentralisation:** Systematic disposal of authority in all departments and all levels of management to take decisions.

CHAPTER-9 STAFFING

Topic-1

Staffing: Introduction, Recruitment and Selection

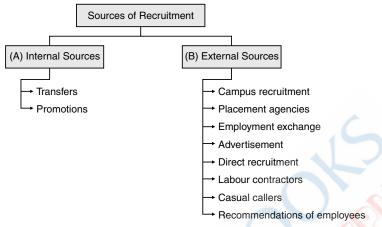
<u>Concepts Covered</u> • Meaning, Steps and Importance of staffing, • Recruitment—Meaning and Sources, • Selection-Meaning and Procedure, • Difference between recruitment and selection



Revision Notes

- Staffing: Staffing function of management simply means putting the right people at the right jobs. It is the managerial function of filling and keeping filled job positions in the organisation's structure.
- According to French Wendel: "Staffing is the recruitment, selection, development, utilisation, compensation and motivation of human resource of the organisation."
- Steps involved in the Staffing process: Following are the steps in the process of staffing:
 - (i) **Estimating manpower requirement:** Staffing process starts with the estimation of manpower requirement which means finding out the number and type of employees needed by the organisation in the near future.
 - (ii) Recruitment: It means inducing people to apply for the job in the organisation. Recruitment of staff can be within the organisation as well as from outside.
 - (iii) Selection: It refers to choosing the most suitable candidates to fill the vacant job position. This process includes tests, interviews, etc.
 - (iv) Placement: It means putting the selected candidates in the right jobs. In this appropriate job is assigned to all selected people. After this selected candidate joins the organisation.
 - **(v) Orientation:** It refers to introduction of new employees to the existing employees, jobs, working groups and the organisation so that they may feel at home in the new environment.
 - (vi) Training and Development: In order to improve the competence of employees it is necessary to provide training and development opportunities to employees. It improves the efficiency of work also.
- Importance of Staffing: Staffing function is important due to following reasons:
 - (i) Obtaining competent personnel: Proper staffing helps in discovering and obtaining competent personnel for various jobs.
 - (ii) Higher performance: Proper staffing ensures higher performance by putting right person on the right job.
 - (iii) Continuous growth: Proper staffing ensures continuous survival and growth of the enterprise through succession planning for managers.
 - **(iv) Optimum utilisation of human resources:** Proper staffing helps to ensure optimum utilisation of human resources. By avoiding over-staffing, it prevents under utilisation of personnel and high labour costs. At the same time, it avoids disruption of work by indicating in advance the shortage of personnel.
 - (v) Key to effectiveness for other functions: Staffing is a key to effectiveness for other functions as no other function can be carried out without staffing.

- Recruitment: Recruitment is the process of searching for prospective employees and stimulating them to apply
 for jobs in the organisation.
 - The main objective of recruitment is to create a pool of the prospective job candidates. The higher the number of people who apply for a job, the higher will be the possibility of getting a suitable employee.
- Sources of Recruitment: There are two categories of recruitment (i) internal sources. (ii) external sources.



- (A) Internal source: It includes the following:
 - (i) Transfers: It means shifting employees from one job position to other at the same level of authority.
 - (ii) **Promotion:** Promotion is the process of shifting of employees from one job position to other with higher level of authority.
- (B) External sources of recruitment includes the following:
 - (i) Campus recruitment: Technical, professional and managerial candidates are hired from colleges and Institutes of Management and Technology. Companies conduct interviews in educational institutes to shortlist suitable candidates.
 - (ii) Placement Agencies: Placement agencies provide nationwide service of matching demand and supply of workforce. These agencies unite the bio data and record them from various job seekers and send them to suitable clients.
 - (iii) Employment exchange: The employment exchange throughout the country register the names, addresses and other particulars of job seekers. When employees notify job vacancies to these exchanges, they refer the names of suitable candidates. Employment exchanges are a good source of recruitment.
 - (iv) Advertisement: A new trend of external recruitment is advertisement regarding vacant job position. They telecast the requirement of the job along with qualification necessary to apply.
 - (v) Direct Recruitment: Under this, a notice of vacancies is put on the factory notice board specifying the details of the job. People read it and assemble on the gate at the specific date and time for recruitment.
 - (vi) Labour contractors: Labour contractors is also a part of external recruitment. Under this contractors provide labour for different work. They also bring workers to the place of work. Contractors do this work for some commission.
 - (vii) Causal callers: Generally, the big organisations maintain an application file in which they keep all pending applications. Whenever there is a job vacancy, the suitable candidates from the list are called.
 - **(viii) Recommendations of employees:** Many firms encourage their employees to recommend the name of their relatives, friends and other known people to fill the vacant job positions.
 - Selection: Selection can be defined as discovering most promising and most suitable candidate to fill up the vacant job position in the organisation. Under it the qualification, experience and background of applicants are evaluated for the job requirement.
 - **Selection Procedure:** The procedure of selection is as follows:
 - (1) **Preliminary Screening:** Preliminary screening helps the manager to eliminate unqualified and unfit job seekers. The application form gives an idea about the education, experience, training etc. of the candidate. Based on the information provided, the unsuitable candidates are eliminated right at the beginning.
 - (2) **Application Blank:** A Blank Application Form or Application Blank is an important weeding out device in the selection procedure. In preliminary interview, the successful candidates are supplied the application blank to get a written record of the following informations:
 - (i) **Identifying Personal Information:** These include family background, date and place of birth, age, sex, height, citizenship, marital status, etc.

- (ii) Information regarding Education: It includes information about the applicant's academic career *i.e.*, subjects taken at various schools, certificates and degrees, levels, grades, divisions or places awarded in school and college, technical qualifications, etc.
- (iii) Information regarding Experience: This includes full details of past jobs such as nature of work, job responsibilities, periods involved, designation, salaries drawn with allowances, reasons for leaving the present assignment, etc.
- (iv) Expected salary and allowances: These also include other fringe benefits and perks.
- **(v) Information regarding Community Activities:** This consists of details regarding extra-curricular activities, hobbies, position held in social organisations such as clubs, management associations, etc.
- (vi) Other information: These may be collected by the management such as references, etc.

 The above information helps the management in screening out undesirable applicants and in maintaining the record for the future. The form of Application Blank may differ from organisation to organisation and job to job.
- (3) Employment Tests: Psychological and other tests are becoming increasingly popular as a part of the selection process even in India. The personnel department may guide and help in the selection of types of tests appropriate for a particular position. There are two types of such tests:
 - (i) Trade Tests: Technical jobs requires trade tests for example in recruitment of a stenographer in an office, a test can be taken to check his speed in dictation and typing. This test assesses the capabilities of the candidates for the type of job offered to them.
 - (ii) Psychological Tests: The industrial psychologists have devised certain tests to assist the management in evaluating the performance of different candidates.

• Some of the psychological tests are:

- (a) Aptitude Tests: These are designed to measure the aptitude of applicants and their capacity to learn the skills required for a particular job. These are more useful for clerical and trade positions.
- (b) Intelligence Tests: There are various verbal and non-verbal intelligence tests. These aim at testing the mental capacity of a person with respect to various aspects. They measure the individual learning ability to grasp or understand instructions and his ability to reason and make judgement.
- (c) Interest Tests: These determine the preference of the applicants for occupations of different kinds.
- (d) Knowledge Tests: Knowledge tests measure the depth of the knowledge and proficiency in certain skills already achieved by the applicant such as engineering, accountancy, etc.
- **(e) Projective Tests:** In projective techniques, the applicant projects his personality into free responses about the picture shown to him which are ambiguous. These show many individual traits.
- **(f) Personality Tests:** These tests determine the personality characteristics of the candidate such as cooperation as against dominance or to judge the emotional balance and temperamental qualities of a person.
- (g) Judgement Tests: These are used to discover the ability to use the different parts of the body in a coordinated manner. They are useful in identifying accident-prone candidates for certain manufacturing jobs.
- **(4) Employment Interview:** The most complex and difficult part of the selection process is the interview whose purpose is to determine the suitability of the applicant for the job and of the job-for the applicant. It is a formal, in-depth interview
- (5) **Reference Check:** Employers generally provide a column in the Application Blank for reference. If the applicant passes through all the above steps, an investigation may be made on the references supplied by the applicant regarding his past employment, education, character, personal reputation, etc. Reference may be called upon by telephone or may be contacted through mail or personal visit to provide additional information regarding the candidate.
- (6) Medical Examination: In almost all the companies, in India and abroad, medical examination is a part of selection process for all suitable applicants. It is conducted after the final decision has been made to select the candidate. Companies either appoint their own doctors for medical check-up or accept a medical certificate from some certified physician.
- (7) **Final Selection:** If a candidate successfully crosses all the above tests, he would be declared selected. An appointment letter will be given to him mentioning the terms of employment including the joining date, terms and conditions of the job, salary etc.

• Difference between Recruitment and Selection:

Sr. No.	Basis	Recruitment	Selection
1.	Nature	Recruitment is a positive process because it aims at attracting number of candidates to apply for the given job.	9 1
2.	Purpose	To attract more and more candidates for the vacant job.	To select the most suitable person out of the candidates who have applied for the job.
3.	Sequence	It take place before the selection.	It is done after the recruitment.

©≕ஈ Key Terms

- **Human Resource Management:** It involves procuring, developing, maintaining and appraising a competent workforce to achieve goals efficiently and effectively.
- Workload Analysis: Assessment of the number and types of human resources necessary.
- Workforce Analysis: Assessment to reveal the number and type of human resources available.
- **Orientation:** Introducing the selected employee to other employees and familiarizing him with the rules and policies of the organization.
- Placement: Employee occupying the position or post for which the person has been selected.
- **Performance Appraisal:** Evaluating an employee's current and/or past performance as against certain predetermined standards.

Topic-2

Staffing: Training and Development

Concepts Covered • Training: Meaning and types of Training; training and development.



Revision Notes

- **Training:** Training is a process of increasing knowledge and skills of the employees so that they can perform the job in the expected manner.
- Types of training

The methods of training can be classified into two broad categories:

- (a) On-the-job training
- (b) Off-the-job training

On-the-job training

(i) Apprenticeship Training

Under this training, the trainee is put under the guidance of a skilled worker. It is designed to acquire higher level of skills for people who want to enter into skilled trade like plumbers, electricians, carpenters etc.

(ii) Internship training

In such training, the educational institutes and business enterprises collaborate. The students are sent to the jobs for 6 months to 1 year to apply the theoretical knowledge into practice. It is popular in medical, accountancy, law etc.

Off-the job training

(i) Vestibule training

In this training method, a replica of the actual working condition is made to train the employees. A duplicate model of the workshop is prepared similar to the real work place.

• Difference between Training and Development

Sr. No.	Basis	Training	Development
1.	Purpose	It aims to make the employees proficient in their job roles.	It aims at overall growth of the employees so as to prepare them for the higher roles.
2.	Orientation	It is job-oriented.	It is career-oriented.
3.	Trainees involved	Mainly for non-managerial purpose like the operative employees.	Mainly for middle and top level management.
4.	Methods used	Apprenticeship, induction, internship etc.	Conferences, films, case-study, vestibule training etc.

Key Terms

- On-the-job training: Training methods that are applied to the workplace, while the employee is actually working.
- Off-the-Job training: Training methods that are used away from the workplace.

CHAPTER-10

DIRECTING

Topic-1

Directing: Introduction and Supervision as an element

Concepts Covered • Meaning and importance; Supervision: Meaning, functions and span of control.



Revision Notes

• Meaning of Directing:

Topic 1:

Concepts Covered -

In the ordinary sense, directing means giving instructions and guiding people in doing work but in management, directing refers to the process of instructing, guiding, motivating and leading people.

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

• Features of Directing:

- (i) Management Function: Directing is an important function of management. It is through directing that management initiates action in the organisation.
- (ii) Continuous: Directing is a continuous process. It does not simply mean issuing an order. A manager must continuously guide, inspire communicate and supervise to get things done.
- (iii) Pervasive: Directing is pervasive as it is performed at all the levels of management. It flows from top to bottom.

- **(iv) Human Element:** Directing function plays a very important role in moulding of human behaviour. It is interpersonal and establishes intergroup relationship.
- **(v) Performance Oriented:** Directing is a performance-oriented function. The main motive of directing is to bring efficiency in performance.

• Importance of Directing

'Directing is the heart of management.'

- The importance of directing in the organisation can be understood by the following points:
- (i) Directing helps to initiate action by the people in the organisation towards attainment of desired objectives. For example, if a supervisor guides his/her subordinates and clarifies their doubts about performing a task, it will help them to achieve work targets given to them.
- (ii) Directing integrates employees' efforts in the organisation in such a way that every individual effort contributes to the achievement of organisational goals.

 In an organisation, performance of each individual affects the performance of others. So there is a need to

integrate their efforts, otherwise they may work for cross-purposes. Directing ensures that the individuals work for organisational goals.

- (iii) Directing helps to bring stability and balance in the organisation: Effective directing helps to bring stability in the organisation since it fosters cooperation and commitment among the people by giving them suitable rewards and positive encouragement and praise for good performance.
- **(iv) To Facilitate change:** Generally, the employees hesitate in accepting the changes but through directing function the changes can be implemented in a easier way. Superior tells the subordinate that the changes are better for them also.
- Elements of Directing: Directing functions of management includes the following elements: (1) Supervision (2) Motivation (3) Leadership (4) Communication.
- Supervision: Supervision means overseeing the work of the employees and giving them instructions to ensure
 optimum utilisation of resources and achieving the targets efficiently and effectively.
- According to Viteles: "Supervision refers to the direct and immediate guidance and control of subordinates in the
 performance of their task."
- **Functions of Supervision:** The various functions of a supervisor are as follows:
 - (i) Scheduling the work: A supervisor prepares plans and schedules for a smooth and even flow of work. Scheduling involves laying down the time for different activities.
 - (ii) Issue orders and instructions: Orders and instructions are given by the supervisor to subordinates about how to do work and orders to start or stop the work.
 - (iii) Handling grievances: The supervisor handles all the work grievances of subordinates and takes all possible steps to remove them.
 - (iv) Motivating workers: The supervisor motivates his/ her subordinates by providing proper financial and non financial incentives such as appreciation and recognition of work done.
 - (v) Monitoring performance: The supervisor monitors the performance of subordinates. He/she keeps a track of the actual performance to ensure quantity and quality of work.
 - (vi) Reporting/Feedback: The supervisor prepares and submits a report to the higher authorities. These reports relate to the progress of work. Regular reports on performance may also be used as feedback to motivate workers for hard work.
- Span of control / Span of Supervision: Span of supervision refers to the optimum number of subordinates that
 a manager or supervisor can manage or control effectively. To "Span of control means the number of people
 reporting directly to an authority.
- Factors influencing the Span of Supervision
 - (i) The capacity and ability of the executive: A person having better abilities can manage effectively a large number of subordinates as compared to the one who has lesser capabilities.
 - (ii) Competence and training subordinates: Subordinates who are skilled, efficient, knowledgeable, trained and competent require less supervision and therefore, the supervisor may have a wider span in such cases.
 - (iii) Nature of work: The work involving routine, repetitive, unskilled and standardised operations will not call for much attention and time on the part of the supervisor. As such, the supervisors at the lower level of organisations can supervise the work of a large number of subordinates. On the other hand, at higher levels of management, the work involves complex and a variety of jobs and as such the number of subordinates that can be effectively managed should be limited to a lesser number.
 - **(iv) Time available for supervision:** The capacity of a person to supervise and control a large number of persons is also limited on account of time available at his disposal to supervise them. The span of control would

- be generally narrow at the higher levels of management. At lower levels of management, this span would obviously be wide because they have to devote lesser time on such activities.
- (v) Degree of Decentralisation and Extent of Delegation: If a manager clearly delegates authority to undertake a well- defined task, a well trained subordinate can do it with a minimum amount of supervisor's time and attention. There the span would be wide.
- (vi) Effectiveness of Communication System: Faulty communication puts a heavy burden on manager's time and reduces the span of control. On the other hand, if the system of communication is effective, large number of managerial levels will be preferred as the information can be transmitted easily. Further, a wide span is possible if a manager can communicate effectively.
- (vii) Quality of Planning: If plans and policies are clear and easily understandable, the task of supervision becomes easier and the span of management can be wider. Effective planning helps to reduce frequent calls on the superior for explanation, instructions and guidance. Ineffective plans, on the other hand, impose limits on the span of management

Topic-2

Directing: Motivation and Leadership

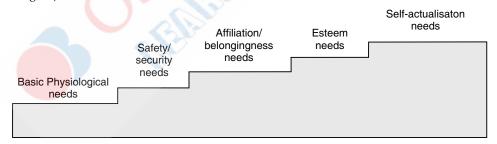
Concepts Covered • Motivation - Meaning and Maslow's theory; Leadership - Meaning and qualities of a good leader.



Revision Notes

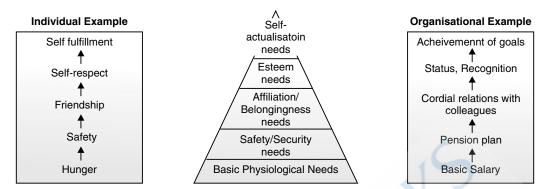
- Motivation: Motivation is the process of inspiring employees to work hard to achieve the desired goals of the
 organisation. It involves arousing the needs and desires in people so as to initiate and direct their behaviours in a
 purposeful manner.
- According to William Scott: Motivation means a process of stimulating people to action to accomplish desired
 goals.
 - According to Viteles "Motivation represents an unsatisfied need which creates a state of tension or disequilibrium, causing the individual to make it a goal directed pattern towards restoring a state of equilibrium by satisfying the need."
- Maslow's Need Hierarchy Theory of Motivation:

The famous psychologist **Abraham Maslow** propounded 'Need hierarchy theory of motivation'. His theory was based on human needs. Maslow felt that within every human being, there exists a hierarchy of five needs (as shown in figure):



- (i) Basic Physiological Needs: These needs are related to the survival and maintenance of human life. Hunger, thirst, shelter and sleep are some examples of these needs at the individual level.
 - In the organisational context, basic salary helps to satisfy these needs.
- (ii) **Safety/Security Needs:** These needs provide security and protection from physical and emotional harm, *e.g.*, protection against dangers, safety of property, etc.
 - In the organisational context, stability of income, pension plans, etc., help to satisfy these needs.
- (iii) Social/Affiliation/Belongingness Needs: These needs include affection, acceptance and friendship. In the organisational context, belongingness, cordial relations with colleagues, etc., help to satisfy these needs.
- (iv) Esteem Needs: Esteem needs refer to those needs, satisfaction of which leads to self-confidence, prestige and self-respect.
 - In the organisational context, autonomy, status, recognition, etc., help to satisfy these needs.

(v) Self-Actualisation Needs: These are the needs of the highest order. They are concerned with becoming what a person is capable of becoming. These needs include growth and self-fulfillment.
In the organisational context, these needs are fulfilled by achievement of goals.



- Leadership: Leadership is a process of influencing the behaviour of people at work towards the achievement of
 specified goals. Leadership indicates the ability of a manager to maintain good interpersonal relations with his
 subordinate and motivate them to contribute towards achievement of organisational objectives.
- According to George R. Terry: Leadership is the activity of influencing people to strive willingly for mutual objectives.
- Qualities of a good leader:
 - (i) Intelligence: A leader should be intelligent enough to understand the problems in the right perspective. Only a knowledgeable and competent person can instruct subordinates correctly.
 - (ii) Sound physique: A good leader must have good health and physical fitness. He/she requires tremendous stamina for hard work.
 - (iii) Integrity: A leader should be honest and sincere. He/she should be a role model to others in terms of ethics and values.
 - (iv) Sense of Responsibility: A good leader should have a sense of responsibility so that subordinates can depend on him/her.
 - (v) Communication Skills: In order to be a good leader, good communication skills are a must. Communication skills enables the leader to understand the followers and motivate them.
 - (vi) Social Skills: A good leader must be able to win the confidence and loyalty of people. He/she should have capacity to create team spirit among this followers.
 - (vii) Vision and foresight: A good leader needs vision and foresight skills to take right decisions at the right time.
 - (viii)Self confidence and will power: A good leader should have self confidence and strong will power to complete the task and to influence his/her followers.

©≕ Key Terms

- Motivation: Incitement or inducement to act or move.
- Positive motivation: Positive rewards like increase in pay, promotion, recognition.
- Negative motivation: Use of negative means like punishment, stopping increments, threatening.
- Incentives: All measures which are used to motivate people to improve performance.

Topic-3

Directing: Communication

Concepts Covered • Meaning, objectives and process. Barriers to communication and overcoming barriers to communication.

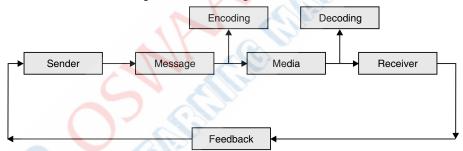


Revision Notes

- Communication: Communication can be defined as transmission or exchange of ideas, views, message, information between two or more persons by different means.
- According to Keith Davis: "Communication is the process of passing information and understanding from one person to another".
- Objectives of Communication:
 - 1. **Information Sharing:** Communication aims to transmit information accurately and efficiently, ensuring that individuals or groups receive the necessary details to make informed decisions or take appropriate actions.
 - 2. Understanding and Clarity: Effective communication seeks to achieve clarity and mutual understanding among the parties involved, minimizing misunderstandings and confusion.
 - Persuasion and Influence: Communication can be used to persuade and influence others, shaping opinions, attitudes, and behaviors.
 - **4. Relationship Building:** Communication fosters connections and relationships by promoting open dialogue, active listening, and empathy.
 - **5. Coordination and Collaboration:** Communication facilitates coordination and collaboration among individuals or teams, enabling effective teamwork and achieving common goals.
- Elements of Communication Process:

Communication is the process of exchange of information between two or more persons to reach common understanding.

• The process of communication is represented in the figure below:



- The elements involved in communication process are explained below:
 - (1) Sender: Sender means the person who conveys his/her thoughts or ideas to the receiver.
 - (2) Message: It is the content of ideas, feelings, suggestions, order, etc., intended to be communicated.
 - (3) Encoding: It is the process of converting the message into communication symbols such as words, pictures, gestures, etc.
 - (4) Media: It is the path/channel through which encoded message is transmitted to the receiver, e.g., face to face, phone call, internet, etc.
 - (5) **Decoding:** It is the process of converting encoded symbols of the sender.
 - (6) Receiver: The person who receives communication of the sender.
 - (7) **Feedback:** It includes all those actions of receiver indicating that he/she has received and understood the message of sender.

• Barriers to Communication:

Communication is essential for effective management. But there are certain barriers which hinders the process of communication. These barriers are as follow:

- (i) Personal Barriers: They arise from judgement, emotions and social values of people causing psychological distance between people similar to physical distance. People sometimes are guided by their attitudes and prejudices while interpreting words. Psychological distance may entirely prevent the communication to filter out or simply cause interruption.
- (ii) Status Relationships: In the formal organisation structure, superior subordinate relationship may cause obstacle to clear understanding. A manager may not communicate to his/her subordinates his/her weaknesses or the subordinates may communicate to their superiors only those things which they expect would be appreciated by the latter.

- (iii) **Perfunctory Attention:** Busy people sometimes fail to understand clearly some of the incoming information from the subordinates which they had never expected. They pay maximum attention to those communications only which they would have expected to listen or which does not come in clash with their personal goals. Sometimes communication break down is caused by the credibility gap, *i.e.*, the amount of difference between what one says and what one does.
- **(iv) Semantic Barriers:** Semantic barriers arise from the limitations of the symbolic system itself. The different words such as efficiency, productivity, worker's participation, employees' welfare, are differently understood by different people. Sometimes, a person distorts communication intentionally, but many a times, they understand it according to their own concepts, expectations and frame of references.
- (v) Premature Evaluation: On several occasions, managers start evaluating the information before reaching proper understanding. Decision is taken before knowing the full facts. Such a premature evaluation tends to inhibit free flow of information and understanding and distorts communication.
- (vi) Other Reasons: Communication may also be distorted on account of a number of reasons. It may be unnecessarily delayed to miss a profitable business opportunity. Persons desiring to resist changes may cause distortion in those communications which seek to introduce new changes. Lack of mutual trust and faith between two classes of people may lead to distorted understanding of the communication by the one at the cost of the other. Lack of time and pressure of work may also be the barrier to free flow of information.

• Steps to overcome barriers:

Following measures are suggested to overcome the communication barriers:

- (i) Use of simple Language: Language is a tool for clarity, not for confusion. Simple, clear and emphatic language should be chosen.
- (ii) Control over Emotions: Both the sender and receiver of the message should have control over their emotions. They should ensure that the content of the message is not affected by any negative emotions.
- (iii) Feedback: Feedback means the response or reaction to the initial message. It may include receivers acceptance and his behavioural response. Along with each communication, there is a need for feedback.
- (iv) Use of Informal Channel of Communication: It helps to improve managerial decisions and makes communication more effective. For effective communication formal channels must be supplemented with the use of informal channels.
- (v) Clarity of Message: The message should be adequate and appropriate. It is very essential to know the audience for whom the message is meant. It may not be possible to achieve perfect communication unless the purpose of communication is clearly defined.

CHAPTER-11

CONTROLLING

Concepts Covered • Meaning, steps and importance, Relationship between planning and controlling, Management by exception.



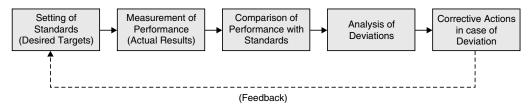
Revision Notes

- Meaning: Controlling is a basic managerial function. It is concerned with making necessary measures or
 preventive actions to ensure that predetermined objectives are accomplished. In other words: controlling is the
 comparison of actual performance with the planned performance to find out deviations and taking corrective
 measures.
- According to Harold Koontz: Controlling is the measurement and correction of performance in order to make sure that enterprise objectives and plans devised to attain them are being accomplished.
- Steps in the Process of Control:

Controlling involves the following steps:

- (i) Setting standards of performance.
- (ii) Measurement of actual performance.

- 42
- (iii) Comparison of actual performance with the standards
- (iv) Analysis of deviations.
- (v) Taking corrective actions.



- (i) Setting performance standard: Standards are criteria against which actual performance would be measured. Different standards are used for measuring the performance of different individuals. The standards must be achievable.
- (ii) Measurement of actual performance: Once the standards of desired performance are fixed, the next step is to measure the actual performance. Performance should be measured in same terms in which standards are set so that their comparison becomes easier. Several technique are there for measurement like personal observation, sample checking, performance reports, etc.
- (iii) Comparing actual performance with standard: This step involves comparison of actual performance with standards. Such comparison will reveal the deviation between actual and desired result.
- **(iv) Analysing deviations:** The deviations from standards are analysed to identify the causes of deviations which may be in the organisation. All deviations need not be brought to the notice of top management.
- (v) Taking corrective action: The final step in controlling process is taking corrective action when deviations go beyond the acceptable range, so that deviations do not occur again and standards are accomplished.

• Importance of Controlling.

Following points explain the importance of controlling:

- (i) Helps in achieving organisational goals: When the plans are made in the organisation these are directed towards the achievement of organisational goals and the controlling function ensures that all the activities in the organisation take place according to plans.
- (ii) Better Results: Control is the only means to ensure that the plans are being implemented effectively. It brings out the shortcomings of planning, organising, staffing and directing and helps in taking corrective action to improve the performance of these functions.
- (iii) Ensures order and discipline: In an organisation, employees are entrusted with large sums of money and valuable resources. In the absence of controlling, employees may fall into temptations. Controlling helps to minimise dishonest behaviour on the part of the employees by keeping a close check on their activities. Thus, controlling ensures order and discipline in the organisation.
- **(iv) Increase employee motivation:** Controlling provides performance standards for all the employees in the organisation. So, employees know well in advance what they are expected to do and what are the standards of performance on the basis of it.
- **(v)** Coordination of Activities: Control facilitates coordination of the activities of various units. It integrates the complex activities of the various departments of the enterprise. It provides unity of direction to all the departments.
- **(vi) Judging accuracy of standards:** An efficient control system helps management to judge whether the standards set are accurate and objective. It keeps a careful check on the changes taking place in the organisation.

• Management by Exception:

Management by exception is an important principle of management as suggested by classical writers on management. This principle is based on the belief that an attempt to control everything results in controlling nothing. It means that while comparing the actual performance with the standard performance, deviations which are not so significant from control point of view should be ignored and the management should concentrate only on those deviations which are significant or important for the achievement of managerial objectives.

Relationship between Planning and controlling

Planning and controlling are inter-related to each other. They are the inseparable twins of management.

- (i) Controlling is blind without planning: Planning provides the basis for controlling as the standards against which the actual performance is compared are laid down during the planning process only. Controlling is blind in the absence of planning.
- (ii) **Planning without controlling is meaningless:** Controlling makes sure that the performance adheres to the plans. It helps to measure, monitor and analyse the performance to find the deviations and take corrective steps.
- (iii) Both are forward looking: Planning involves looking ahead to make the plans for the future. Controlling involves taking corrective actions to prevent the deviations in future.
- (iv) Both are backward looking: The plans are guided by the problems identified in the past. Controlling involves scrutinizing the events of the past to find the deviations.
- (v) Nature: Planning is prescriptive and controlling is evaluative.

©=₩ Key Terms

- Critical Point Control: Focus on Key Result Areas (KRA) which are critical for the success of an organisation.
- Management by Exception: Management should concentrate only on those deviations which are significant for achievement of managerial objectives.

CHAPTER-12

COORDINATION

Concepts Covered • Co-ordination: Meaning, Coordination as the essence of management.



Revision Notes

- Coordination is not a separate function of management. It is the essence of management because it is found in all managerial functions. According to James. D. Mooney "Coordination is the orderly arrangement of group efforts, to provide unity of action in the pursuit of common purpose."
- Coordination as the essence of Management:

Coordination is not a separate function but the very essence of management. The very purpose of management is to achieve harmony between individual efforts and accomplishment of group goals.

Coordination is inherent in all the functions of management because the very purpose of management is achievement of harmony between individual efforts towards the accomplishment of group goals.

Coordination is the result which can be achieved through the proper performance of managerial functions.

- In 'planning', coordination is required between the master plan of the enterprise and the plans of different departments or divisions. There should also be coordination between the objectives and the available
- During 'organising', there should be coordination between the authority and responsibility of every individual. Same work should not be assigned twice. Organisation would be ineffective if there is lack of coordination between different departments and divisions.
- While 'staffing', coordination is achieved by balancing the skills and abilities of the employees with the jobs assigned to them.

- While 'directing', supervision, motivation and leadership are used to ensure harmonious working of the organisation.
- During 'controlling', coordination is achieved by ensuring that actual results conform to plans as closely as
 possible.



- **Coordination:** It is the orderly arrangement of group efforts to provide unity of action in the pursuit of common purpose.
- Cooperation: It is a voluntary effort of individuals to work together.

CHAPTER-13

MARKETING: CONCEPT AND FUNCTIONS

Topic-1

Market: Meaning, Features, Types

Concepts Covered • Meaning and Types of Markets; Meaning and Features of Marketing. Marketing concepts: traditional v/s modern - meaning and features of traditional and modern concepts of marketing.



Revision Notes

- In a common parlance, the term market is used to refer to a place where buyers and sellers meet to conduct the
 purchase and sales.
- According to Philip Kotler.

"A market is the set of all actual and potential buyers of a product."

According to Jevons:

"A market means a body of persons who are in intimate business relations and carry on extensive transactions in any commodity.

- Types of Markets:
- Markets can be of the following types:
 - 1. On the Basis of Geographical Area:
 - (i) Local market: Buying and selling in a limited area e.g.,: in a village.
 - (ii) Regional market: Activities restricted in a particular region, e.g., Southern India.
 - (iii) National market: Related to activities of buying and selling within boundaries of a country.
 - (iv) International market: Where buyers and sellers of two or more nations are involved.
 - 2. On the Basis of Volume of Business:
 - (i) Wholesale market: Where goods are sold in bulk to the retailers.
 - (ii) Retail market: Where small quantities of goods are sold by retailers to the consumers directly.
 - 3. On the Basis of Position of Buyers and Sellers:
 - (i) Primary market: Primary producers sell their farm produce to wholesalers or their agents.
 - (ii) Secondary market: Market in which wholesalers sell their products to retailers.
 - (iii) Terminal market: Market where retailers sell their products to consumers.
 - 4. On the Basis of Nature of Transaction:
 - (i) Spot market: Goods are physically transferred from sellers to buyers.
 - (ii) Future market: Buyers and sellers enter into a future contract, where actual delivery of goods is not needed.

5. On the Basis of Nature of Consumption:

- (i) Consumers market: When goods are produced for direct consumption of consumers, it is a consumers market.
- (ii) Producers market: When goods are used in the process of further production.

6. On the Basis of Subject of Exchange

- (i) Commodity market: Organised market for sale and purchase of commodities.
- (ii) Money market: Short-term finance market, which provides financing to business enterprises through a network of banking system.
- (iii) Capital market: Specialised market for providing long-term finance through a network of financial institutions, stock exchanges, investment trusts and insurance companies.

• Features of marketing:

- (i) Marketing is an integrated process: Marketing is not a single activity. It is rather an integrated process of inter-related activities. Interaction between activities gives a unique character to marketing.
- (ii) Marketing is customer-oriented: Marketing is a customer-oriented process as it satisfies the wants of present and potential consumers. Customer is the focus of all marketing activities.
- (iii) Marketing is wider than market: Marketing consists of not only the buyers and sellers but all institutions and activities involved in planning, pricing, promoting and distributing want satisfying products and services.
- (iv) Marketing is goal-oriented: Marketing is goal-oriented and its main goal is to satisfy the customer.

• Traditional Marketing:

It consists of all those activities which are concerned with the transfer of ownership of goods from the producers to the consumers. It simply means selling the goods and services that are produced.

• Features:

- It is concerned only with selling the products.
- (ii) It aims at profit maximisation through sales maximisation.
- (iii) Its focus is on production only.

Modern Marketing

It is concerned with identifying the consumer needs and satisfying them through the goods and services.

• Features:

- (i) It is a customer oriented approach.
- (ii) It aims at earning profit through customer satisfaction.
- (iii) It aims to achieve long-term goals of the organisation.

Sr. No.	Basis	Traditional concept of Marketing	Modern concept of Marketing
(i)	Scope	The scope is limited to obtaining the order from the customers and delivery of the goods or services.	Marketing involves designing of the product as per the customers, persuading them to buy, transferring the ownership and then also solving the future problems that may arise.
(ii)	Orientation	The main focus is sellers. Thus, it is selling oriented.	The main focus is customer satisfaction. Thus, it is customer oriented.
(iii)	Beginning	It begins as soon as the good is produced.	It begins before the production process.
(iv)	End	It ends as soon as the sales takes place.	It is a continuous process and so continues with the after sales services and customer support even after the good or service is sold.
(v)	Focus	To increase the sales	Customer Satisfaction.
(vi)	Goal	Profit Maximisation is the main goal.	Growth and stability is the main goal.
(vii)	Means of achieving goal	Goals are achieved by increasing sales.	Goals are achieved by providing maximum customer satisfaction.



Key Terms

- Market: Market is the set of all actual and potential buyers of a product.
- Marketing: It is the process of discovering and translating consumer needs into products and services.
- Spot Market: This is a market where goods are physically transferred from sellers to buyers.
- Consumer Market: This is a market where goods are purchased for personal consumption.

Topic-2

Marketing: Meaning, Features, Types and Functions

Concepts Covered • Comparison Between Marketing and Selling, • Objectives of Marketing, Features of Marketing, • Importance of Marketing, • Functions of Marketing



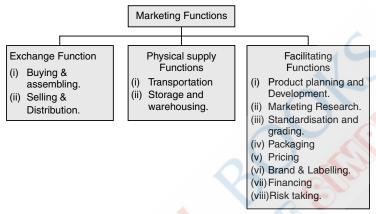
Revision Notes

• Comparison between Marketing and Selling:

Sr. No.	Basis	Marketing	Selling
(i)	Scope/Process	It consists of number of activities such as identification of customer needs, developing the products to satisfy these needs, fixing prices and attracting the buyers to purchase the goods.	Selling is only a part of marketing and is concerned with promotion for the sale of products.
(ii)	Focus/Transfer of Title	Achieving maximum satisfaction of the customer's needs and wants.	Transfer of products from sellers to consumer.
(iii)	Objective	Profit maximisation through customer satisfaction.	Profit maximisation through sales maximisation.
(iv)	Start and End of Activities	Marketing activities start much before the product is produced and continue even after the product has been sold.	Selling activities start after the product has been developed.
(v)	Emphasis	Developing the product as per the customer's needs.	Bending the customer according to the product.
(vi)	Strategies	Marketing uses integrated marketing efforts involving strategies in respect of product, promotion, pricing and physical distribution.	Selling involves efforts like promotion and persuasion.

- **Objectives of Marketing:** The main objectives of marketing are as follows:
 - (i) Customer Satisfaction: The main motto of marketing is to satisfy customers. All marketing activities begin and end with the customers. Customer satisfaction can give rise to business.
 - (ii) Creation of Demand: The most important objective of marketing is to create demand for goods and services. Advertising, sales promotion and other techniques are used to create demand.
 - (iii) **Profitability and Growth:** By satisfying customer needs and wants, business profits can be increased and it helps firm to grow and to earn sufficient funds.
 - **(iv) Goodwill:** The main aim of marketing is to build the reputation of the firm over time. It can be done by selling quality products at reasonable prices and by providing service after the sales.
- Importance of marketing: Marketing offers the following benefits:
 - (i) Large scale production: With the help of marketing mass selling is possible and thereby it promotes large scale production.
 - (ii) Generation of revenue: Marketing helps the firm in generating revenue. The survival and growth of a business enterprise depends on the effectiveness of marketing.

- (iii) Customer satisfaction: Marketing helps to identify and satisfy the needs and wants of customers. Modern marketing begins and ends with the customer.
- (iv) Employment generation: Marketing helps to generate employment in production by increasing the scale of production and distribution.
- (v) Higher standard of living: Marketing helps in improving the living standards of people by offering a wide variety of goods and services with freedom of choice.
- Functions of marketing: Functions of marketing can be classified into three broad categories:
 - (i) Exchange Function.
 - (ii) Physical supply function.
 - (iii) Facilitating function.



- 1. Exchange function: Exchange function includes two main important function of management:
 - (i) Buying and assembling: Buying refers to the purchase of raw material for manufacturing of goods and purchase of finished goods for the resale. Assembling is different from buying. It involves collection of a wide variety of goods.
 - (ii) Selling & Distribution: Selling is the process of binding the customers, creating demand and transferring the goods for value or money. Effective selling requires careful planning and control of marketing activities.
- 2. Physical supply function: Physical supply function involves two main functions:
 - (i) Transportation: Transportation is the process of carrying of goods and people from one place to another. It is the most important function of marketing. It helps in assembling and selling the goods. It creates place utility and widens the market and increases the scale of production.
 - (ii) Storage or warehousing: Storage and warehousing means to hold and preserve the goods till they are sold to buyers. Storage is needed so that the goods can be made available to buyers when they are required. Warehouse is a place which is used to store the goods. It is necessary for mass distribution and for continuous flow of goods from seller to buyers. Warehousing perform the following functions:
 - (a) Regular production
 - (c) Store of Surplus goods

- **(b)** Time utility
- (d) Minimisation of risk

3. Facilitating function:

- (i) Product planning and Development: Product planning is widely used in marketing as it is the foundation of marketing and the success of marketing depends upon the product offered to the customer. So marketing should design and develop the right type of products. The design, colour, size, quality and other features of the product should be decided according to the needs of the customer.
- (ii) Marketing Research: It is the process of gathering, recording, and analysing the data about marketing problems with the aim of providing useful information for marketing decision-making.
- (iii) Standardisation and grading: Standardisation refers to the system of setting up basic standard to which the product must conform. It indicates the standard of product. Grading is the process of sorting units of a product into defined classes or grades of quality. The goods are graded according to the specific standard.
- (iv) Packaging: It is the process of designing and producing appropriate packages for the product. It protects the goods from spoilage, breakage, leakage, etc.
- (v) Pricing: Pricing refers to the process of fixing the price in terms of money. It depends on many factors like degree of competition, market conditions, government regulations, etc. Success of business mainly depends on the sound pricing policy.

- **(vi) Branding and labelling:** It is the process of giving a distinctive identity to a product by which it is to be known and remembered. A brand is a name, term or symbol used to identify the product from other products.
 - Labelling requires putting identification mark on the package. It is an important part of product as it provides useful information about the product and its producer.
- (vii) Financing: Financing is an important function of marketing that is required to keep stocks to meet transport, storage and other costs and to grant credit.
- (viii) Risk taking: There are many types of risk at each stage of marketing. Risk implies uncertainty of profits or dangers of loss due to unavoidable future events. Insurance provides a security against risk.



Key Terms

- Selling: Only a part of marketing and is concerned with promotion of the sale.
- Need: A state of felt deprivation or feeling of being deprived of something.
- **Exchange:** The process through which two or more parties come together to obtain the desired product or service from someone, offering the same by giving something in return.

CHAPTER-14

MARKETING MIX: MEANING AND ELEMENTS

Topic-1

Marketing Mix: Product Mix

Concepts Covered • Meaning, Features and Types of Goods; • Meaning and Features of Services; • Difference Between Product and Services.• Meaning and Merits of Branding, • Meaning and Merits of Labelling, • Meaning and Features of Good Packaging.

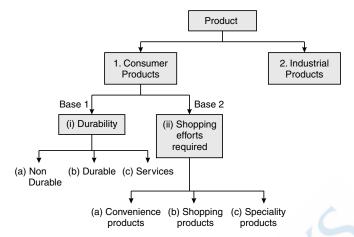


Revision Notes

- Every business firm develops an appropriate marketing mix in order to satisfy the needs and wants of its customer. Marketing mix refers to the combination of four basic elements like the product, the price, the place and the promotion. These four elements are interrelated because decisions in one influence the other.
- According to William Stanton: Marketing mix is a systematic combination of four elements product, price, place and promotion used to satisfy the needs of an organisation's target market.
- Elements of Marketing Mix:



Meaning of Product: Product means goods and services which are offered to the market for sale. Product mix is the
combination of all products offered for exchange by a company. Product can be classified in the following types:



- 1. Consumer goods: Products which are directly used by the consumer are called consumer goods. Bread, butter, TV sets, garments, etc are the examples of it. It can be of two types: on the basis of durability and on the basis of shopping efforts.
- (i) On the basis of durability:
 - (a) Non durable products: These products are tangible goods and consumed with one or few uses. Like soap, toothpaste.
 - **(b) Durable product:** Durable products are those goods which can be used for several years and have high value. TV, Radio, washing machine are the examples of it.
 - (c) Services: Services are those non-material goods which directly satisfy the human wants. A few examples of services are the services of a doctor, lawyer, domestic servant, etc.
- (ii) On the basis of shopping efforts required:
 - (a) Convenience products: These are those goods which can be purchased easily. They are meant for personal convenience. Newspaper, cigarettes, soaps, etc are the examples of it.
 - **(b) Shopping products:** These products are purchased after a comparative analysis of price, quality, warranty of competitive brand. Furniture, TV, computer, etc are the examples of it.
 - (c) Speciality products: These products are purchased with some special efforts Fancy items, jewellery, etc. are the examples of it.
- 2. Industrial products: These products are those products which are used in the manufacturing of the other products. It can be divided into following types:
 - (i) Raw material: These are converted into finished goods, for example cotton used in producing cloth is the raw material.
 - (ii) Supplies: These include goods like nuts, bolts, lubricating oil, computer stationery, etc.
 - (iii) Installations: These consist of heavy machinery, production line trucks and other items of high capital value.
- Meaning of services: Service is as intangible act that can satisfy the needs of customer. Teacher, doctor, firms, banks, etc are providers of service.
- Features of services: Features of services are as follows:
 - (i) Services are intangible.

(ii) Services are perishable.

(iii) Services are inseparable.

(iv) Services are variable.

• Difference b/w product and services

The differences between products and services are:

Sr. No.	Basis	Product	Service
(i)	Tangibility	Product can be seen, touched and felt.	Services cannot be touched and seen
(ii)	Inseparability	A product is fully separable from the seller.	It cannot be separated from the seller.
(iii)	Durability/ Storage	A Product is durable, can be stored.	There is simultaneous production and consumption of services.
(iv)	Replacement	Possible	Not possible
(v)	Ownership	Transferability can be done	Non-Transferable

• **Branding:** Branding is a process to give a distinctive name identification to the product by which it is to be known and remembered. It can be in the form of a name term, symbol or design. Lux, Coca-Cola, L.G., Bata are examples of brand.

• Branding has following advantages / merits.

- (i) It helps consumer to identify and recognise the product.
- (ii) It differentiates the product from the rival products.
- (iii) It ensures standards of quality and design to consumers.
- (iv) It is the basis of advertising and other techniques of mass selling.
- Labelling: Labelling refers to designing the label to be put on the package.

A label is an important feature of a product as it provide useful information about the product and its producer.

Functions of Labelling:

- (i) Describe the product and specify its contents: One of the most important functions of labels is to describe the product, its usage, manufacturing and expiry dates, cautions in use, etc., and specify its contents.
- (ii) **Identification of the product or brand:** The label helps the customers to identify the product or brand from the various types available. For example, we can easily identify a Cadbury chocolate from the various chocolates kept in the shelf of a shop by the colour of its label.
- (iii) Grading of products: With the help of label, products can be graded in different categories. For example, Brook Bond Red Label, Yellow Label, Green Label, etc.
- (iv) Help in promotion of products: Labels play an important role in sales promotional schemes launched by companies. For example, The label on pack of Dettol shaving cream mentions "50% Extra Free", pack of Colgate toothpaste mentioning "Save ₹ 20" or the pack of Dabur Amla hair oil states, "Baalon Main Dum, Life Mein Fun".
- (v) Providing information required by law: Labelling performs the function of providing information required by law. For example, the statutory warning on the packet of cigarettes, "Smoking is injurious to Health". In case of hazardous or poisonous material, appropriate safety warning needs to be put on the label.

Merits of Labelling:

- (i) It prevents overcharging by seller as price of product is printed on the label.
- (ii) A good and colourful label serves as an advertisement for the product and the company.
- (iii) A label is a stamp of good quality and hence it helps developing brand goodwill.
- Meaning of Packaging: Packing refers to wrapping, crafting, filling so that goods can be protected from spoilage, pilferage and breakage and leakage, etc.

• Features of good Packaging:

- (i) Convenience: Packaging should be such that the product can be conveniently taken from one place to another and should be easily handled by middlemen and consumers.
- (ii) Attractive: The package should be attractive and capable of drawing customers' attention. It must stimulate their interest and awaken their desire for the product.
- (iii) Economical: The package should be economical and not costly. High prices can be a drawback in selling.
- (iv) Protective: The packaging should be such that the quality, quantity and colour of the product does not deteriorate or gets damaged by sun, rain, insect, dust etc.
- (v) Communicative: A good packaging should communicate information to the customers about the brand utility and quality of the product.

Functions of packaging.

- (i) Protection: The fundamental function of packaging is to protect the product from damage. It protects the product from sun, rain, moisture, breakage, etc.
- (ii) Identification: With the help of packaging the product can be easily identified.
- (iii) Convenience: Packaging offers convenience in handling the product. For example, Tetra pack of frooti provides convenience in drinking.
- (iv) Prestige: Packaging facilitates the branding and labelling of a product. The brand name and label can be easily printed on the package. It lends individuality and prestige to the product.
- (v) Economy: Packaging reduces the cost of transportation and storage and widens the market. Properly packaged goods require less space.

©=₩ Key Terms

- Marketing mix: It is a systematic combination of four elements product, price, place and promotion activities
 used to satisfy the needs of an organisation.
- **Branding:** It is a process to give a distinctive name/identification to the product.
- Packaging: If refers to wrapping, crafting, filling so that goods can be protected from spoilage, pilferage and breakage.

Topic-2

Marketing Mix: Price Mix

Concepts Covered • Meaning, and Factors determining price.



Revision Notes

- The term price refers to the money value of a product or service. According to Clark: "The price of an article or service is its market value expressed in terms of money. It reflects the worth of a product or service and the amount of money for which it can be exchanged."
- Factors affecting determination of Price:
 - **1. Pricing objectives:** Pricing objectives of a firm may include:
 - Profit maximization: If the firm decides to maximise profits in the short run, it will charge maximum price for its products. But if it wants to maximise its total profits in the long run, it will charge lower per unit price so that it can capture large market share and earn greater profits through increased sales.
 - (b) Obtaining market share leadership: If a firm's objective is to obtain larger share of the market, it will keep the price of its products at lower levels so that greater number of people are attracted to purchase the products.
 - (c) Surviving in a competitive market: If a firm is facing difficulties in surviving in the market because of intense competition, it will charge the lowest possible price and offer discounts also.
 - (d) Attaining product quality leadership: In this case, the firm charges higher prices for providing high quality products because it incurs heavy expenditure on research and development.
 - 2. Product cost: Product cost includes the cost of procuring, distributing and selling the product. The cost sets the minimum level or the floor price at which the product can be sold. It is important that the price should recover total costs (fixed costs as well as variable costs) in the long run including a margin of profit over and above the costs.
 - 3. Competition in the market: Competition is another important consideration while pricing a product. When a firm does not face any competition (under monopoly situation), it can enjoy complete freedom in fixing its price. But when there is intense competition, a firm should fix lower price of its products to capture a large market share.
 - 4. Quality and Service: An article may be sold at a price above the cost if the customers consider the article is of exception quality. On the other hand, the article may not sell even at low price if the quality of product is considered to be very poor.
 - 5. Government Control: Certain products are regulated by the government, so prices are fixed by the government. In India maximum prices of edible oils, automobile, medicines, sugar, cement, etc are regulated by the government.
 - 6. Demand: The nature and size of demand in relation to the supply of article is another important factor affecting price. Price elasticity of demand plays very important role in determination of price.



©=ஶ Key Terms

- **Price:** It refers to the money value of a product or service.
- **Profit maximisation:** Process in which the firms want to earn more profit.
- Product cost: Product cost refers to that cost which includes the cost of procuring, distributing and selling the product.

Topic-3

Marketing Mix: Place Mix

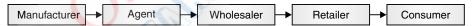
Concepts Covered • Meaning, channel of distribution, choice of channels of distribution and physical distribution.



Revision Notes

- Place element of marketing mix refers to distribution of product to customer for consumption. Its main objective is to make the product available to customers at the right time and right place.
- Distribution element involves two broad functions:
 - (i) Choice of distribution: It includes all those activities through which the product shall flow from manufacturer to ultimate users.
 - (ii) Physical distribution: It consists of transportation and storage of goods.
- Types of channel of distribution: A channel of distribution is the route through which products flow from the point of production to the point of ultimate consumption. It serves as a connecting link between the producer and consumer. It can be following types:
 - (i) Manufacturer-consumer (zero level channel): This is the simplest channel involving direct sale of goods from producer to consumer. No middleman is required between the producer and consumer. The producer can sell its product through salesman, internet and tele-marketing.
 - (ii) Manufacturer-Retailer-consumer (one level channel): Under this system manufacturer sells its product to retailers and retailers sell products to the ultimate users.
 - For Example: Maruti Udyog sells its car through the company approved retailers. Automobiles, home appliances, ready made garments are sold through this channel.
 - (iii) Manufacturer-Wholesaler-Retailer-Consumer (Two level channel): This is the commonly used channel for distribution of consumer goods. Under this system manufacturer sells in bulk to the wholesaler who in turn sells to a large number of retailers. This channel is used in case of small goods like soap, salt, tea, toothpaste, etc.
 - (iv) Manufacturer-Agent-wholesaler-retailer-consumer (three level channel):

This is the longest channel of distribution. Under this system producer hands over his output to the selling agent who distribute it among a few wholesalers. Every wholesaler sells goods to retailer and retailer sells goods to ultimate consumer.



- Choice of channel of Distribution: While choosing a channel of Distribution, the following factors should be taken into consideration:
 - (1) Product related factors: Product related factors are as follows:
 - (i) Bulk and weight: Bulky and heavy products need to be distributed through shorter channel so that cost of the transportation can be minimised. Small sized products can be distributed through longer channel.
 - (ii) Complexity of the project: Technically complex products like heavy machines should use short channel of distribution because they require demonstration at the time of sale.
 - (iii) Unit value: When the product to be distributed is costly, shorter channel should be adopted. Gold jewellery is sold through zero level of channel.
 - (2) Market Related Factors: Following are market related factors:
 - (i) Nature of the market: In a consumer market longer channels are used but in industrial market short channel should be used.
 - (ii) Size of the market: When market is made up of many customers indirect channels are required and when market consist of few customers direct channel can be used.
 - (3) Company related factors: Company related factors which influence the choice of distribution are as follows:
 - (i) Volume of output: A firm or company whose volume of output is large should use direct selling method.
 - (ii) Financial strength: A company whose financial position is strong can create its owns channel of distribution.

- (4) Middlemen related Factors: The middlemen related factors are as follows:
 - (i) Sales Potential: A manufacturer normally prefers a dealer who offers the greater potential volume of sales.
 - (ii) Costs: Channel should be chosen after comparing the cost of distribution through alternative channels.
 - (iii) Legal constraints: Government regulations regarding certain products may influence channel decision. *for eg*: liquor and drugs should be distributed only through licensed shops.



Key Terms

- Place / Distribution element: It refers to distribution of a product to customer for consumption.
- Choice of Distribution: It includes all those activities through which the products shall flow from manufacturer
 to ultimate users.
- Physical distribution: It consist of transportation and storage of goods.



Marketing Mix: Promotion Mix

Concepts Covered • Meaning and elements.



Revision Notes

- 'Promotion' of goods and services involves informing the customers about the firm's product, its features, quality, etc. and persuading them to purchase the same.
 - 'Promotion mix' refers to combination of promotional tools (or methods) used by an organisation to achieve its communication objectives. These include:
 - (i) Advertising: It is the most commonly used tool of promotion which is a paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.
 - (ii) Personal selling: It involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. Companies appoint sales persons to contact prospective buyers and create awareness about the company's products.
 - (iii) Sales promotion: It refers to short-term incentives, which are designed to encourage the buyers to make immediate purchase of a product or service, *e.g.*, discounts, contests, free samples, offering extra quantity, etc.
 - **(iv) Publicity and public relations:** Publicity is a non-paid form of non-personal communication. It takes place when favourable news is presented in the mass media about the company's products or services, *e.g.*, a news covered by TV or newspaper that a company manufactured a car, which runs on water.
- Advertising:
 - **Concept of advertising:** Advertising is the most commonly used tool of promotion which tell us about various products. According to American Marketing Association "Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor."
- Features of advertising: Features of advertising are as follows:
 - (i) Mass reach: Advertising can reach a large number of people over a vast geographical area. It is a non-personal form of communication.
 - (ii) Help in introducing new products: Advertising helps to provide knowledge of new products and this knowledge helps in saving a lot of time and money.
 - (iii) Enhancing customer satisfaction and confidence: Customers feel more assured about quality and feel more comfortable if the sponsors claim these benefits in advertising.
 - **(iv) Economy:** Advertising is a very economical mode of communication if large number of people are to be reached. Because of its wide reach, the total cost of advertising gets spread over numerous communication links. As a result the per unit cost of reach reduces.
- Objectives of advertising: Objectives of advertising are as follows:
 - (1) It introduces a new product by making awareness among customers.
 - (2) It educates consumers about the various uses of the product.
 - (3) It informs consumer about the quality and price of a product and try to attract them to buy it.

• Sales Promotion:

Concept of Sales Promotion:

Sales promotion refers to short-term incentives which are designed to encourage the buyers to make immediate purchase of a product or service, *e.g.*, discount, contests, free samples, offering extra quantity, etc.

Sales promotion techniques are used to boost the sales of a firm. It is usually undertaken to supplement advertising and personal selling.

• Characteristics of Sales Promotion:

- 1. Time-bound promotional activities aimed at stimulating immediate customer response.
- 2. Incentives, discounts, contests, free samples, or limited-time offers to encourage purchases.
- 3. Typically used to complement other promotional efforts and create a sense of urgency.

• Objectives of Sales Promotion:

- 1. Boost sales and generate short-term demand for products or services.
- 2. Increase brand awareness and visibility among target customers.
- 3. Encourage trial and repeat purchases.
- 4. Differentiate the product from competitors.
- 5. Clear out excess inventory or introduce new products to the market.
- 6. Reward and retain loyal customers.
- 7. Stimulate impulse buying and create a sense of urgency.
- 8. Generate leads and gather customer data for future marketing efforts.

• Sales Promotion Activities / Techniques / Methods / Tools:

- (i) **Rebates:** It means offering products at special prices, to clear off excess inventory.

 Example: Offer of Maruti to sell Alto 800 car at a discount of 50,000 for a limited period, say, in the month of November.
- (ii) **Discounts:** It means offering products at less than list price. Certain percentage of price is reduced as discount. *Examples:* (i) Bata's offer of discount up to 25%, (ii) offer of 50 + 20% discount on HMT Watches.
- (iii) Refunds: It means refunding a part of price paid by customer on producing some proof of purchase. For example, a toothpaste manufacturer may offer to refund ₹ 15 on sending the empty cover of the pack.
- (iv) Product combinations: It means offering another product as gift along with the purchase of a product. *Examples:* (i) Shakti Bhog Atta's offer of ½ kg sugar free with a pack of 1 kg Atta. (ii) Get 2 GB memory card free with a Samsung cell-phone.
- (v) Quantity gift: It means offering extra quantity of the product.

 Example: (i) 'Buy three get one free' offer available on Vivel soaps. (ii) '50 grams extra' offer of Rin detergent bar.

Personal Selling:

Concept of Personal Selling:

Personal selling is a very effective promotional tool. In simple words, personal selling means—"Selling products personally." It involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales.

Companies appoint salespersons to contact prospective buyers and create awareness about the company's product. A salesperson ascertains customer needs, identifies right product, communicates product features and benefits and persuades the customer to buy the product. Thus, a salesperson plays three different roles—persuasive role, service role and informative role.

• Following are the characteristics / features of personal selling:

- (i) It is a personal form of communication as it involves direct face-to-face interaction between the salesperson and the prospective buyer (s) for the purpose of making sales. Thus, there is a two-way communication.
- (ii) Personal selling allow a salesperson to develop personal relationships with the customers, which may help in repeat sales and direct feedback.
- (iii) Personal selling is a flexible tool of promotion. The sales presentation can be adjusted to fit the specific needs of the individual customers.

• Objectives of personal selling: Objectives of personal selling are as follows:

- (1) Main objective of personal selling is to increase sales.
- (2) To introduce new product in the market.
- (3) To do complete job of selling.
- (4) To redress grievances and objections of customers.
- (5) To create the interest and desire created by advertising into demand.

- Publicity: According to the American Marketing Association, "publicity is any form of non-paid commercially significant news or editorial comment about ideas, products or institutions." In other words, it is an auspice form of communication, which reaches the consumer in the form of a news articles through news channels.
- **Features of Publicity:**
 - (1) Publicity covers favourable news about the institution and its products.
 - (2) It is made by the newspapers, radio, television, internet, etc.
 - (3) It is outside direct control of the organisation.
 - (4) Publicity can be negative also.
- **Objectives:**
 - (i) To spread awareness among people about something or someone.
 - (ii) To warn people about undesirable activities or goods.
 - (iii) To draw public attention to some noteworthy event.
- Distinguish between advertising and Personal Selling:

Basis of distinction	Advertising	Personal selling
Meaning	It involves non-personal persuasive communication (not face-to-face)	It involves personal persuasive communication (face-to-face)
Objective	To stimulate and create demand for goods and services	To satisfy the wants of customers which results in immediate sales.
Scope/coverage	Wide	Restricted to specific customers.
Nature	It creates demand for goods	It induces customers to purchase the goods.
Feed back	No immediate feed back	Immediate feed back
Type of sale	Mass selling	Individual selling
Media Used	Diverse media involving use of oral and written words and gestures	Limited media involving use of oral words and gestures
Message flexibility	Same message / rigid	Message is specific and tailored to each customer / flexible
Suitability	More suitable in the initial life of a product	More useful at later stages.
Cost	Economical / low	High / Expensive

Difference between Advertising and Publicity:

Basis of Distinction	Advertising	Publicity
Sponsor	The identity of the sponsor is clearly known.	Identity of the sponsor is not known.
Control	The sponsor has control over contents and timing of the message.	Media has control over the contents and timing.
Nature of message	Nature of message is to persuade customer in the favour of a product.	Nature of message is to inform public, in public interest.
Credibility	Less credible	More credible
Nature	Subjective	Objective

©≕ Key Terms

- Promotion mix: It refers to combination of promotional tools (methods) used by an organisation to achieve its communication objectives.
- Advertising: It is the most commonly used tool of promotion which tell us about various products.
- Sales promotion: It refers to short-term incentives which are designed to encourage the buyers to make immediate purchase of a product or service.
- Personal selling: Personal selling means selling products personally. It involves oral presentation of message in the form of conversation with one or more customers.

CHAPTER-15

CONSUMER PROTECTION



Revision Notes

Meaning of Consumer Protection: Consumer Protection has a wide agenda. It not only includes educating
consumers about their rights and responsibilities, but also helps in getting their grievances redressed. It not only
requires a Judicial machinery protecting the interest of consumers but also requires the consumers to get together
and ensure protection and promotion of their interest.

• Methods of Consumer Protection:

- (i) Self-Help: Consumers can protect themselves by being informed and proactive in their purchasing decisions. This includes conducting research, reading product reviews, comparing prices, checking warranties, and understanding their rights and responsibilities as consumers.
- (ii) Legislative Measures: Governments enact laws and regulations to protect consumer rights and ensure fair business practices. These laws include product safety standards, truth in advertising, pricing regulations, consumer contract laws, and the establishment of regulatory bodies to enforce consumer protection measures.
- (iii) Consumer Associations/NGOs: Consumer associations and non-governmental organizations (NGOs) play a vital role in advocating for consumer rights. They raise awareness about consumer issues, provide information and education to consumers, engage in lobbying for policy changes, and often offer legal support and representation for consumers.
- Importance/Need of Consumer protection: The following points highlight the importance of consumer protection:

(1) From Consumers' point of view:

The importance of consumer protection from the consumers' point of view can be understood from the following points:

- (i) Consumer Ignorance: In the light of widespread ignorance of consumers about their rights and reliefs available to them, it becomes necessary to educate them about the same so as to achieve consumer awareness.
- (ii) Unorganised Consumers: Consumers need to be organised in the form of consumer organisation which would take care of their interests. Though, in India, we do have consumer organisations which are working in this direction, adequate protection is required to be given to consumers till these organisations become powerful enough to protect and promote the interests of consumers.
- (iii) Widespread Exploitation of Consumers: Consumers might be exploited by unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black-marketing, etc. Consumer need protection against such malpractices of the sellers.

(2) From the point of view of Business

A business must also lay emphasis on protecting the consumers and adequately satisfying them. This is important because of the following reasons:

- (i) Long-term Interest of Business: Enlightened businesses realise that it is in their long-term interest to satisfy their customers. Satisfied customer not only leads to repeated sales but also provide good feedback which helps in increasing customer base of business.
- (ii) Business uses Society's Resources: Business organisations use resources which belong to the society. They thus have a responsibility to supply such products and render such services which are in public interest and would not impair public confidence in them.
- (iii) Social Responsibility: A business has social responsibilities towards various interest groups. Business organisations make money by selling goods and providing services to consumers. Thus, among the many stakeholders of business and like other stakeholders, their interest has to be well taken care of.
- (iv) Moral Justification: It is the moral duty of any business to take care of consumer's interest and avoid any form of their exploitation. Thus, a business must avoid unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black marketing, etc.

(v) Government Intervention: A business engaging in any form of exploitative trade practices would invite government intervention or action. This can impair and tarnish the image of company. Thus, it is advisable that business organisations voluntarily resort to such practices where the customers' need and interest will well be taken care of.

In view of the above, the government of India has enacted several regulations designed to provide adequate protection to consumers. We shall now discuss some of these regulations:

CONSUMER RIGHTS

The Consumer Protection Act, 2019 provides for six rights of consumers. The consumer protection councils set up under the Act are intended to promote and protect the various rights of consumers. These rights include the following:

- (i) Right to be Protected: The consumer has right to be protected against goods and services which are harmful. For instance, electrical appliances which are manufactured with substandard products or do not conform to the safety norms might cause serious injury. Thus, consumers are educated that they should use electrical appliances which are ISI marked as this would be an assurance of such products meeting quality specifications.
- (ii) Right to be Informed: The consumer has a right to have information about the product he intends to buy including its ingredients, date of manufacture, price, quantity, directions for use, etc. It is because of this reason that the legal framework in India requires the manufacturer to provide such information on the package and label of the product.
- (iii) **Right to Choose:** The consumer has the freedom to choose from a variety of products at competitive prices. This implies that the marketers should offer a wide variety of products in terms of quality, brand, prices, size, etc. and allow the consumer to make a choice from amongst these.
- (iv) Right to be Heard: The consumer has a right to file a compliant and to be heard in case of dissatisfaction with a good or a service. It is because of this reason that many enlightened business firms have set up their own consumer service and grievance cells. Many consumer organisations are also working towards this direction and helping consumers in redressal of their grievances.
- (v) Right to seek Redressal: The consumer has a right to get relief in case the product or service falls short of his expectations. The Consumer Protection Act provides a number of reliefs to the consumers including replacement of the product, removal of defect in the product, compensation paid for any loss or injury suffered by the consumer, etc.
- (vi) Right to Consumer Education: The consumer has a right to acquire knowledge and to be a well informed consumer throughout life. He should be aware about his rights and the reliefs available to him in case of a product or service falling short of his expectations. Many consumer organisations and some enlightened businesses are taking an active part in educating consumers in this respect.

• Consumer Protection Act, 2019: Who can file a complaint?

- (i) A consumer; or
- (ii) Any voluntary consumer association registered under any law for the time being in force; or
- (iii) The Central Government or any State Government; or
- (iv) The Central Authority; or
- (v) One or more consumers, where there are numerous consumers having the same interest; or
- (vi) In case of death of a consumer, his legal heir or legal representative; or
- (vii) In case of a consumer being a minor, his parent or legal guardian.
 - (a) Be protected against marketing of goods and services which are hazardous to life and property.
 - (b) Be informed of the quality, quantity, potency, purity, standard and price of goods or services.
 - (c) Be assured of access to a variety of goods or services at competitive prices.
 - (d) Seek redressal against unfair or restrictive trade practices.

• Who is a consumer?

Consumer: Any person who buys goods or services in exchange for consideration and utilises such goods and services for personal use and for the purpose of resale or commercial use.

- Redressal Agencies under the Consumer Protection Act, 2019:
 - (i) District Commission:
 - (a) Consists of one President and two other members (1 must be a woman)

- (b) Appointed by the concerned State Government
- (c) For disputes upto ₹1 crore
- (d) If unsatisfied by the decision of the District Commission, a consumer can approach the State Commission within 45 days of passing of the order

(ii) State Commission:

- (a) Consists of one President and minimum four other members (1 must be a woman)
- (b) For disputes from ₹ 1 crore to ₹ 10 crores
- (c) Appointed by the concerned State Government
- (d) If unsatisfied, appeal in the National Commission within 30 days of passing of the order

(iii) National Commission:

- (a) Consists of one President and four other members (1 must be a woman)
- (b) For disputes exceeding ₹ 10 crores
- (c) Appointed by the Central Government
- (d) If unsatisfied by the decision of the National Commission, the consumer can appeal in the Supreme Court about a matter falling in its original jurisdiction within 30 days of passing of the order
- (e) In all other cases, the order of National Commission is final and cannot be challenged further.

Relief Available

It the consumer court is satisfied about the genuineness of the complaint, it can issue one or more of the following directions to the opposite party:

- (i) To remove the defect in goods or deficiency in service.
- (ii) To replace the defective product with a new one, free from any defect.
- (iii) To refund the price paid for the product or the charges paid for the service.
- (iv) To pay a reasonable amount of compensation for any loss or injury suffered by the consumer due to the negligence of the opposite party.
- (v) To pay punitive damages in appropriate circumstances.
- (vi) To discontinue the unfair / restrictive trade practice and not to repeat it in the future.
- (vii) Not to offer hazardous goods for sale.

(viii) To withdraw the hazardous goods from sale.

- (ix) To cease manufacture of hazardous goods and to desist from offering hazardous services.
- (x) To pay any amount (not less than 5% of the value of the defective goods or deficient services provided), to be credited to the Consumer Welfare Fund or any other organisation / person to be utilised in the prescribed manner.

• Responsibilities that a consumer should discharge while purchasing, using and consuming goods and services:

- (i) Be aware about various goods and services available in the market so that an intelligent and wise choice can be made.
- (ii) Buy only standardised goods as they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO/FSSAI mark on food products, Hallmark on jewellery, etc.
- (iii) Learn about the risks associated with products and services, follow manufacturer's instructions and use the products safely.
- (iv) Read labels carefully so as to have information about prices, net weight, manufacturing and expiry dates, etc.
- (v) Assert yourself to ensure that you get a fair deal.
- (vi) Be honest in your dealings. Choose only from legal source and discourage unscrupulous practices like blackmarketing, hoarding, etc.
- (vii) Ask for a cash memo on purchase of goods or services. This would serve as a proof of the purchase made.
- (viii) File a complaint in an appropriate consumer forum in case of a shortcoming in the quality of goods purchased or services availed. Do not fail to take an action even when the amount involved is small.
- (ix) Form consumer societies which would play an active part in educating consumers and safeguarding their interests.
- (x) Respect the environment. Avoid waste littering and contributing to pollution.

ROLE OF CONSUMER ORGANISATIONS AND NGOs

In India, several consumer organisations and non-governmental organisations (NGOs) have been set up for the protection and promotion of consumer interests. Non-governmental organisations are non-profit organisations which aim at promoting the welfare of people. They have a constitution of their own and are free from government interference. Consumer organisations and NGOs perform several functions for the protection and promotion of interest of consumer. These include:

- Educating the general public about consumer rights by organising training programmes, seminars and workshops.
- (ii) Publishing periodicals and other publications to impart knowledge about consumer problems, legal reporting, reliefs available and other matters of interest.
- (iii) Carrying out comparative testing of consumer products in accredited laboratories to test the quality of products and publishing the test results for the benefit of consumers.
- (iv) Encouraging consumers to strongly protest and take an action against unscrupulous, exploitative and unfair trade practices of sellers.
- (v) Providing legal assistance to consumers by way of providing aid, legal advice, etc. in seeking legal remedy.
- (vi) Filing complaints in appropriate consumer courts on behalf of the consumers.
- (vii) Taking an initiative in filing cases in consumer courts in the interest of general public, not for any individual. Difference between Consumer Protection Act, 1986 and Consumer Protection Act, 2019

Provision	Consumer protection Act, 1986	Consumer Protection Bill, 2019
Regulator	No Central Regulator	Central Consumer Protection authority to be setup
Filling of complaint	A complaint needs to be filled in the consumer court under whom jurisdiction of the seller falls under	A complaint can be filed from anywhere or from where the consumer resides.
Mediation	No provision	Courts can work towards settlement through mediation cells.
Jurisdiction	The jurisdiction at District level was complaints worth of Rs. 20 lakh	District level authorities can take-up complaints with goods and services worth up to Rs. 1 crore.
Product Liability	No provision	Consumer have the right to seek compensation for any harm caused.
E-Commerce	No provision	E-commerce transactions will come under the provisions involving direct sales.
Video Conferencing	No provision	Consumers can seek hearing through Video Conferencing

O-ur Key Terms

- Consumer Protection: It refers to the act of providing adequate protection to the consumers against the unscrupulous, exploitative and unfair trade practices of producers and traders.
- Consumer: Consumer is a person who uses the consumer goods or avails of any service.
- Consumer organisation: A non-governmental non-profit organisation created to promote the interests of consumers of goods and services, by disseminating information and lobbying for laws to protect consumers against producers or sellers.
- Redressal agency: An organization that provides service by providing a remedy or compensation for a wrong
- NGO: A non-profit group that functions independently of any government to serve a social or political goal.