## CONTENTS

<table>
<thead>
<tr>
<th>S.No</th>
<th>Topic</th>
<th>Page No</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Rationale, General Objectives, Methodology, Syllabus and Design of the paper and Mark distribution for topics.</td>
<td>02</td>
</tr>
<tr>
<td>II</td>
<td>Chapter wise Chapter Summary and Practice Questions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Introduction to Management</td>
<td>08</td>
</tr>
<tr>
<td></td>
<td>2. Principles of Management</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>3. Management and Business Environment</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>4. Planning</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>5. Organizing</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>6. Staffing</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>7. Directing</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>8. Controlling</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>9. Financial Management</td>
<td>111</td>
</tr>
<tr>
<td></td>
<td>10. Financial Markets</td>
<td>125</td>
</tr>
<tr>
<td></td>
<td>11. Marketing Management</td>
<td>140</td>
</tr>
<tr>
<td></td>
<td>12. Consumer Protection</td>
<td>166</td>
</tr>
<tr>
<td>III</td>
<td>PROJECT WORK</td>
<td>175</td>
</tr>
<tr>
<td>IV</td>
<td>GUIDELINES FOR PRACTICALS, THEORY PAPER AND HOW TO STUDY BUSINESS STUDIES</td>
<td>187</td>
</tr>
<tr>
<td>V</td>
<td>Practice Questions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 1 -Pg - 191</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 2-Pg -197</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 3-Pg -202</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 4-Pg -204</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 5-Pg -208</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 6-Pg - 214</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 7-Pg - 221</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 8-Pg -225</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 9-Pg - 228</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 10-Pg - 236</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 11-Pg - 241</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chapter - 12-Pg - 248</td>
<td></td>
</tr>
</tbody>
</table>
RATIONALE, GENERAL LEARNING OBJECTIVES, METHODOLOGY AND SYLLABUS FOR THE ACADEMIC YEAR 2015-16: BUSINESS STUDIES

The courses in Business Studies and Accountancy are introduced at + 2 stage of Senior Secondary Education as formal commerce education is provided after first ten years of schooling. Therefore, it becomes necessary that instructions in these subjects are given in such a manner that students have a good understanding of the principles and practices bearing in business (trade and industry) as well as their relationship with the society.

Business is a dynamic process that brings together technology, natural resources and human initiative in a constantly changing global environment. To understand the framework in which a business operates, a detailed study of the organisation and management of business processes and its interaction with the environment is required. Globalization has changed the way firms transact their business.

Information Technology is becoming a part of business operations in more and more organisations. Computerised systems are fast replacing other systems. E-business and other related concepts are picking up fast which need to be emphasized in the curriculum.

The course in Business Studies will prepare students to analyse, manage, evaluate and respond to changes which affect business. It provides a way of looking at and interacting with the business environment. It recognizes the fact that business influences and is influenced by social, political, legal and economic forces. It allows students to appreciate that business is an integral component of society and develops an understanding of many social and ethical issues.

Therefore, to acquire basic knowledge of the business world, a course in Business Studies would be useful. It also informs students of a range of study and work options and bridges the gap between school and work.

General Learning Objectives of the Subject:

✓ To develop in students an understanding of the processes of business and its environment;
✓ To acquaint students with the dynamic nature and inter-dependent aspects of business;
✓ To develop an interest in the theory and practice of business, trade and industry;
✓ To familiarize students with theoretical foundations of organizing, managing and handling operations of a business firm;
✓ To help students appreciate the economic and social significance of business activity and the social cost and benefits arising there from;
✓ To acquaint students with the practice of managing the operations and resources of business;
✓ To prepare students to function more effectively and responsibly as consumers, employers, employees and citizens;
✓ To help students in making the transition from school to the world of work including self-employment;
✓ To develop in students a business attitude and skills to be precise and articulate.
Methodology
✓ Topics will be discussed in class.
✓ A handout to cover topics not given adequately in the text will be given wherever required.
✓ Flow charts to facilitate quick recap will be used for revision.
✓ Assignments to cover previous year Board questions will be given for writing practice.
✓ Extra question covering HOTS questions for the chapter will be discussed in class.
✓ A monthly class test will be given to assess learning of students.

Syllabus for Annual Paper 3 Hours 80 Marks

<table>
<thead>
<tr>
<th>DESIGN OF 80 MARK QUESTION PAPER</th>
<th>Total Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marks per Question</td>
<td>1</td>
</tr>
<tr>
<td>Number Of Questions</td>
<td>8</td>
</tr>
<tr>
<td>Total Marks</td>
<td>08</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part A Principles and Functions of Management</th>
<th>Marks: 50</th>
<th>Periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction to Management</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>2. Principles of Management</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>3. Business Environment</td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>4. Planning</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>5. Organizing</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>6. Staffing</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>7. Directing</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>8. Controlling</td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Marks:50</td>
<td></td>
<td>120</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part B: Business Finance and Marketing</th>
<th>Marks:</th>
<th>Periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Financial Markets</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>11. Marketing Management</td>
<td>15</td>
<td>32</td>
</tr>
<tr>
<td>12. Consumer Protection</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Part C: Project</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Marks:50</td>
<td></td>
<td>120</td>
</tr>
</tbody>
</table>
### Part A: Principles & Functions of Management: Unit I: Nature and Significance of Management

- Management - concept, objectives and importance.
- Management as Science, Art and Profession.
- Levels of Management
- Management functions - planning, organising, staffing, directing and controlling.
- Coordination - concept and importance.
  - Concept includes meaning and characteristics/features.
  - Objectives - organizational, social and personal.
  - Management as art - Features of art and the existence of these features in management.
  - Management as science - Features of science and the existence of these features in management. Management as profession - features of profession and the existence of these features in management.
  - Levels of management - Functions of management at top, middle and supervisory levels with names of job positions.
  - Discuss the concept and characteristics of coordination. Explain the importance of coordination.

### Unit 2: Principles of Management

- Principles of Management - concept and significance.
- Fayol's principles of management.
- Taylor's Scientific management - principles and techniques.
  - Meaning of principles of management. Nature of principles of management by stating their basic characteristics.
  - Significance or need of principles of management.
  - Principles of Scientific Management given by Taylor - Science, not rule of thumb; Harmony, not discord; Cooperation, not individualism; Development of each and every person to his or her greatest efficiency and prosperity.
  - Taylor's techniques of Scientific management: Functional Foremanship; Standardisation and Simplification; Work study: Method study, Motion study, Time study, Fatigue study. Differential piece wage system.
  - Basis of his thought
  - Mental Revolution.

### Unit 3: Management and Business Environment

- Business Environment - concept and importance.
- Dimensions of Business Environment - Economic, Social, Technological, Political and Legal.
- Impact of Government policy changes on business with special reference to liberalization, privatization and globalization in India.
  - Dimensions of Business Environment - meaning and components only. Appreciate the managerial response to changes

### Unit 4: Planning

- Concept, importance and limitations.
- Planning process
  - Limitations - internal and external.
  - Meaning of single use and standing plans.
## Unit 5: Organising

- Concept and importance.
- **Organising Process.**
  - Delegation: concept, elements and importance.
  - Decentralization: concept and importance.
  - Structure of organisation- functional and divisional- Explain the advantages, disadvantages and suitability of functional and divisional structure.
  - Formal and informal – concept, advantages, disadvantages of formal and informal organization.
  - Difference between delegation and decentralization.

## Unit 6: Staffing

- Concept and importance of staffing.
- Staffing as a part of Human Resource Management- concept.
- Staffing process
- Recruitment- sources
- Selection -process
- Training and Development- Concept and importance. Methods of training- on the job and off the job- Induction training, vestibule training, apprenticeship training and internship training.
  - Methods of on-the-job training and off-the job training-meaning, induction training, vestibule training, apprenticeship training and internship training.

## Unit 7: Directing

- Concept and importance
- Elements of Directing
  - Supervision- concept, functions of a supervisor.
  - Motivation- concept, Maslow's hierarchy of needs, Financial and non-financial incentives.
  - Leadership- concept, styles- authoritative, democratic and laissez faire.
  - Communication-concept, formal and informal communication; barriers to effective communication, how to overcome the barriers.
  - Motivation- Financial incentives-meaning, types- Pay and Allowances, Productivity linked wage incentive , bonus, Profit sharing, co-partnership/stock option, Retirement benefits, Perquisites; Non-financial incentives- meaning, types-Status, Career advancement opportunity, Job enrichment, Job security, Employee recognition programmes, Job enrichment, Employee participation, Employee empowerment.
  - Formal and informal communication- concept;
  - Barriers to effective communication- semantic barriers (badly expressed message, symbols with different meanings, faulty translations, unclarified assumptions, technical jargon), psychological barriers (premature evaluation, lack of attention, distrust), organizational barriers (organisational policy, rules and regulations, complexity in organisational structure, organizational facilities), personal barriers (fear of challenge to authority, lack of confidence of superior on his subordinates, unwillingness to communicate, lack of proper incentives).
  - How to overcome barriers: Communicate according to the needs of the receiver, clarify the ideas before
communication, be aware of the language, tone and content of the message, communicate for present as well for the future, ensure proper feedback and be a good listener.

### Unit 8: Controlling

- Concept, nature and importance
- Relationship between planning and controlling
- Steps in the process of control

### Part B: Business Finance and Marketing:

#### Unit 9: Financial Management

- Concept and objectives of financial management.
- Financial decisions: investment, financing and dividend and factors affecting.
- Financial planning – concept, objectives and importance.
- Capital Structure – Concept and factors determining the choice of an appropriate capital structure.
- Fixed and Working Capital - Concept and factors affecting their requirements.

- Factors affecting capital budgeting decisions - cash flows of the project, the rate of return, investment criteria involved.
- Factors affecting financing decision - cash flow position of the company, cost, risk, floatation costs, fixed operating costs, control considerations, state of the capital market, Return on investment, tax rate, flexibility, regulatory framework.
- Factors affecting dividend decision - amount of earnings, stability of earnings, stability of dividends, growth opportunities, cash flow position, shareholder's preference, taxation policy, stock market reaction, access to capital market, legal constraints, contractual constraints.
- Factors affecting fixed capital requirement - Nature of business, scale of operations, choice of technique, technology upgradation, growth prospects, diversification, financing alternatives, level of collaboration.
- Working capital - concept of operating cycle, factors affecting working capital requirement - Nature of business, scale of operations, business cycle, seasonal factors, production cycle, credit allowed, credit availed, availability of raw material.

#### Unit 10: Financial Markets

- Financial Markets: Concept and types.
- Money market and its instruments.
- Capital market and its types (primary and secondary)
- Stock Exchange - Functions and trading procedure.
- Securities and Exchange Board of India (SEBI) - objectives and functions. Meaning of depository services and Demat account as used in the trading procedure of securities.
- Types of financial market - money market and capital market - meaning.
- Money market instruments - Treasury bill, commercial paper, call money, certificate of deposit, commercial bill.
- Capital market - Types - primary and secondary market - concept.
- Differences between: Capital and money markets; Primary and Secondary markets
Unit 11: Marketing Management

- Selling, Marketing – Concept, features of Marketing, difference between marketing and selling.
- Marketing management- Concept.
- Marketing Functions.
- Marketing management philosophies.
- Marketing Mix - Concept & elements
  - Product-Concept, branding, labeling and packaging.
  - Price- Concept , Factors determining price.
  - Physical Distribution- concept, components of Physical distribution, channels of distribution: types, facors determinimng choice of channels.
  - Promotion- Concept and elements; advertising-concept, role, objections to advertising, personal selling-concept and qualities of a good salesman, sales promotion- concept and techniques, public relations- concept and role.

✓ Marketing mix elements- Product, price, place, promotion
✓ Branding, labeling, packaging- concept and functions :
✓ Choice of channels of distribution- factors affecting choice of channel- product related factors, company characteristics, competitive factors, market factors, environmental factors

Unit 12: Consumer Protection

- Concept and importance of consumer protection.
- Consumer Protection Act 1986
  - Meaning of consumer and consumer protection
  - Rights and responsibilities of consumers
  - Who can file a complaint and against whom?
  - Redressal machinery.
  - Remedies available.
- Consumer awareness-Role of consumer organizations and NGOs
Introduction To Management

Definition
- According to Koontz and O’Donnell, “Management is creating an internal environment of an enterprise where individuals working together in groups perform efficiently and effectively towards achievement of group goals.”
- Management, has therefore, been defined as a process of getting things done with the aim of achieving goals effectively and efficiently.

There are certain terms which require elaboration. These are:
- **Process**: means the primary functions or activities that management performs to get things done. These functions are planning, organising, staffing, directing and controlling
- **Effectively**: Being effective or doing work effectively basically means finishing the given task. Effectiveness in management is concerned with doing the right task, completing activities and achieving goals. In other words, it is concerned with the end result.
- **Efficiently**: means doing the task correctly and with minimum cost. There is a kind of cost-benefit analysis involved and the relationship between inputs and outputs.
- Suppose, a company’s target production is 5000 units in a year and the budgeted expenses was Rs 20,00,000. If the firm is able to achieve the target of 5,000 units but spends Rs 27,00,000 then the firm is effective but not efficient. On the other hand, if the firm is able to achieve the target of 5,000 units and spends Rs 20,00,000 to do but takes on year and 3 months, then the firm is efficient but not effective.

Features/Characteristics of Management
1. **Goal oriented process**: goals should be simple and clearly stated. Management unites the efforts of different individuals in the organisation towards achieving these goals.
2. **All pervasive**: all types of organizations, all levels and all departments.
3. **Multi dimensional**: complex activity with 3 dimensions
   - **Management of work**: Management translates work in terms of goals to be achieved and assigns the means to achieve it. This is done in terms of problems to be solved, decisions to be made, plans to be established, budgets to be prepared, responsibilities to be assigned and authority to be delegated.
   - **Management of people**: Has two dimensions - employees as individuals with diverse needs and behavior + individuals as a group of people. Management make people work towards achieving the organisation’s goals, by making their strengths effective and their weaknesses irrelevant.
   - **Management of operations**: every organization has some basic product or service that requires a production process →flow of input material + technology for transforming this input into the desired output for consumption. This is interlinked with both the management of work and the management of people.
4. **Continuous process**: mgt. is an ongoing series of continuous, composite, but separate functions (planning, organising, directing, staffing and controlling) simultaneously performed.
5. **Group activity**: a firm is a collection of individuals with different needs, different purpose for joining the organization but they work towards fulfilling the common organizational goal. Team work and coordination of individual effort in a common direction enables all its members to grow and develop as needs and opportunities change.

6. **Dynamic function**: Management adapts itself to the changing environment. External environment consists of various social, economic and political factors and, an organisation must change itself and its goals according to the needs of the environment.

7. **Intangible force**: cannot be seen but its presence can be felt → targets are met according to plans, employees are happy and satisfied, and there is orderliness instead of chaos.

### Objectives of Management

Objectives are

1. **Ends** towards which activities of an organization are directed
2. **Standards** against which performance is assessed.

<table>
<thead>
<tr>
<th>Organisational Obj</th>
<th>Social Objectives</th>
<th>Personal/ Individual Obj</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting and achieving objectives for the organisation.</td>
<td>It involves the creation of benefit for society.</td>
<td>Objectives seeking to reconcile personal goals of employees with organisational objectives for harmony in the organisation.</td>
</tr>
<tr>
<td>1. <strong>Survival</strong> (earn enough revenue to cover costs)</td>
<td>1. Giving employment opportunities to disadvantaged sections of society.</td>
<td>1. Fair remuneration</td>
</tr>
<tr>
<td>2. <strong>Profit</strong> (covers costs + risks)</td>
<td>2. Providing basic amenities like schools and creches to for employee’s children.</td>
<td>2. Good working conditions</td>
</tr>
<tr>
<td>3. <strong>Growth</strong> (in the long run in terms of ↑ in sales, no. of employees, variety of products, capital investment etc)</td>
<td>3. Providing good quality goods at fair prices</td>
<td>3. Opportunities for training and development and personal growth</td>
</tr>
<tr>
<td></td>
<td>5. Avoidance of unfair trade practices</td>
<td>5. Recognition and satisfaction.</td>
</tr>
<tr>
<td></td>
<td>6. Conducting business in a lawful manner</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7. Paying taxes promptly</td>
<td></td>
</tr>
</tbody>
</table>
## Nature of Management

<table>
<thead>
<tr>
<th>I Management as an Art</th>
<th>II Management as a Science</th>
<th>III Management as a Profession</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Art implies personal application of knowledge with ingenuity, skill and creativity to achieve desired results</strong></td>
<td><strong>Science can be defined as a systematic body of knowledge pertaining to a specific field of study. It contains principles and facts which explain a phenomenon</strong></td>
<td><strong>Profession can be defined as an occupation backed by specialized knowledge and training.</strong></td>
</tr>
</tbody>
</table>

**Features of Art:**
1. Existence of theoretical knowledge
2. Personalized Application: (use of basic knowledge varies from individual to individual.)
3. Based on practice and Creativity: (involves creative practice of existing theoretical knowledge)

- There is a lot of literature available w.r.t various areas of mgt such as mkt, finance etc.
- Managers apply these management theories in their unique manner depending on their practice, imagination, initiative and innovation.
- Manager applies this acquired knowledge in a personalized and skillful manner in the light of the realities of a given situation giving rise to different styles of management.

**Features of science:**
1. Systematic body of knowledge: (that establish cause and effect relationship.)
2. Principles based on experiments: (under controlled conditions)
3. Principles have universal validity

- There is a lot of literature available w.r.t various areas of mgt such as mkt, finance etc.
- Principles of management are based on repeated experiments and observations. But since management deals with human behavior, outcomes may not always be accurately predicted/replicated.
- Principles ≠ exact so not universal. They have to be modified according to situations.

**Features of a Profession**
1. Body of knowledge:
2. Restricted entry (thru examination or education)
3. Professional association
4. Ethical code of conduct (that guides the behavior of its members)
5. Service motive (by rendering dedicated and committed services)

- There is a lot of literature available w.r.t various areas of mgt such as mkt, finance etc.
- No restriction on appointment of managers. But professional knowledge and training is desirable
- There are associations such as AIMA and they lay down a code of conduct but membership is not compulsory.
- Stated goal of organisations and management is profit maximization but effective and efficient management also serve society by providing quality gds at reasonable prices.

**Conclusion:**
- All the features of art are present in management and are broadly fulfilled, so we can say that management is an art.
  - It is the art of getting work done by others.
  - It is, however not a Fine Art like painting or music.

**Conclusion:**
- Management satisfies some of the features of science but not all.
  - Inexact/social/soft/behavioral science.
  - Concerned with human behavior which can’t be studied under controlled experiments and can’t be predicted with absolute accuracy.

**Conclusion:**
- Management satisfies some of the features of profession but not all.
  - So, management is not regarded as a full fledged profession like medicine/law etc.
  - but management is fast moving in that direction.
Importance of Management

1. Management helps in achieving group goals: The task of a manager is to give a common direction to the individual effort in achieving the overall goal of the organisation.
2. Management increases efficiency: The aim of a manager is to reduce costs and increase productivity through better planning, organising, directing, staffing and controlling the activities of the organisation.
3. Management creates a dynamic organisation: Environment is constantly changing. Individuals resist change as it often means moving from a familiar, secure environment into a newer and more challenging one. Management helps people adapt to these changes → organisation → maintain its competitive edge.
4. Management helps in achieving personal objectives: So that individual members are able to achieve personal goals while contributing to the overall organisational objective. Motivation and leadership → individuals to develop team spirit, cooperation and commitment to group success.
5. Management helps in the development of society: It helps to provide good quality products and services, creates employment opportunities, adopts new technology for the greater good of the people and leads the path towards growth and development.

- Levels of Management - Top, Middle, Supervisory

- The Chain of superiors and subordinates from the highest level to the lowest is known as chain of command or management hierarchy or scalar chain.
- It is an authority-responsibility relationship that binds individuals as superiors and subordinates and gives rise to different levels in an organization.
- Generally this chain is divided into three categories. These are called 'levels of management'

<table>
<thead>
<tr>
<th>Top Level</th>
<th>Middle Level</th>
<th>Lower Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functions:</td>
<td>Functions:</td>
<td>Functions:</td>
</tr>
<tr>
<td>1. Integrate diverse elements and coordinate activities of different departments in one direction.</td>
<td>1. Link between top and lower levels of management.</td>
<td>1. Interact with actual workforce and develop healthy relations with the workers.</td>
</tr>
<tr>
<td>2. Responsible for welfare and survival of the organization.</td>
<td>2. Implementing and controlling plans and strategies formulated by top management.</td>
<td>2. Pass on instructions of middle level management to the workers.</td>
</tr>
<tr>
<td>3. Determining overall objectives and strategies for their achievements.</td>
<td>3. Interpretation of the policies of the top level management.</td>
<td>3. Maintain standards of quality, minimize wastage and ensure steady flow of output.</td>
</tr>
<tr>
<td>4. Responsible for business activities and its impact on society.</td>
<td>4. Ensure that their department has necessary personnel.</td>
<td>4. Maintain safety standards.</td>
</tr>
<tr>
<td>5. Organizing activities to be performed by persons working at the middle level</td>
<td>5. Assign duties and responsibilities to the personnel in their departments.</td>
<td>5. Motivate the employees.</td>
</tr>
<tr>
<td>6. Assembling all resources.</td>
<td>6. Motivating persons to achieve desired objectives.</td>
<td>6. Represent problems/grievances of workers before middle level management.</td>
</tr>
<tr>
<td>7. Liaison with the outside world</td>
<td>7. Co-operate with other departments.</td>
<td>7. Help middle level management in recruiting, selecting and appointing the</td>
</tr>
</tbody>
</table>
Management Functions or Steps in the Process of Management

Management is described as the process of planning, organizing, directing and controlling the efforts of organisational members and of using organisational resources to achieve specific goals.

- **Planning, Organizing, Staffing, Directing & Controlling**

1. **Planning**
   - It refers to “deciding in advance what to do, how to do, when to do and who is going to do it. It bridges the gap between where we are and where we want to go.”
   - Cannot prevent problems but can predict it and prepare contingency plans to deal with them.
   - It involves the following decisions:
     1. Establishing objectives
     2. Making forecasts
     3. Formulating policies, procedures
     4. Drawing programmes, schedules etc.

2. **Organising**
   - Organizing the activities and resources and establish the organization structure to execute the plan.
   - It involves assigning duties, grouping tasks, establishing authority and allocating resources required to carry out a specific plan.
   - Proper organisational techniques help in the accomplishment of work and promote both the efficiency of operations and the effectiveness of results.
   - Organizing process involves the following steps:
     1. Identifying the activities necessary to achieve the objectives
     2. Grouping similar activities into manageable units or departments
     3. Assigning duties and responsibilities
     4. Delegating necessary authority to carry on the assigned task
     5. Defining working relationships among individuals

3. **Staffing**
   1. Staffing refers to the manning of the organization and aims at putting the right person at the right job.
   2. It also refers to the human resources function of management and involves the following activities:
1. Manpower planning, i.e. determining the number and quality of employees required in the organization
2. Recruitment, Selection and Placement of right persons
3. Training and development
4. Appraisal, transfer and promotion
5. Employee remuneration

4. **Directing**

- Once the employees are appointed, there is need to instruct them and get the work done.
- Directing refers to giving directions or instructions to employees. Managers act as friends, counselors, leaders to guide the employees.
- So the important elements of Directing are:
  1. Supervision - overseeing employees at work
  2. Motivation - giving them incentives
  3. Leadership - ability to influence employees
  4. Communication - to create mutual understanding and team work

5. **Controlling**

- Controlling involves monitoring organizational performance and comparing it with the organizational objectives.
- It involves finding out the deviations if any and finding out corrective measures to come on the path of the plan.
- It involves the following steps:
  1. Setting standards for desired performance
  2. Measuring actual performance
  3. Comparing actual performance with the set standards
  4. Finding out deviations
  5. Analyzing deviations and taking corrective actions.

**Co-ordination**

- According to Mooney, "Co-ordination may be defined as the orderly arrangement of group effort to provide unity of action in pursuit of a common purpose."
- Force that binds all other forces of management.
- Runs thro all activities such as production, sales finance etc to ensure continuity in the working of the firm.
- Implicit and inherent in all management functions.

**Characteristics of Coordination:**

1. **Coordination integrates group efforts:** unifies unrelated or diverse interests into purposeful work activity + gives a common focus to group effort + ensure that performance is as it was scheduled.
2. **Coordination ensures unity of action:** binding force between departments and ensures that all action is aimed at achieving the goals of the organisation.
3. **Coordination is a continuous process**: begins at the planning stage and continues till controlling.

4. **Coordination is an all pervasive function**: all levels, all departments.

5. **Coordination is the responsibility of all managers**:
   - Top level managers → coordinate with their subordinates to ensure that the overall policies for the organisation are duly carried out.
   - Middle level management → with both the top level and first line managers.
   - Operational level management → activities of its workers to ensure that work proceeds according to plans.

6. **Coordination is a deliberate function**: coordination must be a conscious and deliberate effort. Cooperation in the absence of coordination may lead to wasted effort and coordination without cooperation may lead to dissatisfaction among employees. Coordination, therefore, is not a separate function of management, but its very essence.

### Need For Coordination:

Advantages/Need of Co-ordination
(These are the situations when a firm will require co-ordination)

1) **Growth in size**:
   - The need of co-ordination increases with the size of the organization, because in large organizations there are more number of people working, each individual having his own needs, objectives, beliefs and style of working. Co-ordination therefore brings harmony.

2) **Functional differentiation**:
   - Generally functions of an organization are divided into different departments, sections or divisions and each department has its own objectives, policies, style of working and may try to work in isolation and independently.
   - So, there is more need to relate and bring together activities of different sections as they are a part of one organization only as all depts.
   - And individuals are interdependent and depend on each other to perform their activities.

3) **Specialization**:
   - Specialists tend to focus on their area of specialization and may tend to overlook the overall picture of the organization. Therefore co-ordination is required between efforts of various specialists as also between specialists and others in the organization.
   - This will help reconcile the differences in approach, interest or opinions of experts.

- **Managing inter-dependencies**:
  - In the organization the performance of each employee affects the performance of others and working of one department affects the working of others. Therefore it is necessary to co-ordinate them so that the organization can achieve its goals.

### IMPORTANCE OF COORDINATION

- Ensures unity of action
- Erases interdepartmental conflicts
- Promotes harmonious implementation of plans
- Helps in maintaining a high degree of morale amongst employees
**Nature of co-ordination**

1. Co-ordination integrates group efforts:
2. Co-ordination ensures unity of action:
3. Co-ordination is a continuous process:
4. Co-ordination is an all pervasive function:
5. Co-ordination is the responsibility of all managers:
6. Co-ordination is a deliberate function:
7. Essence of management:

**Co-ordination is required at all the levels:**

- Needed in all departments as well as at all levels of management.
- Not the responsibility of the top management only. But of managers at all levels.
- The **top management**
  - Efforts of all departments and individuals are in one direction
  - Co-ordination between organizational goals and the goals of their respective departments and units.
- The **middle level management**
  - Co-ordinate their departmental plans with the plans of the other departments.
- **Lower level**
  - Integrate the activities of workers towards achievement of organizational objectives.

---

**Co-Ordination As The Essence Of Management**

Co-ordination plays a vital role in all the functions of management. It is not a separate function rather it is the essence of management i.e. it is required in all the functions of management.

<table>
<thead>
<tr>
<th>Co-ordination and Planning</th>
<th>Co-ordination and Organizing</th>
</tr>
</thead>
<tbody>
<tr>
<td>In ‘planning’ co-ordination is required between</td>
<td></td>
</tr>
<tr>
<td>1 Master plan of the enterprise and the plans of different departments or divisions</td>
<td></td>
</tr>
<tr>
<td>2 Objectives and the available resources</td>
<td></td>
</tr>
<tr>
<td>3 Different functional managers</td>
<td></td>
</tr>
<tr>
<td>In ‘Organizing’ co-ordination is required between</td>
<td></td>
</tr>
<tr>
<td>1 Authority, responsibility and Accountability of an individual</td>
<td></td>
</tr>
<tr>
<td>2 Different resources of an organization and activities to be performed</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Co-ordination and Staffing</th>
<th>Co-ordination and Directing</th>
</tr>
</thead>
<tbody>
<tr>
<td>In ‘Staffing’ co-ordination is required between:</td>
<td></td>
</tr>
<tr>
<td>1 Skills and abilities of employees and jobs assigned to them</td>
<td></td>
</tr>
<tr>
<td>2 Performance and rewards/compensation</td>
<td></td>
</tr>
<tr>
<td>3 Between technique of production and training</td>
<td></td>
</tr>
<tr>
<td>In ‘Directing’ co-ordination is required between:</td>
<td></td>
</tr>
<tr>
<td>1 Between superiors and subordinates</td>
<td></td>
</tr>
<tr>
<td>2 Among orders, instructions, guidelines and suggestions</td>
<td></td>
</tr>
<tr>
<td>3 Between situations and leadership styles, communication media etc.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Co-ordination and Controlling</th>
</tr>
</thead>
<tbody>
<tr>
<td>In ‘Controlling’ co-ordination is required between:</td>
</tr>
<tr>
<td>1 Standards fixed and actual performance</td>
</tr>
<tr>
<td>2 Type of deviation and corrective measures</td>
</tr>
<tr>
<td>3 Correction of deviation and achievement of objectives.</td>
</tr>
</tbody>
</table>
**Principles of Management**

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

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

**Management principles Vs. Pure science principles**

<table>
<thead>
<tr>
<th>Basis</th>
<th>Management Principles</th>
<th>Pure Science Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nature</td>
<td>Flexible</td>
<td>Rigid</td>
</tr>
<tr>
<td>2. Applicability</td>
<td>Applied with creativity as they influence human behaviour</td>
<td>Applied in absolute/static manner</td>
</tr>
<tr>
<td>3. Change</td>
<td>Have to keep pace with the changing business environment</td>
<td>Do not change with time.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principles</th>
<th>Techniques</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>They are guidelines to take decisions or actions while practicing techniques.</td>
<td>They are procedures or methods which involve a series of steps to be taken to accomplish desired goals.</td>
<td>They are rules of behaviour which are acceptable or desirable.</td>
</tr>
<tr>
<td>They are formed after a lot of research in work situations.</td>
<td></td>
<td>They are ethical in nature and have moral connotations.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>They are formed through common practice.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Nature of Management Principles:</th>
<th>Significance of Management Principles:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Universal Applicability:</td>
<td>1. Providing Useful Insights To Managers:</td>
</tr>
<tr>
<td>2. General Guidelines:</td>
<td>2. Optimum Utilization Of Resources:</td>
</tr>
<tr>
<td>3. Formed By Practice And Experimentation:</td>
<td>3. Scientific Decisions:</td>
</tr>
<tr>
<td>4. Flexible:</td>
<td>4. Meeting Changing Environmental Requirements:</td>
</tr>
<tr>
<td>5. Mainly Behavioral:</td>
<td>5. Filling Social Responsibilities:</td>
</tr>
</tbody>
</table>

**Nature of Management Principles:**
- **Universal Applicability:** Apply to all types of business organizations but extent of their applicability varies with nature of firm, scale of operations etc.
- **General Guidelines:** Do not provide readymade solutions to all managerial operations but as a guideline to managerial action as business principles are complex, dynamic and are a result of many factors.
**Formed By Practice And Experimentation:** By experimentation and the collective wisdom and experience of managers.

**Flexible:** give enough discretion to managers + Can be modified under different conditions by managers, depending upon the requirement of the company and type of employees.

**Mainly Behavioral:** Aimed at influencing human behavior + Enable a better understanding of the relationship between human and material relationships in achieving organizational goals + help to improve working relationships

**Cause and Effect Relationship:** Tell us that if a particular principle is applied in a situation, what might be the effect.

**Contingent/Relative:** The application of management principles is contingent or dependent upon situations prevailing in the organization at different points of time.

**Significance of Management Principles:**

- **Providing Useful Insights To Managers:** Improve knowledge, ability and understanding of managers under managerial situations + Enables managers to learn from their mistakes and conserve time
- **Optimum Utilization Of Resources:** Firm has limited resources and have to be used in a manner that they give maximum benefit with minimum cost + Principles of management provide guidance for optimum utilization of resources.
- **Scientific Decisions:** Advocates taking thoughtful decisions that are based on facts and justifiable in terms of intended purpose. They must be objective decisions, free from bias + Emphasize on logic rather than blind faith and help managers to settle problems systematically.
- **Meeting Changing Environmental Requirements:** Modern principles act as flexible guidelines that can be modified to meet the needs of changing environment in which the business operates.
- **Fulfilling Social Responsibilities:** Direct businessmen to discharge their social responsibilities towards various groups.
- **Management Training, Education And Research:** Management principles are the base for further research and development for already existing management practices.

(Refer to examples given in pages 35-40 as you may be given these examples ans asked to identify the feature/importance)

**F. W. Taylor (1856-1915)**

- Introduced scientific methods in management, as opposed to the rule of thumb.
- Emphasised on scientifically analysis of work and proposed to find, ‘one best way’ to do work, by conducting time, motion and method studies.
- Sought to increase the efficiency of workers by eliminating wastage of all types.
- Emphasised on the need to have mental revolution – a complete change in the outlook for both workers and management.
Wrote a book on ‘shop floor’ and an article, on ‘principles of Scientific Management’, based on his findings and experiments. Taylor coined the term ‘Scientific Management’. and gave a new thinking to management. For his contributions, he came to be known as ‘The Father of Scientific Management’.

Scientific Management

According to Taylor, ‘Scientific Management is knowing exactly what you want your men to do and seeing that they do it in the best and the cheapest way’. It includes finding the most efficient methods of production, scientific selection and training of workers, proper allotment of duties and work and achieving cooperation between workers and management.

<table>
<thead>
<tr>
<th>Principles of Scientific Management</th>
<th>Techniques of Scientific Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Science and not rule of thumb</td>
<td>1. Functional foremanship</td>
</tr>
<tr>
<td>b. Harmony and not discord</td>
<td>2. Standardization and simplification of work</td>
</tr>
<tr>
<td>c. Co-operation and not individualism</td>
<td>3. Method study</td>
</tr>
<tr>
<td>d. Development of each and every person to his/her greatest efficiency and prosperity</td>
<td>4. Motion study</td>
</tr>
<tr>
<td></td>
<td>5. Time study</td>
</tr>
<tr>
<td></td>
<td>6. Fatigue study</td>
</tr>
<tr>
<td></td>
<td>7. Differential piece rate system</td>
</tr>
</tbody>
</table>

Principles of Scientific Management:

✓ Science and not rule of thumb:
  o Each job must be performed on the basis of scientific enquiry and not on the basis of intuition or hit and trial method.
  o One best method of doing a job must be developed to maximize efficiency.

✓ Harmony and not discord:
  o Between management and workers.
  o Management should be willing to share gains of the firm with the workers and workers should work hard and accept change for the good of the firm and not go on strikes.
  o There should be ‘Mental Revolution’ = both should transform their way of thinking – interest of the two are the same and long term prosperity of management cannot be at the cost of management and vice versa (eg - Japanese culture) (Similar to Principle of Espirit De Corps given by Fayol)

✓ Co-operation and not individualism:
  o Extension of harmony and not discord.
  o Both should develop understanding and secure mutual co-operation.
  o Management should give importance to suggestions made by the workers and workers must desist from going on strikes and making unreasonable demands.

✓ Development of each and every person to his/her greatest efficiency and prosperity:
  o Industrial efficiency depends upon efficiency and competency of workers.
  o Efficiency should be built in right from the process of employee selection, assignment of work on the basis of their capabilities, giving training when needed.
Taylor suggested division of work of the factory manager into two sub-departments: planning department and production department.

- He realized that, a single foreman/supervisor cannot be expected to be an expert in all aspects of work and therefore he suggested appointment of eight supervisors to give instructions to a single worker.

- Out of them, four would work under the planning incharge and would be responsible for planning and the other four would work under the production incharge and would be responsible for execution.

**Specialists under the Planning In charge:**

1. **Route Clerk:** would specify route/sequence production operations
2. **Instruction Card Clerk:** would draft instructions for workers, in handling their jobs.
3. **Time and Cost Clerk:** would fix
   - Dates for starting and completing work as per schedule.
   - Cost sheet to determine expenses for material, labour and other overheads.
4. **Disciplinarian:** would ensure systematic performance of jobs by enforcing rules and regulations.

**Specialists under the Production In charge:**

1. **Gang Boss:** would do all preliminary work—keeps materials, machines, tools etc. ready for workers.
2. **Speed Boss:** would ensure timely and accurate completion of jobs.
3. **Inspector:** would check quality of work done by workers.
4. **Repair Boss:** would ensure that machines and tools are kept in proper working conditions and are maintained and repaired properly.
Standardization and Simplification of Work

- Methods of production should be analyzed scientifically and the best method should be developed by conducting various work studies (time, method, motion and fatigue). Then it should be used as the standard, throughout the organization.

- **Standardization** refers to the process of setting standards for every business activity. It can be standardization of process, raw materials, time, product, machinery, methods, working conditions. It is done with a view to:
  i. To reduce a given line or product to fixed types, sizes and characteristics.
  ii. To establish interchange ability of manufactured parts and products.
  iii. To establish standards of excellence and quality in materials.
  iv. To establish standards of performance of men and machines.

- Therefore standardization ensures:
  i. The product is according to a predetermined type, form, design, size, weight, quality etc.
  ii. Manufacture of identical parts and components which are interchangeable with one another.
  iii. Standards are established as regards quality of manufactured goods.
  iv. Standards are established for workers and machines at all levels.

- **Simplification** aims to eliminate unnecessary diversity in products as more varieties would mean more inventory, more machinery, more labour cost etc.
- Simplification would lead to savings in cost of labour, machines and tools.

3. **Work Study**

- Work study means a comprehensive and objective assessment and analysis of all the operations involved in performing the various jobs in the organization.
- This is done with a purpose of producing maximum possible output of the best quality at minimum costs.
- **It has 4 components:** time study, motion study, method study and fatigue study.

  a. **Time Study**

- It is a technique used to measure the time that may be taken by an average worker of reasonable skill and efficiency to perform a job well defined job.
- To conduct time study, the job is broken into a number of elements and the time taken to complete each element is noted with the help of a stopwatch. After adding necessary time for rest periods, the standard time of each element of the job and the standard time for performing the complete job is determined. Many techniques such as process charts, operation research etc are used for this purpose.
- **Purpose of time study is that it helps to determine:**
  i. Standard time required to do a job and number of workers to be employed.
  ii. A standard task/fair day’s work for the workman
  iii. To determine the number of employees to be employed
  iv. To determine labour costs and to frame suitable incentive schemes.
b. **Motion Study**

- It is a technique to closely observe movements of body of a worker involved in performing a job in order to eliminate unnecessary movements.
- **Aim is to identify:**
  - Motions that are productive
  - Motions that are incidental and
  - Motions that are unproductive.
- The study is generally conducted with the help of a movie camera. Experts observe how the worker moves, and determine his productive movements, incidental movements and unproductive movements. Then they instruct and educate workers how to eliminate the unnecessary/ unproductive movements so that the workers get to know the best way of doing a job.
- **Purpose of motion study** is:
  i. Finding the best method of doing work by developing the ideal sequence of motions.
  ii. Identifying and eliminating unnecessary movements.
  iii. Increase efficiency and reduce labour costs.
  iv. Reduce human fatigue.

c. **Method Study**

- There may a number of possible methods of performing a job with different cost requirements. Taylor suggests finding ‘**One best way**’ of performing a job. The purpose of method study is to minimize production costs and use organization’s resources such as land, labour, capital etc. for better results.
- Methods of production should not be decided by ‘rule of thumb’ but after trying all methods and the method that maximizes benefits with minimum cost must be selected.
- For example, Taylor devised the concept of assembly line by using the method study. This technique was used successfully by Ford Motor company and is used by the auto companies even today.

d. **Fatigue Study**

- This technique is conducted to find out:
  1. frequency of rest intervals
  2. duration of rest intervals
  3. and the number of rest intervals, in completing a job.
- If an employee keeps working without rest pauses, physical and mental fatigue affects the health and efficiency of workers. Excessive specialization and poor working conditions may also cause monotony and boredom resulting in more accidents, spoilage, absenteeism and labour turnover.
- Taylor suggested that the time and frequency of the rest intervals should not be decided by manager’s wish/ experience.
- To do it scientifically, fatigue study should be conducted, by noting down:
  1. Duration, after which, an average worker starts getting tired and his efficiency starts decreasing.
  2. Duration within which the worker gets refreshed to resume working.
Difference between Time Study and Motion Study

<table>
<thead>
<tr>
<th>Basis</th>
<th>Time Study</th>
<th>Motion Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>Time study is a technique used to measure the time taken by a workman of reasonable skill and efficiency to perform a job.</td>
<td>Motion study is a technique used to study close movements of body of worker, involved in performing a job.</td>
</tr>
<tr>
<td>2. Purpose</td>
<td>1. To determine standard time required to do a job.</td>
<td>1. To identify and eliminate unnecessary movements.</td>
</tr>
<tr>
<td></td>
<td>2. To determine fair day’s job</td>
<td>2. Reduce human fatigue.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. To Improve efficiency.</td>
</tr>
<tr>
<td><em>3. Method of conducting (not the main diff:)</em></td>
<td>It is conducted with the help of a stopwatch.</td>
<td>It is conducted with the help of a movie camera which keeps an eye on workers movements.</td>
</tr>
</tbody>
</table>

4. Differential Piece Rate Plan

- Taylor was a strong advocate of differential piece rate plan. To bring about a differentiation between efficient and inefficient workers, he introduced the concept of Standard Output/‘fair day’s work’. This is the amount of work which an average worker working under proper working conditions can perform during a working day.

- According to Taylor, two wage rates would be used; one for efficient workers producing standard output or more, and the other for inefficient workers producing less than standard output.

- E.g Suppose Standard Output = 10 units. Workers producing Standard output or more, would get Rs. 50 per unit while those producing less than standard output get only Rs.40 per unit.

- If worker A produces 11 units and worker B produces 9 units, their respective wage payments would be as follows:
  - A = 11 * Rs. 50 = Rs.550
  - B = 9 * Rs. 40 = Rs. 360
  - According to Taylor, a difference of Rs. 190 would be enough to motivate the inefficient worker to perform better.

- Conclusion: This system rewards efficient workers and puts pressure on inefficient workers to improve their efficiency. Also when the payment is given according to the number of units produced, automatically the production will be maximized.

*(if a question asks for 6 techniques of management, the components of work study can be given individually)*
Taylor’s Techniques of Scientific Management Are Not Universally Applicable

Scientific management consists of scientific observation and experimentation to determine standard task, scientific selection and training and ensuring that work is done in the most efficient manner.

Taylor gave the following techniques to apply scientific management:

- Time Study + Motion Study + Method Study + Fatigue Study
- Standardisation and Simplification
- Functional Foremanship
- Differential Piece Rate Plan

But it was realized that some of the techniques are not universally applicable. They are:

1. **Functional Foremanship** - This technique involves supervision of workers by 8 specialist foremen. This type of organization structure is not applicable to many organizations because it contradicts the principle of Unity of command and can lead to confusion for employees and overall chaos.

2. **Differential Piece Rate Plan** - This technique involves application of two wage rates, one for efficient workers, who are able to produce output more than or equal to standard output, and the other for inefficient workers who produce an output less than standard output. This system of wage payment is also not universally applied. The purpose of motivating workers for higher efficiency may be achieved by other methods of incentive wage payment. Also when products are not homogeneous and require special care for quality, this method is not suitable. e.g. can’t be applied in works of arts and craftsmanship. Also it is against the principle of equity.

3. **Standardisation and Simplification** - Standardisation means establishing standards for inputs, outputs, processes, quality etc. to enhance efficiency, while Simplification means eliminating unnecessary diversity in products. Standardisation may not universally applicable because it is not possible to set standards for all kinds of jobs. E.g art work requires creativity and not standards. Similarly simplification may not suitable for organizations having the objective of wider diversification and expansion of line of products and varieties.

**Conclusion** - Techniques of Scientific Management advocate the determination of the best way of production, to achieve maximum efficiency. However

- Firstly, some of the techniques are not universally applicable.
- Secondly, they would be useful only in industrial enterprises and factories. They may not be suitable for the overall management of all kinds of enterprises.

---

- **‘Mental Revolution’**

  ✓ There should be ‘Mental Revolution’ = both should transform their way of thinking – interest of the two are the same and long term prosperity of management cannot be at the cost of management and vice versa.
  ✓ Management should share a part of the profits or surplus with the workers.
  ✓ Workers should work hard to make the company profitable.

- The latest development in scientific management is ‘LEAN MANUFACTURING’. Now a days robotics and computers are being used in production and other business activities.
HENRY FAYOL (1841-1925)

His career profile and his achievements:
- Started working as an engineer in coal mining company in France in 1860
- Became the managing director of the company in 1888.
- Was considered to be the father of General management.

Major contributions of Fayol
- Fayol was the first one to identify four functions of management: Planning, Organizing, Directing and Controlling. Although his version was a bit different: Plan, Organise, Comand, Co-ordinate and Control.
- He also suggested that activities of a firm should be divided into Technical; Commercial; Financial; Security; Accounting and Managerial.
- He also suggested that qualities a manager must possess should be — Physical, Moral, Education, Knowledge and experience.
- Based on his own experience, Fayol developed his concept of administration and propounded 14 principles of management, which act as guidelines for managers to perform managerial activities. He is known as the ‘Father of General Management’.

1. Division of Labor
✓ The whole work should be divided into small tasks or units and each unit of work should be assigned to one person according to his capability, qualifications and experience.
✓ This will lead to specialization, improvement in performance, and speed and accuracy in doing the jobs.
✓ **Division of work produces more and better work for the same effort and leads to specialization that is the most useful way to use human effort.**

<table>
<thead>
<tr>
<th>Positive effects of following the principle</th>
<th>Adverse effect of violation of this principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Improves efficiency of work</td>
<td>• Lesser efficiency and productivity in work</td>
</tr>
<tr>
<td>• Facilitates specialization</td>
<td>• Would lead to more wastage of time caused by</td>
</tr>
<tr>
<td>• Increases output</td>
<td>change from one work process to another.</td>
</tr>
<tr>
<td>• Increases speed, accuracy and quality of work,</td>
<td>• No specialization</td>
</tr>
</tbody>
</table>

✓ **Example:** In a company, we have separate departments for finance, marketing, production and Human resource development. This leads to specialization and efficiency.

2. Parity Of Authority And Responsibility

- **Authority refers to the right to issue orders and ensure compliance of the same. Authority may be official (formal and positional) or personal (informal).**
- Responsibility means obligation of an employee to complete the job assigned, on time.
- There should be a balance between the authority and responsibility granted to a personality.
- If there is excess authority, it may be misused and if there is insufficient authority, the employee will be ineffective.
Positive effects of following the principle of Parity Of Authority And Responsibility

- Achieving targets on time
- No misuse of authority.
- Increase in confidence in employees

Adverse effects of violating the principle of Parity Of Authority And Responsibility

- Misuse of authority due to excess authority.
- Difficulty in achieving target/Delay in work due to less authority
- Difficulty in fixing responsibility
- Decline in confidence of employees.

Example: (Parity of authority and responsibility): The CEO tells sales manager to increase sales by 10%. The sales manager should also have the authority to appoint sales representatives to achieve the requisite sales target. If he is not given requisite authority and he is not able to fulfill the target, he cannot be blamed for not completing the work on time.

3. Discipline

- Observance of rules and regulations and judicious application of penalties.
- According to Fayol, discipline requires good superiors at all levels, clear and fair agreements and judicious application of penalties.

Positive effects of following the principle of discipline

- Systematic work and smooth functioning of the enterprise
- Accomplishment of targets on time
- Improved efficiency
- Enhanced goodwill

Adverse effect of violation of the principle of discipline

- Chaos and disorder in the organization
- Non achievement of targets in time.
- Decline in reputation of the organization and efficiency of employees.

Example: The employees must honor their commitments towards the organization by working effectively and efficiently. On the other hand superiors must also meet their commitments by meeting their promises of increments, promotions and wage revisions etc.

4. Unity Of Command

According to Fayol there should be one and only one boss for every individual employee. Employees should receive orders from one superior only. He felt that if this principle is violated “authority is undermined, discipline is in jeopardy, order disturbed and stability threatened”.

Dual subordination should be avoided to avoid confusion in the mind of employees and possibility of conflicts between superiors, and it will be easy to fix responsibility for non performance of work.

This principle resembles a military organization.
### Positive effects of following the principle of Unity of Command

- Clarity of instructions avoids confusion in the mind of employees
- Enhanced efficiency
- Easy to fix responsibility for non-performance of work.
- No ego clashes between superiors/cordial working environment.

### Adverse effect of violation of the principle of Unity of Command

- Confusion in the mind of the employees
- Lesser efficiency of subordinates
- Difficult to fix responsibility
- Conflicts among superiors

#### Example:
Salesman gets instructions from the production department to go slow in selling products because of power cut, while he gets instructions from sales department to increase sales to fulfill sales target. In this situation, the employee will get confused as to whose instructions must be followed by him.

#### 5. Unity Of Direction

- One head one plan - one manager and one plan for all operations having the same objective.

<table>
<thead>
<tr>
<th>Positive effects of following the principle of Unity of Direction</th>
<th>Adverse effect of violation of the principle of Unity of Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Achievement of organizational goals.</td>
<td>• Difficulty in achieving organizational objectives</td>
</tr>
<tr>
<td>• Better co-ordination and control because managers supervises all activities of the group.</td>
<td>• Lack of co-ordination</td>
</tr>
<tr>
<td>• Increased efficiency.</td>
<td>• More wastage of efforts and resources by working in different directions</td>
</tr>
<tr>
<td>• Specialization.</td>
<td>• Lesser efficiency</td>
</tr>
</tbody>
</table>

#### Example:
If an organization is producing different lines of products - cosmetics, medicines, confectionery items, each product will have its own market and business environment. Each division must plan its target and every employee of that division must put his efforts towards the achievement of plan of their division under the direction of one head only.

#### 6. Subordination Of Individual Interest To General Interest

- Management and employees must reconcile the interest of the individuals and general interest of the firm.
- In case such reconciliation is not possible, then the interest of the firm shall prevail over individual interest.
**Positive effects of following the principle of Subordination Of Individual Interest To General Interest**

- Organization benefits, and all benefit equally, so it leads to everyone’s welfare
- Organization’s objectives are fulfilled on time.
- Co-ordination between individual and organization’s objectives.
- Mutual understanding and co-ordination.

**Adverse effect of violation of the principle of Subordination Of Individual Interest To General Interest**

- Organization suffers at the cost of each person’s personal interest
- Lack of co-ordination between individual and organization’s objectives.
- Conflicts and jealousies among members.

---

**Example:** If the individual’s objective is to earn more remuneration and the organization is going through the situation of financial crisis and has the objective of cutting down the expenses; in such a situation individual must sacrifice his interest as when the organization will come out from this financial crisis, then he can achieve his objective.

8. **Remuneration Of Employees**

- Remuneration to employees must be just and fair both to employees and employer.
- That is, it must enable employees to maintain a reasonable standard of living and must be within the paying capacity of employer, be as per the minimum wages Act of the government and comparable to average wage rate for similar work in the industry.

**Positive effects of following the principle of Remuneration of Employees**

- More satisfied and motivated workforce
- More sense of belongingness, loyalty and dedication.
- Enhanced efficiency.

**Adverse effect of violation of the principle of Remuneration of Employees**

- Dis-satisfaction and frustration among employees
- Increase in absenteeism and labour turnover.
- Encouragement to dishonesty

**Example:** If in a particular year the organization has earned more profit, then apart from giving extra profit to shareholders and owners, some part of the profit must also be given to employees in the form of bonus. This will motivate them to put extra efforts and increase the profit of the organization.

9. **Principle of Centralisation and Decentralisation**

- According to Fayol, “There is a need to balance subordinate involvement through decentralisation with managers’ retention of final authority through centralisation.” The degree of centralisation will depend upon the circumstances in which the company is working.
- Concentration of authority at the top level = centralization.
- Systematic delegation of authority across all levels in the firm = decentralization.
- Firm must adjust between the two based on the nature of its organisation structure.
Positive effects of following the **Principle Of Centralisation And Decentralisation**

- Reduced workload of superiors
- Better and quick decision making
- Trains employees to be future managers
- Enhances confidence of employees

Adverse effect of violation of the **Principle Of Centralisation And Decentralisation**

- Complete centralization would lead to unnecessary increase in workload of superiors, would discourage initiative on the part of workers and reduce their confidence level.
- Complete decentralization—wrong decisions can be made by employees, misuse of authority by them.

**Example:** Determination of overall objectives and formulation of policies and procedures should be centralized, while activities of routine work like purchase of raw materials, carrying out production can be decentralized.

10. **Principle Of Scalar Chain**

- According to Fayol, “Organisations should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates.”

- In case of emergencies, the concept of ‘Gang Plank’ can be used.

Ordinarily, communication should flow from A to B to C to D to E. but in case of an emergency, A and E can communicate directly with E after informing their superior B and D respectively.

Positive effects of following **Scalar Chain**

- Orderly flow of information
- Systematic functioning and no communication gap.
- Better superior subordinate relationships because of respect of authority

Adverse effect of violation of **Scalar Chain**

- Disorderly flow of information leading to communication gap
- Problems in superior subordinate relationships if the management hierarchy is not followed.
- Chaos and indiscipline in the organization.

**Example:** All orders and instructions issued by heads of departments should reach the supervisors through intermediate managers. Similarly reports on results achieved should be passed from lower to higher levels through intermediate managers.
11. Principle Of Order

According to Fayol, “People and materials must be in suitable places at appropriate time for maximum efficiency.” The principle of order states that ‘A place for everything (everyone) and everything (everyone) in its (her/his) place’.

Order refers to orderly arrangement of men and materials i.e
- Material order = right place for everything and Social order = specified place for employees

<table>
<thead>
<tr>
<th>Positive effects of following the Principle Of Order</th>
<th>Adverse effect of violation of the Principle Of Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Better utilization of material and human resources.</td>
<td>- Misuse of resources</td>
</tr>
<tr>
<td>- No loss of time in finding and obtaining resources.</td>
<td>- Lot of time wastage in tracing and obtaining resources</td>
</tr>
<tr>
<td>- Better discipline and systematic functioning</td>
<td>- Chaos and disorder</td>
</tr>
</tbody>
</table>

**Example:** Head of the production may be allotted an office room, typist a particular table etc. Also toolkit for keeping tools should be kept in the factory/shop because of its easy approach for workers. This will prevent any wastage of time and efforts to look for them.

12. Principle Of Equity

Good sense and experience are needed to ensure fairness to all employees, who should be treated as fairly as possible,” according to Fayol. This principle emphasises kindliness and justice in the behaviour of managers towards workers. This will ensure loyalty and devotion.

- Equal, kind, fair and just treatment of subordinates by superiors and no discrimination on any basis – religion, language, caste etc..
- Equity does not mean absence of force. It is in fact necessary to maintain discipline.

<table>
<thead>
<tr>
<th>Positive effects of following the Principle Of Equity</th>
<th>Adverse effect of violation of the Principle Of Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Happy and satisfied workforce.</td>
<td>- Dissatisfaction and frustration among the workforce.</td>
</tr>
<tr>
<td>- Employees will get motivated, and it will enhance their loyalty and devotion.</td>
<td>- Increase in absenteeism and labour turnover</td>
</tr>
<tr>
<td>- Better performance and increase in efficiency</td>
<td>- Decline in efficiency of good workers.</td>
</tr>
</tbody>
</table>

**Example:** Workers performing similar jobs should be paid same wage rate and should be given similar working conditions and equal opportunity of growth. There should be same rules for availing medical leave and the performance of the employees should be appraised on the same basis.
12. Stability Of Tenure Of Personnel

“Employee turnover should be minimized to maintain organizational efficiency”, according to Fayol.

- Personnel should be selected carefully and once they are selected, they should not be moved around very frequently and the firm must make an effort to retain the personnel.

<table>
<thead>
<tr>
<th>Positive effects of following the principle of Stability Of Tenure Of Personnel</th>
<th>Adverse effect of violation of the principle of Stability Of Tenure Of Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Improves the efficiency level of employees.</td>
<td>- Generates insecurity among employees.</td>
</tr>
<tr>
<td>- Increase their confidence and job satisfaction</td>
<td>- Atmosphere of mistrust in the organization.</td>
</tr>
<tr>
<td>- Helps in retaining good employees in the organisation.</td>
<td>- High employee turnover because of lack of job satisfaction.</td>
</tr>
<tr>
<td></td>
<td>- Heavy recruitment expenses to replace staff.</td>
</tr>
<tr>
<td></td>
<td>- Downfall in the reputation.</td>
</tr>
</tbody>
</table>

Example: A typist is shifted from production department to purchase department and then to another department within a span of 4 months. This would lead to frustration or insecurity in his mind.

13. Principle Of Initiative

Workers should be encouraged to develop and carry out their plans for improvements according to Fayol. Initiative means taking the first step with self-motivation.

- ‘Initiative’ means eagerness to initiate action without being asked to do so. According to Fayol, employees should be allowed to think and execute plans, to bring about improvements in work related matters.
- However initiative does not imply freedom to do whatever people like. They must observe discipline. So once the decisions are taken by management, every employee must follow it whether it is according to his suggestions or not.

<table>
<thead>
<tr>
<th>Positive effects of following the Principle Of Initiative</th>
<th>Adverse effect of violation of the Principle Of Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Enhances creativity and motivation</td>
<td>- It suppresses creativity on the part of employees.</td>
</tr>
<tr>
<td>- Leads to enhanced sense of belongingness and participation</td>
<td>- Reduces their morale and inclination to work.</td>
</tr>
<tr>
<td>- Ensures co-operation from employees in implementation targets</td>
<td></td>
</tr>
</tbody>
</table>

Example: Before setting up the plan, the manager must welcome the suggestions and ideas of employees to allow maximum participation. But once the plan is made every employee must follow and implement it.
14. Espirit De Corps

- ‘Espirit de corps’ means ‘union is strength’. Fayol emphasized on team work and harmony among employees. He suggested that every employee in the organization must consider himself as a part or member of a team and try to achieve the team goal.
- A manager should replace I with we in organizational communication.

<table>
<thead>
<tr>
<th>Positive effects of following the principle of Espirit De Corps</th>
<th>Adverse effect of violation of the principle of Espirit De Corps</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Achievement of objectives on time</td>
<td>• Kills team spirit</td>
</tr>
<tr>
<td>• Mutual understanding and rapport building</td>
<td>• Difficulty in achieving objectives</td>
</tr>
<tr>
<td>• Team spirit, co-operation and co-ordination in working</td>
<td>• Can lead to conflicts and atmosphere of mistrust and suspicion</td>
</tr>
<tr>
<td>• Higher efficiency</td>
<td></td>
</tr>
<tr>
<td>• Minimizes use of penalties</td>
<td></td>
</tr>
</tbody>
</table>

**Example:** Suppose target of production department was to manufacture 100 units and there are 10 members, so each was expected to produce 10 units. If two report sick, then rest of the 8 should cooperate and achieve the target on time.

**Difference between Unity of command and Unity of Direction**

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

<table>
<thead>
<tr>
<th>Points of distinction</th>
<th>Taylor</th>
<th>Fayol</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Concern</td>
<td>Task, workers and supervisors.</td>
<td>Concerned more with efficiency of administration or managers.</td>
</tr>
<tr>
<td>2. Level/perspective</td>
<td>Shop floor level of a factory. Started from the lowest level in the organization and then he moved upwards, while formulating principles of scientific management.</td>
<td>Started his studies and approach from the top level and then proceeded downward with emphasis on unity of command, unity of direction and co-ordination.</td>
</tr>
<tr>
<td>3. Emphasis</td>
<td>On standardization of work and tools. His principles were more applicable at the shop level.</td>
<td>He laid emphasis on principles of general management and functions of managers.</td>
</tr>
<tr>
<td>4. Focus</td>
<td>Improve productivity of workers and eliminate all kinds of wastes.</td>
<td>Develop principles to ensure better management overall.</td>
</tr>
<tr>
<td>5. Major contribution</td>
<td>Development of scientific techniques and principles to enhance production at the shop(factory) level.</td>
<td>Development of 14 principles. They can be applied in all functional areas like purchase, personnel, and marketing. Etc.</td>
</tr>
<tr>
<td>6. Personality</td>
<td>That of a scientist</td>
<td>That of a researcher and practitioner</td>
</tr>
<tr>
<td>7. Applicability</td>
<td>Applicable to specialized situations.</td>
<td>Universally applicable</td>
</tr>
<tr>
<td>8. Unity of command</td>
<td>Functional foremanship, which contradicts Unity of command.</td>
<td>Strong supporter of Unity of command.</td>
</tr>
<tr>
<td>9. Stress on human element</td>
<td>Taylor focused more on increasing productivity rather than human resources.</td>
<td>Fayol showed more regard for human element by advocating principles such as stability of tenure, initiative etc.</td>
</tr>
<tr>
<td>10. Expression</td>
<td>General Theory of Administration</td>
<td>Scientific Management</td>
</tr>
<tr>
<td>11. Basis of formation</td>
<td>Observation and experiments</td>
<td>Personal experience</td>
</tr>
<tr>
<td>12. Expression</td>
<td>He was called ‘Father of Scientific Management’.</td>
<td>He was called ‘The Father of General Management’ and he wrote the General Theory of Administration.</td>
</tr>
<tr>
<td>13. Unity of Command</td>
<td>Did not feel that it is important as under functional foremanship a worker received orders from eight specialists.</td>
<td>Staunch proponent</td>
</tr>
<tr>
<td>PRINCIPLE</td>
<td>THEN</td>
<td>NOW</td>
</tr>
<tr>
<td>-----------</td>
<td>------</td>
<td>-----</td>
</tr>
<tr>
<td>1. Division of Work</td>
<td>Specialisation in workers’ Job design</td>
<td>Generalisation in workers’ Job design</td>
</tr>
<tr>
<td>2. Authority &amp; Responsibility</td>
<td>Managers are empowered</td>
<td>Employees are empowered</td>
</tr>
<tr>
<td>3. Discipline</td>
<td>Formalised Controls</td>
<td>Informal, Peer pressure controls</td>
</tr>
<tr>
<td>4. Unity of Command</td>
<td>Subordinates report to only one boss</td>
<td>Subordinates report to multiple bosses</td>
</tr>
<tr>
<td>5. Unity of Direction</td>
<td>Functions have only one plan and one boss</td>
<td>Functions have multiple plans and multiple bosses</td>
</tr>
<tr>
<td>6. Subordination of individual interest to common good</td>
<td>Employees are committed to the organisation</td>
<td>Organisation is committed to the employees and vice versa</td>
</tr>
<tr>
<td>7. Remuneration of personnel</td>
<td>Reasonable Pay reward system</td>
<td>Performance based reward system</td>
</tr>
<tr>
<td>8. Centralisation</td>
<td>Trickle down decision making</td>
<td>Task relevant ad hoc decision making</td>
</tr>
<tr>
<td>9. Scalar Chain</td>
<td>Hierarchical, formalised communication channel</td>
<td>Less formalised, flatter communication structure.</td>
</tr>
<tr>
<td>10. Order</td>
<td>Internal information system for control purposes</td>
<td>Internal information system for coordination purposes.</td>
</tr>
<tr>
<td>11. Equity</td>
<td>Commitment obtained through kindness</td>
<td>Commitment obtained through a sense of ownership</td>
</tr>
<tr>
<td>12. Stability of tenure of personnel</td>
<td>Train employees and encourage them to remain</td>
<td>On-going employee training and development</td>
</tr>
<tr>
<td>13. Initiative</td>
<td>Managers conceive and implement new ideas</td>
<td>Workers conceive and implement new ideas</td>
</tr>
<tr>
<td>14. Espirit de corps</td>
<td>Maintaining high morale among employees is imperative</td>
<td>Maintaining high morale among employees is not an imperative</td>
</tr>
</tbody>
</table>

**Fayol** was a French industrialist who rose from the position of an engineer to that of a Managing Director. He developed ‘The General Theory of management’. **Taylor**, was an American machinist who rose to the position of chief Engineer. He developed ‘Scientific Management’.

If we compare their works and personality, we see that both:
- Were practicing executives in the Industry.
- Realized that problem of personnel and its management is the key to industrial progress.
- Sought to develop rational and systematic basis of management.
- Developed their ideas through practical experience and experiments and expressed them through their books.
- Emphasized on training and development of personnel in management principles and techniques.
Conclusion

Thus we see that Taylor and Fayol belonged to different schools of thought, but their approaches are mutually complementary. That Taylor worked primarily at the operative level, from bottom of Industrial hierarchy upwards, while Fayol concentrated on managing and worked downwards, was merely a reflection of their different careers.

Thus works of Taylor and Fayol are important and complement each other since no organization can function effectively without mutual help and co-operation of managers and employees.
**Business Environment**

**Meaning of Business Environment:**
Business environment refers to forces and institutions outside the firm with which its members must deal to achieve the organisational purposes. Here
- Forces = economical, social, political, technological etc
- Institutions = suppliers, customers, competitors etc

It includes all those constraints and forces external to a business within which it operates. therefore,
- The firm must be aware of these external forces and institutions and
- The firm must be nagged keeping in mind these forces and institutions so that the organisational objectives are achieved.

<table>
<thead>
<tr>
<th>Features of Business Environment:</th>
<th>Importance of Business Environment: (benefits of environment scanning)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Totality of External Forces:</td>
<td>1. Enables The Firm To Identify Opportunities And Getting First Mover Advantage:</td>
</tr>
<tr>
<td>2. Specific and General Forces:</td>
<td>2. Helps Firms To Identify Threats And Early Warning Signals For Adverse Conditions:</td>
</tr>
<tr>
<td>3. Inter-Relatedness:</td>
<td>3. Helps In Tapping Useful Resources:</td>
</tr>
<tr>
<td>5. Uncertainty:</td>
<td>5. Helps In Assisting In Planning And Policy Formulation:</td>
</tr>
<tr>
<td>6. Complexity:</td>
<td>6. Helps In Improving Performance:</td>
</tr>
<tr>
<td>7. Relativity:</td>
<td></td>
</tr>
</tbody>
</table>

**Features of Business Environment:**

1. **Totality of External Forces:**
   - Business environment is the sum total of ALL factors external to the business.

2. **Specific and General Forces:**
   - Specific forces affect the business directly and immediately in their day to day working.
   - General forces have an indirect effect on the business (Explained in detail later).
3. **Inter-Relatedness:**
   - Different aspects of the business are inter-related. For example, increase in consumer awareness has led to more stringent laws and redressal system, demand for environment friendly products etc.

4. **Dynamic Nature:**
   - It keeps changing- for example, technology used, consumers’ tastes and preferences keeps changing and the firms need to change their operations to suit these changing conditions.

5. **Uncertainty:**
   - It is very difficult to predict the environmental changes that will take place.

6. **Complexity:**
   - Environment is a complex phenomenon as it consists of numerous components which are inter-related and have an influence on each other.
   - It becomes very difficult to comprehend the exact effect that different components have on a particular factor.

7. **Relativity:**
   - That is, it differs from country to country and region to region.

**Importance of Business Environment:**

Environmental conditions must be forecasted before establishing goals or strategic plans. The process by which firms monitor their relevant environment to identify opportunities and threats affecting their business is called **Environment Scanning.** The **benefits of environment scanning** are:

1. **Enables The Firm To Identify Opportunities And Getting First Mover Advantage:**
   - Helps the firm to capitalize on early opportunities.
   - Eg: maruti Udyog in the small car market.

2. **Helps Firms To Identify Threats And Early Warning Signals For Adverse Conditions:**
   - Environment analysis provides a base of information about possible future conditions that can be used to the firm’s advantage.
   - E.g. MNCs introducing new products to compete with Indian firms.

3. **Helps In Tapping Useful Resources:**
   - The business needs several inputs such as finance, raw materials, labour etc to carry out its activities.
   - These inputs are available from its environment, and the business, in turn, supplies goods and services to customers, taxes to govt, returns to investors etc.
   - Business depends on the envt for its inputs and as an outlet for its outputs.
   - The enterprise, thus should design policies that allows it to get the resources it needs so that it can convert them into outputs that the environment desires.
4. Helps In Coping With Rapid Changes:
   - Environmental factors such as market conditions, competition etc are changing very rapidly and more importantly at a very fast pace.
   - In order to cope with the pace at which environment is changing, managers must understand the environment and develop suitable courses of action.

5. Helps In Assisting In Planning And Policy Formulation:
   - Since environment is a source of both opportunities and threats, its understanding is the basis of planning and policy formulation.
   - E.g: if the firm is anticipating an increase in competition, it will plan its policies accordingly.

6. Helps In Improving Performance:
   - Enterprises that monitor and adapts to changes happening in the environment not only improve its present performance but also continue to succeed in the long run.

**Dimensions of Business Environment**

**GENERAL ENVIRONMENT**

**SOCIAL**
- Labour
- Customer

**OPERATING/ SPECIFIC ENVIRONMENT**
- Internal Environment
- Competition

**ECONOMIC**
- Supplier/Creditor
- International Component
- Investor

**POLITICAL**
- Customer

**TECHNOLOGICAL**
- Supplier/Creditor

**LEGAL**

The environment of a business is divided into three levels

**The Internal Environment:**
- These relate to the organisational aspects such as marketing, finance, personnel, production etc.
- The firm can alter or modify these factors to suit the requirements of specific situations and therefore these are referred to as controllable variables.

**The External Environment:**
- These factors are beyond the control of the firm and therefore are generally regarded as uncontrollable factors. The firm’s success depends, to a large extent, on its adaptability to the environment and its ability to properly design and adjust controllable variables to suit the business environment.
The External Environment:

These factors are beyond the control of the firm and therefore are generally regarded as uncontrollable factors. The firm’s success depends, to a large extent, on its adaptability to the environment and its ability to properly design and adjust controllable variables to suit the business environment.

General Environment

1. **Economic Environment:**
   - Economic environment of a business include economic conditions, economic policies and economic systems prevailing in the external environment of a business.
   - For example: With a rise in income level, demand for products especially luxury goods like TV, radio etc increases.

2. **Political Environment**
   - The kind of government that exists and the policies formulated by it are the political factors affecting a business enterprise.
   - Examples: Andhra Pradesh promoted the IT sector and it emerged as the IT capital of the country.

3. **Legal Environment:**
   - It includes various legislations passed by the parliament and State Legislatures and prescribes rules that have to be followed by all members of the business community.
   - Examples: Essential Commodities Act 1955=to control production, supply and distribution of and trading in commodities essential for human beings.

4. **Social Environment**
   - Describes the characteristics of the society in which the organisation exists.
   - Examples: ↑ in employment of women => ↑ in demand for consumer durables such as refrigerators and other household items.

5. **Technological Environment**
   - Includes new approaches to producing of goods and services e.g. new procedures/ equipments etc.
   - Examples: Colour TV took away the share of Black and white TVs.
General Environment

1. **Economic Environment**: Economic environment of a business include economic conditions, economic policies and economic systems prevailing in the external environment of a business.

- **Economic Conditions**: inflation rate, level of income, distribution of income and wealth, consumers’ income, debt and spending, employment rate, balance of payment, stage of development of economy etc.

- **Economic Policies**: E.g. EXIM policy, Fiscal policy, Monetary policy, Industrial Policy, Foreign Investment Policy etc.

- **Economic Systems**: influences freedom of operations or openness of business. Can be of three types- Capitalist, Social or Mixed Economic System.

Therefore we see that the business influences freedom of operations or openness of business environment consists of a large number of factors that exercise a strong influence on firms’ policies and actions. For example:

- With a rise in income level, demand for products especially luxury goods like TV, radio etc increases.
- India is a mixed economy and so Public and Private sectors Coexists. But gradually, with the initiation of the NEP 91, private sector was freed from a number of regulations and it assumed a vital role. Except for industries of national significance (e.g. defense) the private sector was allowed to invest in all industries.
- An increase in interest rates will discourage borrowing and therefore will curtail growth of industries.

2. **Social Environment**: Describes the characteristics of the society in which the organisation exists. The demand of the firm’s product and its operations depends on factors such as literacy rate, people’s attitudes, customs, beliefs and values, composition of working population, consumers’ awareness etc the social environment.

- Examples:
  - ↑ in employment of women => ↑ in demand for consumer durables such as refrigerators and other household items.
  - Because of a change in the attitude of people, there has been a ↑ food processing and garment manufacturing industries.
  - As awareness of society and focus on environment ↑, business focuses on environment friendly production techniques and avoiding unethical business practices.

3. **Political Environment**: The kind of government that exists and the policies formulated by it are the political factors affecting a business enterprise. The ideology of the government in existence, the governments attitude to industries, lobbying efforts of interest groups etc are all examples of the factors in the political environment.

- Examples:
  - Andhra Pradesh promoted the IT sector and it emerged as the IT capital of the country.
  - A number of MNCs wound up operations in the ’70s because of the Janta party’s policy of restricting growth of MNCs in the country but with the opening up of the economy in the ’90s, there has been a boost to foreign investment and entry of MNCs in the country has seen a renewal.
2. Legal Environment:

✓ It includes various legislations passed by the parliament and State Legislatures and prescribes rules that have to be followed by all members of the business community.

✓ Examples:

- **Essential Commodities Act 1955** = to control production, supply and distribution of and trading in commodities essential for human beings.
- **The Standards of Weight and Measurement Act, 1976** = Applicable for those goods that are sold or distributed by weight or measure or number. It is used to provide for use of standard weights and measures throughout the country.
- **Consumers Protection Act, 1986** = it provides for better protection of consumers’ interests. It has made provision for establishing consumer councils at district, state and national levels and provides for redressal for complaints w.r.t unfair trade practices, defective goods, excess price charged etc.
- **Industries (Development and Regulation) Act, 1951** = to control the volume and quantity of production and distribution. It includes rules about registration and licensing of industries.
- **Foreign Exchange Management Act** = regulates stock and flow of foreign exchange in India.
- **Monopolies and Restrictive Trade Practices Act, 1969** = prevents concentration of economic power to control monopolies, prohibit monopolies and restrictive trade practices that are prejudicial to public interest.

3. Technological Environment

✓ Includes new approaches to producing of goods and services e.g. new procedures/equipments etc.

✓ These factors bring about improvement in techniques of production and may lead to economy in cost, time etc or better quality products. A firm needs to keep track of technological advancements because otherwise it will be forced out of the market.

✓ Examples:

  o Colour TV took away the share of Black and white TVs.
  o Constant innovations in mobile handsets etc.

Features of NEP (New Economic Policy) 1991:

Since ’91, India has been following a threefold strategy of Globalization, Liberalisation and Privatization. The aims of these reforms are:

✓ To modernize the country’s industrial system
✓ To remove unproductive controls
✓ To encourage private investment (including foreign investment)
✓ Integrating the Indian economy with the global economy.
The **three main strategies** adopted for the above may be defined as follows:

1. **Globalisation**:
   - Integrating the economy of a country with the economies of other countries to facilitate freer flow of trade, capital, persons and technology across borders. It leads to the emergence of a cohesive global economy.
   - Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to (a) licensing of imports, (b) tariff restrictions and (c) quantitative restrictions.
   - **NEP ‘91** advocated rapid advancement in technology and directed trade liberalization towards:
     - a. Import Liberalisation
     - b. Export promotion towards rationalization of the tariff structure and
     - c. Reforms w.r.t foreign exchange

2. **Liberalisation**:
   - ‘Liberalising the Indian business and industry from all unnecessary controls and restrictions. That is relaxing rules and regulations which restrict the growth of the private sector and allowing the private sector to take part in economic activities that were earlier reserved for the government sector.

   The steps taken for this were:
   - a. Abolishing licensing
   - b. Freedom in deciding the scale of operations
   - c. Removal of restrictions on movement of goods and services.
   - d. Freedom in fixing prices.
   - e. Reduction in tax rates and unnecessary controls
   - f. Simplifying procedures for import and exports
   - g. Making it easy to attract foreign capital.

3. **Privatization**:
   - Refers to the reduction of the role of the public sector in the economy of a country.
   - Transfer of ownership and control from the private to the public sector (disinvestment) can be done by:
     - a. Sale of all/some asses of the public sector enterprises.
     - b. Leasing of public enterprises to the private sector.
     - c. Transfer of management of the public enterprise to the private sector.

   To achieve privatization in India, the government redefined the role of the public sector and:
   - a. Adopted a policy of planned disinvestment of the public sector
   - b. Refer the loss making and sick units to the Board of Industrial and Financial Reconstruction (BIFR)
Components of the NEP '91: New Industrial Policy:
This policy aimed to:
► Liberate the industry from the shackles of the licensing system - **Liberalisation**
► Reduce the role of the public sector - **Privatisation**
► Encourage foreign private participation in India’s industrial development – **Globalisation**
► Remove Obstacles in the way of growth and expansion of industrial units of large industrial houses.
► Small-scale sector accorded due recognition and assured of all help

The broad features of this Policy are:

a. **Industrial Licensing Abolished** for all items except of a list of 6 industries related to security, strategic and environmental concerns.

b. **Industries reserved for public sector** were limited to 4 core industries – arms and ammunition, atomic energy, railways etc.

c. **Disinvestment** was carried out

d. **Policy towards foreign capital investment and technology import** was liberalized – the share of foreign equity participation was increased and in many activities 100% FDI was permitted.
   ✓ Foreign investment up to 51% allowed in 34 high priority industries without prior approval of the government
   ✓ FDI up to 74% allowed in 9 industries.
   ✓ Automatic approval for technology agreements for priority industries allowed within specified parameters (lump sum payment not exceeding $20 lakhs and royalty up to 5% on domestic sales and 8% on imports)

e. **Foreign Investment Promotion Board** (FIPB) set up to promote and channelised foreign investment in India.

Very Important: Impact of Changes in Government Policy on Business and Industry

1. **Increasing Competition:**
   ✓ As a result of NEP ’91, competition increased specially in sectors that were earlier reserved for the public sector such as airlines, insurance etc.
   ✓ This competition is from MNCs, imports, existing firms and new entrants to the industry.
      o Positive = quality ↑
      o Negative = firms that could not compete were wiped out.

2. **More Demanding Customers:**
   ✓ Not only are the customers are more demanding and better informed, they also buyers have access to a wider choice and better quality goods and services. Thus now the business is faced with more demanding consumers.
      o Positive = customers rights and choices have ben given due importance
      o Negative = firms investment in R&D
3. **Rapidly Changing Technological Environment:**
   - Because of protected environment, earlier the Indian firms’ expense on research and development was much lower than the world average. For example, pharmaceutical companies in India on an average, invested 2% in R & D where as in developed countries, this goes up to 21%.
   - But increased competition forced the firms to focus on competitive advantage and core competencies and therefore, investment in R & D and innovation have become inescapable for Indian firms.
   - This has led to an improvement in machinery and equipment, processes, products and services but has also created tough challenges for smaller firms.
     - Positive = innovation and changes in products + saving in production costs
     - Negative = firms investment ↑ + tough challenges for smaller firm

4. **Necessity For Change:**
   - In the regulated environment of the pre-91 era, firms could have relatively stable policies and practices.
   - But post 91, the conditions have now changed drastically and the firms can no longer use the lessons learnt from their past mistakes to act as a guide to future decision making. Rather, new approaches, new structures, systems and new leadership is required to met future challenges. The market forces also are now more turbulent as a result of which enterprises have to constantly modify their operations.
     - Negative = enterprises have to constantly modify their operations

5. **Need For Developing Human Resources:**
   - Indian enterprises have always faced a shortage of trained staff. Now, with the dynamic environment that they have to work in, there is a need felt for having a work force with higher competence and greater commitment.
     - Positive = better qualified and more efficient employees + higher salary structures
     - Negative = firms investment ↑

6. **Market Orientation:**
   - Before ’91 because of licensed capacity and administered pricing, there were shortages in every sector- consumer goods, industrial goods and services. The market was a sellers’ market with little emphasis on cost reduction, improvement in quality, up gradation of technology consumers’ convenience etc. The firms used to produce first and then go to the market later.
   - After ’91, the government removed restrictions investment takes place in areas of demand and there has been a shift from shortages in the various sectors to surplus and therefore it has now become a buyers’ market and now firms have to analyse the market first and then produce goods accordingly.

7. **Loss Of Budgetary Support To The Public Sector:**
   - The public sector has realized that in order to be more effective, they have to be more efficient and raise their own resources and the central government’s budgetary outlay has gone down over the years.

**Topics NOT in Syllabus:**

1. Interaction between business and environment
2. Economic environment in India
Planning

Meaning:
- Deciding in advance what to do & how to do it. It is one of the basic managerial functions.
  - It involves 2 aspects: Setting of aims and objectives of the organization + Selecting and developing an appropriate course of action to achieve these objectives.
- Koontz and O’Donnell - “Planning is deciding in advance what to do, how to do, when to do, and who to do it. Planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur which would not otherwise happen.”
- Involves setting of objectives & developing an appropriate course of action to achieve these objectives

Importance of Planning:

NCERT Statement:
Planning is certainly important as it tells us where to go; it provides direction and reduces the risk of uncertainty by preparing forecasts.

1. Provides Direction:
   - Objectives are clearly stated → act as a guide for deciding what action should be taken and in which direction.
   - If goals are well defined, employees are aware of what the org. has to do & what they must do to achieve those goals.
   - Departments and individuals in the org. are able to work in coordination.

2. Reduces Risks Of Uncertainty
   - Biz operates in an uncertain environment & faces several types of risks.
   - Planning pre-assesses the future uncertainties + enables the firm to face these uncertainties with minimum wastage of resources.
   - Changes/ events can’t be eliminated but can be anticipated & managerial responses can be developed.

3. Reduces Overlapping And Wasteful Activities
   - Provides the basis for coordinating activities of diff. depts. & Individuals.
   - Avoid misunderstandings, eliminates useless activities & provides clarity of thought & action so work is carried out smoothly w/o interruption.

4. Promotes Innovative Ideas
   - Planning is an intellectual process – looks for scope for finding better ideas, methods and procedures to perform particular job.
   - Forces managers to think differently & assume future conditions → makes managers creative and innovative.
5. **Facilitates Decision Making**
   - No need for planning if only one possible course.
   - Involves choice among various alternatives & activities → examining & evaluating each alternative & choosing the most appropriate one.
   - Helps in taking rational decisions.

6. **Establishes Standards Of Control**
   - Objectives of the org. determines the ‘what’, ‘why’ and ‘how’ of everything.
   - Standards are prescribed in context of their work, time and cost.
   - By comparing actual work performance with standards, deviations are found and corrective action is taken.

• **Features:**

1. **Focuses On Achieving Objectives:**
   - Not an end in itself but means towards achievement of an objective.
   - Specifies the objectives to be attained in the future and steps necessary to achieve them.
   - Act as guide for deciding what action should be taken & in which direction.
   - Thus **planning is purposeful**. No meaning unless it contributes to achievement of pre-determined org. goals.

2. **Primary Function Of Management:**
   - Precedes all other functions & all other functions are done within framework of the plans drawn.
   - W/o planning, there is nothing to organize, no one to direct & no need of control.

3. **Pervasive:**
   - Not an exclusive function of top-level management- reqd. in all organization, all levels & all depts.
   - However, the scope, nature & extent of planning differ & go on ↓ as we move towards lower level:
     - Top M → Plans for org. as a whole
     - Middle M → Prepares dept. plans
     - Lower M → Supervisors formulate day-to-day operational plans.

4. **Continuous:**
   - Once a plan is framed, it is implemented & then followed by another plan & so on since conditions & requirements change.
   - Prepared for specific time period, after which, new plans have to be prepared.

5. **Futuristic:**
   - Considered to be forward looking, as it requires looking ahead & forecasting future events (customers’ demand, competition, government policies etc.).
   - Involves looking ahead & preparing for future opportunities/ threats so as to take advantage of them or deal with them effectively.

6. **Involves Decision Making:**
   - No need if only one possible course of action.
   - It involves choosing the best course among various alternative courses of action available.
   - It evaluates each alternative & chooses the most appropriate one.
7. **Mental Exercise:**
   - as it requires application of mind and sound judgment.
   - Intellectual activity that requires logical & systematic thinking rather than empty guesswork.
   - Thus, closely related w/ creativity & innovation & based on proper analysis.

**Limitations of Planning:**

1. **Leads To Rigidity:**
   - Plan is drawn up w/ specific goals to be achieved within a specific time frame.
   - But circumstances may change & following the plan may actually turn out to be detrimental to the org if there is no scope for flexibility.
   - Also once policies, procedures, rules & methods are designed & employees start following them, it becomes difficult to make changes in them. This leads to rigidity.

2. **May Not Work In A Dynamic Environment**
   - The environment consists of a no. of dimensions (Economic, political, physical, legal & social).
   - External dynamic factors (govt. policies, political factor, industrial or trade policy) are not constant. They keep changing and disturb the functioning of the org.
   - It becomes difficult to accurately assess future trends in the environment & this poses obstacles to effective planning.

3. **Reduces Creativity**
   - Plans, policies & procedures are determined by the top mgmt. Middle M & others only follow & carry out the orders in a manner laid down in the plan.
   - So planning may suppress the spirit to take initiative among the employees & compel them to work in a rigid manner, leaving no scope for creativity among employees.

4. **Involves Huge Costs**
   - Expensive process → Money, time and effort have to be spent in forecasting, collection of info, verifying accuracy of facts, evaluating alternatives etc.
   - Also there may be incidental costs (e.g. expenses on boardroom meetings, discussions w/ experts etc.)
   - Planning should be economical i.e. cost of planning should not exceed the gains expected from it.

5. **Time Consuming**
   - Considerable time is reqd. for collection, analysis & interpretation of info for planning.
   - Any delay caused by planning may deprive the biz of a profitable opportunity.
   - May become impractical during emergencies & crisis when on the spot & quick decisions are necessary.
   - In such situations the existing plans may have to be abandoned.

6. **Does Not Guarantee Success**
   - Firstly, Planning will be successful only when plans are implemented properly.
   - Secondly, Planning provides a base for analyzing future courses of action. But it is not a solution for all problems. So even previously tried & tested successful plans may not work again because of change in circumstances.
   - This kind of complacency and false sense of security may actually lead to failure instead of success.
CONCLUSION:
- Above points show that performing the function of planning does not automatically ensure success for an org.
- This is due to changing situations & because of other aspects related to planning.
- But that does not mean that managers should stop planning.
- Rather, it means that they should plan with more caution, taking into considerations various possibilities related to the future & should make their plans more flexible to overcome these limitations.

**External limitations of planning are:**
Planning sometimes fails despite the best efforts of managers. This is because of the external limitations of planning that are beyond the control of the firm. These are:
- Natural calamities
- Changes in economic policy
- Changes in technology
- Changes in fashion, tastes etc.
- Strategies of competitors
- Changes in political climate/government.

**Planning Process (Steps of Planning)**

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

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

3. Identifying Alternative Courses Of Action:
   - After setting the objectives, managers make a list of alternatives through which the org. can achieve its objectives as there can be many ways to achieve the objectives & managers must know all of them.
   - E.g. Sales could be increased through any of the following ways:
     • By enhancing advertising expenditure
     • Appointing salesmen for door-to-door sales
     • By offering discounts
     • By adding more product lines.
4. **Evaluating Alternative Courses Of Action**
   - Positive & negative aspects of each & every proposal need to be evaluated to determine their feasibility and consequences in the light of each objective to be achieved.
   - E.g. In financial plans, risk-return trade-off are imp. Riskier the investment, higher the returns it is likely to give. To evaluate such proposals, detailed calc. of earnings, taxes, earnings per share etc. should be done.

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

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

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

**Secondary/derivative/Supporting plans**

Secondary plans flow from the basic plan. These are meant to support and expedite the achievement of the basic plan. The secondary plans are always in conformity with the basic plan e.g. Once the production plan is prepared, secondary plans regarding raw materials, consumable stores, acquisition of necessary plant and equipment, training of workers, selling and distribution expenses etc. are prepared.

Without the derivative plans, master plan cannot be implemented. Derivative plans are pillars for the achievement of the master plan.

**Types of Plans:**

Single-use and standing plans are part of the operational planning process.

- **Single use plans** apply to activities that do not recur or repeat.
  - It is a one-time plan specifically designed to achieve particular goal that, once achieved will not recur in the future. Such Plan is developed to meet the needs of a unique situation.
  - The length of a single-use plan differs greatly depending on the project in question, as a single event plan may only last one day while a single project may last weeks or months.
  - Examples: budgets, programmes and projects.
Standing plans are used over and over again because they focus on organizational situations that occur repeatedly.

- They are usually made once and retain their value over a period of years while undergoing revisions and updates. That is why they are also called repeated use plans.
- Include policies, procedures, methods and rules.

There are other types of plans which usually are not classified as single-use or standing plans.
- Strategy, Objective

**Objectives:**
- Desired future position that the firm wants to reach.
- All managerial functions are directed towards achieving them.
- They are given in quantitative term
- Are generally written
- Contain a time deadline
- Should be challenging but achievable
- E.g. earn 20% profits in the next financial year.

**Strategy:**
- Provides broad contours of a firm’s business.
- Defines firm’s direction and scope in the long run.
- Includes 3 dimensions:
  - Determining long term objectives
  - Adopting a particular course of action
  - Allocation of resources necessary to achieve the objective.
- Takes the business envt. Into consideration
- Forms firms’ identity.
- E.g. whether firm will diversify in the future or continue in the same line of business.

**Policy**
- Guide to a managerial thinking and action.
- Define boundaries within which decisions can be made.
- Exist at all levels and are related to all functions of a firm.
- Define broad parameters and managers use their discretion in applying a policy.
- E.g. promoting from within, shipping orders quickly.

**Procedure**
- Set of sequential steps determined in advance for handling (that is initiating, carrying thro and completing) future activities
- Are given in a chronological order.
- Generally meant for insiders to follow.
- Enforce a policy and to attain pre-determined objectives
- E.g. selection procedure. Purchase procedures

**Method**
- Formalized and standardized ways of accomplishing repetitive and routine jobs.
- Specifies the best way to perform one step of a procedure.
- Helpful in simplification, standardization and systematization of work specially where alternatives exist
- Saves time, money and effort and increases efficiency.
- E.g written down or straight line method of recording deprecation

**Rule**
- Specific statements of what should/ should not be done in certain situations.
- Serve as guides and leave no scope for discretion.
- Indicate limits of acceptable behavior and help in maintaining discipline.
- Guide action without specifying a time sequence
- E.g. no smoking in the factory premises
Budget

- Statement of expected result expressed in numerical terms
- It is a single use plan that deals with allocation of resources and expected results.
- It is a control device that helps in identifying deviations and taking corrective action thereof.
- E.g. Cash budget

Programme

- Detailed statement of a project that outlines the objectives, policies, procedures, task assignment, resource flows and budgets to implement any course of action.
- It is a single use plan containing a concrete scheme of action worked out by the management to accomplish certain specific objectives.

---

### Types of Plans

**A) OBJECTIVES:**
- Objectives are the ends towards which the physical & human energies of the enterprise are channelized.
- All individuals, groups, and depts. are integrated, coordinated and directed to achieve this end.
- Objectives can be major, minor, collateral. They are set by the top level management.

<table>
<thead>
<tr>
<th>Features</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Related to a single activity</td>
<td>- Reduce quality rejects to 2%</td>
</tr>
<tr>
<td>• Related to result &amp; not the activity to be performed</td>
<td>- Increase sales by 10%</td>
</tr>
<tr>
<td>• Measurable, should be stated in quantitative terms</td>
<td>- Cross the 30,000 crore mark turnover</td>
</tr>
<tr>
<td>• Must have a time limit for achievement of objectives (time deadline)</td>
<td>- To improve the communication system to hold</td>
</tr>
<tr>
<td>• Should be challenging but achievable</td>
<td>regular staff meetings and publish a newsletter.</td>
</tr>
</tbody>
</table>

**B) STRATEGY:**
- Strategy is a comprehensive plan for accomplishing an organization’s objectives.
- This comprehensive plan will include (3 dimensions):
  a. Determining long term objectives
  b. Adopting a particular course of action
  c. Allocating resources necessary to achieve objectives.

<table>
<thead>
<tr>
<th>Features</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Plans are made in view of the competitors and other environmental factors (economic, political, social, legal) that affect the organization.</td>
<td>1. A company’s marketing strategy has to address certain questions like:</td>
</tr>
<tr>
<td>• Formulated by the top management.</td>
<td>a) Who are the customers</td>
</tr>
<tr>
<td>• It is action oriented</td>
<td>b) What is the demand for the product/</td>
</tr>
<tr>
<td>• It is flexible and dynamic</td>
<td>c) What is the pricing policy/</td>
</tr>
<tr>
<td></td>
<td>d) How do we advertise the product?</td>
</tr>
<tr>
<td></td>
<td>2. Similarly if an Indian firm anticipates entry of an MNC into the Indian market with new substitutes it may decide one of the following strategies to make the entry of the rivals difficult.</td>
</tr>
<tr>
<td></td>
<td>a) Improve existing product quality</td>
</tr>
<tr>
<td></td>
<td>b) Add more product lines</td>
</tr>
<tr>
<td></td>
<td>c) Do aggressive advertising</td>
</tr>
<tr>
<td></td>
<td>d) To beat competition</td>
</tr>
</tbody>
</table>
C) POLICY:
- Org.’s general response to a particular problem/ situation.
- These are general statements/ understandings, which guide thinking & decision-making. A policy is an org.’s intention to act in certain ways when specific types of circumstances arise.
- Policies define the boundaries within which decisions can be made and they direct decisions towards accomplishment of objectives.

**Features**
- General response to particular problem: guide managers in view of the repeated appearance of similar problems/situations
- Basis for objectives: Policies provide the routes to objectives.
- Provide guidelines to thinking/ action.
- Discretionary: provide scope for executive judgment.
- Top management’s intention: generally formulated by top management. For operational purposes, managers at all levels also formulate their own policies

**Examples**: Recruitment policy, Pricing policy (for elite segment); ‘We don’t sell on credit’ is a policy of the sales dept.

D) PROCEDURE:
- A procedure is a series of related tasks that make up the chronological sequence & the established way of performing work to be accomplished.
- It gives a series of actions directed towards a goal.
- It specifies tasks to be performed /done sequentially for completing a piece of work

**Features**
- Defines steps of doing different jobs/methods in regular routine. So it saves time.
- Helps to improve efficiency by providing standard and the best manner of doing work.
- Cuts across all dept. lines (e.g. execution of a sales order concerns sales, finance, production depts.)
- Help in implementation of policies

**Examples**
- Admission procedure, Selection procedure for employees, Passport/Visa, Procedure for placing an order.

E) METHOD:
- A method is a type of management plan that specifies the detailed and the best manner of performing a particular step, comprised in a procedure.

**Features**
- Methods are formalized/-standardized ways of doing routine jobs
- These are standard ways of doing jobs, though there is no penalty for violation of methods
- These are defined to increase efficiency
- They are usually manual/ mechanical ways to perform an operation

**Examples**
- Depreciation methods: Straight line method, Written down value method
- Methods of stocktaking: LIFO, FIFO, Training methods (e.g. orientation programmes, lectures etc.)
F) PROGRAMME:
- It is a comprehensive plan designed to implement the policies and accomplish objectives.
- It is a combination of goals, policies, task assignments, resources flows etc.
- It is a concrete or well-designed scheme designed to accomplish a specific objective.
- It spells out clearly the steps to be taken, resources to be used and the time taken to complete the task.
- It also indicates who should do what and how?

Features
• Single use about comprehensive
• Action based
• Result oriented
• Designed to ensure smooth and efficient functioning of the organization
• Great risk of failure due to changes in the environment.


G) RULE:
- A rule requires that a specific and definite action be taken with respect to a situation.
- Rules are prescriptive directives to people in the org. and elsewhere to do or not to do things, to behave or not to behave in particular ways.

Features
• Rules indicate limits of acceptable behavior to the members of the org.
• They help to improve efficiency
• Help in maintain discipline in the org.

Examples
• No smoking, No admission without permission

H) BUDGET:
- A budget as a plan is a statement of expected results expressed in numerical terms like rupees, production units or man-hours.

Features:
- Presents the objectives of the enterprise in financial/Quantitative terms.
- Helps in financial control: provides standards by which actual performance can be measured.
- Co-ordinates activities of various depts. of a big enterprise by adjusting the departmental budgets into the master plan.
- Since budgets specify measurable goals to be achieved within a specific period of time (usually a one year), they inject a sense of clarity in directing and performing the activities of the org.

Examples
- Cash budget determines cash inflows and outflows, so that management knows how much cash it should hold at all points of time for various purposes.
Organizing

Meaning

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

Definition

‘Organising is the process of identifying and grouping various activities, bringing together physical, financial and other resources and establishing authority relationships among job positions.’

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

The term ‘organisation’ is used in two distinct meanings in management – as a process and as a Structure

<table>
<thead>
<tr>
<th>Steps In The Process Of Organizing:</th>
<th>Importance Of Organising</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification and division of work(identify functional areas→jobs→specialisation)</td>
<td>(Of creating a sound organisation structure)</td>
</tr>
<tr>
<td>Departmentalization</td>
<td>1. Benefits of specialization</td>
</tr>
<tr>
<td>Assignment of duties( to different job positions)</td>
<td>2. Clarity in working relationships</td>
</tr>
<tr>
<td>Establishing reporting relationship</td>
<td>3. Optimum utilization of resources</td>
</tr>
<tr>
<td></td>
<td>4. Adaptation of change</td>
</tr>
<tr>
<td></td>
<td>5. Effective administration</td>
</tr>
<tr>
<td></td>
<td>6. Development of personnel</td>
</tr>
<tr>
<td></td>
<td>7. Expansion and growth</td>
</tr>
</tbody>
</table>

IMPORTANCE (i.e. of creating a sound org. structure):

1. Benefits Of Specialization:
   - The work is divided into different parts or ‘Jobs’ and competent persons are appointed to handle all the sub works.
   - Job description = a written document that clearly defines the jobs and spells out what exactly has to be done in every job.
   - Repetitive performance → worker to gain experience in that area → specialization.
   - Maximum work performance in the minimum time → specialization.
2. Clarity In Working Relationships
- Clearly established working relationships clarifies lines of communication and specifies who is to report to whom.
- This removes ambiguity in transfer of information and instructions.
- The hierarchical order thus created enabling the fixation of responsibility and specification of the extent of authority to be exercised by an individual.

3. Optimum Utilization Of Resources
- Proper assignment of job avoids overlapping of work/duplication of work.
- This helps in preventing confusion and minimizing wastage of resources and efforts and leads to proper usage of material, financial and human resources.

4. Adaptation To Change
- A properly designed flexible where working relationships can be modified to suit changing conditions in the environment and achieve smooth transition.
- Therefore movement of people in and out of jobs does not affect the work being done and the capacity of business to undertake more activities in order to grow and diversify.
- Provides much needed stability to the enterprise and it can survive and grow despite changes.

5. Effective Administration
- Organizing provides a clear description of jobs and working relationships.
- It helps to avoid confusion and duplication.
- Clarity in working relationships → proper execution of work → management becomes easy → effectiveness in administration.

6. Development Of Personnel
- Under the process of organizing, delegation of authority is practiced.
- By delegating routine jobs to their subordinates,
  - Managers can concentrate in developing new technologies and methods of ways of performing jobs,
  - While this becomes a good training ground for subordinates, because they get to handle responsibilities themselves.

7. Expansion And Growth
- A sound organization structure allows a business enterprise to add more job positions, departments and even diversify their product lines.
- New geographical territories can be used to increase the customer base, sales and profit.

CONCLUSION:
- A sound form of org is the answer to every business problem; a poor org can run even a good product into the ground; whereas a good org even with a poor product can run a good product out of the market.
- Koontz O'Donnell, “Organization is a process by which manager brings order out of chaos, removes conflicts b/w people over work or responsibility and establishes an environment suitable for teamwork.”
Process of Organizing (Steps):

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

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

3. **Assignment Of Duties:**
   - Define the work of different job positions and allocate work accordingly.
   - Once departments are formed, the dept is placed under the charge of an individual.
   - Jobs are assigned to an individual best suited to perform it.
   - Qualifications, experience, ability and aptitudes of people should be matched with duties.
   - E.g. activities of finance should be assigned to persons having qualifications and experience in finance e.g. C.A’s.

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

**CONCLUSION:** To sum up in the words of Koontz and O’Donnell, ‘Organizing is the process by which manager brings order out of chaos, removes conflict between people over work and responsibility and establishes an environment suitable for teamwork.’

- **Organisation Structure**
  - System of job positions, roles assigned to them and authority-responsibility relationships among positions.
  - It is a framework within which managerial and operating tasks are performed.
  - It specifies relationships between people, work and resources.
  - It may be **vertical** (authority responsibility relationships) or **horizontal** (coordinating relationships)
  - Ensures smooth flow of communication and better control over the operations.
Types of Organisation Structure:

- **Functional Structure:**
  - Activities are grouped according to the specific functions to be performed. It is the most widely used basis for organising activities.

**Suitability**
1. Where the size of the business is medium or large.
2. Where there is only one main product.
3. Where specialization is required, so functional areas are given due importance.
4. Where professional experts are required to head various functional departments for better performance and to bring about uniformity of operations in a functional area throughout the organization.

<table>
<thead>
<tr>
<th>Advantages of Functional structure</th>
<th>Limitations of Functional structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Benefits of specialization</td>
<td>1. Less emphasis on overall firm’s objective</td>
</tr>
<tr>
<td>2. Increases managerial and operational efficiency.</td>
<td>2. Problems in coordination</td>
</tr>
<tr>
<td>3. Facilitates control and coordination within a department</td>
<td>3. Conflict in interest if departments are not compatible</td>
</tr>
<tr>
<td>4. No duplication of efforts leading to economy of operations</td>
<td>4. Inflexibility as narrow perspective may develop</td>
</tr>
<tr>
<td>5. Makes training of employees easier</td>
<td></td>
</tr>
<tr>
<td>6. Ensures that all functions get due attention</td>
<td></td>
</tr>
</tbody>
</table>

**DIAGRAM:**

```
          MD
         /   \
  Production     Finance     Marketing     Personnel
       /     \
 Sales manager  Marketing manager  Sales Promotion manager

Region A Sales manager  Region B sales manager
```
Advantages of Functional Structure:

1. **Benefits Of Specialization:**
   - Activities are divided into depts. on the basis of major functions so leads to occupational specialization.
   - This results in more and better work being accomplished in much lesser time.
   - Promotes efficiency in utilization of manpower as employees perform similar tasks within a dept. & are able to improve performance.

2. **Facilitates Coordination And Control Within The Department:**
   - There is similarity in the tasks performed.
   - Also, all employees within the dept. know what is expected out of them & that leads to effective control over their activities.

3. **Increases Managerial & Operational Efficiency:**
   - Similarity in the tasks being performed → specialization → improved operational efficiency.
   - Specialists in functional areas supervise the operations → managerial efficiency improves.

4. **No Duplication Of Efforts Leading To Economy Of Operations:**
   - In this type of org., unnecessary duplication of effort is eliminated.
   - Human & other resources utilized more effectively and economically → economies of scale → lower cost.
   - E.g. Function of finance is only carried by the finance dept. There is no need to establish 2 or more depts.

5. **Makes Training Of Employees Easier:**
   - As they need to be trained in limited types of skills.
   - E.g. employees of production department are given training of production techniques only.

6. **Ensures That All Functional Areas Get Due Attention**

Limitations of Functional Structure:

1. **Less Emphasis On Overall Firm’s Objective**
   - Each dept. head gives more weight to their departmental objectives → overall org. objectives suffer → functional empires wherein the importance of a particular function may be overemphasized.
   - Pursuing dept. interests at the cost of org. interests can also hinder interaction b/w 2 or more depts.
   - E.g. to make his image, production dept. may make a very high quality product going contrary to the org. objectives of selling it to the target market of middle income group.

2. **Problems In Coordination:**
   - This structure facilitates co-ordination within the department but makes inter departmental co-ordination difficult as to facilitate coordination, info has to be exchanged across functionally differentiated depts.
   - If dept. heads work as per according to their own wishes, sharing of info and inter-dept. coordination becomes difficult.
3. **Conflict In Interest If Departments Are Not Compatible:**
   - Managers try to build their own functional empires & undermine the role of other depts., leading to inter departmental rivalry and conflicts.
   - E.g.: Sales dept. insists on a customer friendly design which may cause production difficulties. Such dissension can prove to be harmful in terms of fulfillment of org. interest.
   - Inter-departmental conflicts can also arise in the absence of clear separation of responsibility

4. **Inflexibility as narrow perspective may develop**
   - As people with same skills & knowledge base may develop a narrow perspective and thus, have difficulty in appreciating any other POV.
   - Functional heads do not get training for top management positions because they are unable to gather experience in diverse areas.

   - **Divisional Structure:**
     - Activities are grouped into divisions either on the basis of products or on the basis of territories.

**Suitability**

1. Where the size of the concern is very large.
2. Where a large variety of products are manufactured
3. Where different productive resources, manufacturing technologies and marketing methods are required for different products.
4. Firms having wide coverage or wide geographical area or having different market segments.
5. Where an organization is in an expansions mode, i.e wants to grow, add more departments.

<table>
<thead>
<tr>
<th>Advantages of Divisional Structure</th>
<th>Limitations of Divisional Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Development of generalist managers</td>
<td>1. Conflicts among divisions</td>
</tr>
<tr>
<td>2. Proper basis for performance evaluation and ease in fixation of responsibilities for mistakes.</td>
<td>2. Increase in costs due to duplication</td>
</tr>
<tr>
<td>3. Promotes flexibility and innovation and faster decision making</td>
<td>3. Managers may ignore interests of the firm</td>
</tr>
<tr>
<td>4. Facilitates expansion and growth.</td>
<td>4. Underutilization of performance*</td>
</tr>
<tr>
<td>5. Not suitable for medium or small scale operations*</td>
<td></td>
</tr>
</tbody>
</table>

**Advantages of Divisional Structure:**

1. **Development Of Generalist Managers**
   - Product specialization helps in development of varied skills in a divisional head & prepares him for higher positions.
   - This is because he gains experience in all the functions related to a particular product.

2. **Proper Basis For Performance Evaluation And Ease In Fixation Of Responsibilities For Mistakes**
   - All the activities of each div. are carried out independently. Hence the divisional results (P/L) can be assessed easily. On this basis unprofitable division can be closed.
   - Hence, in cases of poor performance of the division, appropriate remedial action can be taken.
3. **Promotes Flexibility And Innovation And Faster Decision Making:**
   - As every div. is independent, the divisional manager can take any decision regarding his div. independently w/o consulting other divisional managers.
   - Thus, division functions as an autonomous unit which leads to faster decision making

4. **Facilitates Expansion And Growth.**
   - For every product a separate division is opened and if a company wants to introduce a new product, it can be introduced easily without disturbing the existing divisions

**Limitations of Divisional Structure:**

1. **Conflicts Among Divisions**
   - Conflicts → specially w.r.t allocation of funds and between divisional heads.
   - Every division tries to display better performance, sometimes even at the cost of other divisions. Consequently it hits the interest of the concern as a whole

2. **Increase In Costs Due To Duplication**
   - The entire set of functions (e.g. production, marketing, finance, personnel etc.) is reqd. for all divisions.
   - Gives rise to duplicity of efforts among divisions. ∴ Resources are misused & cost of ops unnecessarily.

3. **MANAGERS MAY IGNORE INTERESTS OF THE FIRM**
   - Div. managers have a lot of autonomy & with time, gain a lot of power & may ignore org. interest.

**Diagram:**

```
Chief Executive

  Textiles
          |
         v
  Production

  Cosmetics Department
          |
         v
  Purchase

  Soaps
          |
         v
  Marketing

          v
  Finance
```
### Basis of differences between functional and divisional structure:

<table>
<thead>
<tr>
<th>Basis</th>
<th>Functional structure</th>
<th>Divisional structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Basis of Formation/organizational</td>
<td>Formation is based on functions</td>
<td>Formation is based on product lines and is supported by</td>
</tr>
<tr>
<td>Units</td>
<td></td>
<td>functions</td>
</tr>
<tr>
<td>3. Responsibility (for profits)</td>
<td>Cannot be fixed on one department</td>
<td>Can be fixed on separate products</td>
</tr>
<tr>
<td>4. Managerial Development/</td>
<td>Difficult, as each functional manager has to report to the</td>
<td>Easier, autonomy as well as the chance to perform multiple</td>
</tr>
<tr>
<td>development of general managers</td>
<td>top management.</td>
<td>functions helps in managerial development.</td>
</tr>
<tr>
<td>5. Cost</td>
<td>Functions are not duplicated hence economical</td>
<td>Duplication of resources in various departments, hence</td>
</tr>
<tr>
<td>6. Coordination</td>
<td>Difficult for a multi-product company.</td>
<td>Easy, because all functions related to a particular product</td>
</tr>
<tr>
<td></td>
<td></td>
<td>are integrated in one department.</td>
</tr>
<tr>
<td>• Autonomy of operations</td>
<td>Less because various functions are inter-dependent and</td>
<td>More because each unit is autonomous and independent</td>
</tr>
<tr>
<td></td>
<td>inter-related</td>
<td></td>
</tr>
<tr>
<td>• Control</td>
<td>Simple as authority is concentrated at the top level.</td>
<td>Difficult because of decentralization of authority at</td>
</tr>
<tr>
<td></td>
<td></td>
<td>divisional level.</td>
</tr>
</tbody>
</table>

### III. FORMAL ORGANIZATION:

- Refers to the org. structure that is designed by the management to accomplish organizational objectives.
- It specifies clearly the boundaries of authority & responsibility and there is a systematic coordination among the various activities to achieve organizational goals.
- Louis Allen – **System of well defined jobs, each bearing a definite measure of authority, responsibility & accountability.**

**Features of Formal Organization:**

1. Clarifies Authority Relationships:
   - Clearly explains the inter-relationship b/w jobs and thus, everybody knows his authority and responsibility. This clarifies who has to report to whom.
2. Means To Achieve Organizational Objectives
   - It is a means to achieve the objectives specified in the plans. It lays down the rules & procedures essential for their achievement.

3. Coordinate Efforts Of Various Departments:
   - Efforts of various depts. are coordinated, interlinked & integrated through the formal org.

4. Deliberately Designed By Top Management
   - The top management deliberately creates this org for successful achievement of objectives of org.

5. Emphasis On Work:
   - It places more emphasis on work to be performed than interpersonal relationships among employees.

Importance/Advantages of Formal Org

a. Easy To Fix Responsibilities: Since mutual relationships are clearly defined.

b. Avoids Duplication Of Effort: In FO, work is systematically divided among various depts. & employees. ∴ No chance of overlapping of work.

c. Maintains Chain Of Command: FO clearly defines superior subordinate relationships, i.e. who reports to whom.

d. Clarifies Roles Of Job Positions And So Facilitates Achievement Of Firm’s Goals: Leads to effective accomplishment of goals by providing a framework for the operations to be performed and ensuring that each employee knows the role he has to play.

e. Provides Stability To The Org: As behavior of employees can be fairly predicted since there are specific rules to guide them. FO brings stability in the org. through policies, procedures & rules. Working continues in spite of old employees leaving and new employees joining.

Limitations Of Formal Org:

A) Procedural Delays
   Formal communication may lead to procedural delays as the established chain of command has to be followed which ↑s the time taken for decision-making.
   Work is bound by rules & while following the scalar chain of command, decisions & actions get delayed.

B) Rigidity/Curbs Creativity
   In this org, the employees have to do what they are told to do & have no opportunity of thinking. Thus, their initiative gets slackened.
   Poor org. practices may not provide adequate recognition to creative talent, since it does not allow any deviations from rigidly laid down polices. Does not allow deviations from set policies.

C) Does Not Give A Complete Picture Of How The Org. Works
   FO gives importance to work only. It ignores human relationships, creativity & talent.
   Does not give a complete picture of how an org. works as it does not incorporate the human element so does not provide a complete picture of the functioning of the org.
IV. INFORMAL ORGANIZATION
- While working in the FO structure, individuals interact w/ each other & develop some social & friendly relationships in the org.
- This network of social & friendly groups forms another structure in the org. called informal org. structure.
- This may be based on common language, tastes, likes etc. & its main purpose is psychological satisfaction.
- IO has no written rules, is fluid in form and scope and does not have fixed lines of communication
- Depends upon FO structure & if there is no FO structure, there will be no jobs & people & thus, no IO.

Features of Informal Org:
1. Arises Within The Formal Setup As A Result Of Personal Interactions B/w Members.
   - IO emerges to meet the social and psychological needs of the people

2. Group Norms For Standards Of Behavior
   - No written rules & procedures to govern inter relationships. But there are group norms to be observed.
   - E.g.: employees working in an org. and belonging to a particular community form a separate group in an informal way and gradually some norms emerge and all the members are bound to observe them.

3. Independent Channels Of Communication
   - Info flows in all directions and it is very difficult to trace the source of information.

4. Emerges Spontaneously
   - An IO is not deliberately created by management but comes into existence on the basis of personal interaction, relationships, common interest, tastes, languages, likes etc.

5. No Definite Structure Or Form
   - It is a complex network of social relationships and it cannot be defined because an employee at the lowest level can have relationship at the top level.

Advantages of Informal Org
1. Faster Spread Of Communication And Quick Feedback
   - IO cuts across formal channels of communication. May not follow scalar chain of command ∴ spreads faster.
   - Through IO, the managers can get to know the real feedback on various policies and plans

2. Fulfill Natural Desires Of Members
   - Members of an IO share their tensions, joys & frustrations w/ one another. They have an outlet to release all their emotions and feelings and provide relief from the monotony created by FO.
   - It helps to fulfill the social needs of the members and allows them to find like-minded people.
   - This enhances their job satisfaction since it gives them a sense of belongingness in the org.

3. Compensates For Inadequacies In The Formal Structure
   - E.g.: Improper and arbitrary use of authority by managers can be challenged so managers act carefully.
**Limitations of Informal Org**

1. **Spreads Rumors**
   - IO is a breeding ground for rumors esp. where there is ambiguity in the policies and programs of FO.
   - An outbreak of rumor can cause serious harm to the enterprise and its management by carrying incorrect information throughout the organization.

2. **Resistance To Change**
   - IO generally prefers status quo & the existing work routine. Changes are regarded as a threat to its beliefs & values.
   - Thus, management has to face resistance to new work methods. This may delay/ restrict growth.

3. **Pressurizes Members To Conform To Group Norms.**
   - An IO evolves its own norms.
   - These norms may be harmful if norms are against firms’ interests & are contrary to standards of behavior and performance in FO. In such a case it becomes very difficult to achieve the goals of the formal org.

<table>
<thead>
<tr>
<th>Basis</th>
<th>Formal Organization</th>
<th>Informal Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>Structure of authority relationships created by the management</td>
<td>Network of social relationships arising out of interaction among employees</td>
</tr>
<tr>
<td>2. Origin</td>
<td>Arises as a result of company rules and policies</td>
<td>Arises as a result of social interaction</td>
</tr>
<tr>
<td>3. Authority</td>
<td>Arises by virtue of position in management</td>
<td>Arises out of personal qualities</td>
</tr>
<tr>
<td>4. Behavior</td>
<td>It is directed by rules</td>
<td>There is no set behavior pattern</td>
</tr>
<tr>
<td>5. Flow of Communication</td>
<td>Communication takes place through the scalar chain</td>
<td>Flow of communication is not through a planned route. It can take place in any direction</td>
</tr>
<tr>
<td>6. Nature</td>
<td>Rigid</td>
<td>Flexible</td>
</tr>
<tr>
<td>7. Leadership</td>
<td>Managers are leaders.</td>
<td>Leaders may or may not be managers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The group chooses the leaders.</td>
</tr>
</tbody>
</table>
Differences Between Formal And Informal Organisations:

<table>
<thead>
<tr>
<th>NCERT Points</th>
<th>Non NCERT Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning</td>
<td>Formulation *</td>
</tr>
<tr>
<td>Origin</td>
<td>Stability*</td>
</tr>
<tr>
<td>Authority</td>
<td>Adherence to rules*</td>
</tr>
<tr>
<td>Behavior</td>
<td>Inter-dependence*</td>
</tr>
<tr>
<td>Flow of communication</td>
<td>Rigidity*</td>
</tr>
<tr>
<td>Nature</td>
<td>Focus*</td>
</tr>
<tr>
<td>Leadership</td>
<td>Depiction in Organisation chart*</td>
</tr>
<tr>
<td></td>
<td>Structure*</td>
</tr>
<tr>
<td></td>
<td>Purpose*</td>
</tr>
</tbody>
</table>

Delegation

According to Louis Allen, ‘Delegation is the process a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organizational placement, can perform effectively and so that he can get others to help him with what remains’. Delegation refers to systematic transfer of authority from superior to subordinates.

Delegation does not mean abdication
The manager, who assigns the job to the subordinates, shall still remain accountable for the performance of the assigned tasks. It means that accountability is absolute. It can never be passed or delegated. After creating accountability on subordinates, the superiors also remain accountable.

- **Features of Delegation:**
  - Does not mean abdication of responsibility
  - Does not diminish authority of superior
  - Delegated from higher to lower level
  - Accountability retained by managers

- **Importance of Delegation:**
  1. Effective management
  2. Employee development
  3. Motivation of employees
  4. Facilitation of growth
  5. Basis of management hierarchy
  6. Better coordination
  7. Increases managerial effectiveness
Features of Delegation:
A) **Does Not Mean Abdication Of Responsibility:**
   - The manager shall still be accountable for the performance of the assigned tasks.
   - Moreover, the authority granted to a subordinate can be taken back and re-delegated to another person.
   - Thus, irrespective of the extent of delegated authority, the manager shall still be accountable to the same extent as before delegation.

B) **Delegated From Higher To Lower Level:**
   - Delegation refers to the downward transfer of authority from a superior to a subordinate.
   - It is a pre-requisite to the efficient functioning of an org. because it enables a manager to use his time on high priority activities. However, his authority is not given up.
   - It also satisfies the subordinate’s need for recognition & provides them w/ opportunities to develop & exercise initiative

**Importance of Delegation:**
1. **Effective management:**
   - permits a manager to share his workload with his subordinates.
   - Thus, the manager is able to concentrate on more important aspects of his work.
2. **Employee development:**
   - Subordinates are required to exercise their authority to handle situations and to solve managerial problems. This makes them better leaders and decision makers.
   - Through the experience and competence acquired, they are prepared to take up higher responsibilities in course of time.
3. **Motivation of employees:**
   - Delegation provides a feeling of status and importance to subordinates, builds their self-esteem and enhances their job satisfaction and confidence level. They become more willing to work hard and achieve targets laid down by higher authorities.
4. **Facilitation of growth:**
   - Of an organization by providing a ready workforce to take up leading positions in new ventures.
   - These trained and experienced employees are able to play significant roles in the launch of new projects.
5. **Basis of management hierarchy:**
   - Delegation of authority establishes superior subordinate relationships, which are the basis of management hierarchy.
   - It directs and regulates the flow of authority from top to bottom of the organization. It gives meaning and content to the managerial jobs.
6. **Better coordination:**
   - Delegation helps to define the authority, responsibility and accountability related to the various positions in the organization.
   - Such clarity in reporting relationships help to avoid duplication of work and facilitate effective co-ordination amongst departments, levels and functions of management.

Conclusion: From the above discussion it is clear that delegation of authority is necessary for the smooth functioning of work and facilitates higher efficiency levels in the organization. Infact, the success of managing is determined by the effectiveness of delegation of authority.
In the words of Allen, ‘Once a man’s job grows beyond his personal capacity, his success lies in his ability to multiply himself through his people.’

- **Elements of delegation:**

There are three basic elements of delegation of Authority:

1. **Assignment of Work/ Responsibility** = obligation to perform certain activities.
2. **Delegation of Authority** = it is the right to decide, to direct others and to take action in achieving the organisational objectives.
3. **Creation of Accountability** = it is the obligation to carry out responsibilities and exercise authority in terms of established performance standards.

<table>
<thead>
<tr>
<th>Authority</th>
<th>Responsibility</th>
<th>Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Right to issue orders and instructions and exact obedience</td>
<td>▪ Obligation of the employee to <strong>properly perform</strong> the assigned duties.</td>
<td>▪ Being answerable for the final outcome</td>
</tr>
<tr>
<td>▪ Helps to maintain order in the firm</td>
<td>▪ Includes all activities that must be performed to carry out a certain duty.</td>
<td>▪ Created because of delegation of authority and responsibility.</td>
</tr>
<tr>
<td>▪ Arises by virtue of position in the scalar chain of command and reduces successively as one goes down the organizational structure.</td>
<td>▪ Can be delegated.</td>
<td>▪ Enforced thru regular feedback on the extent of work completed.</td>
</tr>
<tr>
<td>▪ Implies right to use resources and control others</td>
<td>▪ Flows upwards.</td>
<td>▪ Cannot be delegated</td>
</tr>
<tr>
<td>▪ Is bound by limits imposed by laws and rules and regulations of the firm</td>
<td></td>
<td>▪ Flows upwards</td>
</tr>
<tr>
<td>▪ Can be delegated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>▪ Flows downwards.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Basis</th>
<th>Authority</th>
<th>Responsibility</th>
<th>Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning</td>
<td>Right to command.</td>
<td>Obligation to perform an assigned task.</td>
<td>Answerability for outcome of the assigned task.</td>
</tr>
<tr>
<td>Delegation</td>
<td>Can be delegated.</td>
<td>Cannot be entirely delegated.</td>
<td>Cannot be delegated at all.</td>
</tr>
<tr>
<td>Origin</td>
<td>Arises from formal position.</td>
<td>Arises from delegated authority.</td>
<td>Arises from responsibility.</td>
</tr>
<tr>
<td>Flow</td>
<td>Flows downward from superior to subordinate.</td>
<td>Flows upward from subordinate to superior.</td>
<td>Flows upward from subordinate to superior</td>
</tr>
</tbody>
</table>
Inter Relationship Between Authority, Responsibility And Accountability

- Authority is delegated, responsibility is created and accountability is imposed.
- Responsibility arises out of authority and accountability arises out of responsibility.
- Authority flows downwards whereas responsibility and accountability flow upwards.
- E.g. when the MD authorizes the departmental heads to manage their respective departments, they become responsible to the MD for the due performance of their assigned jobs. They are also answerable for the results of their departments.

  - **Essential Aspects/Process Of Delegation:**

1. **Entrustment Of Responsibility**
   - In the process of delegation every superior has to define the jobs to be performed by his subordinates. He must also define the results expected. He has to further decide on the allocation of duties to his subordinates.

2. **Grant Of Authority**
   - It is giving the right to subordinates to decide & act & use the necessary resources & report to superior.
   - Every sub needs authority to carry out the tasks and perform the duties assigned to him.
   - Managers at all levels derive authority granted by his superiors and confer a part of it on his subs.

3. **Creation Of Accountability**
   - The subordinates are assigned responsibility that creates obligation to carry out the tasks assigned. They also have to give an account of the results achieved, in terms of the standards of performance laid down.

  - **Decentralization**

1. Decentralisation of authority means dispersal of authority to take decisions throughout the organization, upto the lower levels.
2. It implies reservation of some authority with the top level management and transferring rest of the authority to the lower levels of the organization. This empowers lower levels to take decisions regarding problems faced by them without having to go to the upper levels.

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

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

1. In case of a decentralized firm, **Top level** retains authority for:
   - Policies and decisions w.r.t the whole firm
   - Overall control and coordination
2. **Middle and lower levels** have authority to take decisions w.r.t tasks allocated to them.
**Importance of Decentralization:**

1. **Develops initiative among subordinates**
   - Helps to promote self-reliance and confidence amongst the subordinates.
   - Cause when lower managerial levels are given freedom to take their own decisions, they learn to depend on their own judgment & feel constantly challenged to develop solutions for the problems they encounter.

2. **Develops managerial talent for the future**
   - Decentralisation gives the employees a chance to prove their abilities. They learn how to decide and develop managerial skills.
   - It also helps to create a reservoir of qualified manpower who have the necessary potential to become dynamic leaders and who can be considered to fill up more challenging positions.

3. **Quick decision making**
   - Under decentralisation, authority to make decisions is placed in the hands of those who are well aware of the realities of the situation and are responsible for executing the decisions.
   - As a result more accurate and faster decisions can be taken. There are also lesser chances of information getting distorted because it does not have to go through long channels.

4. **Relief to top management**
   - Decentralisation helps to reduce the workload of the top executives. They can devote greater time and attention to important policy matters by decentralizing authority for routine operational decisions.
   - It reduces the need for direct supervision by the superior over the subordinates.

5. **Facilitates growth**
   - Decentralisation facilitates the growth and diversification of the enterprise. Each department or product division is given sufficient autonomy for innovations and creativity.
   - Also a sense of competition can be created among different departments or divisions and the top management can extend overall leadership over a giant enterprise.

6. **Better control**
   - Managers at all levels have adequate authority to make changes in work assignment, to change production schedules, to recommend supervision and to take disciplinary actions. Therefore more effective supervision can be exercised.
   - Control can be made effective by the evaluating the performance of each decentralized unit in the light of clear and pre determined standards.

As a conclusion, it must be noted that in spite of its benefits decentralisation should be applied with caution as it can lead to organisational disintegration if the departments start to operate on their own guidelines which may be contrary to the interest of the organisation. Decentralisation must always be balanced with centralisation in areas of major policy decisions.
<table>
<thead>
<tr>
<th>Basis</th>
<th>Delegation</th>
<th>Decentralisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Definition/Nature</td>
<td>It refers to entrustment of responsibility and authority from a superior to his subordinate. This is individualistic.</td>
<td>It refers to systematic delegation of authority to the lower levels in the organization. This is totalistic.</td>
</tr>
<tr>
<td>2. Relationship</td>
<td>Delegation establishes superior subordinate relationship</td>
<td>Decentralisation denotes relationship between the top management and various departments and divisions.</td>
</tr>
<tr>
<td>3. Control</td>
<td>The person who delegates keeps the power to control with himself.</td>
<td>Control is exercised in a general manner. The authority to control may be delegated to the lower levels.</td>
</tr>
<tr>
<td>4. Need</td>
<td>Delegation is essential, if an executive wants to get the help from others in getting things done.</td>
<td>Decentralisation is not compulsory. It is the top management which decides the introduction of decentralisation</td>
</tr>
<tr>
<td>5. Purpose</td>
<td>To reduce the burden of a manager.</td>
<td>To increase the role of subordinates and giving them more autonomy.</td>
</tr>
<tr>
<td>6. Process</td>
<td>Delegation of authority is a process.</td>
<td>Decentralisation is not a process. It is the result policy decision taken by the top management.</td>
</tr>
<tr>
<td>7. Parties involved</td>
<td>Involves two parties: the officer delegating the authority and the subordinate to whom the authority is delegated.</td>
<td>It involves the entire organization. It is concerned with all managerial levels.</td>
</tr>
<tr>
<td>8. Responsibility and accountability</td>
<td>Full responsibility and accountability is not transferred. The executive remains liable to his superior even after delegation.</td>
<td>Full responsibility and accountability is transferred. The executives holding authority are held liable.</td>
</tr>
<tr>
<td>9. Freedom of action</td>
<td>There is lesser freedom of action because there is a constant and continuous supervision by the manager.</td>
<td>There is more freedom of action. Once the authority is decentralized there is only periodic appraisal and no constant supervision.</td>
</tr>
<tr>
<td>10. Withdrawal of authority</td>
<td>Delegated authority can be withdrawn by the delegator. It is the individual officer’s will to continue or withdraw.</td>
<td>Decentralisation authority cannot be withdrawn easily. These authorities can be withdrawn only when the decision is taken to discontinue decentralization</td>
</tr>
</tbody>
</table>
Span of control:
It refers to the number of subordinates placed under the manager’s supervision and control. According to the principle of span of control, there is a limit to the number of subordinates which a manager can supervise and control. Generally, the span of control is narrow at higher levels of management and wider at lower levels.

Factors affecting span of control
1. Capacity and intelligence level of the managers: If the managers are smart and intelligent, they can have a wider span. i.e., more number of subordinates can work under them.
2. Trust of the managers in their employees: The managers who have more trust in their employees can have a wider span.
3. Intelligence level of employees: If the employees are trained and professional, then there can be a wider span. On the contrary, unskilled employees need more guidance, so narrow span of control is needed.
4. Nature of job: If routine jobs have to be performed, then there can be a wide span, but for specialized and challenging jobs, a narrow span of control is preferred.
Staffing

Introduction:

- Managerial function of filling and keeping filled the positions in an organisation structure. This is achieved by identifying requirement of work force, followed by recruitment, selection, placement, promotion, appraisal and development of personnel to fill the roles designed into the organisation structure.

- It is the process of hiring and developing the required personnel to fill in various positions in the organisation.

Role Of Staffing Function In A New Enterprise

- **In a new enterprise**, the staffing function follows the planning and organising functions.
- After deciding what is to be done, how it is to be done and after creation of the organisation structure, the management is in a position to know the human resource requirements of the enterprise at different levels.
- Once the number and types of personnel to be selected is determined, management starts with the activities relating to recruiting, selecting and training people, to fulfill the requirements of the enterprise.

Role Of Staffing Function In An Existing Enterprise

- **In an existing enterprise**, staffing is a continuous process because new jobs may be created and some of the existing employees may leave the organisation.

Need for Staffing:

- (i.e. why is staffing function needed by a firm and is considered to be a field of study)
  1. The staffing function of management fulfils this requirement and finds the right people for the right job. Basically, staffing fills the positions as shown in the organisation structure.
  2. Emphasis on the Human element as qualities like the aptitude, attitude, commitment of employees: help in fitting the right person to the right job. The right people can help you take your business to the top; the wrong people can break your business. Hence, staffing is the most fundamental and critical drive of organisational performance. The staffing function has assumed greater importance these days because of rapid advancement of technology, increasing size of organisation and complicated behaviour of human beings. Human resources are the most important asset of an organisation.
  3. The ability of an organisation to achieve its goal depends upon the quality of its human resources. Therefore, staffing is a very important managerial function.
  4. Availability of knowledge and theory as a specialized area of study. Researches on various aspects of staffing i.e., recruitment, selection, compensation and incentives, train-ing and development, can be utilised for better results.
Importance of Staffing:

(i.e. proper staffing ensures the following benefits to a firm)

a. Helps in discovering and obtaining competent personnel for various jobs;
b. Makes for higher performance by putting right person on the right job;
c. Ensures the continuous survival and growth of the enterprise through the succession planning for managers;
d. Helps to ensure optimum utilisation of the human resources. By avoiding ‘over manning’, it prevents under-utilisation of personnel and high labour costs. At the same time it avoids disruption of work by indicating in advance the shortages of personnel; and
e. Improves job satisfaction and morale of employees through objective assessment and fair reward for their contribution.

What is the difference in the performance of staffing function in a small and a large organization?

When the manager performs the staffing function in a small organisation his role is slightly limited. Some of these responsibilities will include

a. Placing the right person on the right job,
b. Introducing new employees to the organisation,
c. Training employees and improving their performance,
d. Developing their abilities,
e. Maintaining their morale and protecting their health and physical conditions.

In a large organization, as the number of persons employed increases, a separate department called the human resource department is formed which has specialists in managing people. The management of human resource is a specialised area which requires the expertise of many people. The number of human resource specialists and size of this department gives an indication of the size of the business as well. For a very large company, the Human Resources Department itself will contain specialists for each function of this department.

Their duties are:

a. Recruitment i.e., search for qualified people
b. Analysing jobs, collecting information about jobs to prepare job descriptions.
c. Developing compensation and incentive plans.
d. Training and development of employees for efficient performance and career growth.
e. Maintaining labour relations and union management relations.
f. Handling grievances and complaints.
g. Providing for social security and welfare of employees.
Staffing As a Part of Human Resource Management

- **Staffing**
  - Function which all managers have to perform as all managers directly deal with people
  - Staffing refers to this kind of role played by all managers in small organizations.

- As organizations grow and number of people employed increases, a separate department called the human resource department is formed which consists of specialists who are experts in dealing with people.

- In fact early definitions of staffing focused narrowly on only hiring people for vacant positions. But today staffing is a part of HRM which encompasses not only staffing but also a number of other specialized services such as job evaluation, management of labour relations.

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

- It includes many specialized activities performed by human resource personnel. These are:
  1. Human resource planning
  2. Recruitment
  3. Selection
  4. Developing compensation and incentive plans
  5. Training and development of employees (as a part of their career development)
  6. Performance Appraisal of employees
  7. Handling grievances and maintaining management labor relations
  8. Providing for social security and welfare of employees

- Thus we see that human resource management is a much broader concept and includes a wide range of activities and staffing is an integral part of human resource management.

**Evolution of Human Resource management**

Human Resource Management in its present form has evolved from a number of significant inter-related developments over a period of time.

- **Industrial Revolution**--- led to *trade unions*---(Labour welfare Officer)
- **Introduction of factory system** led to employment of large number of labour under one roof-- (Personnel Officer/Manager)
- **Human Relations Approach**--- (Human Resource Manager)

Staffing is both a function of management just like planning, organising, directing, and controlling as well as a distinct functional area of management just as marketing management and financial management. Staffing, is therefore, referred to as both a line as well as a staff activity i.e., an essential function of the manager as well as an advisory role played by the Human Resource Department.
Steps in Staffing Process:

1. **Estimate manpower requirement:**
   - Work load analysis and workforce analysis
   - Avoid both under and over staffing
   - Specific job description and the desirable profile of its occupant charted.

2. **Recruitment:**
3. **Selection**
4. **Placement and orientation:**
   - Placement = putting the right person on the right job. This would reduce turnover, absenteeism and accidents and increase the morale of employees.
   - Orientation = introduce employees to job, workgroup and organisation.
5. **Training and Development:**
   - In most organisations there is a separate Human Resource Department, which takes care of the staffing function. But in small organisations the line manager is required to perform all the functions of management viz, planning, organising, staffing, directing and controlling.
6. **Performance appraisal**
7. **Promotion and career planning**
8. **Compensation**

**STAFFING PROCESS**

(i) **Estimating the Manpower Requirements:** Operationally, understanding the manpower requirements would necessitate workload analysis on the one hand and workforce analysis on the other.
   - **Workload analysis** would enable an assessment of the number and types of human resources necessary for the performance of various jobs and accomplishment of organisational objectives.
   - **Workforce analysis** would reveal the number and type available. In fact such an exercise would reveal whether we are understaffed, overstaffed or optimally staffed.
   - Translate the manpower requirements into specific job description and the desirable profile of its occupant — the desired qualifications, experience, personality characteristics etc.

(ii) **Recruitment:** Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. The information generated in the process of writing the job description and the candidate profile may be used for developing the ‘situations vacant’ advertisement. The essential objective is to create a pool of the prospective job candidates. Both internal and external sources of recruitment may be used.

(iii) **Selection:** Selection is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment. The selection process serves two important purposes:
   - it ensures that the organisation gets the best among the available, and
   - it enhances the self-esteem and prestige of those selected and conveys to them the seriousness with which the things are done in the organisation.

Class XII/ Business Studies: Study Material/74
(iv) **Placement and Orientation:** The employee is given a brief presentation about the company and is introduced to his superiors, subordinates and the colleagues. He is taken around the workplace and given the charge of the job for which he has been selected. This process of familiarization is very crucial and may have a lasting impact on his decision to stay and on his job performance. **Orientation** is, thus, introducing the selected employee to other employees and familiarizing him with the rules and policies of the organization. Placement refers to the employee occupying the position or post for which the person has been selected.

(v) **Training and Development:** By offering the opportunities for career advancement to their members, organisations are not only able to attract but also retain its talented people.

- In most organisations there is a separate Human Resource Department, which takes care of the staffing function. But in small organisations the line manager is required to perform all the functions of management viz, planning, organising, staffing, directing and controlling.

- The process of staffing will then include three more stages.

(vi) **Performance Appraisal:** After the employees have undergone a period of training and they have been on the job for some time, there is a need to evaluate their performance. **Performance appraisal means evaluating an employee’s current and/or past performance as against certain predetermined standards.** The employee is expected to know what the standards are and the superior is to provide the employee feedback on his/her performance. The performance appraisal process, therefore, will providing feedback.

(vii) **Promotion and career planning:** Promotions are an integral part of people’s career. They refer to being placed in positions of increased responsibility. It usually means more pay, responsibility and job satisfaction.

(viii) **Compensation:** Compensation, therefore, refers to all forms of pay or rewards going to employees. It may be in the form of direct financial payments like wages, salaries. Direct financial payments are of two types:

- a. **time based:** A time based plan means salary and wages are paid either daily, weekly or monthly or annually.
- b. **performance based:** A Performance based plans means salary/wages are paid according to piecework. For example, a worker may be paid according to the number of units produced by him/her. There are many methods to calculate the compensation under various incentive plans to reward performance.
- c. Certain pay plans can be created which are a combination of time based pay plus incentives for higher performance.
- d. Besides there are some other factors also which influence the design of any pay plan, like legal (labour laws), union, company policy and equity.

**Primary/Major Aspects of Staffing**

= Recruitment (identifying and attracting staff) + Selection (assessment, evaluation and final match) + Training (acquainting and skill development).
Recruitment - Meaning and Sources:

- Process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
- The various activities involved with the process of recruitment includes
  - Identification of the different sources of labor supply,
  - Assessment of their validity,
  - Choosing the most suitable source or sources, and
  - Inviting applications from the prospective candidates, for the vacancies.

Sources of recruitment of employees:

<table>
<thead>
<tr>
<th>Internal Sources</th>
<th>External Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Transfers</td>
<td>o Direct recruitment</td>
</tr>
<tr>
<td>o Promotions</td>
<td>o Casual callers</td>
</tr>
<tr>
<td>o Layoffs*</td>
<td>o Advertisements</td>
</tr>
<tr>
<td></td>
<td>o Employment exchanges*</td>
</tr>
<tr>
<td></td>
<td>o Placement agencies and management consultants*</td>
</tr>
<tr>
<td></td>
<td>o Campus recruitments*</td>
</tr>
<tr>
<td></td>
<td>o Recommendation of employees*</td>
</tr>
<tr>
<td></td>
<td>o Labour contractors</td>
</tr>
<tr>
<td></td>
<td>o Advertisement on TV*</td>
</tr>
<tr>
<td></td>
<td>o Web publishing*</td>
</tr>
</tbody>
</table>

(* = specifically for managerial positions)

Internal Sources

<table>
<thead>
<tr>
<th>Merits</th>
<th>Limitations</th>
<th>Merits</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Motivated employees and higher morale of employees.</td>
<td>1. inbreeding</td>
<td>1. Qualified personnel</td>
<td>1. Dissatisfaction among existing staff</td>
</tr>
<tr>
<td>2. Simple and reliable</td>
<td>2. Employees become lethargic</td>
<td>2. Wider choice</td>
<td>2. Lengthy process</td>
</tr>
<tr>
<td>3. Induction training not required</td>
<td>3. Filling all vacancies through internal source is not possible</td>
<td>3. Fresh talent</td>
<td>3. Costly process</td>
</tr>
<tr>
<td>4. Surplus staff can be moved to areas that have shortage</td>
<td>4. Competition hampered</td>
<td>4. Competitive Spirit</td>
<td></td>
</tr>
<tr>
<td>5. Cheaper</td>
<td>5. Reduce productivity of employees</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

External Sources

<table>
<thead>
<tr>
<th>Merits</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Qualified personnel</td>
<td>1. Dissatisfaction among existing staff</td>
</tr>
<tr>
<td>2. Wider choice</td>
<td>2. Lengthy process</td>
</tr>
<tr>
<td>3. Fresh talent</td>
<td>3. Costly process</td>
</tr>
<tr>
<td>4. Competitive Spirit</td>
<td></td>
</tr>
</tbody>
</table>

Differences between internal external sources:

1. Economy
2. Time involved
3. Extent of choice
4. Motivation to existing staff
5. Quality of recruitment

Q. External sources are more expensive than internal sources, then why does an org opt for these?
Ans. An enterprise has to tap external sources for various positions because all the vacancies cannot be filled through internal recruitment. The existing staff may be insufficient or they may not fulfill the eligibility criteria of the jobs to be filled.
I. Internal Sources Of Recruitment:
   i. Transfers:
      - It involves shifting of an employee from one job/department/ shift to another, without a substantive change in the responsibilities and status of the employee.
      - It may lead to changes in duties and responsibilities, working condition etc., but not necessarily salary.
      - Shortage of suitable personnel in one branch may be filled through transfer from other over staffed branch or department.
      - helpful in avoiding termination and in removing individual problems and grievances.
      - Employees transferred from one job to another should be capable of performing it.
      - Transfers can also be used for training of employees for learning different jobs.

   ii. Promotions:
      - Promotion leads to shifting an employee to a higher position, carrying higher responsibilities, facilities, status and pay.
      - Promotion is a vertical shifting of employees.
      - Improves motivation, loyalty and satisfaction level of employees.

Merits - Internal Sources
1. Motivated employees and higher morale of employees.
   - Chain of promotions motivates employees to improve thro learning and practice.
   - Employees become committed, loyal and have job satisfaction => organizational peace.
2. Simple and reliable
   - Simplifies selection process = evaluation = accurate and economical.
   - Reliable as candidates are already known.
3. Tool of training for higher positions and Induction training not required
   - Transfers = tools of training for higher positions.
   - Ind Tr ≠ needed as candidates are already a part of the firm
4. Surplus staff can be moved to areas that have shortage
   - So helpful in avoiding terminations.
5. Cheaper:
   - As selection process is simplified +lesser requirement for tests and induction training.

Limitations - Internal Sources
1. Inbreeding
   - Scope for induction of fresh talent is reduced, therefore stopping infusion of ‘new blood’ into the organization.
2. Employees become lethargic
   - If they are sure of time bound promotions.
3. Filling all vacancies thro internal source is not possible
4. Competition hampered
5. Reduce productivity of employees
II. **External Sources Of Recruitment:**

1. **Direct Recruitment:**
   - A notice is placed on the notice board of the enterprise specifying the details of the jobs available.
   - Job seekers assemble outside the firm on the specified date & selection is done on spot.
   - Followed usually for casual vacancies of unskilled/ semi-skilled jobs. Such workers are known as casual or ‘badli’ workers and they are paid remuneration on daily wage basis.
   **Benefits of Direct Recruitment:**
   - Very inexpensive, as it does not involve any cost of advertising the vacancies.
   - Suitable for filling casual vacancies when there is a rush of work or when some permanent workers are absent.

2. **Casual Callers:**
   - Many reputed biz orgs keep a database of unsolicited applicants in their offices. Such jobseekers can be a valuable source of manpower.
   - A list of such job-seekers can be prepared & can be screened to fill the vacancies as they arise.
   **Benefits of casual Callers:**
   - It reduces the cost of recruiting workforce in comparison to other sources.

3. **Advertisement:**
   - Advertisement in newspapers or trade & professional journals is generally used when a wider choice is required.
   - Most of the senior positions of industry as well as commerce are filled by this method.
   **Benefits of Advertisements:**
   - More information about the org and job can be given in the advertisement.
   - Advertisement gives the management a wider range of candidates from which to choose.
   **Disadvantages:**
   - It may bring in a flood of response, and many times, from quite unsuitable candidates.

4. **Employment Exchange:**
   - Employment exchanges run by the Govt. are regarded as a good source of recruitment for unskilled and skilled operative jobs.
   - In some cases, law requires compulsory notification of vacancies to employment exchange.
   **Benefits:**
   - Help to match personnel demand & supply by serving as link b/w employees and employers.
   **Disadvantages:**
   - The records of employment exchange are often not up to date.
   - Many of the candidates referred by them may not be found suitable.

5. **Placement Agencies & Management Consultants:**
   - Placement agencies provide a nationwide service in matching personnel demand and supply.
   - Compile bio data of a large no. Of candidates & recommend suitable names to their clients.
   - Such agencies charge fee for their services and they are useful where extensive screening is required.
   **Benefits:**
   - Management consultancy firms help the orgs to recruit technical, professional & managerial personnel.
   - They specialize in middle level and top-level executive placements.
6. **Campus Recruitment:**
   - Refers to Recruitment from educational institutions
   - Colleges and institutes of management and technology have become popular source of recruitment for technical, professional and managerial jobs.
   - Many big orgs maintain a close liaison with the universities, vocational schools and management institutes to recruit qualified personnel for various jobs.

7. **Recommendation Of Employees:**
   - Applicants introduced by present employees, or their friends and relatives may prove to be a good source of recruitment.
   - Such applicants are likely to be good employees because their background is sufficiently known.
   - A type of preliminary screening takes place because the present employees know both the company and the candidates and they would try to satisfy both.

8. **Labor Contractors:**
   - Labor contractors maintain close contacts with laborers and they can provide the reqd. no. Of unskilled workers at short notice.
   - Workers are recruited through labor contractors who are themselves employees of the org.
   
   **Disadvantages:**
   - If the contractor himself decides to leave the org., all the workers employed through him will follow suit.

9. **Advertising On Television:**
   - The practice of telecasting of vacant posts over TV is gaining importance these days.
   - The detailed requirements of the job and the qualities required to do it are publicized along with the profile of the org where vacancy exists.

10. **Web Publishing:**
    - Internet is becoming a common source of recruitment these days.
    - There are certain websites specifically designed and dedicated for the purpose of providing information about both job seekers and job opening.
    - In fact, websites such as www.naukri.com, www.jobstreet.com etc., are very commonly visited both by the prospective employees and the orgs searching for suitable people.

---

**Merits - External Sources**

1. Qualified personnel
   - Better access to qualified and trained personnel as compared to internal.

2. Wider choice
   - Because of larger number of applicants.

3. Fresh talent
   - Wider choice + infusion of ‘new blood’ into the firm.

4. Competitive Spirit
   - As existing staff will have to compete => work harder
Limitations - External Sources

1. Dissatisfaction among existing staff
   - As they feel that their chances of promotions reduce.
2. Lengthy process
   - Time period for notifying vacancies, receiving applications and then starting the selection process.
3. Costly process
   - Because of expenses on advertisements and processing of applications.

Selection - Meaning And Process:
- Process of screening candidates who offer themselves for appointment so as to choose the most appropriate one for the job.

PROCESS OF SELECTION

1. Preliminary Screening:
   - Helps the manager eliminate unqualified/ unfit job seekers based on the info supplied in the application forms.
   - Preliminary interviews help reject misfits.

2. Selection Tests:
   - An employment test is a mechanism (either a paper & pencil test or an exercise) that attempts to measure certain characteristics of individuals.
   - These characteristics range from aptitudes, such as manual dexterity, to intelligence to personality.
   - Important Tests Used for Selection of Employees:

      Intelligence Tests:
      - This is one of the imp psychological tests used to measure the level of intelligence quotient of an individual.
      - It is an indicator of a person’s learning ability or the ability to make decisions and judgments.

      Aptitude Test:
      - It is a measure of individuals potential for learning new skills.
      - It indicates the person’s capacity to develop.
      - Such tests are good indices of a person’s future success score, potential to acquire skills and the later the actual skills possessed.

      Personality Tests:
      - Personality tests provide clues to a person’s emotions, her reactions, maturity and value system etc.
      - These tests probe the overall personality. Hence, these are difficult to design and implement.

      Trade Test:
      - These tests measure the existing skills of the individual.
      - They measure the level of knowledge & proficiency in the area of professions or technical training.

      Interest Tests:
      - Every individual has fascination for some job than the other.
      - Interest tests are used to know the pattern of interests/ involvement of a person.
3. **Employment Interview:**
   - It is a formal, in-depth conversation conducted to evaluate the applicant’s suitability for the job.
   - The role of the interviewer is to seek info and that of the interviewee is to provide the same.
   - Though, in present times, the interviewee also seeks information from interviewer.

4. **Reference and Background Checks:**
   - Many employers request names, addresses, & telephone numbers of references for the purpose of verifying info and, gaining additional info on an applicant.
   - Previous employers, known persons, teachers and university professors can act as references.

5. **Selection Decision:**
   - The final decision has to be made from among the candidates who pass the tests, interviews and reference checks.
   - The views of the concerned manager will be generally considered in the final selection because it is he/she who is responsible for the performance of the new employee.

6. **Medical Examination:**
   - After the selection decision and before the job offer is made, the candidate is required to undergo a medical fitness test.
   - The job offer is given to the candidate being declared fit after the medical examination.

7. **Job Offer:**
   - Job offer to those applicants who have passed all the previous hurdles.
   - Made through a letter of appointment/confirm his acceptance.
   - Such a letter generally contains a date by which the appointee must report on duty.

8. **Contract of Employment:**
   - Certain documents need to be executed by the employer and the candidate.
   - One such doc = Attestation form.
   - This form contains certain vital details about the candidate, which are authenticated and attested by him or her. Attestation form will be a valid record for future reference.
   - There is also a need for preparing a contract of employment. Basic info that should be included in a written contract of employment will vary according to the level of the job, but the following checklists sets out the typical headings:
   - Job Title, Duties, Responsibilities, Date (when continuous employment starts) and the basis for calculating service, rates of pay, allowances, hours of work, leave rules, sickness, grievance procedure.

---

**Training and Development**

**Training:**
- The term training is used to indicate the process by which attitudes, skills, and abilities of employees to perform specific jobs are increased.
- Training is a process of increasing knowledge and skills. It is to enable the employee to do the job better.
- It is a job-oriented process.
Development:
- Refers to the learning opportunities designed to help employees grow. It covers not only those activities that improve job performance but also those, which bring about growth of the personality, help individuals in the progress towards maturity & actualization of their potential capacities so that they become not only good employees but also better men and women.
- The term development means growth of individual in all respects.
- Training is short-term process but development is an on going process.
- Also, development includes training.

Education:
- It is the process of increasing the knowledge.
- Imparts qualities of mind, character and understanding of the basic principles and develops the capacities of analysis, synthesis and objectivity.
- Broader in scope than training.

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

Need for training:

Methods Of Training:

<table>
<thead>
<tr>
<th>On the job:</th>
<th>Off the job</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Employees are trained while they are performing the job in their workplace.</td>
<td>✓ Training the employees by taking them away from work position =&gt;employees are given a break from the job and sent for training. It emphasizes on learning rather than doing.</td>
</tr>
<tr>
<td>✓ Employees learn by doing. Suitable only for technical jobs and where a few employees are to be trained in the real job environment.</td>
<td>✓ The employer specifically arranges the training programme/ workshop by calling in experts.</td>
</tr>
<tr>
<td>✓ Advantage =&gt; employees can learn about practical problems while working on the job + promotes self-learning.</td>
<td>✓ More suitable for managerial job positions or where large number of employees has to be trained.</td>
</tr>
<tr>
<td>✓ Disadvantage =&gt; results in wastage of resources and might disrupt normal functioning.</td>
<td>✓ Advantage =&gt; enables the trainees to concentrate better because they are free from job pressure.</td>
</tr>
<tr>
<td>Types: Apprenticeship Program and Internship</td>
<td>✓ Disadvantage =&gt; more expensive.</td>
</tr>
</tbody>
</table>

Types: Vestibule Training and Induction Training
Apprenticeship Programme/training:
- Persons who want to enter skilled jobs such as plumbing, iron smithy, electrician’s job are sent for apprenticeship programme.
- Master worker /trainer is appointed who guides the worker or the learner regarding the skills of the job.
- When the learner becomes an expert then he is given the full charge of the job position.
- Generally the time period for such a programme may vary from 2 to 5 years.

Induction Training:
- Induction training is a type of training given to help a new employee in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business. The duration of such type of training may be from a few hours to a few days.

Internship:
- An agreement between the professional institutes and the corporate sector, whereby the professional Institutes send their students to various companies so that they can practice the theoretical knowledge acquired through these professional Institutes.
- The companies prefer this arrangement because they get people with fresh ideas and latest knowledge and because they can pay them nominal stipends. On the other hand students get a chance to practice under the real work situation.
- Thus we can say that under Internship the class room sessions are backed with Practical training.

Vestibule Training:
- Employees learn their jobs on the equipment that they will be using, but the training is conducted away from the workplace.
- A dummy model of the workplace/ machinery is prepared for this purpose and the employees are trained on it, using similar materials, files and equipment instead of the original work set-up.
- This method is suitable when the employees are required to handle sophisticated machinery and equipment and it provides the benefit of the on the job methods.

Situations in which training is required:
- a. Increase in labour turnover
- b. Inexperienced personnel
- c. As a tool for controlling
- d. industry is expanding
- e. economy recover after depression
- f. introduction of new technology

<table>
<thead>
<tr>
<th>Training</th>
<th>Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is a process of increasing knowledge and skills.</td>
<td>It is a process of learning and growth.</td>
</tr>
<tr>
<td>It is to enable the employee to do the job better.</td>
<td>It is to enable the overall growth of the employee.</td>
</tr>
<tr>
<td>It is a job oriented process.</td>
<td>It is a career oriented process.</td>
</tr>
</tbody>
</table>
Points of distinction Between Training and Development

1. Concept/Depth of knowledge
2. Purpose
3. Nature/Scope of learning
4. Methods used
5. Time/duration
6. Initiative
7. Suitability

Q. What should be done in case of over staffing or understaffing?
   It may be pointed out that neither over-staffing nor under-staffing is a desirable situation.
   • A situation of overstaffing somewhere would necessitate employee removal or transfer elsewhere.
   • A situation of understaffing would necessitate the starting of the recruitment process.

Topics given in NCERT but not included in the Syllabus:

1. Methods of Training:
   o On the Job Methods,
     → Coaching, Internship Training, Job Rotation:
   o Off the Job Methods:
     → Class Room Lectures/Conferences, Films, Case Study, Computer Modelling, Programmed Instruction.
MEANING OF DIRECTING:
According to Ernest Dale, “Directing is telling people what to do and seeing that they do and seeing that they do it to the best of their ability.” Directing is a complex managerial function that includes everything that a manager does to encourage subordinates to work effectively - instructing, guiding, counseling, supervising, motivating and leading them.

<table>
<thead>
<tr>
<th>Features Of Directing</th>
<th>Importance Of Directing</th>
<th>Elements Of Directing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Initiates Action</td>
<td>1. Initiates Action</td>
<td>1. Supervision</td>
</tr>
<tr>
<td>2. Takes Place At Every Level Of Management</td>
<td>2. Integrates Employees Efforts</td>
<td>2. Motivation</td>
</tr>
</tbody>
</table>

Features of Directing:
1. **Initiates Action:**
   - A manager has to perform this function along with planning, organizing, staffing and controlling while discharging his duties in the organization.
   - While other functions prepare a setting for action, directing initiates action in the organization.

2. **Takes Place At Every Level Of Management:**
   - Every manager, from top executive to supervisor performs this function.
   - The directing takes place wherever superior – subordinate relations exist.

3. **Continuous Process:**
   - It takes place throughout the life of the organization irrespective of people occupying managerial positions.

4. **Flows From Top To Bottom:**
   - First initiated at top level & flows to the bottom through organizational hierarchy.
   - It means that every manager can direct his immediate subordinate and take instructions from his immediate boss.

Importance of Directing:
1. **Initiates Action:**
   - Directing initiates action towards attainment of desired objectives.
   - E.g.: If a supervisor guides his subordinates & clarifies their doubts in performing a task, it will help the worker to achieve work targets given to him.
2. **Integrates Employees Efforts:**
   - Directing ensures that every individual effort contributes to the organizational performance and work for organizational goals.
   - E.g.: A manager with good leadership abilities will be in a position to convince the employees working under him that individual efforts and team effort will lead to achievement of organizational goals.

3. **Guides Employees To Realize Their Potential Fully:**
   - Helps employees fully realize their potential and capabilities by motivating and providing effective leadership.
   - A good leader can always identify the potential of his employees and motivate them to extract work up to their full potential.

4. **Facilitates Introduction Of Change:**
   - Generally, people have a tendency to resist changes in the organization.
   - Effective directing through motivation, communication & leadership helps to reduce such resistance & develop reqd. cooperation in introducing changes in the org.
   - E.g.: A manager wants to introduce new system of accounting, there may be initial resistance from accounting staff. But, if manager explains the purpose, provides training and motivates with additional rewards, the employees may accept change and cooperate with manager.

5. **Stability & Balance In The Org:**
   - Fosters cooperation & commitment among the people and helps to achieve balance among various groups, activities and the departments.

---

### Supervision

<table>
<thead>
<tr>
<th><strong>Meaning:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Supervision = element of directing + function performed by supervisors.</td>
</tr>
<tr>
<td>2. Supervision, as an element of directing:</td>
</tr>
<tr>
<td>‣ process of guiding the efforts of employees and other resources to accomplish desired objectives.</td>
</tr>
<tr>
<td>‣ Overseeing people at work</td>
</tr>
<tr>
<td>‣ Involves instructing, observing, monitoring and guiding employees.</td>
</tr>
<tr>
<td>3. Carried out at all levels but more important at the lower levels therefore the term ‘Supervisor’ is used at the operatives’ level of management.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Importance of Supervision:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(multiple roles performed by supervisor)</td>
</tr>
<tr>
<td>1. Acts as a counselor and guide</td>
</tr>
<tr>
<td>2. Links management and workers</td>
</tr>
<tr>
<td>3. Helps in maintaining group unity</td>
</tr>
<tr>
<td>4. Ensures performance of work as per standards</td>
</tr>
<tr>
<td>5. Trains personnel</td>
</tr>
<tr>
<td>6. Source of motivation and morale for workers</td>
</tr>
<tr>
<td>7. Gives feedback</td>
</tr>
</tbody>
</table>

### Difference between directing and supervision – Basis

= Meaning, scope, levels’ and face to face interaction
**Importance of Supervision (Functions/Role Of A Supervisor):**

1. **Acts As A Counsellor & Guide:**
   - Supervisor maintains day-to-day contact and maintains friendly relations with workers.
   - A good supervisor acts as a guide, friend and philosopher to the workers.

2. **Links Management & Workers:**
   - Supervisor acts as a link between workers and management.
   - He conveys management ideas to the workers & workers problems to the management.
   - This helps to avoid misunderstandings & conflicts b/w management & workers/employees.

3. **Gives Feedback:**
   - Good supervisor analyses the work performed & gives feedback to the workers.
   - He suggests ways and means of developing work skills.

4. **Helps In Maintaining Group Unity:**
   - Supervisor plays a key role in maintaining group unity among workers placed under his control.
   - He sorts out internal differences & maintains harmony among workers.

5. **Trains Personnel:**
   - Provides good on-the-job training to the workers and employees.
   - A skilled & knowledgeable supervisor can build efficient team of workers.

6. **Ensures Performance Of Work As Per Standards:**
   - Ensures performance of work according to the targets set.
   - He takes responsibility for task achievement & motivates workers effectively.

7. **Sources Of Motivation & Morale For Workers:**
   - Supervisory leadership plays a key role in influencing the workers in org.
   - A supervisor with good leadership qualities can build up high morale among workers.

<table>
<thead>
<tr>
<th>BASIS</th>
<th>DIRECTING</th>
<th>SUPERVISION</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEANING</td>
<td>Ernest Dale – Directing is telling people what to do and seeing that they do it to the best of their ability.</td>
<td>Overseeing people at work (what subordinates are doing) and giving instructions to ensure optimum utilization of resources &amp; achievement of work targets.</td>
</tr>
<tr>
<td>SCOPE</td>
<td>Wider scope than supervision. Includes motivation, leadership and communication as well.</td>
<td>Supervision is an element of directing. Has lesser scope.</td>
</tr>
<tr>
<td>LEVELS</td>
<td>Important for all levels of management.</td>
<td>Very important activity at the operating level of m.</td>
</tr>
<tr>
<td>FACE-TO-FACE INTERACTION</td>
<td>Can be done without face-to-face contact.</td>
<td>Involves face-to-face contact b/w supervisors &amp; subordinates.</td>
</tr>
</tbody>
</table>
### Motivation

**Meaning:**

i. Incitement or inducement to act/move.

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

- Three key terms = motive, motivation, motivators.

**Features of Motivation:**

1. Internal and personal
   - (urges/desires/drives aspirations etc of ppl that influence human behavior)

2. Produces goal directed behavior
   - Goal of employee = promotion => helps to produce a behavior in terms of improved performance.

3. Can be positive or negative
   - (positive=rewards; negative=punishments)

4. Is a complex process
   - (as ppl are heterogeneous & their expectations, perceptions and reactions are not uniform - Differs from individual to individual and from time to time - Can lead to different behaviour from same motive)

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

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

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

**Motivation Process:**

Unsatisfied Need => Tension Drives => Search Behavior => Satisfaction Of Need => Reduction Of Tension

**Importance of Motivation:**

1. **Improves performance level of employees:**
   - Motivation satisfies employees needs => satisfied employees have better performance.

2. **Change negative/indifferent attitude to positive attitude:**
   - With suitable rewards, praise and encouragement, employees develop a positive attitude towards work.

3. **Reduce employee turnover:**
   - By identifying motivational needs and providing suitable incentives.
   - So saves cost of recruitment and training and retains talented people in the firm.

4. **Reduce absenteeism**
   - By avoiding bad working conditions, inadequate rewards, lack of recognition and poor relations with supervisors and colleagues.

5. **Helps introduce change smoothly:**
   - Without much resistance from people.
Maslow’s Hierarchy Of Needs:

Maslow’s need hierarchy is considered to be fundamental to the understanding of motivation and plays an important role in motivation.

- People have a wide range of needs like physiological needs, social needs, safety needs, esteem needs and self actualisation needs which motivate them to work.
- The manager must understand the needs and wants of people in order to motivate them and improve their performance levels.
- For the satisfaction of these needs, managers must offer different incentives (monetary and non-monetary).

<table>
<thead>
<tr>
<th>NEED</th>
<th>Examples Of Need (Individual Example)</th>
<th>Management Can Satisfy This Need By (Organizational Example)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Basic Physiological Needs</td>
<td>Most basic in the hierarchy and corresponds to primary needs. Hunger, thirst, shelter, sleep.</td>
<td>Offer monetary incentives e.g. Good salary/wages and comfortable working conditions.</td>
</tr>
<tr>
<td>2. Safety/Security Needs:</td>
<td>Security and protection from physical and emotional harm, stability of Income etc.</td>
<td>Offer job security, pension, insurance etc.</td>
</tr>
<tr>
<td>3. Affiliation/Belonging Needs</td>
<td>Refer to affection, sense of belongingness, acceptance and friendship.</td>
<td>The firm can encourage team building and permit the workers to opportunity to interact socially and so develop cordial relations with colleagues.</td>
</tr>
<tr>
<td>4. Esteem Needs</td>
<td>Include factors such as self-respect, autonomy status, recognition and attention.</td>
<td>Recognize good performance, provide opportunity for employees to feel a sense of accomplishment, provide important job titles etc</td>
</tr>
<tr>
<td>5. Self Actualisation Needs</td>
<td>The drive to become what one is capable of becoming. These needs include growth, self-fulfillment and achievement of goals.</td>
<td>Offer the freedom to take decisions, providing them with opportunity to learn things, encouraging creativity, leading to achievement of goals etc.</td>
</tr>
</tbody>
</table>
Maslow’s theory: Assumptions:
1. People’s behaviour is based on their needs. Satisfaction of such needs influences their behaviour.
2. People’s needs are in hierarchical order, starting from basic needs to other higher level needs.
3. A satisfied need can no longer motivate a person; only next higher level need can motivate him.
4. A person moves to the next higher level of the hierarchy only when the lower need is satisfied.

Merits of his theory:
- Simple and easy to apply
- Indicates how to motivate employees

Demerits of his theory:
- Hierarchy is not necessarily followed in case of needs
- Water-tight classification of needs is not possible

Incentives = measures used to motivate employees to improve performance.
The process of fixing incentives =
- Determine standard time and expected performance
- Fix guaranteed minimum wages
- Add additional remuneration for time saved or cost reduced etc (bonus or premiums)

Financial incentives = directly in money form or measurable in monetary terms.
1. Pay and allowance
2. Productivity linked incentive schemes
3. Bonus
4. Profit sharing
5. Co-partnership/Stock options
6. Retirement benefits
7. Perquisites

Non-financial incentives = main emphasis is to provide psychological and emotional satisfaction. Not measurable in monetary terms.
1. Status
2. Organizational climate
3. Career advancement opportunities
4. Job enrichment
5. Employee recognition programmes
6. Job security
7. Employee participation
8. Employee empowerment

iii. Differences between financial and non-financial incentives =

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Purpose</td>
<td>e. Examples</td>
</tr>
<tr>
<td>c. Role/level at which it is used</td>
<td></td>
</tr>
</tbody>
</table>

Financial Incentives

1. Pay and allowances:
   - It includes basic pay, dearness allowance (DA), and other allowances.
   - Salary system consists of regular increments in the pay every year and enhancement of allowances every year.

2. Productivity linked wage incentives:
   - include plans/schemes under which employees can be motivated by linking their productivity with their salary, that is increment in salary is according to increase in their productivity.
3. **Bonus:**
   - A one-time extra reward offered to the employees for sharing high performance.
   - Given over and above the wages/salaries of the employees.
   - Some companies offer bonus to their employees during the festival time (e.g. at Diwali). It could also be offered in the form of free trips to foreign countries, paid vacations etc.

4. **Profit sharing:**
   - Employees are given a share in surplus profits on the assumption that they contribute to profit earning. This serves to motivate them to improve their performance.

5. **Co-partnership/Stock option:**
   - Management offers shares to its employees at a set price which is lower than the market price. Such an allotment of shares creates a feeling of ownership to the employees and makes them to contribute towards the growth of the organization.
   - This also empowers to participate in the management of the company. In Infosys, the scheme of the stock option has been implemented as a part of managerial compensation.

6. **Retirement benefits:**
   - Several retirement benefits such as provident fund, pension and gratuity provide financial security to employees after their retirement. This acts as an incentive when they are in service in the organization.

7. **Perquisites**
   - Perquisites and fringe benefits are offered such as car allowance, housing and medical aid, education of the children etc. over and above the salary. They play an important part in motivating the employees.

**Non-financial Incentives**

1. **Status:**
   - Means position of rank of a person in the organization. The rank of an employee is directly linked with prestige of the job, recognition, his authority, responsibility, rewards and perquisites attached to the job position.

2. **Organisation Climate:**
   - It refers to the working system within the organization.
   - It includes individual freedom to function, consideration to employees, reward orientation, risk taking etc.

3. **Career Advancement opportunity:**
   - Within the organization they can rise at a higher level through promotions.
   - Managers can facilitate this by providing opportunities to the employees to improve their skills, so that they can be promoted to the higher level jobs. This can be done through employee development programmes and appropriate promotion policies.

4. **Job Enrichment:**
   - Employees get bored by performing routine jobs. They enjoy doing jobs which offer them variety and opportunity to show their skill. Employees get satisfied and motivated when they are offered challenging jobs that require higher level of knowledge and skill.
   - They are given more autonomy and responsibility.
   - They are provided with opportunity for personal growth and meaningful work experience.
5. **Employee Recognition programmes:**
   - Recognition = acknowledgement of their work with a show of appreciation.
   - **Examples:**
     - i. Congratulating the employee for good performance.
     - ii. Displaying on the notice board or in the company newsletter about the achievement of employee.
     - iii. Installing award or certificate for best performance.
     - iv. Distributing mementos, complimentary goods like T-shirts in recognition of employee services.
     - v. Rewarding an employee for giving valuable suggestions.

6. **Job security:**
   - Stability about future income and work so that they do not feel worried on these aspects and work with greater zeal.
   - Negative aspect of job security - When people feel that they are not likely to lose their jobs, they may become complacent.

7. **Employee participation**
   - Involving employees in decision making of the issue affecting them.
   - Can take the form of joint management committees, work committees, canteen committees etc.

8. **Employee empowerment:**
   - Giving employees autonomy and power.
   - He feeling that their jobs are important has a positive impact on their job performance.

---

**Leadership**

*Meaning* = process of influencing the behavior of other people to work willingly towards the achievement of specified goals in a given situation.

**Importance of Leadership:**

1. **Makes people contribute positively:**
   - Influences behaviour and makes people contribute positively and produce good results.

2. **Creates congenial work environment:**
   - Maintains personal relations, helps followers fulfil their needs+ provides confidence, support and encouragement.

3. **Introduces change:**
   - Persuades, clarifies and inspires people to accept changes.
   - So overcomes resistance to change with minimum discontent.

4. **Handles conflict**
   - Does not allow adverse effects.
   - Allows followers to express their feelings and disagreements and gives suitable clarifications.

5. **Trains subordinates:**
   - Builds up successors and helps in smooth succession process.
Features:
1. Ability to influence others
2. Tries to bring about a change in the behavior of others
3. Indicates interpersonal relations
4. Exercised to achieve common goals of the firm
5. Continuous process

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

Role of a leader:

- **Top management:**
  - Achieve co-operation and involvement of employees in formulation of plans

- **Middle and lower management:**
  - Interpret plans and policies
  - Influence to improve performance
  - Integrate personal and organizational goals
  - Represent work groups to superiors and others
  - Solve problems and fulfillment of aspirations

Styles of Leadership:

Leadership styles refer to a leader’s behavior. Behavioral pattern which the leader reflects in his role as a leader is often described as the style of leadership. A Leadership style is the result of the leader’s philosophy, personality, and experience and value system. It also depends upon the type of followers and the atmosphere prevailing in the organization.

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

1. **Autocratic or Authoritarian leader**
   - An autocratic leader gives orders and insists that they are obeyed. He determines the policies for the group without consulting them. He does not give information about future plans but simply tells the group what immediate steps they must take. Under this style, all decision making power is centralized in the leader as shown in the diagram. He does not give the subordinates any freedom to influence his decision. It is like “bossing people around.” This style should normally be used on rare occasions.
o An autocratic leader gives orders and expects his subordinates to obey those orders.
o If a manager is following this style, then communication is only one-way with the subordinate only acting according to the command given by the manager.
o This leader is dogmatic i.e., does not change or wish to be contradicted.
o This leadership style is effective in getting productivity in many situations like in a factory where the supervisor is responsible for production on time and has to ensure labour productivity.
o Quick decision-making is also facilitated.
o Example Mr. Ulhas, CEO of I Create India, distributes the work for the month. He delegates the work to his staff Ms. Ranju, Ms. Anjana, Ms. Geeta and Mr. Dinesh as per his discretion. (Mr. Ulhas is behaving as an autocratic leader.)
o A is the leader – Boss – Centered – Leadership

2. Democratic or Participative leader

- A democratic leader gives order only after consulting the group and works out the policies with the acceptance of the group. He never asks people to do things without working out the long term plans on which they are working. He favors decision making by the group as shown in the diagram. This improves the attitude of the employees towards their jobs and the organization thereby increasing their morale.

  o Using this style is of mutual benefit – it allows subordinates to become part of the team and helps leaders (seniors) to make better decisions.
  o A democratic leader will develop action plans and makes decisions in consultation with his subordinates.
  o He will encourage them to participate in decision making.
  o This kind of leadership style is more common now-days, since leaders also recognize that people perform best if they have set their own objectives. They also need to respect the other’s opinion and support subordinates.

  o Mr. Ulhas has realized that due to absence of Ms. Geeta, the work will not get over as scheduled. He discusses with his staff members to meet the dead line. Everybody decided to do over time and planned to stay back accordingly. (Mr. Ulhas is behaving as a democratic leader)
3. Laissez faire or Free-rein leader
   - A free rein leader or a Laissez Faire Leader gives complete freedom to the subordinates. Such a leader avoids use of power. He depends largely upon the group to establish its own goals and work out its own problems. Group members work themselves as per their own choice and competence. The leader exists as a contact man with the outsiders to bring information and the resources the group requires for accomplishing the job.
     - NOTE: This is also known as laissez faire which means no interference in the affairs of others. [French: laissez means to let / allow and faire means to do.] Such a leader does not believe in the use of power unless it is absolutely essential.
     - The followers are given a high degree of independence to formulate their own objectives and ways to achieve them.
     - The group members work on their own tasks resolving issues themselves. The manager is there only to support them and supply them the required information to complete the task assigned.
     - At the same time, the subordinate assumes responsibility for the work to be performed.
   - A is the leader. Leadership is Subordinate – Centered – Leadership

Conclusion:
Depending upon the situation a leader may choose to exercise a combination of these styles when required. For instance even a laissez faire leader would have certain rules to be followed while doing work and a democratic leader may have to take his own decision in an emergency situation.
- Leader Vs manager( differences between the two on the basis of)
  - Formal authority structure
  - Concern/focus
  - Based on
  - Scope
  - Skills required

Communication

- Meaning = Exchange of ideas, facts, opinions, information and understanding between 2/ more persons.

- Elements of communication process:
  - **Sender**: Sender is the person who wants to convey his thoughts or ideas to the receiver. So he represents the source of communication.
  - **Message**: It is the content of ideas, feelings, suggestions etc. intended to be communicated.
  - **Encoding**: This means that the message is transmitted through the use of language, actions, pictures and gestures.
  - **Media**: It is the medium/path through which encoded message is transmitted to the receiver. E.g. letter, telephone, e-mail, direct face-to-face interaction.
  - **Decoding**: It involves interpreting the meaning of the message as intended by the sender.
  - **Receiver**: He is the person who receives the message.
  - **Feedback**: Feedback is the response that the receiver sends back to the sender after understanding his message.
  - **Noise**: Noise means any obstruction or hindrance to communication. It may be caused to the sender, message or the receiver. Some examples of noise are:
    - Ineffective communication by the sender(manager) because of use of ambiguous symbols leading to faulty encoding, a poor telephone connection.
    - Inattentive receiver
    - Gestures or postures that may distort the message.
    - Faulty decoding(attaching wrong meaning to messages), prejudices that obstruct understanding of the message.
Importance of Communication: An efficient system of communication:

1. Acts as a basis of coordination:
   - Among departments, activities, persons
   - Done by explaining goals, mode of their achievement and inter-relationship among different individuals etc.

2. Helps in smooth working of an enterprise:
   - coordinate the human and physical elements of an organisation into an efficient and active working unit that achieves common objectives.
   - When communication stops, organised activity ceases to exist.

3. Acts as a basis of decision making:
   - Provides relevant information for decision making.

4. Increases managerial efficiency:
   - Ensures quick and effective performance of managerial functions.
   - Conveys goals, issues instructions, allocates responsibilities and looks after performance.

5. Promotes cooperation and industrial peace:
   - Two way communication promotes cooperation and mutual understanding between workers and managers.

6. Establishes effective leadership:
   - Basis of leadership, good communication skills influences subordinates.

7. Boosts morale and provides motivation:
   - Enables managers to motivate, influence and satisfy subordinates.
   - Assists workers in adjusting with physical aspects of work
   - Basis of democratic management.

- Formal and Informal Communication:

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

### Advantages of Informal Communication to members:
1. Social satisfaction
2. Connects members not officially related
3. Relates to matters not communicated through official channels

### Advantages of Informal Communication to mgt:
1. Fills gaps in the formal structure
2. Fast
3. Employees reactions can be ascertained
4. Improves labour management relationship

### Disadvantages of Formal Communication
1. Slow
2. impersonal
3. Accurate information may not be transmitted

### Disadvantages of Informal Communication:
1. Message may get distorted
2. Rumors
3. Unsystematic
4. Confidential information may leak out
5. Not easy to fix responsibility

### Difference between formal and informal communication—Basis—:
1. Meaning
2. Speed
3. Fixing responsibility
4. Nature of message
5. Direction of flow
6. Needs served Channel
7. Source and direction
8. Distortion of message
9. Rumors
10. Manner of conveying

### Formal Communication Network

<table>
<thead>
<tr>
<th>Network pattern</th>
<th>Diagram</th>
<th>Flow of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chain</td>
<td>A→B→C→D</td>
<td>Information passes from every superior to his subordinate through a single chain.</td>
</tr>
<tr>
<td>Wheel</td>
<td>A B C D</td>
<td>One superior (E) communicates with all subordinates. Subordinates themselves don't have any communication link with each other.</td>
</tr>
</tbody>
</table>
## Informal Communication Network

<table>
<thead>
<tr>
<th>Network pattern</th>
<th>Diagram</th>
<th>Flow of information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single strand network</td>
<td></td>
<td>Each person communicates with the other in a sequence.</td>
</tr>
<tr>
<td>Gossip</td>
<td></td>
<td>One person tells many, on a non selective basis.</td>
</tr>
<tr>
<td>Probability Network</td>
<td></td>
<td>One individual communicates randomly with the other individual</td>
</tr>
<tr>
<td>Cluster</td>
<td></td>
<td>One person tells few other whom he trusts. Some of them tell few others whom they trust and so on.</td>
</tr>
</tbody>
</table>
Barriers To Effective Communication:

I. Semantic Barriers

- Sometimes the language of the sender may be very technical or incomprehensible to the receiver. Moreover words and sentences can be understood differently by different people in the organization, depending on their understanding level.

- They are:
  i. Badly expressed message - use of wrong words or not using the needed words.
  ii. Symbols with different meanings - If a word has several meanings, the receiver may perceive the meaning of the word differently from that intended by the sender e.g use of the words ‘value’, ‘right’ etc.
  iii. Faulty translations – If the communications are originally drafted in one language and are then translated to the language understandable to the workers and if the translator is not proficient with both languages, mistakes may creep in causing different meanings to the communication.
  iv. Unclarified assumptions – when the worker does not understand, or may misunderstand the assumptions that the sender feels are implied. E.g the superior may instruct the subordinate ‘to take good care of the goods’. He may mean that the quality should be taken care of while producing, while the worker may understand that the goods should be kept safely.
  v. Technical jargon - While explaining things to the subordinates, the superior may use technical jargon which may not be understood by the employees/workers.
  vi. Body language and gesture decoding - Along with the verbal communication, another important mode of communication is body language and gestures shown by the person who is talking. If the verbal combination does not match his body language, then the employees may get confused and may misunderstand the meaning.

II. Psychological Barriers

The state on mind of both the sender and receiver may affect the communication and how it is comprehended. E.g a worried person may not be able to communicate properly. Similarly an angry person may not be able to receive the communication properly.

- Premature evaluation - Sometimes people evaluate the meaning of the message even before it is completed by the sender. This shows that the receiver does not have an open mind and is jumping to conclusions without logically deducing it from the situation.
- Lack of attention - Sometimes when the sender is communicating, the receiver does not pay proper attention. This is because his mind is already preoccupied somewhere else. E.g an employee explains his problems to his boss, but the boss is preoccupied with a file. Boss does not understand the message and the employee is disappointed.
- Loss by transmission and poor retention - When communication passes through various levels, this results in filtering or loss of information. Also people may not be able to retain the information for a long time if they are inattentive or not interested.
- Distrust - If the parties don’t have faith in each other/or believe each other, they will not be able to understand each other’s message in the original sense.
III. Organizational Barriers

Factors related to the organization structure like rules and regulations, authority relationships etc may cause barriers to effective communication.

i. Organizational policy - If the organizational policy does not support free flow of information, it may result in barriers. E.g in a centralized organisation, people may not be encouraged to have a free communication.

ii. Rules and regulations - Rigid rules and regulations may create barriers as this may lead to red tapism and delay in action.

iii. Status - Sometimes people working at the higher level do not believe in the information provided by the lower level employees and they don't allow the subordinates to express their feelings freely.

iv. Complexity in organization structure - When the information passes through various levels, there can be screening or filtering of information at different levels. E.g while giving feedback, the subordinates filter their negative points and only highlight their positive points.

v. Organisational facilities - In a large organisation, free and effective flow of information is possible only when there are proper facilities like suggestion box, complaint box, social get togethers, etc. Lack of these facilities create communication problems.

IV. Personal Barriers

The personal factors of both the sender and the receiver may exert influence on effective communication. Some of the personal barriers are as follows:

i. Fear of challenge to authority - Sometimes superiors withhold or suppress information, if they fear of losing their authority over subordinates.

ii. Lack of confidence of superior on his subordinates - If the superiors do not trust the competency of the employees, they don’t pay any attention to their advice, opinion or suggestions.

iii. Unwillingness to communicate - Sometimes subordinates don’t feel free to approach and communicate to the superior. This leads to barriers in communication.

iv. Lack of proper incentives - If there is no incentive for communication then the subordinates may not take any initiative to communicate. E.g If there is no reward for a good suggestion; the subordinates may not be willing to offer useful suggestions.

Improving Communication Effectiveness

1. Clarify the ideas before communication - First of all the superior should himself be clear about the message. The entire idea, should be analysed in depth first by the superior and then stated in a manner that is clearly conveyed to the subordinates.

2. Communicate according to the needs of the receiver - The manager should adjust his communication according to the education and understanding levels of the subordinates. This will make the receiver more receptive.

3. Consult others before communicating - It is always better to involve others in developing a plan for communication. Participation of subordinates may help gain ready acceptance and willing co-operation of subordinates.
4. **Be aware of languages, tone and content of message** - For an effective communication, the words and tone in a message must be selected carefully. The language used should not offend the sentiments of the listener. The message should be stimulating to evoke response from the listeners.

5. **Convey things of help and value to listeners** - Before conveying, it is better to know the interests and the needs of the people you are communicating. If the message relates to them, this will evoke response from them.

6. **Ensure proper feedback** - Communication is complete only when the receiver understands the message and gives his feedback. He should encourage the subordinates to respond to the communication.

7. **Communicate for present as well as future** - Communication must meet the needs of the present as well as future. There must be consistency in the past, present and future communication.

8. **Follow up communications** - There should be a proper follow up of the information given by the manager to the subordinates. This follow up helps to remove hurdles, misunderstanding of instructions given by the manager to his subordinates.

9. **Be a good listener** - Manager should be a good listener. Patient and attentive listening solves half of the problem.

### Semantic barriers:
- Result on account of use of wrong words, faulty translations, different interpretations etc.
- Examples are:
  - Badly expressed messages
  - Symbols with different meanings
  - Faulty translations
  - Unclarified assumptions
  - Technical jargon

### Psychological barriers:
- State of mind of both sender and receiver reflects in effective communication.
- Examples are:
  - Premature evaluation
  - Lack of attention
  - Loss by transmission and poor retention
  - Distrust

### Organisational barriers:
- Related to organizational structure, authority relationships, rules and regulations.
- Examples are:
  - Organizational policies
  - Rules and regulations
  - Status
  - Complexity in organizational structure
  - Organizational facilities

### Personal barriers
- Examples are:
  - Fear of challenge to authority
  - Lack of confidence of superiors on his subordinates
  - Unwillingness to communicate
  - Lack of proper incentives
  - Selective reception
- **Improving communication effectiveness:**
  1. Clarify ideas before communication
  2. Communicate according to needs of the receiver
  3. Consult others before communicating
  4. Be aware of language, tone and content of message
  5. Convey things of value and help to listeners
  6. Ensure proper feedback
  7. Communicate for present as well as the future
  8. Follow up communications
  9. Be a good listener

**Topics Given In NCERT But Not Mentioned In Your Syllabus**

1. Principles of Directing
2. Difference between a leader and a manager
Controlling

Meaning
Controlling involves comparison of actual performance with the planned performance. If there is any difference or deviation, then finding the reasons for such difference and taking corrective measures or action to stop those reasons so that they don’t re-occur in future and that organizational objectives are fulfilled efficiently.

Definition
According to Koontz and O’Donnell, “Managerial control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans.”

Nature/ Features:
- Goal oriented
- Pervasive
- Continuous
- Forward looking
- Involves looking back

Extra points:
- Action oriented*
- Primary function- performed at all level*
- Brings back management cycle back to planning*

Importance:
1. Accomplishment of organizational goals
2. Judging accuracy of standards
3. Making efficient use of resources
4. Improving employee motivation
5. Ensuring order and discipline
6. Facilitating coordination in action

Limitations of Controlling:
a. Difficulty in setting quantitative standards
b. Little control on external factors
c. Resistance from employees
d. Costly affair

Steps In The Process Of Control:
a. Setting performance standards
b. Measurement of actual performance
c. Comparing actual performance with standards
d. Analyzing deviations
  - Critical point control
  - Management by exception
e. Taking corrective action
Features of Controlling

1. **Goal oriented:** Controlling is directed towards accomplishment of organizational goals in the best possible manner.
2. **Pervasive:** Controlling is an essential function of every manager and exercised at all levels of management.
3. **Continuous:** It is not an activity to be pursued in the end only; it has to be done on a continuous basis.
4. **Controlling is looking back:** Controlling involves measurement of actual performance and its comparison with the desired performance. It is the process of checking and verification.
5. **Controlling is forward looking:** It is related to future because it seeks to improve future results on the basis of experience gained in the past.
6. **Depends on planning:** It presupposes existence of planning because without planning no control is possible.
7. **Action oriented:** Control has no meaning if no corrective action is taken; So timely action should be taken to prevent deviations.
8. **Primary Function of Management** – controlling is performed at all levels and in all types of organizations.
9. **Brings back management cycle back to planning:** Control should not be viewed as the last function. In fact it links back to planning. Controlling involves
   - Comparing actual performance with standards
   - Finding out deviations
   - Taking corrective action so that they don’t repeat in future
   These are the guidelines when future planning is done. Thus controlling not only completes one cycle of management process and also helps to improve planning in the next cycle.

Importance of Controlling

Control is an indispensable function of management without which even the best of the plans may go vary.

1. **Helps in accomplishing goals:**
   - Ensures achievement of organizational objectives by identifying deviations and indicating corrective action.
   - Controlling ensures that all activities in the organization take place according to the plans.

2. **Helps in judging accuracy of standards:**
   - Enables management to verify whether the standards set are accurate, achievable and objective.
   - An efficient control system reviews and revises standards from time to time to match them with organizational and environmental changes.
3. **Helps in making efficient use of resources:**
   - Reduces wastages and spoilage of resources.
   - When each activity is performed according to the pre-determined standards and norms it ensures that work is done in the most efficient and effective manner.

4. **Helps to improve employee motivation:**
   - Employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised.
   - These reports become the basis for giving promotions, increments etc. to the employees.
   - This motivates them to give a good performance.

5. **Ensures order and discipline:**
   - Creates an atmosphere of order and discipline in the organization.
   - Subordinates are under a vigil (check) at all times and they perform their functions efficiently.
   - It also leads to check over dishonesty and chances of fraud in the company.

6. **Facilitates co-ordination:**
   - This is because each department and employee is governed by pre-determined standards which are well coordinated with one another.
   - This leads to unity of direction and ensures overall accomplishment of organization objectives.

**Limitations of Controlling**

1. **Difficulty in setting quantitative standards:**
   - Control system loses its effectiveness when standards of performance cannot be defined in quantitative terms. This makes comparison with standards a difficult task.
   - e.g areas like human behaviour, employee morale, job satisfaction cannot be measured quantitatively.

2. **Little control on external factors:**
   - An enterprise cannot control external factors like government policies, technological changes, competition. etc.

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

4. **Costly:**
   - Control involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system.
   - Managers must ensure that the cost of installing and operating a control system should not exceed the benefits derived from it.
Steps In The Process Of Control:

1. Setting performance standards:
   - A standard is a criterion against which actual performance is compared.
   - Can be quantitative (e.g., costs, revenue, units to be produced, time spent in performing a task etc) as well as qualitative (improving goodwill, motivation etc).
   - Managers fix standards in the light of organizational goals. As they serve as the basis of control, they should be set carefully. They should satisfy the following requirements:
     - Standards should be simple and easy to understand both for short and for long term.
     - They should be achievable (not too high)
     - As far as possible they should be set in precise quantitative terms so that it makes comparison easier. E.g, in terms of profits, cost, units (reduction of defects from 10 in every 1000 pieces produced, to 5, produced in a quarter.)
     - Should be flexible enough to be modified when the need arises, in view of the changes taking place both in the internal as well as external business environments.

2. Measurement of actual performance:
   - Performance should be measured in the same units in which standards are set as this would make the comparison easier. Also, performance measurement should be objective and reliable.
   - Measurement of work can be done:
     - After the task is completed or
     - During the performance wherever it is possible. E.g, in case of assembling task, each part produced should be checked before assembling.
   - There are several techniques for measurement of performance:
     - Performance of an employee may require personal observation or preparation of performance report by his superior
     - Measurement of company’s performance may involve calculation of certain ratios like gross profit, net profit, return on investment etc. at periodic intervals.
     - Progress of work in certain operating areas like marketing may be measured in terms of number of units sold, increase in market share etc.
     - Efficiency in production may be measured by counting the number of pieces produced etc.
     - In small scale operations, each piece may be checked, while in large organizations, this would not be possible. So, certain pieces could be checked at random. This is called sample checking.

3. Comparing actual performance with standards:
   - Such comparison will reveal the deviation between actual and desired results.
   - If there is a match between them then controlling ends there only. But if there is a mismatch or deviation then the manager finds out the extent of such deviation.
4. Analysing deviations:
- All deviations need not be brought to the notice of top management. Deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas.
- Also it is important to determine the acceptable range of deviations. Deviations can be analyzed in two ways:
  - **Critical point control:**
    - It is neither economical nor easy to keep a check on every activity in an organization.
    - Control should focus on key result areas (KRA’s) which are critical to the success of an organization.
    - This is because if anything goes wrong at the critical points, the entire organization suffers. e.g. In a manufacturing organization, an increase of 5% in labour cost may be more alarming than a 15% increase in postal charges.
  - **Management by exception:**
    - This principle of management control emphasizes that a manager who tries to control everything may end up controlling nothing.
    - So he should make a priority list and bring to the notice of top management only significant deviations which go beyond the permissible limits.

5. Taking corrective action:
- When the deviations are within acceptable limits, no corrective action is required.
- However when deviations go beyond the acceptable range, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.
- Corrective action may involve:
  - Training of employees if targets could not be met, assigning additional employees or equipments to the project and permission for overtime work etc.
  - Where deviations cannot be corrected through managerial action, it means that plans are unrealistic.
  - So plans need to be re-framed if they are over stated (when performance can’t be improved further) or under stated (when performance is higher than the standards).

Management by exception
- **It means that the manager who tries to control everything may end up controlling nothing.**
- If the control is to be effective and economical, it must focus attention on factors critical to performance. In a large organization keeping a close check on each and every activity will be
  - Tedium
  - Very time consuming
  - Increase unnecessary efforts and
  - Decrease attention on important problems.
- Therefore every manager must prepare his list of priorities and put more concentration on important matters and ignore minor deviations (because if he involves himself in all the activities then he will not be able to control even a single activity effectively). e.g. if a group of 50 workers fail to achieve the production target due to inefficiency of 3 workers, then only 3 of them should be sent for training instead of wasting resources on all 50 workers.
- Similarly if postal expenses by 10% the deviation is too insignificant to require managerial attention. On the other hand if labour costs rise by even 1% it should receive managerial attention.
Benefits of Management by Exception:
1. It saves time and efforts of managers (as they deal with only significant deviations.)
2. It focuses managerial attention on important areas. Thus there is better utilization of managerial talent.
3. The routine problems are left to the subordinates. This way it facilitates delegation of authority and increases morale of the employees.
4. It identifies critical problems which need timely action to keep the organization on the right track.

Therefore the more a manager concentrates his energies on important deviations, the more effective he will be in the process of control.

Relationship between Planning and Controlling

Planning and controlling functions are very closely related. The relation between the two is explained below:

1. Meaning:
   - Planning and controlling are inter dependent and inter linked
   - Planning and Controlling are both forward looking as well backward looking functions.

2. Planning and controlling are inter dependent and inter linked
   - Planning is the basic function of every enterprise as in planning we decide what is to be done, how it is to be done and by whom it must be done. It bridges the gap between where we are standing today and where we want to reach.
   - Controlling means keeping a check that everything is in accordance with the plan and if there is a deviation taking preventive measures to stop that deviation. Thus it ensures correct and timely implementation of plans.

3. Planning and Controlling are both forward looking as well backward looking functions:
   - Some people are of the opinion that planning is forward looking as it involves looking ahead as plans are prepared for future and are based on forecast of future conditions while
controlling is backward looking because we look back to compare performance with the plans.

- However this is not completely correct. Planning is not only futuristic but it is also guided by past experiences. Similarly controlling is not only done with a view to do a post mortem but also with a view to improve future performance. Thus planning and controlling are both backward looking as well as forward looking.

Therefore they are both inter-related and they re-inforce each other. That is,

1. Planning based on facts makes controlling easier and effective; and
2. Controlling improves future planning by providing information derived from past experience.

(Note: Shorten the answer according to marks)

Techniques of controlling are given in NCERT but are not in your syllabus.
Financial Management

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

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

- According to B.O.Wheeler:” Financial Management includes those business activities that are concerned with acquisition and conservation of capital funds in meeting the financial needs and overall objectives of a business enterprise.”

- Thus, financial management is concerned with efficient acquisition and allocation of funds.
- It is concerned with procurement and usage of funds

- **Aims of Financial Management:**
  i. Reduce cost of funds procured
  ii. Keep risks under control
  iii. Achieve effective employment of funds
  iv. Ensure availability of sufficient funds while avoiding idle funds.

- **Role of Financial Management:**
  - FM has a direct bearing on the financial health of a company.

<table>
<thead>
<tr>
<th>Examples of areas affected</th>
<th>Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Size and composition of fixed assets</td>
<td>• Depend directly upon investment decision .i.e how much capital the company is planning to invest.</td>
</tr>
</tbody>
</table>
| 2 Quantum of current assets and their break-up into cash, inventories and receivables | • Increase in fixed assets will lead to a commensurate increase in working capital requirements.  
|                                                                  | • Also depend on credit policy, inventory management etc.                    |
| 3 Amount of long and short term financing to be used             | • Proportion of both long term and short term sources is determined on the basis of liquidity and cost analysis.  
|                                                                  | • Long term sources give more liquidity but also involve a higher cost also as compared to current assets. |
| 4 Break up of long term financing                                | • Into debt and equity  
|                                                                  | • Part of financing decision                                                |
| 5 All items in P&L a/c                                          | • Higher debt means higher interest expenses  
|                                                                  | • Also higher equity means higher dividend expenses  
|                                                                  | • Expansion of business leads to higher overall expenses.                   |

- Good financial management aims at mobilization of financial resources at lower cost and deployment of these funds in most lucrative activities.
• Financial management is concerned with decisions w.r.t:
  o long and short run capital requirements
  o procurement of funds
  o flow of funds in the day-to-day activities
  o Distribution of earnings to owners

OBJECTIVES OF FINANCIAL MANAGEMENT:

• Primary objective: To maximize wealth of owners in the long run – Wealth Maximization concept.
  o ‘Owners’ of a company are the shareholders.
  o The term wealth refers to wealth of owners as reflected by the market price of their shares.

• The market price of shares is linked to three basic financial decisions:
  ▪ Investment decision
  ▪ Financing decision and
  ▪ Dividend decision

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

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

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

• Other objectives that help a firm achieve the primary objective are:
  ▪ Ensure availability of funds at reasonable costs:
  ▪ Ensure effective utilization of funds:
  ▪ Ensure safety of funds thro creation of reserves:
  ▪ Maintain liquidity and solvency:

FINANCIAL DECISION:
There are three decisions that a financial manager has to take:

1. Investment Decision
2. Financing Decision and
3. Dividend Decision

1. INVESTMENT DECISION:

• Resources are scarce and can be put to alternate use. A firm must choose where to invest so as to earn the highest possible profits.
• Investment decision relates to decisions about how the firm’s funds are invested in different assets that is, different investment proposals
• Has two components:
  ▪ Working Capital Decisions - Short Term investment decisions.
  ▪ Capital Budgeting decisions - Long Term investment decisions.
- **Working Capital Decisions:**
  1. Helps to maintain earning capacity.
  2. Concerned with decisions w.r.t level of cash, inventories and debtors.
  3. Affect day to day working of a business.
  4. Influence liquidity as well as profitability.
  5. **Essential ingredients** of sound working capital management are:
     - Efficient cash management
     - Inventory management
     - Receivables management

- **Capital Budgeting Decisions:**
  1. Leads to an increase in earning capacity of a concern.
  2. **Important because:**
     - a. Size and competitiveness of a business is affected by this decision.
     - b. Involves huge costs
     - c. Irreversible except at a huge cost.
  Examples = investing in new assets, setting up of new business, expansion or modernization of business etc.

*Factors affecting Capital Budgeting decisions:*

- **Cash Flows:**
  - Rate of Returns:
  - Investment Criteria

**Factors Affecting Capital Budgeting Decisions:**

- **Cash Flows:**
  - Investment decisions are taken so as to earn returns for the firm.
  - Series of cash receipts and payments over the life of an investment have to be carefully analysed before taking a capital budgeting decision.
  - E.g The investment proposal expected to bring reasonable amount of cash but after a long term may be rejected.

- **Rate of Returns:**
  - Expected rate of returns from each proposal should be compared with the risks associated with the projects before taking an investment decision.
  - E.g If there are two investment proposals A and B with a rate of return of 10% and 12%, then project B should be selected. Only the rate of return cannot be the sole criterion. Some investment proposals bring higher rate of return but at the same time involve huge risks.
  - The finance manager should select the proposal with moderate risks which the company can afford. Huge risks may lead to insolvency.

- **Investment Criteria:**
  - There are various Capital Budgeting techniques available to a business that can be used to evaluate the various investment proposals.
  - These are based on calculations w.r.t amt of investment, interest rates, cash flows and rate of returns associated with proposals.
  - These techniques are applied to the investment proposals to choose the best proposal.
2. **FINANCING DECISION**
   - These are decisions w.r.t quantum of finance or composition of funds from various long-term sources (short term = working capital management).
   
   - Financing decisions involve:
     a) Decision whether or not to use a combination of ownership and borrowed funds.
     b) Determining their precise ratio.
   
   - Firm needs a judicious mix of debt and equity as:
     o Debt involves ‘Financial Risk’ = risk of default on payment of interest on borrowed funds and the repayment of the principle amount whereas
     o Shareholders’ funds involve no fixed commitment w.r.t payment of returns or repayment of capital.
   
   - Ownership fund vs. Debt fund: They can be compared on the basis of factors such as examples, interest/dividend payout and repayment of principle, tax deductibility, and risk and floatation costs.
   
   - Factors affecting Financing Decisions:
     o **Cost:**
       ▪ Cost of debt = interest and cost of equity = dividend.
       ▪ Debt is cheaper and the company should opt for the cheapest source.
     o **Risk:**
       ▪ Co. should assess the different risks associated with the sources-Debt has a higher financial risk as compared with equity.
       ▪ Debt has a higher risk so equity should be preferred.
     o **Floatation costs:**
       ▪ Floatation cost of debt is lower than the floatation cost of equity.
       ▪ Higher the floatation cost, lesser attractive the source.
     o **Cash flow position of the business:**
       ▪ Strong cash flow position makes debt more attractive as the firm will be able to meet the fixed costs associated with debt.
     o **Level of fixed operating costs:**
       ▪ If firm already has high fixed operating costs (e.g., rent, salaries etc), it must opt for a source with lesser fixed financial costs i.e. Not choose debt.
     o **Control:**
       ▪ Issue of equity dilutes control whereas debt carries no control rights.
       ▪ So if the company wants to avoid takeover bids, they will issue debt.
     o **State of capital markets:**
       ▪ During boom period, issue of equity will find takers but during depression, firm will have to use debt.

3. **DIVIDEND DECISION**
   - **Dividend** is that portion of divisible profits that is distributed to the owners i.e. the shareholders. It results in current income for the shareholders.
   
   - **Retained earnings**= proportion of profits kept in, that is, reinvested in the business for the business.
• Dividend decision= whether to distribute earnings to shareholder as dividends or retain earnings to finance long-term profits of the firm. Must be done keeping in mind the firms overall objective of maximizing the shareholders wealth.

• Factors affecting Dividend Decision:
  a) Earnings:
    • Dividends can only be paid out of current earnings or accumulated profits.
    • If firm has earnings-can have a higher payout ratio.
  b) Stability of earnings:
    • If earnings are stable – high payout ratio i.e. Greater portion of the earnings can be given a dividends.
  c) Stability of dividends:
    • i.e. policy of stabilizing dividend per share and not altering it if increase in earnings are temporary of a small amt.
    • Dividend per share is not altered if change in earnings is temporary.
  d) Growth opportunities:
    • If firm has projects to invest in, have a low payout.
    • Div in growth companies si smaller than in the non-growth companies.
  e) Cash Flow Position:
    • If firm does not have cash, dividends cannot be declared (e.g. if most of its sales are on credit and as a result liquidity position is not comfortable)
  f) Shareholder’s preference:
    • If majority of shareholders prefer current dividends, have a high payout.
    • But if most shareholders want the company to grow by reinvesting its earnings and give them a capital gain in terms of an increase in the market price of shares, have a low payout ratio.
  g) Taxation policy:
    • Compare tax rate on dividend with capital gain tax rate that is applicable on increase in market price of shares.
    • If tax rate on dividends is lower, shareholders will prefer more dividends and vice versa.
  h) Stock market reaction:
    • Declaration of dividends has a positive impact on the goodwill of the firm in the market.
    • So if the firm is planning to issue shares etc in the near future, have a high payout ratio.
  i) Access to capital markets:
    • Large and reputed companies have easy access to capital markets whereas smaller companies do not.
    • If it is difficult to raise funds, firm should have a low payout ratio, retain funds so that it can generate funds internally.
  j) Legal constraints:
    • Provisions of the companies Act that place restrictions of dividends have to be adhered to.
    • If a firm earns profits, it cannot not declare dividends for more than 3 years in a row.
  k) Contractual constraints:
    • If a firm has entered into a contract with a financial institution to raise funds, the company cannot violate the terms of the loan agreement in this regard.
FINANCIAL PLANNING:

- It involves preparation of a financial blueprint of an organization. It is the process of estimating the fund requirement of a business and determining the possible sources from which it can be raised.

- **Objectives of Financial Planning:**
  - To ensure availability of funds whenever they are required
    - Includes estimation of the funds required for different purposes (long term assets/wk cap requirement)
    - Estimate the time at which these funds need to be made available.
    - Specify sources of these funds.
  - To see that the firm does not raise resources unnecessarily:
    - Shortage of funds => firm cannot meet its payment obligations.
    - Surplus funds => do not earn returns but adds to costs.

- In words of Gerstenbug: Financial Planning includes:
  - Determination of amount of finance:
  - Determination of source of funds:
  - Determination of suitable policies for administration of capital

- Difference between Financial management and financial planning*

<table>
<thead>
<tr>
<th>Basis</th>
<th>Financial Management</th>
<th>Financial Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning</td>
<td>It refers to the efficient acquisition, utilization and disposal of surplus for the smooth flow of an organization.</td>
<td>It aims at smooth operations by focusing on fund requirements and their availability in the light of financial decisions.</td>
</tr>
<tr>
<td>Scope</td>
<td>It is wider in scope and includes financial planning.</td>
<td>It is narrow in scope as it is one of the segments of financial management.</td>
</tr>
<tr>
<td>Objective</td>
<td>Objective of Financial management is to increase the wealth of shareholders</td>
<td>Objective of financial planning is to ensure timely availability of adequate funds.</td>
</tr>
</tbody>
</table>

- **Time Horizon of Financial Planning:**
  - Financial Planning is typically done for 3-5 years-broad in scope and generally include long term investment, growth and financing decisions. Focus = capital expenditure programmes and determining the debt-equity mix.
  - May also be undertaken for a short term =‘Budgets’= stating of expected revenues and expenses related to a specific operation for a specified period.
• **Process of Financial Planning:**
  1. Preparation of sales forecast.
  2. Determine the requirements of funds – fixed and working capital.
  3. Estimate the expected profits to determine the amount of funds that can be provided internally.
  4. This helps us to estimate the requirement for funds from external sources.
  5. Identify the possible sources and prepare the cash budgets incorporating these factors.

• **Importance of Financial Planning:**
  1. **Makes the firm better prepared for the future:**

     Financial Planning tries to forecast what may happen in the future and prepares alternative plans to meet different eventualities. Also, if the company has some expansion programmes in the pipeline, Financial Planning would help to identify the sources from which funds can be raised to finance such programmes.

  2. **Helps in avoiding business shocks and surprises:**

     By preparing plans to meet eventualities in advance, Financial Planning aims at studying various factors that have an impact on the business and helps in predicting the probability of their occurrence. Thus, Financial Planning helps to avoid shocks and surprises by predicting them in advance and developing plans to meet them.

  3. **Co-ordinating different functions:**

     Financial Planning helps to coordinate the activities of the financial departments and other departments. The overall financial plan lays down objectives, policies, procedures etc. to ensure coordination between different functional areas of the business.

  4. **Reduces waste, duplication of effort and gaps in planning:**

     Financial Planning decides the amount of capital to be raised, the form and proportion of various types of securities to be included in the capital structure and how these funds can be utilized. It, therefore, helps to avoid confusion and waste such as loss of time, goodwill and financial resources.

  5. **Links the present with the future:**

     Financial Planning helps to estimate future requirements and prepares plans in the present to balance requirements of funds with availability of funds.

  6. ** Provides a link between the investment and the financing decisions:**

     Investment decision involves selection of the best investment proposal from the available alternatives. Financing decision is about selecting the source of finance for the required proposal. Financial planning links both by identifying the requirement of long and short term funds required for the selected proposal and searching for alternative sources of funds.

  7. **Makes evaluation of performance easier:**

     Financial Plans or ‘Budgets’ are the basis of financial controls. They set standards against which actual performance is compared. The deviations that are identified then can be corrected and necessary steps can be taken to prevent their re-occurrence.
CAPITAL STRUCTURE:

- On the basis of ownership, funds => owners funds + borrowed funds.
- Owners funds = equity share capital + preference share capital + reserves and surpluses + retained earnings = EQUITY
- Borrowed funds = loans + debentures + public deposits = DEBT
- Capital Structure = The mix of long-term sources of funds
- Refers to the proportion of debt and equity used for financing the operations of a business.

Cost and risk: Debt Vs Equity:

- Cost of Debt is lower than cost of equity but Debt is more risky than equity.
- Cost of debt < cost of equity as lenders risk < owners risk.
  - Lender earns an assured interest and repayment of capital.
  - Interest on debt is a tax deductible expense so brings down the tax liability for a business whereas dividends are paid out of profit after tax.
- Debt is more risky for the business as it adds to the financial risk faced by a business.
  - Any default w.r.t payment of interest or repayment of principle amt may lead to liquidation.
- Capital structure affects both the profitability and the financial risk faced by a business.

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

Financial Leverage:

- Financial leverage = proportion of debt in the overall capital structure.
- Also called ‘Trading on Equity’ or ‘Capital Gearing’.
- Cost of funds = cost of debt + cost of equity.
- As financial leverage increases, cost of funds decline as debt is a cheaper source of funds.
- As It refers to use of any source of long-term funds that carry a fixed rate of interest to increase the earnings available to equity holders.
- The reasons for higher EPS with debt are:
  i. Rate of return on investment is more than cost of debt
  ii. Interest paid on debt is tax deductible and so there is a saving on the amount of income tax that the company will be required to pay.
  iii. Number of shares is lesser when funds are raised as debt and so divisible profits (EAT) will have to be distributed among lesser number of shares.
- Use of Financial Leverage, however, involves a risk to equity holders because even a small change in EBIT will cause a great change in EPS and return on Equity as we can see in example II. Thus, the benefits of Trading on Equity are available only when the following conditions are satisfied:
  i. Rate of earning is higher than the rate of interest on debt.
  ii. The company’s earnings are stable are regular to pay at least the interest on debentures.
  iii. There are sufficient fixed assets to offer as security to lenders.
Example I: A company requires Rs 30,00,000 to finance its operations. Expected rate of return in 15% and tax rate is 30%. Financing options are:
- Equity shares @ Rs 10 per share OR
- Equity @ Rs 10 per share and debt @ 10% per annum.

The calculations of EBT (Earnings before Tax), EAT (Earnings after taxes) and EPS (Earnings per Share) under the above two alternatives can be given as:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Plan A</th>
<th>Plan B</th>
<th>Plan C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>(in Rs)</td>
<td>(in Rs)</td>
<td>(in Rs)</td>
</tr>
<tr>
<td>Equity =30,00,000</td>
<td>Equity =20,00,000</td>
<td>Equity =10,00,000</td>
<td></td>
</tr>
<tr>
<td>Debt = nil</td>
<td>Debt = 10,00,000</td>
<td>Debt = 20,00,000</td>
<td></td>
</tr>
<tr>
<td>CAPITAL EMPLOYED</td>
<td>Total = 30,00,000</td>
<td>Total = 30,00,000</td>
<td>Total = 30,00,000</td>
</tr>
<tr>
<td>EBIT</td>
<td>Rs 4,50,000</td>
<td>Rs 4,50,000</td>
<td>Rs 4,50,000</td>
</tr>
<tr>
<td>(- Cap Empd * Rate of Return)</td>
<td>[ = 15 * 30,00,000 ]</td>
<td>[ = 15 * 30,00,000 ]</td>
<td>[ = 15 * 30,00,000 ]</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>(- Interest @ 10%)</td>
<td>Nil</td>
<td>(-Rs 1,00,000)</td>
<td>(-Rs 2,00,000)</td>
</tr>
<tr>
<td></td>
<td>(- = 10 * Debt)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>EBT</td>
<td>Rs 4,50,000</td>
<td>Rs 3,50,000</td>
<td>Rs 2,50,000</td>
</tr>
<tr>
<td>( -Taxes @30%)</td>
<td>(- Rs1,35,000)</td>
<td>(- Rs1,05,000)</td>
<td>(- Rs75,000)</td>
</tr>
<tr>
<td>EAT</td>
<td>Rs 3,15,000</td>
<td>Rs 2,45,000</td>
<td>Rs 1,75,000</td>
</tr>
<tr>
<td>No. Of shares</td>
<td>3,00,000</td>
<td>2,00,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>EPS</td>
<td>Rs 1.05</td>
<td>Rs 1.225</td>
<td>Rs 1.75</td>
</tr>
<tr>
<td>(= EAT / No of Shares)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the above example, we see that Plan C has a higher EPS as:
- Tax paid is least in Plan C as compared with tax paid in Plans A and B.
- Rate of return on investment (=15%) is more than cost of debt (10%).
- Number of shareholders under Plan C = 1,00,000 which is much lesser than that under plan A (3,00,000) or B (2,00,000).

Example II: A company requires Rs 30,00,000 to finance its operations. Expected rate of return in 5% and tax rate is 30%. Financing options are:
- Equity shares @ Rs 10 per share OR
- Equity @ Rs 10 per share and debt @ 10% per annum.
The calculations of EBT (Earnings before Tax), EAT (Earnings after taxes) and EPS (Earning per Share) under the above two alternatives can be given as:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Plan A</th>
<th>Plan B</th>
<th>Plan C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>(in Rs)</td>
<td>(in Rs)</td>
<td>(in Rs)</td>
</tr>
<tr>
<td>Equity</td>
<td>3,00,000</td>
<td>2,00,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Debt</td>
<td>nil</td>
<td>10,00,000</td>
<td>20,00,000</td>
</tr>
<tr>
<td>CAPITAL EMPLOYED</td>
<td>Total = 30,00,000</td>
<td>Total = 30,00,000</td>
<td>Total = 30,00,000</td>
</tr>
<tr>
<td>EBIT</td>
<td>Rs 1,50,000</td>
<td>Rs 1,50,000</td>
<td>Rs 1,50,000</td>
</tr>
<tr>
<td>(- Cap Empd * Rate of Return)</td>
<td>[= \frac{5}{100} \times 30,00,000]</td>
<td>[= \frac{5}{100} \times 30,00,000]</td>
<td>[= \frac{5}{100} \times 30,00,000]</td>
</tr>
<tr>
<td>(- Interest @ 10%)</td>
<td>Nil</td>
<td>(-Rs 1,00,000)</td>
<td>(-Rs 2,00,000)</td>
</tr>
<tr>
<td>EBT</td>
<td>Rs 1,50,000</td>
<td>Rs 50,000</td>
<td>(Rs 50,000)</td>
</tr>
<tr>
<td>( -Taxes @30%)</td>
<td>(- Rs 45,000)</td>
<td>(- Rs 15,000)</td>
<td></td>
</tr>
<tr>
<td>EAT</td>
<td>Rs 1,05,000</td>
<td>Rs 35,000</td>
<td>(Rs 50,000)</td>
</tr>
<tr>
<td>No. Of shares</td>
<td>3,00,000</td>
<td>2,00,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>EPS</td>
<td>Rs 0.35</td>
<td>Rs 0.175</td>
<td>NIL</td>
</tr>
<tr>
<td>(= \frac{EAT}{No of Shares})</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the above example, we see that With an increase in debt, the company is actually incurring a loss as the Rate of return on investment (=05%) is lesser than cost of debt (10%), this is an UNFAVOURABLE FINANCIAL LEVERAGE that increases the financial risk.

**Factors affecting capital structure are:**

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

ii. **Interest coverage ratio:**
   a. Higher the Interest coverage ratio which is calculated as follows: EBIT/ Interest, lower shall be the risk of the company failing to meet its interest payment obligations.
   b. Low Interest coverage ratio => debt ≠ used.
iii. **Debt Service Coverage Ratio:**
   a. Debt service coverage ratio = \(\frac{\text{Profit after tax} + \text{Depreciation} + \text{Interest} + \text{Non Cash exp.}}{\text{Pref. Div} + \text{Interest} + \text{Repayment obligation}}\)
   b. A higher Debt service coverage ratio, in which the cash profits generated by the operations are compared with the total cash required for the service of debt and the preference share capital, the better will the ability of the firm to increase debt component in the capital structure.
   c. Low Debt service coverage ratio => debt ≠ used.

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

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

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

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

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

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

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

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

xii. **Regulatory Framework:**
   a. Public issue of shares and debentures have to be made under SEBI guidelines. Raising funds from banks and other financial institutions require fulfillment of other norms:
   b. It is relatively easier to get a loan as compared to issuing shares to the public.

xiii. **Stock Market Conditions:**
   a. If the stock markets are bullish, equity shares are more easily sold even at a higher price.
   b. However, during a bearish phase, a company, may find raising of equity capital more difficult and it may opt for debt.

xiv. **Capital Structure of other companies:**
   a. There are usually some industry norms which may help. Care however must be taken that the company does not follow the industry norms blindly.
MANAGEMENT OF FIXED CAPITAL

- Also called Investment or Capital Budgeting decisions and involves allocation of firm’s capital to different projects or assets with long term implications for the business.

- Features of Fixed Capital:
  - Permanently invested in business
  - Generate income and not meant for resale.
  - Affects growth prospects, profitability and risk of the business in the long run.
  - Involve large investments
  - Financed through long-term sources of finance
  - Irrevocable except at huge losses.

- Examples of Capital Budgeting decisions are expenditures on:
  - Acquisition, expansion, modernization and replacement of assets.
  - Launching a new product line
  - Advertising expenditure, R&D program having long-term implications.

- Importance of Capital Budgeting Decisions:
  2. Large amount of funds involved:
  3. Risk involved:
  4. Irreversible:

- Factors affecting Fixed Capital Requirement:
  1) Nature of business:
  2) Scale of operations:
  3) Choice of technology:
  4) Technology up gradation:
  5) Growth prospects:
  6) Diversification:
  7) Financing alternatives:
  8) Level of collaboration:

- Factors affecting Fixed Capital Requirement:
  1. Nature of business: manufacturing needs more investment in fixed assets than trading concerns
  2. Scale of operations: large scale needs investment in fixed assets than small scale
  3. Choice of technology: Firms needing capital intensive technique higher investment in plant and machinery as it relies less on manual than firms using labor intensive technique.
  4. Technology up gradation: In some industries, assets become obsolete faster and need frequent replacement. Such firms needing frequent technological up gradation needs more fixed capital.
  5. Growth prospects: more fixed capital needed for growing concerns.
  6. Diversification: more fixed capital is needed if the firm has plans to diversify.
  7. Financing alternatives: more fixed capital is needed on immediate basis if fixed assets are bought on cash down rather than on installment basis or taken on lease.
  8. Level of collaboration: if firms in an industry collaborate and use idle capacity in each other’s plants to meet orders that they cannot fulfill with their existing capacities, they need less fixed capital as need for expansion of production capacity is reduced.
MANAGEMENT OF WORKING CAPITAL

- **Working Capital** = short term finance (invested in a business for a short period usually up to one year)
- It is required to meet day to day operating expenses.

- Current assets
  - Get converted to cash or cash equivalents quickly and without a significant loss in their value. They help a firm meet its payment obligations.
  - These assets however provide no or very less returns.
  - Examples are cash in hand/cash at bank, marketable securities, bills receivable, debtors, finished goods inventory, Work in progress, Raw materials, Prepaid expenses etc.

- Current liabilities = due for payment within a year.
  - Examples = bills payable, creditors, o/s expenses, advances from customers.

**Operating Cycle**

- Duration of time between acquisition of supplies and collection of cash from receivables is called Operating Cycle. Trading and manufacturing concerns need working capital to finance operations during this time gap.
- Cash payments take place on a regular basis (for raw materials, wages etc) without cash being realized immediately (because of credit sale).

- Working capital is required to sustain the operations of a business during this period as:
  - Minimum cash balance needs to be maintained
  - Stock of raw materials will have to be stored to ensure uninterrupted production process and finished goods stocked to meet orders from customers.
  - Credit facilities have to be given to customers.
- What amount of the working capital is required will be determined by the operating cycle of the firm.
- Excess investment in working capital will lead to blocking funds in idle assets such as cash, debtors etc. that do not earn any returns. It will further lead to lower returns in addition to exposing the business to risks such as risk of unsold inventories or bad debts.
- Shortage of investment in working capital might lead to situation where stock is not available when required and there is no cash to finance day-to-day operations eventually leading to loss of sale and of reputation when firm is unable to meet its debts.
- Therefore, adequate investment should be made in working capital depending on risk-return trade off

**Factors Affecting Working Capital (WC) Requirement:**

1. **Nature of business:** Trading concerns needs lesser WC than Manufacturing concerns as trading concerns do not process raw materials and so have lesser stocks and goods are converted into sales immediately on their receipt. Service industries need lesser wk cap than manufacturing industries.
2. **Scale of operations:** Large-scale – quantum of inventory and debtors are higher Vs smaller firm.

3. **Business cycle:** Boom period sales and production higher => more WC Vs Depression

4. **Seasonal factors:** in peak seasons when demand is high, they need more working cap than during lean season.

5. **Production cycles:** = time taken to convert Raw materials into finished goods. Requirement of wk cap is higher for firms with long production capital.

6. **Credit allowed:** if firm giver its debtors long credit periods, it needs to meet its expenses during this period and as a result, needs more working capital.

7. **Credit availed:** if creditors are willing to offer the firm liberal terms, it needs lesser working capital.

8. **Operating efficiency:** more efficiency, lesser Wk cap reqd.

9. **Availability of raw materials:** if raw materials are easily available, a large stock need not kept as stock and so lesser wk cap is needed.

10. **Growth prospects:** if growth prospects are there, more wk cap is needed.

11. **Level of competition:** if firms are competitive, a larger stock of goods need to be maintained so that consumers do not go to the rival firm due to our inability to meet their demand. Also, Larger amount of credit sales may required to be made to retain consumers.

12. **Inflation:** leads to a requirement of more working capital as higher amts are required to maintain a constant volume of production and sales.
Financial Markets

Introduction

- **Financial Intermediation** = process of allocating funds from saving surplus units (e.g. households) to saving deficit units (e.g. industries, government etc).
- **Alternatives** = Banks or Financial markets

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

Idle savings of surplus sector is transformed into investment through the Financial Markets which serves as a link or channel between the saving surplus and the savings deficit sector who then use them for the purpose of production of goods and services and so larger industrial growth is possible.

The term ‘Market’ here does not refer to a particular place in a geographical sense. It is a term used to describe all organizations and institutions that deal or facilitate dealings in securities.

*If allocative function is performed well:*
1. Scarce resources are allocated to the most productive unit and therefore
2. Rate of return earned by the households will be higher.

Classification of Financial Markets:

1. **Money Market**
2. **Capital Market**
   - **Primary Markets**
     - Debt
     - Equity
   - **Secondary Markets**
     - Debt
     - Equity

**Functions of Financial Markets:**

1. Mobilization of savings and channelising them into the most productive uses:
2. Facilitate Price Discovery:
3. Provide liquidity to financial assets:
4. Reduce the cost of transactions:
1. Mobilization of savings and channelising them into the most productive uses:
   - Facilitates transfer of savings from the savers to the investors.
   - Financial markets help people to invest their savings in various financial instruments and earn income and capital appreciation.
   - Facilitate mobilization of savings of people and their channelisation into the most productive uses.

2. Facilitate Price Discovery:
   - Price of anything depends upon the demand and supply factors.
   - Demand and supply of financial assets and securities in financial markets help in deciding the prices of various financial securities; where business firms represent the demand and the households represent the supply.

3. Provide liquidity to financial assets:
   - Financial markets provide liquidity to financial instruments by providing a ready market for the sale and purchase of financial assets.
   - Whenever the investors want, they can invest their savings into long term investments and whenever they want, they can sell the investments/ instruments and convert them into cash.

4. Reduce the cost of transactions:
   - By providing valuable information to buyers and sellers of financial assets, it helps to save time, effort and money that would have been spent by them to find each other.
   - Also investors can buy/sell securities through brokers who charge a nominal commission for their services. This way financial markets facilitate transactions at a very low cost.

   **Money Markets**
   - Market for financial securities with maturity period of less than one year.
   - Mkt for low risk, unsecured and short term debt instruments that are highly liquid are traded everyday.
   - No physical location bye conducted over the telephone and the internet.
   - Helps to:
     - raise short term funds
     - Temporary deployment of funds
   - (Money Market Instruments Used By)

<table>
<thead>
<tr>
<th>Govt./Semi Govt.</th>
<th>Pvt. firms &amp; Companies</th>
<th>Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>✅ Treasury Bills</td>
<td>✅ Trade Bills</td>
<td>✅ CallMoney</td>
</tr>
<tr>
<td>✅ Govt. Securities</td>
<td>✅ Commercial Papers</td>
<td></td>
</tr>
<tr>
<td>✅ PSU Bonds</td>
<td>✅ Certificate of Deposit</td>
<td></td>
</tr>
</tbody>
</table>

   - **Features of Money market instruments**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Provide short term funds</td>
<td>4. High liquidity</td>
<td></td>
</tr>
<tr>
<td>2. Huge outlay required as unit value of instruments is high</td>
<td>5. High safety</td>
<td></td>
</tr>
<tr>
<td>3. Duration = 1 day to 1 year</td>
<td>6. Lower expected returns as compared to long term securities</td>
<td></td>
</tr>
</tbody>
</table>
### Features of Money market:

| 1. Short Term | 6. Main Instruments: |
| 2. Features of Instruments | 7. Amount of Money Required |
| 3. Location | 8. Liquidity: |
| 4. Helps to/Purpose | 9. Expected rate of return: |
| 5. Participants: | 10. Safety |

#### Features of Money market:

1. **Short Term**: The money market is a market for short term securities with a maturity period up to one year.

2. **Features of Instruments**: It is a market where low risk, unsecured and short term debt instruments are traded.

3. **Location**: It has no physical location but is an activity that is carried on over the telephone and through the internet.

4. **Helps to/Purpose**: It enables raising of short term funds for meeting temporary shortages of cash as well as the temporary deployment of excess funds for earning returns.

5. **Participants**: The major participants are the Reserve Bank of India, Commercial Banks, Non-Banking Finance Companies, Mutual Funds and Financial Institutions.

6. **Main Instruments**: The main instruments traded in the money market are Treasury bills, Trade Bills, Commercial Papers and Certificate of Deposits.

7. **Amount of Money Required**: Investment in money market entails huge sums of money as the unit value of instruments are high.

8. **Liquidity**: Money market enjoys a high degree of liquidity as they are short term instruments and are issued by financial instruments, banks or reputed companies.

9. **Expected rate of return**: The expected rate of return is generally low as the money is invested only for a short duration.

The Discount Finance House of India (DFHI) has been established for the specific objective of providing a ready market for money market instruments.
<table>
<thead>
<tr>
<th>Treasury Bills</th>
<th>Commercial Paper</th>
<th>Call Money</th>
<th>Certificate of Deposit</th>
<th>Commercial Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issued by</strong></td>
<td>RBI on behalf of the government</td>
<td>Companies</td>
<td>Banks</td>
<td>Commercial Banks and DFIs</td>
</tr>
<tr>
<td><strong>Maturity period</strong></td>
<td>14 days to 364 days</td>
<td>15 days to 365 days</td>
<td>1 day to 15 days</td>
<td>91 days to 365 days</td>
</tr>
<tr>
<td><strong>Minimum amount of instrument</strong></td>
<td>Rs 25,000 and multiples thereof</td>
<td>Rs 5,00,000</td>
<td>Variable</td>
<td>Rs 5,00,000</td>
</tr>
<tr>
<td><strong>Proceeds are used to</strong></td>
<td>Meet short term financial needs. Issued at a discount and redeemable at par.</td>
<td>Meet working capital and seasonal needs. Used for bridge financing. (funds used to meet floatation costs for public issues) Issued at a discount and redeemable at par. Alternative to bank borrowing for large reputed companies.</td>
<td>Re-distribute the pool of day-to-day surplus funds among other banks that have a temporary cash deficit. Used by banks to meet CRR.</td>
<td>issued by commercial Banks and Development Financial Institutions to individuals, corporations &amp; companies to Mobilize funds during period of tight credit- that is, when demand for credit is high but deposit rate is low.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Finance credit sales for a firm</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Source of working capital.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• When a trade bill is discounted with a commercial bank, it becomes a commercial bill.</td>
</tr>
</tbody>
</table>

Class XII/ Business Studies: Study Material/ 128
<table>
<thead>
<tr>
<th>Other features</th>
<th>Treasury Bills</th>
<th>Commercial Paper</th>
<th>Call Money</th>
<th>Certificate of Deposit</th>
<th>Commercial Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>● Zero coupon bonds (that is, sold at a discount and redeemed at par)</td>
<td>● Zero coupon bonds (sold at a discount and redeemed at par)</td>
<td>● Interest rate is called ‘Call rate’ and varies from day to day.</td>
<td>● These are unsecured negotiable, short-term instruments</td>
<td>● Short term, negotiable and self-liquidating instrument</td>
</tr>
<tr>
<td></td>
<td>● Highly liquid</td>
<td>● Used by well reputed and large companies</td>
<td>● inter bank transactions</td>
<td>● Bearer document issued by bank against deposits kept by companies and other institutions for a period of 91 days to 1 year.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Freely transferable</td>
<td>● Issued as an unsecured promissory note. Negotiable &amp; transferable by delivery</td>
<td>● liquidity is next only to cash basically over-the-telephone market.</td>
<td>● Freely tradable in the secondary market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Issued as a promissory note. Negligible risk of default as they are issued by the government</td>
<td>● Buyers are banks, NBFCs, LIC, UTI, GIC etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>● Buyers are banks, insurance companies, mutual funds etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Capital Markets

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

Nature of Capital Markets:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Important component of Financial markets</td>
</tr>
<tr>
<td>b.</td>
<td>Two segments (primary and secondary)</td>
</tr>
<tr>
<td>c.</td>
<td>2 forms (organized and unorganized)</td>
</tr>
<tr>
<td>d.</td>
<td>Long term securities</td>
</tr>
<tr>
<td>e.</td>
<td>Satisfies long term requirements of funds</td>
</tr>
<tr>
<td>f.</td>
<td>Performs trade-off functions</td>
</tr>
<tr>
<td>g.</td>
<td>Creates dispersion in business ownership</td>
</tr>
<tr>
<td>h.</td>
<td>Helps in capital formation</td>
</tr>
<tr>
<td>i.</td>
<td>Creates liquidity</td>
</tr>
</tbody>
</table>

Features Of Capital Market Instruments:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Provide long term funds</td>
</tr>
<tr>
<td>b.</td>
<td>Lesser outlay required as unit value of instruments is low</td>
</tr>
<tr>
<td>c.</td>
<td>Duration more than 1 year</td>
</tr>
<tr>
<td>d.</td>
<td>Liquidity</td>
</tr>
<tr>
<td>e.</td>
<td>Lower safety</td>
</tr>
<tr>
<td>f.</td>
<td>Higher expected returns as compared to short term securities</td>
</tr>
</tbody>
</table>

1. Difference between Capital and Money markets are:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>Meaning</td>
</tr>
<tr>
<td>2)</td>
<td>Participants</td>
</tr>
<tr>
<td>3)</td>
<td>Investment outlay</td>
</tr>
<tr>
<td>4)</td>
<td>Duration</td>
</tr>
<tr>
<td>5)</td>
<td>Liquidity</td>
</tr>
<tr>
<td>6)</td>
<td>Safety</td>
</tr>
<tr>
<td>7)</td>
<td>Expected returns</td>
</tr>
<tr>
<td>8)</td>
<td>Cost of transactions</td>
</tr>
<tr>
<td>9)</td>
<td>Instruments traded in</td>
</tr>
<tr>
<td>10)</td>
<td>Use of funds</td>
</tr>
</tbody>
</table>

- Primary Markets

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

Features:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Concerned with new issues</td>
</tr>
<tr>
<td>2.</td>
<td>No specific geographical location</td>
</tr>
<tr>
<td>3.</td>
<td>Comes before secondary market</td>
</tr>
<tr>
<td>4.</td>
<td>Various methods of flotation</td>
</tr>
<tr>
<td>5.</td>
<td>Directly leads to capital formation</td>
</tr>
<tr>
<td>6.</td>
<td>Prices are determined by management</td>
</tr>
<tr>
<td>7.</td>
<td>Only buying takes place</td>
</tr>
</tbody>
</table>
Methods of Floatation:

1. **IPO** = Initial Public Offer = First time sale of securities.
   a. *Offer through prospectus:*
      - Prospectus provides details about an issue and therefore helps the potential investor to understand and evaluate the issue.
      - Issue is underwritten and listed.
      - It is also called a public issue.
   b. *Offer for sale:*
      - Securities are sold enblock at an agreed price through an intermediary like issuing houses or stock brokers who then sells them to the general public at a higher price.
   c. *Private placement:*
      - Allotment of shares to institutional investors and some selected individuals.
   d. *E-IPO’s:*
      2. Issuing of fresh capital through the on-line system of the stock exchange.

2. **Rights Issue:**
   3. Existing shareholders are offered the ‘right’ to buy new shares in proportion to the number of shares they already possess.
   4. The shareholder can either accept the offer himself/herself; assign a part of or all of his right in favor of another or ‘rescind’ (give up) this right altogether.
5. **Secondary Market**

6. Refers to a market where existing securities are bought and sold.
7. The company is not involved in the transaction at all. It is between two investors.

8. **Features of Secondary market are:**
   1) Creates liquidity
   2) Fixed location
   3) Comes after primary market
   4) Encourages new investment

9. **Difference between primary and secondary markets are:**
   
   | 1) Meaning | 6) Organizational difference/Geographical coverage |
   | 2) Issue   | 7) Listing of securities                        |
   | 3) Purpose | 8) Sequence                                      |
   | 4) Buying and selling | 9) Involvement of company                              |
   | 5) Capital formation | 10) Determination of share prices                           |

- **Stock Exchange:**
- **Section 2(i) of SCRA 1956 [Securities Contract (Regulation) Act]:** Stock Exchange means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating and controlling of business in buying, selling and dealing in securities.

<table>
<thead>
<tr>
<th><strong>Features of Stock Exchange:</strong></th>
<th><strong>Functions of Stock Exchange:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>a. It’s a market for previously issued securities</td>
<td>a. Gives liquidity and marketability to existing securities</td>
</tr>
<tr>
<td>b. Dealing only by authorized members</td>
<td>b. Pricing of securities (dd and ss)</td>
</tr>
<tr>
<td>c. Permits transactions in listed securities only</td>
<td>c. Safety of transactions (membership = regulated + dealings well defined)</td>
</tr>
<tr>
<td>d. Has a specific geographic location</td>
<td>d. Contributes to economic growth (ensures that savings are channelized to most productive investment avenues)</td>
</tr>
<tr>
<td>e. Regulated by SEBI &amp; SCRA.</td>
<td>e. Spreading of equity cult (ensures wider share ownership)</td>
</tr>
<tr>
<td></td>
<td>f. Provides scope for speculation (in a restricted and controlled environment)</td>
</tr>
</tbody>
</table>
Trading Procedure in Stock Exchanges

1) **Selection of a Broker:**
   - The first step is to select a broker who will buy / sell securities on behalf of the speculator/investor.
   - The investor has to sign a broker-client agreement and a client registration form before placing an order to buy or sell securities.
   - He has also to provide certain other details and information such as PAN number (mandatory), Bank account details, Depository account details etc.
   - The broker then opens a trading account in the name of the investor.

2) **Opening demat account with Depository:**
   - The investor has to open a Demat account or ‘beneficial owner’ (BO) account with a depository participant (DP) for holding and transferring securities in the demat form.
   - He will also have to open a bank account for cash transactions in the securities market.

3) **Placing the order:**
   - The order can be communicated to the broker and should specify the securities to be bought or sold and the price range within which the order is to be executed. The broker will then go ahead with the deal at the above mentioned price or the best price available.
   - An order confirmation slip is issued to the investor by the broker. Only the securities of listed companies can be traded on the stock exchange.

4) **The broker goes on-line and connect to the main stock exchange and match the share and best price available.**

5) When the shares can be bought or sold at the price mentioned, it will be communicated to the broker’s terminal and the order will be executed electronically. The broker will issue a trade confirmation slip to the investor.

6) After the trade has been executed, within 24 hours the broker issues a Contract Note. A Unique Order Code number is assigned to each transaction and is printed on the contract note.

7) **Settlement:**
   - This is the last stage in the trading of securities done by the brokers on behalf of their clients.
   - Investor has to deliver the shares/pay cash for the shares bought. Should be done immediately on receiving the contract note/before the day when broker makes the payment/delivers the shares to the Stock Exchange on the **Pay In Day**.

8) Cash is paid/ securities are delivered on the pay in day. Equity spot markets follow a T + 2 rolling settlement w.e.f 1 April 2003. This means that any trade taking place on Monday gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm, Indian Standard Time, Monday to Friday. Delivery of shares must be made in decartelized form, and each exchange has its own clearing house, which assumes all settlement risk.
9) Cash is paid or securities are delivered by the investor on the **pay-in day**, and on the T+2 day, the exchange will deliver the share or make payment to the other broker. This is called the **pay-out day**. Payment for shares/ delivery of shares has to be made within 24 hrs of the pay-out day.

10) The broker then has to make payment to the investor on the T+2 day as the deal has to be settled and finalized on the T+2 day. The settlement cycle is on T+2 day on a rolling settlement basis, w.e.f. 1 April 2003. 9.

→ Brokers may be individuals, partnership firms or corporate bodies. They act as intermediaries between buyers and sellers. The investor has to **sign a broker –client agreement** and a client registration form before placing an order to buy or sell securities.

→ After the trade has been executed, within 24 hours the broker issues a **Contract Note**.
  
  o A copy of the contract note contains the name and the price of securities, names of the parties, brokerage charges. It is signed by the broker.
  
  o This note contains details of the number of shares bought or sold, the price, the date and time of deal, and the brokerage charges. This is an important document as it is legally enforceable and helps to settle disputes/claims between the investor and the broker.

→ Pay-in day is before the T+2 day as the deal has to be settled and finalized on the T+2 day.

→ On the T+2 day, the exchange will deliver the share or make payment to the other broker. This is called the **pay-out day**.

→ The broker then has to make payment to the investor within 24 hours of the payout day since he has already received payment from the exchange.

**Benefits of Electronic trading systems or screen-based trading**:

Electronic trading systems or screen-based trading has certain advantages:

1. It **ensures transparency** as it allows participants to see the prices of all securities in the market while business is being transacted. They are able to see the full market during real time.

2. It **increases efficiency of information being passed on**, thus helping in fixing prices efficiently. The computer screens display information on prices and also capital market developments that influence share prices.

3. It **increases the efficiency of operations**, since there is reduction in time, cost and risk of error.

4. People from all over the country and even abroad who wish to participate in the stock market can buy or sell securities through brokers or members without knowing each other. That is, they can sit in the broker’s office, log on to the computer at the same time and buy or sell securities. This system has enabled a large number of participants to trade with each other, thereby **improving the liquidity of the market**.

5. A single trading platform has been provided as business is transacted at the same time in all the trading centers. Thus, all the trading centers spread all over the country have been brought onto **one trading platform**, i.e., the stock exchange, on the computer.

Now, screen-based trading or on-line trading is the only way in which you can buy or sell shares. Shares can be held either in physical form or an electronic book entry form of holding and transferring shares can also be adopted. This electronic form is called dematerialised form.
Dematerialisation and Depositories

‘Dematerialisation of Securities’

- Purchase and sale of securities involve exchange of money in return for share certificates. This led to problems of theft, forgery, transfer delays and time involved in paperwork. To eliminate these problems, an electronic book entry form of holding and transferring securities has been introduced. This is referred to as ‘Dematerialisation of securities’.

- A ‘D-Mat’ account works in the same form as a bank account where the share certificates held by the account holder can be deposited with the bank and after that any purchase and sale of such shares does not require physical transfer of the certificates. The account of the seller is brought down and the shares will now be reflected in the account of the buyer.

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

- Physical shares can be converted into electronic form or electronic holdings can be reconverted into physical certificates (rematerialisation). Dematerialisation enables shares to be transferred to some other account just like cash and ensures settlement of all trades through a single account in shares.

- These demat securities can even be pledged or hypothecated to get loans. There is no danger of loss, theft or forgery of share certificates. It is the broker’s responsibility to credit the investor’s account with the correct number of shares. Working of the Demat System.

Depositary:

- Just like a bank keeps money in safe custody for customers, a depository also is like a bank and keeps securities (e.g. shares, debentures, bonds, mutual funds etc.) in electronic form on behalf of the investor. In the depository a securities account can be opened, all shares can be deposited, they can be withdrawn/sold at any time and instruction to deliver or receive shares on behalf of the investor can be given.

- It is a technology driven electronic storage system. It has no paper work relating to share certificates, transfer, forms, etc. All transactions of the investors are settled with greater speed, efficiency and use as all securities are entered in a book entry mode.

- At present in India there are two depositories in India:
  i. NSDL (National Securities Depository Ltd.) is the first and largest depository presently operational in India. It was promoted as a joint venture of the IDBI, UTI, and the National Stock Exchange.
  ii. CDSL (Central Depository Services Ltd.) is the second depository to commence operations and was promoted by the Bombay Stock Exchange and the Bank of India.
• Depository interacts with the investor through intermediaries who are electronically connected to the depository and serve as contact points with the investors and are called depository participants. The depository participant (DP) serves as an intermediary between the investor and the Depository (NSDL or CSDL) who is authorized to maintain the accounts of dematerialized shares. Financial institutions, banks, clearing corporations, stock brokers and nonbanking finance corporations are permitted to become depository participants. If the investor is buying and selling the securities through the broker or the bank or a non-banking finance corporation, it acts as a DP for the investor and complete the formalities.

1. A depository participant (DP), either a bank, broker, or financial services company, may be identified.
2. An account opening form and documentation (PAN card details, photograph, power of attorney) may be completed.
3. The physical certificate is to be given to the DP along with a dematerialization request form.
4. If shares are applied in a public offer, simple details of DP and demat account are to be given and the shares on allotment would automatically be credited to the demat account.
5. If shares are to be sold through a broker, the DP is to be instructed to debit the account with the number of shares.
6. The broker then gives instruction to his DP for delivery of the shares to the stock exchange.
7. The broker then receives payment and pay the person for the shares sold.
8. All these transactions are to be completed within 2 days, i.e., delivery of shares and payment received from the buyer is on a T+2 basis, settlement period.

Other important Terms:

• **Listing**: A company’s securities can be traded on a Stock Exchange only if they are listed or quoted on it. Every stock exchange prepares a ‘LIST’ of companies that have permission to trade in that particular exchange and only companies that fulfill the stringent conditions laid down by the exchanges w.r.t submission of documents, filing and publishing of records etc are allowed to be listed. This is done to ensure that interests of shareholders are adequately looked after.

• **Demutualisation** refers to the process of separating the ownership of stock exchanges from the trading rights of members. Earlier, ownership, control and management of stock exchanges were in the hands of Brokers and this led to a conflict of interest between the brokers and their clients. Demutualisation reduced this conflict of interest and the chance of brokers using stock exchanges for personal gains.

SEBI:

• Established in 1988 and given statutory status thro an Act in 1992. SEBI was set up to protect the interests of investors, development and regulation of stock markets.
• **Setup to regulate the function of the security market with a view to:**
  
  i) Promote their orderly & healthy development.
  
  ii) Provide adequate protection to investors.
  
  iii) Create an environment to facilitate mobilization of adequate resources thro the securities market.

• **Basic Purpose and Role of SEBI:**

SEBI meets the needs of 3 interest groups:

  o **Issuers**: provide a market place where they can raise finances in an easy, fair & efficient manner.
  
  o **Investors**: protection of rights & interests through adequate, accurate & authentic information & disclosure of info on a continuous basis.
  
  o **Intermediaries**: Offer a competitive, professionalized & expanding market with adequate & efficient infra structure so that they are able to render better service to the investors & issuers.

• **Organizational Structure of SEBI:**

  o Activities are divided into five operational departments:
  
  o Each dept is headed by an executive director.
  
  o Head office = Mumbai and regional offices in Kolkata, Chennai and delhi.
  
  o Also has 2 advisory committees
    - Primary market advisory committee
    - Secondary market advisory committee

• **Objectives of SEBI:** The overall objective of SEBI is to protect the interests of investors and to promote the development of, and regulate the securities market. This may be elaborated as follows:

  1. To regulate stock exchanges and the securities industry to promote their orderly functioning.
  
  2. To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
  
  3. To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.
  
  4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.
### Functions of SEBI

<table>
<thead>
<tr>
<th>Protective Functions</th>
<th>Development Functions</th>
<th>Regulation Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Prohibit fraudulent &amp; unfair trade practices in secondary market (e.g. Price rigging &amp; misleading statement)</td>
<td>i) Promotes training of intermediaries of the securities market</td>
<td>i) Registration of brokers &amp; sub brokers &amp; other players in the mkt.</td>
</tr>
<tr>
<td>iii) Educate investors</td>
<td>iii) Promotion of fair practices code of conduct of all SRO’s</td>
<td>iii) Regulation of stock bankers &amp; portfolio exchanges &amp; merchant bankers.</td>
</tr>
<tr>
<td>iv) Promote fair practice &amp; code of conduct in securities market.</td>
<td>iv) Conducting research &amp; publish information useful to all market participants.</td>
<td>iv) Prohibition of fraudulent &amp; unfair trade practices.</td>
</tr>
<tr>
<td>v) Develop the capital market by adopting a flexible &amp; adaptable approach (e.g. Internet trading etc.)</td>
<td>v) Controlling insiders trading &amp; takeover bids &amp; imposing penalties for such practices.</td>
<td></td>
</tr>
<tr>
<td>vi) SEBI has permitted ‘internet trading’ through registered stock brokers.</td>
<td>vi) Calling for information by undertaking inspection, conducting enquires &amp; audits of stock exchanges &amp; intermediaries.</td>
<td></td>
</tr>
<tr>
<td>vii) Levying fee / other charges for carrying out the purpose of the Act</td>
<td></td>
<td></td>
</tr>
<tr>
<td>viii) Performed exercising such power under securities contracts (Regulation) Act 1956, as may be delegated by the Govt. of India.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1) **Protective Functions**

I) *Prohibits fraudulent & Unfair Trade practices in the securities market:*

Examples of fraudulent and unfair trade practices are:

- **Price Rigging** means manipulations with the sole objective of inflating or depressing the market price of securities. These are prohibited because they can defraud / cheat investors.

- **Making misleading statements:** These are statements which are likely to induce sale/purchase of securities by any other person.

II) *Prohibits ‘Insider Trading’:

- ‘Insider’ is a person connected with the company who is reasonably expected to have access to price sensitive information (w.r.t. securities) which is not available to the public at large.

- E.g. of insiders are Directors, Promoters etc.

- ‘Insider Trading’ is when ‘insiders’ use privileged information (not available to other investors) to make individual profits.

III) SEBI undertakes steps to *educate investors* so that they are able to evaluate securities of various cos, And select most profitable securities.

IV) *Promotes fair practices & code of conduct in securities market:*

1) W.r.t. debenture holders:

   - Co. cannot change terms midway.
   - Co. cannot roll over funds job unilaterally.

2) W.r.t. insider trading:

   - SEBI can investigates cases & if found guilty, is empowered to impose fine / imprison the guilty parties.

3) W.r.t. preferential allotment of shares:

   - SEBI has stopped the practice of making preferential allotment of shares unrelated to the prevailing market price.

---

*Topics in NCERT but not in your syllabus:*

1) National Stock Exchange
2) Objectives of NSE
3) Market Segments of NSE
4) Over the counter exchange of India
5) Advantages of OTC market
6) Organization structure of SEBI
Marketing Management

MEANING OF SOME IMPORTANT TERMS:

- **Needs** = basic human requirements. Essential items necessary or fundamental to human existence.
- **Wants** = desire for a particular product. Tend to be ‘satisfier specific’.
- **Demand** - willingness to buy is backed by purchasing power
- **Utility** – want satisfying power of a product.
- **What can be marketed:**
  - A **product** = bundle of utility not confined to physical products but can refer to other things of value such as services, ideas, place. It refers to anything that satisfies a need or want.
  - may be tangible or intangible (i.e. goods and services)
  - even people can be marketed
- **Customers** = people or organizations that seek satisfaction of their wants.
- **‘Marketers’** =
  - Anyone taking a more active role in the process of exchange is called a marketer. Normally it is the seller. But in certain situations, it may also be the buyer. This may be in the situation of rare supply.
  - Sellers as marketer are the deliverers or providers of satisfaction. They makes available products or services and offers them to customers with an intention of satisfying customer needs and wants. They can be divided into:
    - Goods marketers (such as Hindustan Lever)
    - Services marketers (such as Indian Airlines)
    - Others marketing experiences (such as Walt Disney) or places (like tourist destinations).
- **Marketing activities** = activities carried on by the marketers to facilitate exchange of goods and services between the producers and the users of such products.
- **Market** is:
  - Place where buyers and sellers meet and conduct buying and selling activities. It does not necessarily mean a geographical place (e.g. conduct of business thro telephone, mail or internet)
  - The other ways in which this term is being used is in the context of a product market (cotton market, gold or share market), geographic market (national and international market), type of buyers (consumer market and industrial market) and the quantity of goods transacted (retail market and wholesale market).
  - In the modern marketing sense, it refers to a set of actual or potential buyers of a product or service i.e. all customers who share a particular need or want and are able to buy the product (also referred to as target markets)
- **Marketing (V imp)**

  o Traditionally it has been defined as performance of business activities that direct the flow of goods and services from producers to consumers. Therefore activities such as packing, warehousing, transportations and pricing are all referred to as marketing activities.

  o In modern times thinkers like Philip Kotler have defined marketing as ‘a social process by which individual groups obtain what they need and want through creating offerings and freely exchanging products and services of value to each other’.

- **Features of Marketing:**

  1. **Need and Want:**
     - The primary motivation for people to engage in the process of marketing is the satisfaction of some need or want.
     - Thus, the focus of a marketer is satisfaction of such needs or wants of individuals or organisations by developing necessary products and services.

  2. **Creating a Market Offering:**
     - Market offering is a complete offer for a product/service having given features like size, quality and availability at a given location etc.
     - A good market offer is one that is developed after analyzing the needs and preferences of potential buyers.

  3. **Customer Value:**
     - A product will be purchased only if the buyers’ perception of its value is more than the price that he has to pay for the product.
     - The job of a marketer is to add value to the product so that the customers prefer it in relation to the competing products and decides to purchase it.

  4. **Exchange Mechanism:**
     - The process of marketing involves exchange of products and services for money or for something considered to be of value by the people.
     - For any exchange to take place, it is important that the following conditions be satisfied:
       a. Involvement of at least 2 parties—the seller and the buyer
       b. Each party must have something perceived as valuable by the other.
       c. Each party must have the ability to communicate with the other and deliver the product or the service.
       d. It must be voluntary— that is, each party must have the freedom to accept or to reject the other party’s offer.
       e. The party should be willing to enter into transaction with each other.

- **Marketing Management**

  - Can be defined as the process of planning, organizing, directing and controlling the activities related to the marketing of goods and services to satisfy customer wants.
  - According to Philip Kotler ‘Marketing Management is the analysis, planning, implementation and control of programmes designed to create, build and maintain mutually beneficial exchange relationships with target markets for the purpose of achieving organisational goals.'
**The process of Marketing involves:**

i. Choosing a target market
   - i.
ii. Getting, keeping as well as growing the customer
   - that is, ensure that the target customers purchase the firm’s product, ensure that
   - they keep their customers satisfied with the products and attract new customers
   - so that the firm can grow.)
iii. Create, develop and communicate superior values to the customers.

• Marketing management not only is concerned with creating a demand for the firm’s product
  but also managing the products demand effectively as per the situation in the market. For
  example, if demand is seasonal, the marketing team can use tools such as off season discounts
  to attract customers during the firms’ lean season and attempt to change the time pattern of
  demand.
  ▪ But sometimes, if the demand is ‘OVERFULL’, that is, more than what the company can
    handle, the marketer will try to restrict the demand.

• What can be marketed:

  - **Physical Products** : DVD player, Motor cycle, ipods, Cell phone, Footwear, Television,
    Refrigerator.
  - **Services** : Insurance, Health Care, Business Process Outsourcing, Security, Easy Bill service,
    Financial Services (Investment), Computer Education, Online Trading.
  - **Ideas** : Polio Vaccination, Helpage, Family Planning, Donation of Blood (Red cross),
    Donation of money on Flag Day (National Foundation for Communal Harmony).
  - **Persons** : For Election of Candidates for Certain Posts.
    Gardens’, ‘When Orisa celebrates, Eleven the God Join In’.
  - **Experience** : Customised Experiences as Dinner with a cricketer (say Dhoni); Lunch with a
    celebrity (say Bill Gates or Aishwarya Roy) or experience of Baloon Riding,
    mountaineering, etc.
  - **Properties** : Intangible rights of ownership of real estate in financial property (Shares,
    Debentures).
  - **Events** : Sports events (say Olympics, Cricket series), diwali mela, fashion show, music
    concert, film festival, elephant race (Kerala Tourism).
  - **Information** : Production packaging and distribution of information by organisations such
    as by universities, research organisation, providing information as market information
    (marketing research agencies), technology information.
  - **Organisations** : For boosting their public image organisations such as Hindustan Lever,
    Ranbaxy, Dabur, Proctor and Gamble, communicate with people. Example, Phillips says,
    Let’s make Things Better’.

*Class XII/ Business Studies: Summary and Questions/142*
### Basis Of Difference

<table>
<thead>
<tr>
<th><strong>Part Of The Process Vs. Wider Term - Scope</strong></th>
<th><strong>Selling</strong></th>
<th><strong>Marketing</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling = part of marketing. The focus is transferring the ownership of the product from the seller to the buyer. Has a narrower scope than marketing</td>
<td>Marketing is a much wider term consisting of a number of activities. Thus selling is only a part of marketing.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Transfer Of Title Vs. Satisfaction Of Customer Wants – Main Focus</strong></th>
<th><strong>Affecting transfer of title and possession of goods from seller to buyer</strong></th>
<th><strong>Achieving maximum satisfaction of customer needs and wants.</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit Thro Maximizing Sales Vs. Customer Satisfaction</strong></td>
<td>Activities directed at maximizing sales and thereby the profits available to a business in the short run.</td>
<td>Focus on customer satisfaction as a route to profit maximization in the long run.</td>
</tr>
<tr>
<td><strong>Start And End Of Activities</strong></td>
<td>Starts with production and ends with sale, which is transfer of ownership.</td>
<td>Start much before production and continues even after sale has been concluded.</td>
</tr>
<tr>
<td><strong>Difference In The Emphasis</strong></td>
<td>Bending the customer according to the products</td>
<td>Develop the product and other strategies as per the customer demand.</td>
</tr>
<tr>
<td><strong>Difference in Strategies.</strong></td>
<td>Involves efforts such as promotion and persuasion.</td>
<td>Uses integrated marketing efforts involving strategies in respect of product, promotion and physical distributaries.</td>
</tr>
</tbody>
</table>

### Marketing Management Philosophies

Marketers attempt to identify customers’ wants and needs and accordingly create products, price them, promote and distribute them to satisfy the demand of customers. Thus, an offer is made by the marketer to the customer with the hope of actualizing an exchange with potential customers.

The process of creation of an offer and the interaction with the market, that is, the **marketing efforts** may be guided by different philosophies, which are as follows:

1. Production concept
2. Product concept
3. Selling concept
4. Societal marketing concept
5. Marketing concept
<table>
<thead>
<tr>
<th>Environment in which formed</th>
<th>PRODUCTION CONCEPT</th>
<th>PRODUCT CONCEPT</th>
<th>SELLING CONCEPT</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the earlier days of the industrial revolution, the number of producers were limited, limited supply of industrial products not able to match demand. So, anyone who was able to produce goods could easily find buyers for the same.</td>
<td>With passage of time, the supply improved customers started looking for products that were superior in performance, quality and features.</td>
<td>increase in scale of production → competition among the sellers → Product quality and availability alone did not ensure survival as a large number of firms were now selling products of similar quality.</td>
<td></td>
</tr>
<tr>
<td>Assumption</td>
<td>potential exchange would be realized simply if the products are widely available and inexpensive.</td>
<td>potential exchange would be realized when the products are of high quality.</td>
<td>potential exchange is realized only if firms undertake aggressive selling and promotion efforts, that is, customers, if left alone, would not buy or not buy enough of the firms’ product.</td>
</tr>
<tr>
<td>Strategy Adopted</td>
<td>Lowering the cost of production by means of mass production and distribution.</td>
<td>making superior products and improving them over time.</td>
<td>rely upon the powers of advertising and other persuasion techniques to influence customers. They focus on the selling the product that the firm has to offer to the customers, that is, somehow convert the goods into cash.</td>
</tr>
<tr>
<td>Drawback</td>
<td>Customers do not always buy products only as they are inexpensive and widely available.</td>
<td>customers do not always buy products only as they are of high quality if they do not need it.</td>
<td>such technique can succeed in the short run but not in the long run. And if the customers are wrongly lured, they may adversely affect the firms’ goodwill and therefore harming the firms’ long term prospects.</td>
</tr>
</tbody>
</table>
### Societal Marketing Concept

- Firms must perform marketing in a fashion that societal well-being is enhanced i.e., attention must be paid to social, ethical, and ecological aspects of marketing.
- Environmental ills such as pollution, plundering of resources, drug abuse, etc., must be avoided while identifying and meeting customer needs.
- Thus it holds that the task of a firm is to identify the needs and wants of the target market and deliver the desired satisfaction in an effective and efficient manner so that the long-term well-being of consumers and the society as a whole is taken care of.

### Marketing Concept

- Marketers believe that potential exchange will be realized when firms develop products and services that customers want and not just what the firm can produce and therefore satisfies customers better than competitors. That is, firms following this philosophy make products in response to the market needs.
- Key points in the marketing concept are:
  - Identification of the target market
  - Understanding needs and wants of customers in the target market.
  - Development of products to satisfy the needs and wants of the target market.
  - Satisfying needs of the target market better than competitors.
  - Doing all these at a profit.

There are two dominant forces in the market - Customers and Competitors. Firm must keep a constant check on customers and factors that influence customer needs as this will help them in shaping products and services in accordance with changing customer needs. Also, the firm must maintain a constant vigil on competitors and formulate strategies to ensure that they satisfy customer needs better than them.
### Basis of Differences in the Marketing Management Philosophies

<table>
<thead>
<tr>
<th>Philosophies/Bases</th>
<th>Production Concept</th>
<th>Product Concept</th>
<th>Selling Concept</th>
<th>Marketing Concept</th>
<th>Societal Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Starting Point</strong></td>
<td>Factory</td>
<td>Factory</td>
<td>Factory</td>
<td>Market</td>
<td>Market/Society</td>
</tr>
<tr>
<td><strong>Main focus</strong></td>
<td>Quantity of product</td>
<td>Quality, performance and features of product</td>
<td>Existing product</td>
<td>Customer needs</td>
<td>Customer needs and society’s well being</td>
</tr>
<tr>
<td><strong>Means</strong></td>
<td>Availability and affordability of product</td>
<td>Product improvements</td>
<td>Selling and promoting</td>
<td>Integrated marketing</td>
<td>Integrated marketing</td>
</tr>
<tr>
<td><strong>Ends</strong></td>
<td>Profit thro volume of production</td>
<td>Profit thro sales volume</td>
<td>Profit thro customer satisfaction</td>
<td>Profit thro customer satisfaction and social welfare.</td>
<td>Profit thro customer satisfaction and social welfare.</td>
</tr>
</tbody>
</table>

### Functions of Marketing NCERT Pg 309 – For examples

#### Gathering And Analyzing Market Information:
- systematic investigation of facts
- SWOT analysis
- Necessary to identify needs
- Decisions can be wrt. Identifying customer needs and wants, identifying buying motives, choice of a brand name, packaging and media used for promotion.
- Data is available both from primary as well as secondary sources.

#### Marketing planning:
- Aim = to develop a complete marketing plan so that the marketing objectives can be achieved.
- It also must specify the action programs.
- E.g if a marketer aims at enhancing his market share in the country in the next three years, then his marketing plan should include various important aspects like plan for increasing level of production, promotion of products etc.

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

#### Standardization and grading:
- Standardization = Process of setting certain standards for a product on the basis of its desired qualities. E.g. ISI mark for electrical goods.
- Grading = Division of products into classes made up of units possessing similar features such as for agricultural products.
**Packaging and labeling:**
- ‘Packaging’ refers to designing a package (that is a wrapper or a container) for a product.
- Packaging protects the products from damage, risks of spoilage, breakage and leakage. It also makes buying convenient for customers and serves as a promotional tool.
- ‘Labeling’ = designing a label to be put on the package. It may vary from a simple tag to complex graphics.

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

**Customer support services:**
- These include services such as after-sales and maintenance services, handing customer complaints etc.
- secure repeat sales from customers and developing brand loyalty for a product

**Pricing of products:**
- **Price** is defined as the exchange value in terms of money and Pricing of Products refers to the process of fixing up the price of a product.
- It plays an important role in the success or failure of a product as the demand of a product is related to the price of the same.
- Factors affecting pricing decisions are cost of production, demand of the product, degree of competition etc.

**Promotion:**
- Includes all activities undertaken to inform prospective customers about the product, its qualities, availability, price etc.
- Examples of promotional activities are advertising, personal selling, publicity and sales promotion
- Essential for creating, maintaining and increasing the demand of a product.
- Crucial decisions = deciding the promotion budget and the promotion mix that is the combination of promotional tools that will be used.

**Physical distribution:**
- Ensure that the goods move from the production center and reach the consumers in the consumption center.
- Two major decisions in this area are:
  - Decisions wrt channels of distribution or marketing intermediaries
  - Physical movement of goods
- Important decision areas include managing inventory, storage and warehousing and transportation of goods from one place to another.

**Transportation:**
- Physical movement of goods. Removes hindrance of place and creates place
- Not only finished goods but raw materials are also transported.
- Affected by nature of products, its cost and location of target markets.
- It involves decisions such as mode of transportation, route planning etc.
- It helps to avoid situations of extreme surplus and deficiencies.

**Storage and warehousing:**
- Producers need to hold and preserve goods during the time gap between production/purchase and sale/resale of products.
- Storage and warehousing helps in:
  - **Protect goods**
  - **Maintain adequate**
  - Helps a firm to manufacture products in anticipation of demand.
  - **Minimizes price fluctuations.**
- Manufactures/retailers may maintain their own warehouses or fire services of warehousing companies.
Role of Marketing (in NCERT but not in the syllabus)

<table>
<thead>
<tr>
<th>Role in a Firm</th>
<th>Role in the Economy</th>
</tr>
</thead>
</table>
| Marketing emphasizes that the customer is the key to the survival and growth of an organization in the contemporary competitive environment.  
• It, thus, helps in focusing the activities of an organization on the needs and wants of the customers.  
• An analysis of the needs and wants shall be undertaken in order to decide what to produce and sell.  
• The product will then be:  
  o Designed according to the needs of the potential customers  
  o Made available through outlets convenient to the customers  
  o Priced at a level the target customers can afford.  
Marketing, thus, helps in serving customers in a better way and a satisfied customer is the most valuable asset to any firm. | Acts as a catalyst in the economic development of the country and helps in raising the standard of living of the people.  
• Plays a significant role in the economic development of the nation by inspiring people to undertake new activities and to set up new enterprises for producing goods and services needed by the customers.  
• Overcomes obstacles posed by high prices due to imbalances in the levels of production and consumption.  
• Ensures smooth flow of goods through efficient physical distribution arrangements.  
• By linking the business and consumption centers, it accelerates the economic activities leading to higher incomes, more consumption and increased saving and investments. It thus helps in finding the right type of products and services that a firm should produce, the places where it should make such products available for sale, the price at which they should be sold and the channels that should be used for moving the products to the ultimate place of consumption or use. |

Marketing Mix

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

- Non-controllable factors and Controllable factors:

To be successful, a firm needs to take sound decisions wrt controllable factors while keeping the environmental factors in mind.

To develop marketing tools, marketing managers use the abovementioned controllable factors and the set of marketing tools that a firm uses to pursue its marketing objectives in the target market is described as Marketing Mix.

Success of a market offer will depend upon how well these ingredients are mixed to create superior value for customers and simultaneously achieve their sales and profit objective. Thus, an ideal marketing mix would need:

- Producing satisfying products
- Offered to buyers at a reasonable price
- Conveniently available
- About which communication is offered.
a. **Product:**
- Product mix relates to decisions regarding planning, developing and producing the right type of products and services for the consumers.
- Product is the tangible/intangible product, which is goods/services/anything of value that is offered to the market for exchange. It relates to not only the physical product but also the benefits offered by the product from the customers’ point of view.
- It also includes the extended product—what is offered to the customers by way of after sales services, handling complaints etc. this decision is more important for durable products.
- Important decisions in this area include deciding about the features and quality of the product, its packaging, labeling, trademark and branding of products.

b. **Price:**
- It is a value that a buyer passes on to the seller in lieu of the product or services provided.
- It is a source of revenue for the seller.
- Marketer needs to analyze the objectives of setting price and analyze the factors that determine the price.
- Decision also includes pricing methods, pricing strategies, pricing policies, price changes, discounts to be offered, credit terms etc.
- Price is the cost the customers has to bear for the product and so must be set so that the customers perceive the price to be in lieu with the value of the product.

c. **Place:**
- Set of decisions that need to be taken in order to make the product available for purchase and consumption of the target market at the right place, in the right time and at the right price.
- It includes all the activities involved in transferring ownership and physical possessions of the product to the consumer.
- It involves decisions wrt:
  - Channels of distribution—selection of intermediaries/dealer to reach the customers, providing support to the intermediaries etc.
  - Physical distribution—managing inventory, storage, warehousing and transportation of goods from the place where they are produced to the place where it is required by the buyer.

d. **Promotion:**
- These are activities undertaken to persuade and motivate people to buy their products.
- It involves communicating the features, attributes, availability, merits etc of the product to both the customers and the participants in the channels of distribution in order to achieve sales goals.
- Tools used include advertising, sales promotion, personal selling etc.
Detailed Discussion on the Components of Marketing Mix: Product:

**Labeling:**
- Definition
- Functions:
  1. Describe the product and specify its contents
  2. Identification of the product or brand
  3. Grading of products
  4. Help in promotion of products
  5. Providing information required by law

**Classifications:** (Not in your syllabus)
- Consumer products:
  - Durability basis
  - Shopping effort involved.
- Industrial product:
  - Materials and parts
  - Capital equipment
  - Supplies and business services

**Product Mix**

**Branding:**
- Definition, Terms
- Advantages to the marketers:
  1. Enables product differentiation:
  2. Helps in advertising and display programmes:
  3. Differential pricing:
  4. Ease in introduction of a new product
- Advantages to Customers:
  1. Helps in product identification:
  2. Ensures quality:
  3. Status symbol:
- Characteristics of a good brand name:
  1. Short, easy to pronounce, spell and remember.
  2. Distinctive
  3. Versatile to accommodate new products
  4. Suggest product benefits and quality
  5. Have staying power (should not get outdated easily.
  6. Capable of being registered and protected legally

**Packing:**
- Definition
- Levels:
  1. Primary packing
  2. Secondary packing
  3. Transportation packing
- Importance:
  1. Rising Standards of Health and Sanitation.
  2. Self-Service Outlets
  3. Innovational Opportunities
  4. Product differentiation
- Functions:
  1. Product Identification
  2. Product Protection
  3. Facilitating Use of the Product
  4. Product Promotion
**Branding**

- A product is a mixture of tangible and intangible attributes, which are capable of being exchanged for a value and with the ability to satisfy customer needs.
- It includes goods, services, ideas, persons and places in the concept of product.
- Marketers must, thus, focus on what a product or a service does for a customer, that is, the utility or benefit that a product provides to a customer. Once that is analysed, a layer of values can be added to provide a greater satisfaction to the customers. These layers can be categorized as:
  - **First level** - that is, the basic benefit that a buyer seeks in a product. E.g. for an automobile transportation.
  - **Second level** - that is what a customer expects (in terms of various features etc) when they buy a product. E.g. fuel efficiency, desired mileage etc.
  - **Third level** - that is, augmented product level, that is, features that can be added by marketers in order to exceed customer expectations. E.g. finance options etc. it helps to beat the customers.
- From the customers’ point of view, the customer seeks 3 types of benefits:
  - Functional Benefits (motorcycle =>transportation)
  - Psychological Benefits (motorcycle =>need for prestige and esteem)
  - Social Benefits (motorcycle =>acceptance from a group)

**Branding:**

<table>
<thead>
<tr>
<th>Generic name</th>
<th>Name of the whole class of the product. Eg. Toothpaste, wrist watch etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand Name</td>
<td>Part of a brand that can be spoken</td>
</tr>
<tr>
<td>Brand mark</td>
<td>Part of brand that is in the form of symbols, design, color scheme or lettering that cannot be uttered but can be recognized.</td>
</tr>
<tr>
<td>Trade Mark</td>
<td>Brand/ part of brand that is given legal protection against its use by other firms.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Advantages to the marketers:</th>
<th>Advantages to Customers:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enables product differentiation:</td>
<td>Helps in product identification:</td>
</tr>
<tr>
<td>✓ Distinguishes the firms products from that of its competitors, thus secures and controls its markets.</td>
<td>✓ If customer is satisfied with a brand, he will not make a close inspection every time.</td>
</tr>
<tr>
<td>Helps in advertising and display programmes:</td>
<td>Ensures quality:</td>
</tr>
<tr>
<td>✓ Without a brand, the advertiser can only create an awareness about the generic product and not be sure of the sale of his brand.</td>
<td>✓ deviation in quality, customers can have a recourse to the manufacturer/marketer.</td>
</tr>
<tr>
<td>Differential pricing:</td>
<td>↑confidence and level of satisfaction of customers</td>
</tr>
<tr>
<td>✓ As when customers like and become used to a brand, they would agree to pay a little more for it than the competing product</td>
<td>Status symbol:</td>
</tr>
<tr>
<td>Ease in introduction of a new product</td>
<td>✓ Because of their quality, customers feel proud of suing them and so ↑ level of satisfaction of customers</td>
</tr>
</tbody>
</table>

minimizes selling costs – enjoys the reflected glory of the brand
- **Characteristics of a good brand name:**
  1. Short, easy to pronounce, spell and remember (Rin, Vim, Ponds)
  2. Suggest product benefits and quality (Genteel, Boost)
  3. Distinctive (Zodiac, Safari)
  4. adaptable to packing or labeling requirements, to different advertising media and to different languages.
  5. Versatile to accommodate new products (Maggi)
  6. Capable of being registered and protected legally
  7. Have staying power (should not get outdated easily).

**Packaging**
- **Act of designing and producing an appropriate container or wrapper of a product.**
- **Levels:**
  1. *Primary packing* - product’s immediate container. May be kept till the product is used (plastic wrappers) or for the lifetime of the product (toothpaste)
  2. *Secondary packing* - additional layer of protection till the product is used (cardboard box for toothpaste)
  3. *Transportation packing* - further packing component necessary for storage, identification or transportation. (corrugated boxes containing 10, 20, or 100 units)

**Importance:**
- *Rising Standards Of Health And Sanitation* - As chances of adulteration in such goods are minimized
- *Self-Service Outlets* - so some of the traditional role assigned to personal selling w.r.t promotion has gone to packaging.
- *Innovational Opportunities* - innovation on packaging used to market products e.g. tetra packs for milk.
- *Product differentiation* - colour, size, material etc of packaging makes a difference in perception of customers about the quality of the product.

**Functions**
- *Product Identification* - colgate = red, vanish = pink, tide = orange
- *Product Protection* - protection from spoilage, breakage, leakage, pilferage, damage, climatic effect etc during storage, distribution and transportation.
- *Facilitating Use Of The Product* - convenient to open, handle and use the product. Eg cosmetics, toothpaste etc.
- *Product Promotion* - colour scheme, photographs or typeface may be used tp attract customers. Specially used in self service stores.

**Labeling**
- Attached to the product package. Helps in identification of product and communicating with the potential buyer and promoting the sales of the products.
- Providing necessary information to the consumers.
- May be a simple tag attached to a product or complex graphics that are a part of the package.
• **Functions:**
  1. *Describe the products and specify its content*
     - Provide detailed information w.r.t contents, price, promotion schemes, cautions in use, method of use etc
  2. *Identification of the product or brand*
     - And common identification information w.r.t name and address of the manufacturer, net weight when packed, manufacturing date, maximum retail price and Batch number. etc
  3. *Grading of products*
     - Into different categories on the basis of features, quality etc.
  4. *Help in promotion of products*
     - Attract attention and give reason for purchase – 40% extra, free gift inside.
  5. *Providing information required by law*
     - Statutory warnings,

**Detailed Discussion On The Components Of Marketing Mix: Price Mix**

*Price =*

• Sum of values that consumers exchange for the benefit of having or using the product. Price may therefore be defined as the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a service.
• Normally expressed in monetary terms. Decisions include decisions wrt basic price, discounts to be offered etc.
• It is the value passed by the customer to the seller in lieu of the product/service provided.
• Important because:
  o Single most important factor affecting the revenue and profits of a firm.
  o Used to regulate the demand of the product.
  o Considered to be an effective competitive weapon specially in a competitive market.

**Factors determining price determination:**

1. **Product cost:**
   • Price should include all costs and also include a fair return for undertaking the marketing effort and risk.
   • Includes costs of producing, distributing and selling the product.
   • Costs sets the floor price – the minimum level / lower limit at which the product may be sold.
   • Price should recover Total costs (Fixed costs/overheads + Variable costs + Semi-variable costs) in the long run, but in certain circumstances (introduction of a new product/entry into a new market) product price may not cover all the costs for a short while.
   • There are three types of costs: Fixed costs/overheads- Variable costs and Semi-variable costs.
     a. Fixed costs/overheads- costs that do not vary with the level of activity/volume of production eg rent of a building, salary etc.
     b. Variable costs – vary in direct proportion with the level of activity/volume of production eg cost of raw material, labour etc
     c. Semi-variable costs.- vary with the level of activity/volume of production but not in direct proportion eg cost of transportation of finished goods etc
2. **Utility and demand:**
   - Utility provided by the product and the demand of a product set the upper limit of price that a buyer would be willing to pay for a product.
   - Buyers pay to the point where the utility of the demand is more than or equal to the utility derived from it.
   - Law of demand = consumers purchase more at a lesser price.
     - Elasticity of demand = responsiveness of demand to change in prices of a product.
     - Demand = elastic if a small change in price results in a large change in quantity demanded.
     - If demand is inelastic, firm can fix higher prices.

3. **Extent of competition in the market:**
   - Competitors’ price, the quality and features of their products and their anticipated reactions must be examined carefully before fixing the price of a product. Greater the similarity between the products, the higher is the degree of loss of freedom to fix prices.
   - If there are competing firms, prices get fixed at a lower level. But prices tend to be higher with lesser competition.

4. **Government rules and regulations:**
   - In order to protect the interests of public against unfair prices, the government can intervene.
   - For example, government can declare a product as essential product and regulate its prices. Common products included in essential commodities are drugs, LPG, some food items etc.

5. **Pricing objectives:**
   - Generally it is profit-maximization but instead of charging the maximum price in the short run, the firm may lower per unit price so that it can capture a larger share of the market and maximize its long run profits.
   - Apart from profits maximization other objectives may be:
     - Market leadership - prices will be at a lower level to attract more customers.
     - Surviving in a competitive market – may lead to discounts to liquidate its stock
     - Product quality leadership – higher prices to cover quality and cost of R&D.

6. **Marketing methods used:**
   - Affected by other elements such as distribution channels used, type of packaging, customer services, and amount spent on promotion etc.

   **Detailed Discussion On The Components Of Marketing Mix: Place Mix**

   - A set of decisions needs to be taken to make the product available to customers for purchase and consumption.
   - The marketer needs to make sure that the product is available at the right quantity, at the right time and at the right place.
   - It requires development of:
     - Channels of distribution
     - Physical distribution of products.
a) **Channels Of Distribution:**

- Includes a series of firms/individuals/people/institutions/merchants and functionaries who form a network which helps in the transfer of title to a product from the producer to the end consumer.
- They help to overcome time, place and possession gaps that separate the goods and services from those who need/want them from those who want them.
- Thus, intermediaries in the channel of distribution help to:
  ✓ Assist in transferring title to goods from the producers to consumers.
  ✓ Bring economy of effort
  ✓ Cover large geographical area and bring efficiency in distribution
  ✓ Transportation, storage and negotiation
  ✓ Make various items available at one place
  ✓ Serves as an authentic source of market information.

b) **Physical Distribution**

- Involves physical handling of and movement of goods from the place of production to the place of consumption.
- Path taken by the good in their movement from the place of production to the place of consumption.
- Creates time and place utility
- Involves decisions wrt inventory, storage and warehousing, transportation and order processing.

**Components of Physical Distribution**

**Order Processing:**

- Method used by the firm to process customers’ orders is a major decision area wrt distribution.
- A good order processing system should provide for an accurate and speedy processing of orders, in the absence of which goods would reach the customers late or in the wrong quantity or specifications.
- Lack of this will lead to loss of business and goodwill.

**Inventory control:**

- Maintaining adequate inventory ensures product availability as and when demand arises and this prevents out-of-stock situation.
- Decision = level of inventory. Higher inventory = higher level of satisfaction of the consumers but also higher costs.
- Optimum inventory level=benefits of maintaining inventory should be balanced with the cost of inventory.
- Factors determining inventory level:
  ➢ Policy w.r.t customer service to be offered.
  ➢ Degree of accuracy of the sales forecast.
  ➢ Responsiveness of the distribution system
  ➢ Cost of inventory
- Correct estimation of demand and inventory helps firm to:
  ➢ Reduce their cost levels
  ➢ Maintain production at a consistent level
Transportation:

- **Physical movement** of goods to place where they are required. Very crucial as unless goods are physically available, the sale cannot be affected.
- Means of carrying goods and raw materials from the points of production to the point of sale.
- A firm uses it both for bringing raw material to the firm and transporting finished products from the firm.
- Modes available = rail, water, air, pipeline or trucks.
- Decision criteria = speed, frequency, dependability, availability, cost etc.

Warehousing:

- Act of storing and assorting products in order to create time utility.
- There is a time gap between production and consumption and goods need to be stored during this time period.
- **Larger the number of warehouses**=>**lesser the time taken** to serve customers at different locations=> but **greater the cost** of warehousing.
- Firms may either use own warehouses or hire services of specialized warehouses.
- Products requiring **long term storage** (agricultural products)=>warehouses located near production sites =>minimises transportation charges.
- Bulky/hard to ship / perishable products=>warehouses kept at different locations near the market.
- Modern warehouses perform various specialized functions such as grading, labeling, packing etc.

<table>
<thead>
<tr>
<th>Channels Of Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Meaning:</strong></td>
</tr>
<tr>
<td>- Includes a series of firms/ individuals/ people/institutions/merchants and functionaries who form a network which helps in the transfer of title to a product from the producer to the end consumer.</td>
</tr>
<tr>
<td>- They help to overcome time, place and possession gaps that separate the goods and services from those who need/want them from those who want them</td>
</tr>
<tr>
<td><strong>Types of Channels:</strong></td>
</tr>
<tr>
<td>- <strong>Direct/zero level channel:</strong></td>
</tr>
<tr>
<td>- Producer → consumer</td>
</tr>
<tr>
<td>- E.g.: mail order, internet, door to door selling. E.g. Eureka Forbes.</td>
</tr>
<tr>
<td>- <strong>Indirect channel:</strong></td>
</tr>
<tr>
<td>- <strong>One level channel:</strong></td>
</tr>
<tr>
<td>- Producer→retailer →consumer</td>
</tr>
<tr>
<td>- Usually used for specialty goods like expensive watches, appliances, Cars( Maruti Udyog) etc.</td>
</tr>
</tbody>
</table>
- **Two level channel =**
  - ✓ Producer → wholesaler → retailer → consumer.
  - ✓ Most commonly used model.
  - ✓ Usually used for consumer goods like soaps, salt, etc.

- **Three level channel =**
  - ✓ Producer → agent → wholesaler → retailer → consumer.
  - ✓ Done when manufacturers cannot approach wholesalers directly or when they carry a limited product line and has to cover a wide market.

### Functions of Channels of Distribution:

1. **Sorting:** into homogenous groups on the basis of some common characteristics.
2. **Accumulation:** into homogenous lots and this helps to maintain continuous flow of supplies.
3. **Allocation:** Breaking homogenous stock into smaller marketable lots.
4. **Assorting:** Middlemen procure a variety of goods from manufacturers and then supply them in the desired combination to the users.
5. **Product Promotion:** Middlemen participate in activities such as displays, contests, etc.
6. **Negotiation:** W.r.t price, quality, guarantee etc so that the transfer of ownership is properly affected.
7. **Risk Taking:** on account of price and demand fluctuations, spoilage, destruction, etc.

### Factors Determining Choice of Channels:

1. **Product Related Factors:**
   - Industrial/consumer product-
     - Industrial products are technical, made to order, expensive and purchased by few buyers so require a shorter/direct channel involving few middlemen.
     - Consumer products are standardized, less expensive, less bulky, non-technical & frequently bought so, they can be better distributed by a number of middlemen.
   - Perishability of product:
     - Fruits, vegetables and dairy products = perishable => short channel as long channel would hurt customer service levels.
     - Toiletry, groceries, fabrics = non perishable => longer channels.
   - Unit value of product:
     - Convenience goods = For low unit value of products with a high turnover such as stationary etc = less margin per unit so need to reach a wider market to be profitable => long channels.
     - For high unit value of products (like gold, heavy equipment etc), shorter channels are recommended.
   - Degree of complexity:
     - Complexity = industrial/engineering products that are technical => short channels.
Standardization vs. customization:

- For customized product, direct contact between buyer and seller is required to evolve desired product parameters and so direct selling is preferred. Standardized products can easily be sold with the help of intermediaries.

Bulk and weight:

- Heavy and bulky products require shorter channels to minimize hauling charges.

2. Company Characteristics:

- Financial strength:
  - Direct channel = requirement of large amt of funds for space + sales force. So if the company has spare funds, it can go for direct channel.
- Degree of control desired on distribution:
  - Mgt wants to have greater control on distribution => direct channel.
- Market standing:
  - Well established companies enjoy goodwill and recognition and so can eliminate middlemen. But lesser known companies have to rely on middlemen to sell their products.
- Volume of production:
  - Big manufacturers can sell directly to consumers but smaller companies do not have the necessary resources to sell to the consumers directly.

3. Competitive Factors:

- Choice of channels used by competitors imp as it will have to select a channel with similar reach + policy of firm - whether it wants to go with the competitors or be different from them.

4. Market Factors:

- Size of market that is number of consumers:
  - Industrial products = small no. of buyers => short channel.
  - Convenience goods = large no of buyers => long channel.
- Geographical concentration of buyers:
  - Industrial products = Buyers are concentrated in a small area => short channel.
  - Convenience goods = Buyers are widely dispersed => long channel.
- Order size/quantity purchased:
  - Industrial products = size of order is large => short channel.
  - Convenience goods = size of order is small => long channel.

5. Environmental Factors:

- Environmental factor such as economic condition and legal constraints.
- In a depressed economy marketers use shorter channels to distribute their goods in an economical way.

Detailed Discussion On The Components Of Marketing Mix: Promotion Mix

- Promotion refers to
  - The use of communication with the twin objective of informing potential customers about a product and persuading them to buy it.
  - It is an important element of marketing mix by which marketers makes use of various tools of communication to encourage exchange of goods and services in the market.
- Promotion mix refers to combination of promotional tools used by an organisation to achieve its communication objectives.
Various tools used in promotion mix are:

- **Advertising**: Paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor.
- **Sales Promotion**: Short term activity or incentives aimed at encouraging trial/purchase of a product. It includes a variety of non-recurrent activities like samples, coupons etc.
- **Personal Selling**: Direct face to face interaction between sales personnel and potential customer.
- **Public Relations**: Public Association Relations’ defined public relations as “The art and social science of analyzing trends, predicting their consequences, counseling organizational leaders and implementing planned programme of action which will serve both the organization and the public interest.”

They can be used in different combinations, to achieve the goals of promotion.

---

**Advertising**

*Impersonal form of communication that is paid for by the marketers(sponsors) to promote a good or service.*

**Features Of Advertising:**

1. **Paid Form** – sponsor has to bear the costs of communicating with the prospective buyer.
2. **Impersonality** – no direct face to face contact between prospects and advertisers. Creates a monologue and not a dialogue.
3. **Identified Sponsor** – undertaken by an identified individual who makes the advertising effort and bears the costs of it.

**Merits Of Advertising:**

1. **Mass Reach** – large number of people over a large geographical area can be reached.
2. **Enhancing Customer Satisfaction And Confidence** – creates confidence and prospective buyers feel more comfortable and assured about the product quality.
3. **Expressiveness** – due to development in art, computer designs and graphics, special effect can be created that makes simple products and messages look attractive.
4. **Economy** – because of its wide reach, overall cost of advertising gets spread over a wide audience and per unit cost of reach ↓.

**Limitations Of Advertising:**

1. **Less Forceful** – than personal selling as no compulsion on prospect to pay attention.
2. **Lack Of Feedback** – no immediate and accurate feedback mechanism to check delivery of message.
3. **Inflexibility** – as message is standardized and not tailor-made to suit the requirements of different age groups.
4. **Low Effectiveness** – as volume of advertisements ↑, becomes tougher to make advertising message heard by target prospects.
Objections To Advertising: The opponents of advertising say that expenditure on advertising is a social waste because:

1. Adds To Cost:
   - advertising unnecessarily adds to the cost of the product, which is ultimately are passed on to the consumers in the form of higher prices.
   - The money spent adds to the cost, which is an important factor in fixation of the price of the product.
   But
   - Advertisements also increase the demand for the product as large number of potential buyers come to know about the availability of the product and its features and are persuaded.
   - The increased demand leads to higher production, so the firm is able to achieve economies of scale. Thus, The ‘per unit’ cost comes down which lessens the burden of consumers rather than adding to it.

2. Undermines Social Values:
   - Another important criticism of advertising is that it undermines of social values and promotes materialism.
   - It breeds discontent among people they come to know about new product and feel dissatisfied about their present state of affairs.
   - Some advertisements show new lifestyles which don’t find social approval.
   But
   - Advertising informs buyers about the improvement of new products over existing products. If the buyers are not about these products they may be using inefficient products.
   - Also, the job of advertising is to inform. Whether to buy or not to buy is a decision that must be made by the buyers according to their needs.
   - They may be motivated to work harder to be able to purchase these products.

3. Confuses The Buyers:
   - There are so many brands for the same product, each to be better than the rest, so the consumer gets confused as to which one is true and which should be relied upon.
   - E.G. we may note similar claims of whiteness or stain removing abilities in competing brands of detergent powder of claims of whiteness of tooth or ‘feeling of freshness’ in competing brands of toothpaste that it becomes confusing for the buyers to make a choice.
   But
   - Consumers are rational human beings and should be able to make a choice keeping factors like price, style, size etc also under consideration.
   - Buyers can clear their confusion by comparing and analyzing the information provided on the advertisements and other sources before taking a decision to purchase a product.

4. Encourages sale Of Inferior Products:
   - Advertisements do not distinguish between superior and inferior goods and persuades people to buy inferior products also.
   - Some advertisements are deceptive. They make false and exaggerated claims and innocent buyers are deceived
   But
   - Superiority and inferiority depends on the quality, which is a relative concept. The desired level of quality will depend on the economic status and preferences of the target customers.
   - Production of inferior goods is not necessarily a disservice, as a section of population cannot afford to buy the high quality expensive products and need a cheaper variety.
• However, some manufacturers produce duplicate or dubious products and make false claims in their ads. This should be avoided and marketers indulging in such practices should be prosecuted.

5. Some Advertisements Are In Bad Taste:
• Some advertisements are in a bad taste. That is, they do not show any care or concern or people’s taste and may not appeal to everyone.
• E.g Advertisements showing women dancing when not required or running after a man because he is wearing a particular perfume are certainly not good.
• Some advertisements distort the relationship between the employer and employees and as far possible, such advertising should be avoided.

But
• Tastes depend on personal opinion and what was unacceptable yesterday may not be and as far of ordinary today and vice versa.

Conclusion: After seeing the views of the opponents and proponents of advertising, it can be said that most of the criticism against advertising is not true. In fact in a changed economic environment of globalization, advertising is an important tool of marketing. It is not a social waste rather it adds value to the social cause by giving a boost to production and by generating employment

**Personal Selling**

o Features Of Personal Selling:
  1. Personal Form – direct face to face dialogue takes place → interactive relationship between seller and buyer.
  2. Development Of Relationship – with prospective customer that may lead to a sale.

o Merits:
  1. Flexibility – sales presentation can be adjusted to meet the specific needs of individual customer.
  2. Direct Feed Back – face-to-face communication → feedback from customer that can help salesman adapt the presentation.
  3. Minimum Wastage – company can decide the target market before making any contact with them.

o Role: Importance To-

  ▪ Businessmen:
    1. Effective Promotional Tool – influences prospects about merits of a product → ↑ sales.
    2. Flexible Tool – sales offer may be varied to adapt to varying purchase situations.
    3. Minimizes Wastage Of Effort – as compare to other promotion tools.
    4. Consumer Attention – opportunity to detect loss of consumer interest and attention that can be looked into leading to successful completion of sale.
    5. Lasting Relationship – between salesperson and customer leading to personal rapport.
    7. Role In Introduction Stage – helps persuade customers about the merits of the product.
    8. Link With Customers – sales persons play persuasive role, service role and informative role and so link the firm to its customers.
Customers
1. Help In Identifying Needs – helps customers recognize their needs and wants and know how they can be satisfied.
2. Latest Market Information – w.r.t price changes, product availability and shortages, product introduction etc that help them take purchase decision.
3. Expert Advice -
4. Induces Customers – to purchase products that satisfies their needs in a better way and thereby helps them improve their standards of living.

Society:
1. Converts Latent Demand – leading to more jobs, more incomes and more products and services => ECONOMIC GROWTH.
2. Employment Opportunities – greater income and employment to unemployed youth.
3. Career Opportunities - with greater opportunities for advancement and job satisfaction as well as security, respect, interest and independence to young men and women.
4. Mobility Of Sales People – which promotes travel and tourism.
5. Product Standardization - ↑ standardization and uniformity in consumption patterns in a diverse society.

**Qualities of a good salesman:**
1. Physical qualities: Tidy appearance, good posture, cheerful smile etc
2. Psychological qualities: good nature with Empathy and ego drive,
3. Technical quality: Full technical knowledge about the product,
4. Good communication skills - Polite, tactful, having good manners etc
5. Honesty,
6. Courtesy,
7. Persistent- must not give up as one additional argument can close a sale.
8. Capacity to inspire trust

Public Relations
- The concept of Public Relations involves a variety of programmes to promote and protect a company’s image or its products.
- It means to strengthen relations with various stake holders like customers, shareholders, employees, suppliers, investors etc. It is done through – news, speeches by corporate leaders, organizing events like sports events, concerts, seminars etc.
- Public Association Relations’ defined public relations as “The art and social science of analyzing trends, predicting their consequences, counseling organizational leaders and implementing planned programme of action which will serve both the organization and the public interest.”
- “The Chartered Institute of Public Relations” defines Public Relations as „a strategic management function that adds value to an organization by helping it to manage its reputation.
- Public relations covers a wide range of tactics, usually involve providing information to independent media sources in the hope of gaining favorable coverage. It also involves a mix of promoting specific products, services and events and promoting the overall brand of an organization, which is an ongoing tact.
- **Traditional Public Relation Tools** include Press release and Press Kits which are distributed to the media to generate interest from the Press. Other widely known Tools include Brochures, Newsletters and Annual Reports.

- **Role of Public Relations (NCERT)**

  The role of public relations can be discussed with respect to the functions which the department performs. Public relations itself is an important tool in the hands of the marketing department, which can be used to the advantage of the business. The public relations department performs five functions:

  1. **Press relations:**
     i. Information about the organisation needs to be presented in a positive manner in the press.
     ii. This requires skill in developing and researching a story and getting the media to accept press releases.
     iii. The public relations department is in contact with the media to present true facts and a correct picture about the company. Otherwise news can get distorted if taken from other sources.

  2. **Product publicity:**
     i. New products require special effort to publicise them.
     ii. The public relations department manages the sponsoring of events such as arranging sports and cultural events like news conferences, seminars and exhibitions.

  3. **Corporate Communication:**
     i. Communicating with the public and the employees within the organisation.
     ii. This is usually done with the help of newsletter, annual reports, brochures, articles and audio-visual materials.
     iii. Speeches by the company’s executives at a meeting of trade associations or trade fairs can really boost the company’s image. Even interviews with TV channels and responding to queries from the media go a long way in promoting public relations.

  4. **Lobbying:**
     i. The organisation has to deal with government officials and different ministers in charge of corporate affairs, industry, finance with respect to policies relating to business and the economy.
     ii. The government also seeks to maintain a healthy relationship with associations of commerce and industry and solicits the opinion of major stakeholders while formulating industrial, telecom, taxation policies, etc.
     iii. The public relations department then has to be really proactive in promoting or defeating regulations that affect them.

  5. **Counselling:**
     i. The public relations department advises the management on general issues which affect the public and the position the company would like to take on a particular issue.
     ii. The company can build goodwill by contributing money and time to certain causes like environment, wildlife, children’s rights, education, etc. Such cause-related activities help in promoting public relations and building goodwill.
Maintaining good public relations also helps in achieving the following marketing objectives

i. Building awareness: Public relations department → build marketplace excitement before the product reaches the market or media advertising takes place. This usually creates a favourable impression on the target customer.

ii. Building credibility: If news about a product comes in the media whether print or electronic it always lends credibility and people believe in the product since it is in the news.

iii. Stimulates sales force: It becomes easier for the sales force to deal with the retailers and convince dealers if they have already heard about the product in the news before it is launched. Retailers and dealers also feel it is easier to sell the product to the ultimate consumer.

iv. Lowers promotion costs: Maintaining good public relations costs much less than advertising and direct mail. However, it requires a lot of communication and interpersonal skills to convince the media to give space or time for the organisation and its product.

Sales Promotion

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

Induces customers to actually take the decision to buy. They aim to:

1. Increase sales volume by making customers buy more of a product than they would otherwise buy.
2. Induces trial with the use of free gifts or trial packs. These steps are targeted at customers who would not otherwise buy the product.
3. Enhance repeat purchase.
4. Gain shelf space
5. Block competition by directing customer attention to promotions.

Sales promotion may be directed at Customers, middlemen or the firm’s own sales force

Merits of Sales Promotion:

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

Limitations Of Sales Promotion – if used frequently:

a. Reflects Crisis: A firm that frequently relies on sales promotion activities may give the impression that it is unable to manage its sales and there are no takers for its products.

b. Spoils Product Image: Consumers may feel that the products are not of good quality or are not appropriately priced.
Commonly Used Activities:

1. **Rebate/ Price Offs**: Offering goods at a price lesser than the original price for a limited period of time to clear off excess stock. E.g a car manufacturer’s offer to sell a particular brand of car at a discount of Rs.10,000, for a limited period.

2. **Discount**: A certain percentage of the price is reduced as a discount from the list price. Mainly used by retailers for a limited period when the season is about to change. E.g. season’s sale at snowhite, reebok, lewis etc.

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

4. **Product Combinations/ Premium/Gifts**: Offering a related/bonus product free on purchase of a product. Induces customers to switch brand. Shaker free with coffee, toothbrush free with tooth paste.

5. **Quantity Gifts**: Offering extra quantity of a product. E.g buy three soaps and get one free, shaving cream’s offer of 49% extra.

6. **Instant Draws & Assigned Gifts**: Scratch a card and instantly win a refrigerator, car, T-shirt etc.

7. **Lucky Draw**: Opportunity to win gifts, expensive goods/holidays etc on lucky draw coupons. These draws are taken by names of customers who have bought the goods.

8. **Usable Benefits**: Discount voucher of related products or a free gift given with product, get a discount voucher for accessories on apparel purchase of Rs.1,000 and above.

9. **Full Finance At 0%**: Schemes of easy financing used for consumer durables e.g washing machines, T.V etc. But one has to be careful about ‘file charges’ recovered by firms.

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

11. **Contests**: Competitive events involving application of skills or luck. E.g solving a quiz, answering some questions.

   - **Free in Mail Premium**: Customers are required to correspond with marketers by sending proof of purchase (e.g. wrappers) to claim benefits/ gifts.

   - **Packaged Premium**: Marketers pack some gift inside some of the product packages and the possibility of getting gifts lure the customers to buy the products.

   - **Container Premium**: Special containers that can be reused by the customers are used to pack the products.

   - **Point Of Purchase**: Displays and product demonstration are set up at prominent places.

   - **Trade Shows**: Organized by manufacturers’ associations where members participate and display their goods in a stall.
Consumer Protection

- With growing competition, Marketers may attempt to engage in unscrupulous, exploitative and unfair trade practice.
- As a result of this, consumers may be exposed to risks due to unsafe products— that is, he may be cheated, may have to pay a higher price etc.
- Thus; there is a need to provide adequate protection to consumers against such practices.
- With growing competition, Marketers may attempt to engage in unscrupulous, exploitative and unfair trade practice. As a result of this, consumers may be exposed to risks due to unsafe products— that is, he may be cheated, may have to pay a higher price etc. Thus; there is a need to provide adequate protection to consumers against such practices.

Business practices that may lead to consumer exploitation include:
- Firms charging high prices for low quality products in order to earn high profits.
- Use of false weights and measures
- Spurious and adulterated products
- Rough behavior of salesman
- Unsatisfactory after sales services.

Aspects of consumer awareness:
- Physical protection of consumers;
- Protection of economic interest of consumers
- Protection of public interest

Consumer protection =
- Educating consumers about their rights and responsibilities and
- Getting their grievances redressed

Requirements for consumer protection =
- Judicial machinery for protecting consumer interests
- Formation of consumer associations voluntarily by consumers.

Importance of Consumer Protection

From The Consumers’ Point Of View:
1. Consumer Ignorance –
   - About their rights and reliefs available. So it becomes important to educate them about the same.
2. Unorganized Consumers –
   - Consumers are not organized in the form of consumer associations that take care of their interests, as a result, adequate protection has to be given to consumers till these organizations become powerful enough to protect and promote consumer interests.
3. Widespread Exploitation Of Consumers –
   - Consumers need protection from widespread unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black-marketing etc.
From Point Of View of Business:

1. **Long-term Interest of Business:**
   - It is in the long-term interest of business to satisfy their customers.
   - This leads to repeat sales and provides good feedback to prospective customers and thus, help in increasing the customer-base of business.
   - It leads to long-term profit maximization through customer satisfaction.

2. **Business uses Society’s Resources:**
   - Business organizations 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.

3. **Social Responsibility:**
   - A business has social responsibilities towards various interest groups.
   - Consumers form an important group among the many stakeholders of business and like other stakeholders; their interest has to be well taken care of.

4. **Moral Justification:**
   - It is the moral duty of any business to take care of consumer’s interest and avoid any form of their exploitation.
   - A business must avoid unscrupulous, exploitative and unfair trade practices like defective and unsafe products, adulteration, false and misleading advertising, hoarding, black marketing etc.

5. **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 the company.

---

**Role of NGOs:**

- There are about 500 consumer organisations working in India such as Consumer guidance society of India, Mumbai; Common Cause, New Delhi etc.

- They **perform several functions** such as:
  1. Educating the general public about consumer rights by organizing training programmes, seminars and workshops.
  2. Publishing periodicals and other publications to impart knowledge about consumer problems, legal reporting, reliefs available and other matters of interest.
  3. Carrying out comparative testing of consumer products in accredited laboratories to test relative qualities of competing brands and publishing the test results for the benefit of consumers.
  4. Encouraging consumers to strongly protest and take an action against unscrupulous, exploitative and unfair trade practices of sellers.
  5. Providing legal assistance to consumers by way of providing aid, legal advice etc. in seeking legal remedy.
  6. Filing complaints in appropriate consumer courts on behalf of the consumers.
  7. Public Interest Litigations(PILs) - Taking an initiative in filing cases in consumer courts in the interest of the general public, not for any individual.
The Consumer Protection Act, 1986

- **Set up to protect and promote consumer interests** thru a speedy and inexpensive redressal of grievances.
- Recognizes **consumer rights**

- **Redressal agencies**- set up a three-tier agency to address consumer grievances.
- **Scope of the act**:
  - It is applicable to all types of undertaking:
    - Large and small scale
    - Private, public and co-operative sector
    - Manufacturer or trader
    - Firms supplying goods as well as services
  - **Complaints can be filed and compensation claimed w.r.t.**:
    - Fraudulent practices by traders and manufacturers
    - Defective goods
    - Deficiency in services in connection with 9 services such as banking, transportation, insurance, supply of electricity and gas, house construction, medical service

- **A consumer is**
  - A person who **buys any goods for a consideration** or any user of such goods when such use is made with the approval of the buyer.
  - A person who **hires or avails of a service for a consideration** or any beneficiary of such services when such use is made with the approval of the buyer.
  - **Consideration here means that the goods or services are either fully paid, partly paid or under a scheme of deferred payment such as installment scheme.**
  - **This definition does not include people who avails services for some commercial purpose or obtain goods for resale or for some commercial purpose.**

- **Who can file a complaint**:
  - a) Any consumer
  - b) Any Registered Consumers Association
  - c) The Central Government or Any State Government
  - d) One or more consumers on behalf of numerous consumers having same interests
  - e) A legal heir or representative of a deceased consumer.

- **Time limit for disposal of cases**: As speedily as possible-
  - Within 3 months or
  - Within 5 months if complaint requires testing or analysis of goods.
Relief available to consumers:
- Remove defect in goods and deficiency in services.
- Replace defective goods with one with no defects.
- Refund price paid.
- Pay a reasonable amount of compensation for any loss or injury suffered.
- Pay punitive damages in appropriate circumstances.
- Discontinue unfair/restrictive trade practice.
- Not to offer hazardous goods and services for sale.
- Withdraw hazardous goods from sale.
- Cease manufacturing hazardous goods.
- Pay an amount to consumer welfare fund/person (not less than 5%) to be utilized in the prescribed manner.
- Issue corrective advertisement to neutralize the effect of misleading ads.
- Pay adequate costs to parties.

Consumer Rights:

1. **Right to safety:**
   - Protection against products, production processes and services that are hazardous to health and life.
   - Important for safe and secure living.
   - Consumers’ immediate safety requirements as well as their long term interests must be taken into account.
   - Example: for products like gas cylinders, pressure cookers,

2. **Right to seek redressal:**
   - Consumer who suffers a loss or injury due to unfair trade practice or restrictive trade practice or unscrupulous exploitation of consumers can complain to the necessary forum for redressal of his grievance. He can claim repair/replacement of defective goods, refund of money or compensation of loss or injury suffered.
   - The government has set up district, state and a national commission for redressal of consumer grievances.

3. **Right to be heard:**
   - Right to register his dissatisfaction/complaint/grievance at appropriate forum.
   - Many consumer organizations are also working in this direction.
   - This is a right as well as a responsibility to ensure that their interests prevail.

4. **Right to choose:**
   - Assurance, wherever possible, of availability of a variety of products at competitive prices.
   - The producer should not use aggressive selling techniques to sell these products.
5. **Right to consumer education:**
   - Right to acquire knowledge and skills required to be an informed consumer.
   - Consumers have a right to be educated about:
     - Their rights and remedies, responsibilities
     - Unfair and restrictive trade practices, relevant laws enacted to prevent UTPs and protect consumer interests.
   - However there is no clear cut policy about how consumers should be educated
   - If consumers are educated:
     1. They will be aware of their rights and remedies available and therefore will be able to protect themselves against frauds by businessmen.
     2. They will be able to influence factors affecting consumer decisions.

6. **Right to be informed:**
   - Right to be informed about the quality, quantity, potency, purity, standard and price of the goods and services that he intends to purchase.
   - This is important to ensure that the consumers are able to make a proper choice and decision and to protect them against unfair practices, deceptive advertising and misleading labels.
   - Also applicable to information related to public affairs which are dealt with by the government and its agencies

7. **Consumer Responsibilities:**
   1. Ask for a cash memo
      - On purchase of goods or services. This would serve as a proof of the purchase made.
   2. Be aware
      - About various goods and services available in the market so that an intelligent and wise choice can be made.
   3. Buy only standardized goods
      - As they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO mark on food products, Hallmark on jewelry etc.
   4. Follow manufacturer’s instructions
      - Learn about the risks associated with products and services, and use the products safely.
   5. Read labels carefully
      - So as to have information about prices, net weight, manufacturing and expiry dates, etc.
   6. Assert yourself
      - To ensure that you get a fair deal.
   7. Be honest in your dealings.
      - Choose only from legal goods and services and discourage unscrupulous practices like black-marketing, hoarding etc.
   8. File a complaint in an appropriate consumer forum
      - In case of a shortcoming in the quality of goods purchased or services availed. Do not fail to take an action even when the amount involved is small.
   9. Form consumer societies
      - Which would play an active part in educating consumers and safeguarding their interests.
   10. Respect the environment.
       - Avoid waste, littering and contributing to pollution.
- **Ways and means of Consumer Protection:**

1. **Self Regulation by Business:**
   - It is in the **long-term interest of businesses** to serve the customers well.
   - Socially responsible firms **follow ethical standards and practices** in dealing with their customers.
   - Many firms have **set up their customer service and grievance cells** to redress the problems and grievances of their consumers.

2. **Business Associations:**
   - Examples of associations of trade, commerce and business - Federation of Indian Chambers of Commerce of India (FICCI) and Confederation of Indian Industries (CII)
   - They have **laid down their code of conduct** which lay down for their members the guidelines in their dealings with the customers.

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

4. **Consumer Organizations:**
   - Educate consumers about their rights and providing protection to them.
   - Force business firms to avoid malpractices and exploitation of consumers.

5. **Government:**
   - Enacting various legislations. The legal framework in India encompasses various legislations which provide protection to consumers.
   - The most important of these regulations is the Consumer Protection Act, 1986. The Act provides for three-tier machinery at the district, state and national levels for redressal of consumer grievances.
### Three Tier Mechanism Set Up By the Consumer Protection Act, 1986

<table>
<thead>
<tr>
<th>Basis</th>
<th>District Forum</th>
<th>State Commission</th>
<th>National Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Jurisdiction</strong>&lt;br&gt;(That is entertains complaints against)</td>
<td>When value of goods and services and/or compensation claimed does not exceed 20 lakhs.</td>
<td>Appeals against any order of any district commission within the state.&lt;br&gt;When value of goods and services and/or compensation claimed is between 20 lakhs and one crore.</td>
<td>Appeals against any order of any State Commission.&lt;br&gt;When value of goods and services and/or compensation claimed is more than one crore.</td>
</tr>
<tr>
<td><strong>2. Appeal against order filed with</strong></td>
<td>State commission within 30 days of filing such order.</td>
<td>National commission within 30 days of filing such order</td>
<td>Supreme Court within 30 days of filing such order</td>
</tr>
<tr>
<td><strong>3. Fees</strong>&lt;br&gt;(Only prescribed fees are payable and no curt fees or legal charges are charged in such cases)</td>
<td>No prescribed fees</td>
<td>If an appeal against an order of the district forum is filed then the prescribed fees is:&lt;br&gt;- 50% of the amount payable as per such order OR&lt;br&gt;- Rs 25,000 - Whichever is lesser.&lt;br&gt;In all other cases, no prescribed fees for cases filed for the first time.</td>
<td>If an appeal against an order of the State Commission is filed then the prescribed fees is:&lt;br&gt;- 50% of the amount payable as per such order OR&lt;br&gt;- Rs 35,000 - Whichever is lesser.&lt;br&gt;In all other cases, no prescribed fees for cases filed for the first time.</td>
</tr>
<tr>
<td><strong>4. Composition</strong></td>
<td>A president who is/has been/ is qualified to be a district judge.&lt;br&gt;Not less than two other members, one of who has to be a woman.</td>
<td>A president who is/has been/ is qualified to be a state that is High Court judge.&lt;br&gt;Not less than two other members, one of who has to be a woman.</td>
<td>A president who is/has been/ is qualified to be a judge of the Supreme Court.&lt;br&gt;Not less than four other members, one of who has to be a woman.</td>
</tr>
</tbody>
</table>
5. Appointments

| All appointments are by the State Governments on the basis of recommendation of a selection committee. |
| All appointments are by the State Governments. |
| o Members - on the basis of recommendation of a selection committee. |
| o President - after consultation with the Chief Justice of the High Court |
| All appointments are by the Central Government. |
| o Members - on the basis of recommendation of a selection committee. |
| o President - after consultation with the Chief Justice of India. |

6) Action that can be taken

<p>| In all the cases, on receiving the complaint, |
| o The concerned forum shall refer the complaint to the party against which the complaint has been received. |
| o If required, the goods or samples thereof shall be sent for testing to a laboratory. |
| o The concerned commission then shall pass an order after considering the test report from the lab and after hearing the party against whom the complaint has been filed. |</p>
<table>
<thead>
<tr>
<th>Name of the Act</th>
<th>Objective/applicable to</th>
<th>Protects Consumers Against</th>
<th>Protection Mechanism</th>
</tr>
</thead>
</table>
| 1. Consumers Protection Act, 1986                  | Protect and promote interests of consumers                                            | ✓ Defective goods  
✓ Deficient practices  
✓ Other forms of consumer exploitation                                                   | Setting up a three-tier mechanism and provide for formation of consumer protection councils in every district and state and at the apex level. |
| 2. The Essential Commodities Act, 1955             | Controlling production, supply and distribution of essential commodities, checking inflationary trend in prices and ensuring equal distribution of essential commodities. | Anti-social activities of profiteers, hoarders and black marketeers.                        | Act provides for action against the above mentioned.                                                                                                     |
| 3. The Contracts Act, 1982                         | Lays down conditions by which the promises made by parties to a contract will be binding to each other. | Protection Mechanism:  
Specifies remedies available to parties in case of breach of Contract.                  |                                                                                                                                                       |
| 4. The Agricultural Produce (Grading And Marking) Act, 1937 | Prescribes grade standards for agricultural commodities and livestock products.      | Protection mechanism:  
✓ Stipulates conditions that govern use of standards  
✓ Lays down procedure for grading, marking and packing of agricultural products  
✓ Uses ‘AGMARK’ as a quality mark.                                                                |                                                                                                                                                       |
✓ Certification thro BIS certification                                                      | Protection Mechanism:  
Manufacturers allowed using the ISI mark only on ensuring that goods conform to prescribed standards.  
Set up a grievance cell where consumers can file a complaint about quality of goods carrying ISI mark. |                                                                                                                                                       |
| 6. The Standards Of Weight And Measurement Act, 1976 | Applicable for those goods that are sold or distributed by weight or measure or number. | Protects Consumers Against:  
Malpractices of under-weight and under-measure.                                                   |                                                                                                                                                       |
<table>
<thead>
<tr>
<th></th>
<th>The Trade Marks Act, 1999</th>
<th>Prevents use of fraudulent marks on products</th>
<th>Protects Consumers Against: Products using fraudulent marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.</td>
<td>The Competition Act, 2002</td>
<td>Replaced Monopolies and restrictive trade practices act, 1969</td>
<td>Protects Consumers Against: Malpractices adopted by businessmen which hamper competition in the market</td>
</tr>
<tr>
<td>9.</td>
<td>The Sale Of Goods Act, 1930</td>
<td>Provides safeguards and relief to buyers if goods purchased do not comply with expressed or implied conditions or warranties.</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>The Prevention Of Food Adulteration Act, 1954</td>
<td>Check adulteration of food articles to ensure purity so as to maintain public health.</td>
<td></td>
</tr>
</tbody>
</table>
GENERAL GUIDELINES:

- The student will be given 4 options and must choose any 2 and prepare 2 project files.
- The project is to be done on inter-leaf sheets.
- The total length of the project will be 25-30 pages.
- The project should be presented in a neat folder.
- Students have to preserve the initial drafts of the project as well as any research papers that they may have used.
- Students have to be prepared to give a 3 minute presentation of the project in the class. For this, a summary(one page) of the project has to be prepared covering:
  - The objective statement
  - Their observations and findings
  - Any other learning from this exercise such as skills of team work, problem solving, time management, information collection, processing, analyzing and synthesizing relevant information to derive meaningful conclusions;
- Please avoid using colored sheets except for the title pages.
- The projects must be neat and well presented and must be completely hand-written.
- No whiteners to be used or written matter to be crossed out. In case of any mistakes, redo the sheet.
- Do not number sheets or write dates unless so instructed by your teacher.
- Color graphs and pie charts (if it is relevant for any aspect of your project) to make them look attractive.
- Guidelines for assessment of Project

<table>
<thead>
<tr>
<th>ASSESSMENT : ALLOCATION OF MARKS (TEN) per project</th>
</tr>
</thead>
<tbody>
<tr>
<td>The marks will be allocated under the following heads:</td>
</tr>
<tr>
<td>1. Initiative, cooperativeness and participation</td>
</tr>
<tr>
<td>2. Creativity in presentation</td>
</tr>
<tr>
<td>3. Content, observation and research work</td>
</tr>
<tr>
<td>4. Analysis of situations</td>
</tr>
<tr>
<td>5. Viva</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
</tbody>
</table>

Class XII/ Business Studies: Summary and Questions/ 176
ORDER FOR FINAL PRESENTATION OF PROJECTS

1. **TITLE PAGE THAT SHOULD STATE:**
   - BUSINESS STUDIES PROJECT:(TITLE OF PROJECT)
   - NAME:
   - SCHOOL:
   - YEAR:
   - ROLL NO:

2. **CERTIFICATE OF AUTHENTICITY (TO BE PASTED)**

3. **INDEX**

4. **ACKNOWLEDGEMENTS** (Acknowledging the institution, the places visited and the persons who have helped).

5. **PREFACE:**
   - Name Of Project: Problem Statement / Objective Of Project:

6. **INTRODUCTION:**
   - Objective of doing the project.
   - Introduce the topic studied—giving some historical background if possible.

7. **PLANNING AND ACTIVITIES DONE DURING THE PROJECT**

8. **OBSERVATIONS AND FINDINGS**

9. **CONCLUSIONS** (summarized suggestions or findings, future scope of study).

10. **LEARNING FROM PROJECT**

11. **APPENDIX** (Persons/Firms Consulted, Books / Websites Referred to)

12. **TEACHER’S OBSERVATION.**
Certificate of Authenticity

This is to certify that ____________________________________________________________________________
bearing Roll Number ___________________________________________________________________________ is a student of Class XII of Sanskriti School.

She/he has successfully completed her/his project under my guidance and supervision towards the fulfillment of the practical examination in Business Studies conducted by the Central Board of Secondary Education for the academic year 2016-17.

Date of Submission: ________________________________

Name of Subject Teacher: ________________________________

Teacher’s Signature: ________________________________

School Stamp
OPTION 1: ELEMENTS OF MARKETING MANAGEMENT-

The Student is required to develop a market offering:

The students are required to do a simple market research with the objective of finding out a product/service whose marketing may be profitable. They can choose one from this list or any other.

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Toothpaste</td>
<td>2.</td>
<td>Noodles</td>
</tr>
<tr>
<td>3.</td>
<td>Shampoo</td>
<td>4.</td>
<td>Bathing soap</td>
</tr>
<tr>
<td>5.</td>
<td>Washing detergent</td>
<td>6.</td>
<td>Washing powder</td>
</tr>
<tr>
<td>7.</td>
<td>Lipstick</td>
<td>8.</td>
<td>Moisturizer</td>
</tr>
<tr>
<td>11.</td>
<td>Shoes</td>
<td>12.</td>
<td>Hair dye</td>
</tr>
<tr>
<td>15.</td>
<td>Sauces/ketchup</td>
<td>16.</td>
<td>Ready soups</td>
</tr>
<tr>
<td>17.</td>
<td>Body spray</td>
<td>18.</td>
<td>Fairness cream</td>
</tr>
<tr>
<td>19.</td>
<td>Hair oil</td>
<td>20.</td>
<td>Roasted Snacks</td>
</tr>
<tr>
<td>27.</td>
<td>Butter</td>
<td>28.</td>
<td>Shaving cream</td>
</tr>
<tr>
<td>29.</td>
<td>Razor</td>
<td>30.</td>
<td>Cheese spreads</td>
</tr>
<tr>
<td>31.</td>
<td>e-Wash</td>
<td>32.</td>
<td>Tiffin wallah</td>
</tr>
<tr>
<td>33.</td>
<td>Air Conditioners</td>
<td>34.</td>
<td>Infant dress</td>
</tr>
<tr>
<td>35.</td>
<td>Sunglasses</td>
<td>36.</td>
<td>Fans</td>
</tr>
<tr>
<td>37.</td>
<td>Fruit candy</td>
<td>38.</td>
<td>Washing powder</td>
</tr>
<tr>
<td>39.</td>
<td>Bathroom cleaner</td>
<td>40.</td>
<td>Wipes</td>
</tr>
<tr>
<td>41.</td>
<td>Shoe polish</td>
<td>42.</td>
<td>Blanket</td>
</tr>
<tr>
<td>43.</td>
<td>Baby Diapers</td>
<td>44.</td>
<td>Hair dye</td>
</tr>
<tr>
<td>45.</td>
<td>Adhesives</td>
<td>46.</td>
<td>Refrigerator</td>
</tr>
<tr>
<td>47.</td>
<td>Ladies footwear</td>
<td>48.</td>
<td>Ready soups</td>
</tr>
<tr>
<td>49.</td>
<td>RO system</td>
<td>50.</td>
<td>Fairness cream</td>
</tr>
<tr>
<td>51.</td>
<td>Mixers</td>
<td>52.</td>
<td>Roasted Snacks</td>
</tr>
<tr>
<td>53.</td>
<td>Learning Toys</td>
<td>54.</td>
<td>Pickles</td>
</tr>
<tr>
<td>55.</td>
<td>Microwave oven</td>
<td>56.</td>
<td>Music player</td>
</tr>
<tr>
<td>57.</td>
<td>Pencil</td>
<td>58.</td>
<td>Eraser</td>
</tr>
<tr>
<td>59.</td>
<td>Water bottle</td>
<td>60.</td>
<td>Furniture</td>
</tr>
<tr>
<td>61.</td>
<td>Newspaper</td>
<td>62.</td>
<td>Nail polish</td>
</tr>
<tr>
<td>63.</td>
<td>Pen drive</td>
<td>64.</td>
<td>DTH</td>
</tr>
<tr>
<td>65.</td>
<td>Car</td>
<td>66.</td>
<td>Kurti</td>
</tr>
<tr>
<td>67.</td>
<td>Cosmetology product</td>
<td>68.</td>
<td>Cutlery</td>
</tr>
<tr>
<td>69.</td>
<td>Breakfast cereal</td>
<td>70.</td>
<td>Suitcase/airbag</td>
</tr>
<tr>
<td>71.</td>
<td>Coffee</td>
<td>72.</td>
<td>Wallet</td>
</tr>
<tr>
<td>73.</td>
<td>Crayons</td>
<td>74.</td>
<td>Jewellery</td>
</tr>
<tr>
<td>75.</td>
<td>Water storage tank</td>
<td>76.</td>
<td>Ladies bag</td>
</tr>
<tr>
<td>77.</td>
<td>Saris</td>
<td>78.</td>
<td>Cycle</td>
</tr>
<tr>
<td>79.</td>
<td>Bike</td>
<td>80.</td>
<td>Crockery</td>
</tr>
<tr>
<td>81.</td>
<td>Camera</td>
<td>82.</td>
<td>Invertors</td>
</tr>
<tr>
<td>83.</td>
<td>Washing machine</td>
<td>84.</td>
<td>Tea</td>
</tr>
</tbody>
</table>
• The identified product should not be items whose consumption/use is discouraged by the society and government like alcohol products/pan masala and tobacco products, etc.

• Identify one product/service from the above which the students may like to manufacture/provide [pre assumption].

• The students are not to prepare their project on any existing brand. They need to create their own brand name etc.

• The questions that they need to research on are as follows:

**PRODUCT**

1. Why have they selected this product/service?
2. Find out ‘5’ competitive brands that exist in the market.
3. What permission and licenses’ would be required to make the product?
4. What are your competitors Unique Selling Proposition,[U.S.P.]?
5. Does your product have any range give details?
6. What is the name of your product?
7. Enlist its features.
8. Draw the ‘Label’ of your product.
9. Draw a logo for your product.
10. Draft a tag line.
11. How will your product be packed?

**PLACE**

12. Which channel of distribution are you going to use? Give reasons for selection?
14. What means of transport you will use and why?

**PRICE**

15. What is the selling price of your competitor’s product?
   (i) Selling price to consumer
   (ii) Selling price to retailer
   (iii) Selling price to wholesaler
16. What is the profit margin in percentage to the
   - Manufacturer.
   - Wholesaler.
   - Retailer.

17. What is going to be your selling price?
   (i) To consumer
   (ii) To retailer
   (iii) To wholesaler

18. What cost effective techniques will you follow for your product. What cost
effective techniques will you follow for your promotion plan.

19. List 5 ways of promoting your product.

20. Any schemes for
   (i) The wholesaler
   (ii) The retailer
   (iii) The consumer

21. What is going to be your ‘U.S.P’?

22. Draft a social message for your label.

**OPTION 2: ELEMENTS OF BUSINESS PRINCIPLES**

_The Student Can Select Any One Element Of The Following:_

1. They are required to observe the application of the 14 general Principles of
   management advocated by Fayol.

   - These are Division of work, Unity of command, Unity of direction, Scalar
     chain, Espirit de corpse, Fair remuneration to all, Order, Equity, Discipline,
     Subordination of individual interest to general interest, Initiative,
     Centralization and decentralization, Stability of tenure.
2. They may enquire into the application of scientific management techniques by F.W. Taylor in the unit visited.

- These include Functional foremanship, Standardisation and simplification of work, Method study, Motion Study, Time Study, Fatigue Study and Differential piece rate plan.

**HOW TO GO ABOUT THE PROJECT:**

1. The students are required to visit **any one** of the following:
   
   a. A departmental store.
   
   b. An Industrial unit.
   
   c. A fast food outlet.
   
   d. Any other organisation approved by the teacher.

2. **The observations could be on the basis of**

   - The different stages of division of work resulting to specialisation.
   
   - Following instructions and accountability of subordinates to higher authorities.
   
   - Visibility of order and equity in the unit.
   
   - Balance of authority and responsibility.
   
   - Communication levels and pattern in the organisation.
   
   - Methods and techniques followed by the organisation for unity of direction and coordination amongst all.
   
   - Methods of wage payments followed.
   
   - The arrangements of fatigue study.
   
   - Derivation of time study.
   
   - Derivation and advantages of method study.
   
   - Organisational chart of functional foremanship.
   
   - Any other identified in the organisation
3. It is advised that students should be motivated to pick up different areas of visit. As presentations of different areas in the class would help in better understanding to the other students.

4. The students may be encouraged to develop worksheets and other observation tools to be used for undertaking the project. Examples; worksheets, questionnaire, interviews and organizational chart etc.

OPTION 3: ELEMENTS OF BUSINESS ENVIRONMENT

The Student Can Select Any One Element Of The Following:

1. Changes witnessed over the last few years on mode of packaging and its economic impact.
   a. The changes in transportation of fruits and vegetables such as cardboard crates being used in place of wooden crates, etc. Reasons for above changes.
   b. Milk being supplied in glass bottles, later in plastic bags and now in tetra pack and through vending machines.
   d. The origin of cardboard and the various stages of changes and growth.
   e. Brown paper bags packing to recycled paper bags to plastic bags and cloth bags.
   f. Re use of packaging [bottles, jars and tins] to attract customers for their products.
   g. The concept of pyramid packaging for milk. Cost being borne by the consumer/manufacturer. Packaging used as means of advertisements.

2. The reasons behind changes in the following:
   Coca – Cola and Fanta in the seventies to Thums up and Campa Cola in the eighties to Pepsi and Coke in nineties starting from the times when India sold Coca Cola and Fanta were being manufactured in India by the foreign companies.
   - The students may be asked to enquire about Reasons of stopping the manufacturing of the above mentioned drinks in India THEN.
   - The introduction of Thums up and Campa cola range.
   - Re entry of Coke and introduction of Pepsi in the Indian market.
- Factors responsible for the change.
- Other linkages with the above.
- Leading brands and the company having the highest market share.
- Different local brands venturing in the Indian market.
- The rating of the above brands in the market.
- The survival and reasons of failure in competition with the international brands. Other observations made by the students

3. **Changing role of the women in the past 25 years relating to**
   
a. Joint families, nuclear families,
   
b. Women as a bread earner of the family,
   
c. Changes in the requirement trend of mixers, washing machines, microwave and standard of living.

4. **The changes in the pattern of import and export of different Products.**

5. **The trend in the changing interest rates and their effect on savings.**

6. **A study on child labor laws, its implementation and consequences.**

7. **The state of ‘anti plastic campaign,’ the law, its effects and implementation.**

8. **The laws of mining /setting up of industries, rules and regulations, licenses required for running that business.**

9. **Social factors affecting acceptance and rejection of an identified product.** (Dish washer, Atta maker, etc)

10. **What has the effect been on the types of goods and services? The students can take examples like:**
    
a. Washing machines, micro waves, mixers and grinder.
    
b. Need for crèche, day care centre for young and old.
    
c. Ready to eat food, eating food outside, and Tiffin centres.

11. **Change in the man-machine ratio with technological advances resulting in change of cost structure.**

12. **Effect of changes in technological environment on the behavior of employee.**
OPTION 4: STOCK MARKET

The purpose of this project is to teach school students the values to investing and use the stock market. This project also teaches important lessons about the economy, mathematics and financial responsibility. The basis of this project is to learn about the stock market while investing a specified amount of fake money in certain stocks. Students then study the results and buy and sell as they see fit. This project will also guide the students and provide them with the supplies necessary to successfully monitor stock market trends and will teach students how to calculate profit and loss on stock.

The students will have to study the prices of companies in a particular Stock Exchange. They will also be required to identify and study the price movements of firms in that Stock Exchange for a period of 6 months.

The students are already exposed to the Stock Exchange under Globalization in the Economics Unit of Social Science Syllabus of class X. The Project Work will enable them to understand the topics ‘Sources of Business Finance,’ Unit 7 of Class XI and ‘Capital Market,’ Unit 10 of Class XII.

The project work will enable the students to:

- Understand the topics like sources of business finance and capital market
- Understand the concepts used in stock exchange
- Inculcate the habit of watching business channels, reading business journals/newspapers and seeking information from their elders.

The students are expected to:

a. Develop a brief report on History of Stock Exchanges in India. (your country)

b. Prepare a list of at least 25 companies listed on a Stock Exchange.

c. To make an imaginary portfolio totaling a sum of Rs. 15,000,000 equally in any of the 5 companies of their choice listed above.

d. The students may be required to report the prices of the stocks on daily basis and present it diagrammatically on the graph paper.

e. They will understand the weekly holidays and the holidays under the Negotiable Instruments Act. They will also come across with terms like closing prices, opening prices, etc.
f. During this period of recording students are supposed to distinctively record the daily and starting and closing proves of the week other days under the negotiable instrument act so that they acquire knowledge about closing and opening prices.

g. The students may conclude by identifying the causes in the fluctuations of prices. Normally it would be related to the front page news of the a business journal, for example,
   a. Change of seasons.
   b. Festivals.
   c. Spread of epidemic.
   d. Strikes and accidents.
   e. Natural and human disasters.
   f. Political environment.
   g. Lack in faith in the government policies.
   h. Impact of changes in government policies for specific industry.
   i. International events.
   j. Contract and treaties at the international scene.
   k. Relations with the neighboring countries.
   l. Crisis in developed countries, etc.

h. The students are expected to find the value of their investments and accordingly rearrange their portfolio.

i. The project work should cover the following aspects:
   - **Graphical presentation** of the share prices of different companies on different dates.
   - **News paper clippings** to reflect the changes of share prices must be attached to the project.
   - **Change in market value of shares** due to
     - Change of seasons, festivals, natural and human disasters.
     - Change in political environment / policies of various countries / crisis in developed countries or any other reasons
   - **Identify the top ten companies out of the 25 selected** on the basis of their market value of shares.

j. It does not matter if they have made profits or losses.
GUIDELINES FOR BUSINESS STUDIES: CLASS XII

THEORY EXAMINATION: 3 HOUR PAPER CARRYING 80 MARKS;
PRACTICAL: 10 MARKS

THEORY:

- Management:
  - Introduction to and Principles Of Management
  - Business Environment
  - Steps in the Process of Management: Planning, Organizing, Staffing, Directing and Controlling
- Financial Management
- Study Of Financial Markets
- Marketing Management
- Consumer Protection

PRACTICAL

- Study Of Marketing Strategy Of An Existing/Proposed Brand OR
- Understanding The Impact Of A Specific Component Of Business Environment OR
- Studying The Theory Proposed by Management Thinkers

DESIGN OF 80 MARK QUESTION PAPER

<table>
<thead>
<tr>
<th>Marks per Question</th>
<th>1</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Total Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number Of Questions</td>
<td>8</td>
<td>5</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Total Marks</td>
<td>08</td>
<td>15</td>
<td>24</td>
<td>15</td>
<td>18</td>
<td>80 marks</td>
</tr>
</tbody>
</table>

ASSESSMENT: ALLOCATION OF MARKS FOR PROJECT WORK

The marks will be allocated under the following heads:

<table>
<thead>
<tr>
<th>Marks for each project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiative, cooperativeness and participation</td>
</tr>
<tr>
<td>Creativity in presentation</td>
</tr>
<tr>
<td>Content, observation and research work</td>
</tr>
<tr>
<td>Analysis of situations</td>
</tr>
<tr>
<td>Viva</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
</tbody>
</table>
GUIDELINES FOR THE 90 MARK THEORY PAPER

- In the reading time allotted don’t try to read or solve all the questions. Read the question paper carefully and check out the marks assigned to each question. Plan and organize your answers in your mind. Utilize this time to choose the 6 mark questions that you would like to attempt very carefully since internal choice is only provided in all 6 marks questions and not in 1, 3, 4 and 5 markers.

  - **Do not change the order of questions.** Either start answering from question 1 and go to question 30 or start from question 30 and move to question 1. Take practice papers to find out what works for you.

  - In case you are not sure about any answer, leave adequate space for it and attempt it later.

  - **Finish questions worth 30 marks in every hour.** For example, in case you start from the last question, ensure that you finish all 6 markers and one 5 marker question in the first hour.

  - Leave one line after every point in answer and at least 3 lines between answers for questions carrying 1 or 3 marks. Question carrying 4, 5 or 6 marks. always write a new answer from a new page.

  - Always write your answers in points.
    - Best way to highlight is to leave a line after the heading or write the heading in caps.
    - Usually all answers are to be written according to the marks For example, for 3 marks write 3 points with explanation. But wherever there isn’t any explanation asked or is not given in the book write double the number of points to be on the safer side.
    - In every point ideally the heading should be given and explained and its relation with the question asked should be written. For eg: importance of business environment:
      - First mover advantage: explain the meaning of the term
      - How is it an advantage, explain that
      - Example if possible.
    - Though word limit is not to be adhered very strictly yet writing unnecessarily long answers because you know it well, will only waste your time and not give any extra marks.

Class XII/ Business Studies: Summary and Questions/ 188
• Explanation of each point should not be more than 3 sentences (Where the number of points to be given are specifically mentioned in the question, give only that many)

• Try to write headings given in N.C.E.R.T or as given by teacher.

• Attempt all questions. (Write and explain whatever you know rather than leaving question completely)

• Leave time for revision.

• Give examples whenever possible. (Especially in questions of Differential Piece wage system, Trading on Equity etc.)

• Read the questions thoroughly before answering. Leave the questions you are unsure about for the end.

• Business studies is a scoring subject, but you have to **stress on presentation**;

• Try to write answers in points rather than writing long paragraphs

• Underline important parts and headings of answers or use highlighter or black pen (do it simultaneously while writing answers)-Do not leave this for end

• Do write question number clearly and strictly tallying with the question paper.

• Follow a serial order. You may also follow the reverse order i.e. attempt 6 marks questions first, then 5, 4, 3 and 1 markers.

➢ For questions carrying 1 mark:
  
  o Only read the 1 markers if you are sure of attempting the paper from 1 to 30. Some of them may be very tricky, demoralizing you.
  
  o 1 mark questions should not be answered in more than 2 sentences. Also not more than a minute should be given to each.
  
  o There have been instances where for 1 mark the question was what ‘Work Study’ is. You will have to give all 4 components for getting the mark.

➢ For questions carrying 4-6 marks:
  
  o 4 and 5 markers are usually tricky so think carefully and frame what you are going to write carefully.
  
  o Examples are almost necessary in 4, 5 and 6 markers wherever possible.
  
  o 5-6 markers need an introduction sentence. This introduction can be taken from the question only.
  
  o If the question carries a statement or a case study, such statement or case study HAS to be quoted in your answer.
In your explanations, give one sub point for each ½ mark. If 4 points have been asked for 6 marks it means each point is worth 1 ½ marks. If the point headings are given, you may again be unsure about the length of your explanations. Follow the same rule, what is the meaning of the term, and what is its relation with the question.

Terms or words in questions and how to answer them:

- If the question has a statement or an extract, or a particular situation is given, start the answer from the extract given in the question for clarity.
  - Eg: question: ―Internal sources of recruitment are better than external sources‖ Explain any five reason in support of this statement.(5 Marks)
  - Ans: Internal sources of recruitment are better than external sources in following respects:
    - (Write 5 points with explanation)
- In question where process or steps are asked, write all points whether it is for 3, 4, 5 or 6 marks (explanation varies according to marks). If the question asks for steps in a process, you lose marks if you do not write the steps in an order.
- For questions that ask ‘Do you agree or disagree’
  - E.g. “Directing is the heart of management process” Do you agree? Give four reasons in support of your answer.(5 Marks)
  - Start answer with your view Ans: Yes, I agree that Directing is the heart of management process. The reasons are : (Write 5 points with explanation)
  - If possible give the diagrammatic representation of answer. Example: Scalar Chain, Communication Networks, Controlling process, Functional structure, Divisional structure etc.
  - In a question with words like 'Enumerate', 'Outline', ‘State’ or 'List', write explanatory points (complete sentence should be given regarding points)
  - Elaborate/explain/describe mean the same thing
  - Justify/ comment/give your opinion is the same. Here, you have to give two points of view with a conclusion. If conclusion is not given, your answer will be said to be incomplete.
  - List/enumerate are same. State means one line to explain
‘Distinguish between’ should always be tabulated. Basis of difference should also be given. If for one basis, one part in correct while the other is incorrect or not related to the other side or is not done, then no marks for the correct part will be awarded.

**GUIDELINES FOR PRACTICALS**

- Project draft has to be preserved and produced with your final file on the date of your viva.
- Project file must be reviewed by your teacher before final submission on the 10th of December.
- File must be prepared on the basis of the guidelines given.
- Your teacher has to write her comments and stamp your project. So timely submission will ensure that your project will be corrected thoroughly and you will get adequate time to correct mistakes, if any.
- CBSE holds its practical exams between the 1st and the 15th of February.
- On the date of the practical examination,
  - You are required to come to school in your correct school uniform and present yourself, for a Viva that will be conducted by an external examiner.
  - You will also be required to produce your practical file for correction where it will now be evaluated by the external examiner.
- You can be asked any question about:
  - The topic you have selected,
  - The chapter concerned from your text (i.e. Marketing Management or Business Environment or Principles of Management depending on the project you have selected)
  - The firm you have studied
  - Any question or specific principle that you have covered as a part of your project
  - Your findings and Learnings from the project.
HOW TO STUDY BUSINESS STUDIES

➢ Firstly, understand the topics and then start learning the points. Try explaining the points to yourself or someone else to see if you have understood it correctly.

➢ Once a topic is understood, then learn the points. Prepare your own point notes or you can use the one given in your smart skills.

➢ Once you have learnt a chapter, revise the point headings every week by reading it aloud to yourself.

➢ Once the second term is over, practice papers will be available in school. Please attempt at least 5 practice papers and get them corrected before your examinations.

➢ Learning happens when the mind is completely fresh and alert. So chose a time of the day when your mind is fresh.

➢ Some students find it easy to learn theory while taking a break from numerical subjects like Mathematics and Accountancy.

➢ If something is distracting you frequently, it is better to acknowledge the disturbance and think about the particular issue before you again start concentrating.

➢ You have to discipline your mind, and it does not happen in a day or two. It requires persistent effort and practice.

➢ Do the course consistently rather than finishing it and leaving it

➢ A thorough base makes it easier to assimilate information. Jumping immediately to processes and applications just because they carry more marks may not be fruitful if you are confused about basic concepts.

➢ Marking scheme of CBSE requires brief and to the point answer, therefore you should avoid writing long answers, you don't get more marks by writing longer answers, but you waste your time.

➢ **Remember** that success has to be backed by hard work and perseverance. You may forget, but every time you read and answer again, it only gets reinforced in your mind and things begin to fall in place on their own when you enter the examination hall. Also Business Studies is a subject where sometimes simple common sense can make up for a temporary memory lapse. So trust your ability to think sensibly and do not lose heart.

Exam is a life Skill, Learn it and enjoy it.

ALL THE BEST
Chapter 1: Introduction to Management

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

1. Match the following:

| a. Management is goal oriented | i. A petrol pump needs to be managed, so does a school, an army and a house. |
| b. Management is all pervasive | ii. The effect of management is noticeable when the targets are met and employees are happy. |
| c. Management is multi-dimensional | iii. Management unites the effort of different individuals to achieve the common goals. |
| d. Management is continuous | iv. An organization interacts constantly with its external environment to update itself. |
| e. Management is a group activity | v. Management is a complex activity having many dimensions. |
| f. Management is a dynamic activity | vi. Management is a process consisting of a series of steps, simultaneously performed all the time. |
| g. Management is intangible | vii. Management should provide opportunities to the diverse members to grow and develop. |

2. Identify the category of objectives of management: (mention the sub-category also)

a) All the employees who complete 10 years of service with our organization will receive a special bonus.

b) We need to earn Rs. 20,000 net profit every week to cover our costs.

c) A sale of Rs. 27,500 is must to cover the production cost at least.

d) A play way school will be set up by the company for its employees’ children within the office premises.

e) We will introduce one variant of the fruit juices processed by us every six months for the next 4 years.
3. **Which aspect of importance of management is highlighted in the following statements?**
   a. Every manager has to reduce administrative cost and increase productivity.
   b. Management has to work for the greater good of the people.
   c. The task of a manager is to give a common direction to the individual effort in achieving the overall goals of the organization.
   d. Through motivation and leadership, managers need to develop team spirit and cooperation among the group members.
   e. Management helps people to adapt to changes of the external environment.

4. **Write any 2 characteristics of management as an art.**
   a. .................................................................
   b. .................................................................

5. **Write any 2 characteristics of management as a science.**
   a. .................................................................
   b. .................................................................

6. **Which of the following characteristic of profession match with characteristics of management?**
   a. Entry restricted through an exam or completion of a course.
   b. Compulsory membership of an association of professionals.
   c. Code of conduct
   d. Remuneration as fees
   e. Restriction on transfer of interest
   f. Limited capital investment to start
   g. Moderate risk

7. **Explain why ‘Coordination’ is specially needed in a large organization because of:**
   - Growth in size
   - Functional differentiation
NCERT CASE PROBLEMS:

1. Company X is facing a lot of problems these days. It manufactures white goods like washing machines, microwave ovens, refrigerators and air conditioners. The company’s margins are under pressure and the profits and market share are declining. The production department blames marketing for not meeting sales targets and marketing blames production department for producing goods, which are not of good quality meeting customers’ expectations. The finance department blames both production and marketing for declining return on investment and bad marketing.

2. What quality of management do you think the company is lacking? Explain briefly. What steps should the company management take to bring the company back on track?

3. A company wants to modify its existing product in the market due to decreasing sales. You can imagine any product about which you are familiar. What decisions/steps should each level of management take to give effect to this decision?

4. A firm plans in advance and has a sound organisation structure with efficient supervisory staff and control system. On several occasion it finds that plans are not being adhered to. It leads to confusion and duplication of work. Advise remedy.

Questions for Revision

1. Define Management.
2. What are the objectives of management? Explain with examples.
3. Explain the importance of Management.
4. Explain Management as
   - Science,
   - Art and
   - Profession.
5. What do you mean by Levels of management?
6. State 4 functions (each) of the 3 levels of management.
7. Explain the Management functions - planning, organizing, staffing, directing and controlling.
8. Define Coordination
9. What are the features of coordination?
10. Explain the importance of coordination.
11. Why is coordination considered to be the essence of management?

Management - Concept, Objectives and Importance

Q1 ‘In order to be successful, an organization must change its goals according to the needs of the environment.’ Which characteristic of management is highlighted in this statement?
Q2 Define management.

Q3 To meet the objectives of management, Angora Ltd. Offers employment to physically challenged persons. Identify the objective that it is trying to achieve.

Q4 What do you mean by the terms ‘effectiveness’ and ‘efficiency’ in context with management? Illustrate through examples.

Q5 “Success of an organization largely depends upon its management.” Explain any five reasons to justify the above statement.

Nature of Management, As A Science, As An Art, And As A Profession

Q1 “Management is regarded as fully developed profession.” Do you agree? Give reasons.

Q2 “Management is regarded as an art by some and as a science by others. The truth seems to be somewhere in between.” In the light of this statement, explain the true nature of management.

Levels of Management - Top, Middle, Supervisory

Q1 Raman is working as Plant Superintendent in Tifco Ltd. Name the managerial level at which he is working.

Q2 What is meant by levels of management?

Q3 What is the primary function of:
   a. Top level management
   b. Middle level management.
   c. Lower level management

Management Functions

Q1 What is PODSCORB?

Q2 In which function do the managers at the top level spend more time than managers at the lower level?

Q3 Explain in brief ‘Directing’ as a function of management.

Q4 ‘To manage is to forecast and plan, to organize, to command, to co-ordinate and to control’. Discuss.

Co-ordination- Nature and Importance

Q1 What is the purpose of co-ordination?

Q2 Why is coordination required at all levels of management?

Q3 Explain the nature of Coordination.

Q4 Explain how co-ordination is implicit and inherent in all functions of management.
Chapter 2: Principles of Management

1. Identify the principle and state one adverse effect of not following it:
   a. “The overall compensation of employees should be fair to both the employees and the organization”.

   b. As an application of this principle, companies create separate departments for finance, marketing and production.

   c. “A manager should have the right to punish a subordinate for willfully not obeying a legitimate order but only after sufficient opportunity has been given to the person to present his case.”

   d. “Dual subordination should be avoided.”

   e. It requires obedience to organizational rules and employment agreement which are necessary for the working of the organization.

   f. Lazy personnel should be dealt with sternly to send the message that everyone is equal in the eyes of the management.

   g. The result of application of this principle is that an employee in a formal organization is answerable to only one superior.

   h. A company manufacturing cars and motorcycles has two separate departments for each of them, each division having a separate in charge, plans and resources.
i. “Organizations should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates.”

j. “People and materials must be in suitable places at appropriate time for maximum efficiency.”

k. “Specialization is the most efficient way to use human effort.”

l. “An organization should build safeguards against the abuse of managerial power.”

m. This principle emphasizes kindliness and justice in the behavior of managers towards workers.

n. Employees should be selected and appointed after due and rigorous procedure. But once selected they should be kept at their post for a minimum fixed tenure.

o. As an application of this principle, employees were refused any incentives, over and above the salary as it was found that this would have reduced the return of shareholders and the firm is already facing difficulty in paying interest to creditors.

p. As an application of this principle, employees’ suggestion system has been created.
q. Teamwork should be promoted to prevent the need to use penalties.

r. There needs to be a balance between subordinates’ involvement with managers’ retention of final authority.

Basic Questions for Practice

1. What are Principles of Management?
2. Explain the features of management principles.
3. What is the significance of management principles’?
4. Explain each of Fayol’s principles of management. Also, for each principle, give 2 benefits of following the principles and 2 impacts of no following the principles.
5. Explain the principles of Taylor’s Scientific Management.
6. Explain the techniques of Taylor’s Scientific Management.

NCERT Case Problems

Problem 1: ‘F’ limited was engaged in the business of food processing and selling its products under a popular brand. Lately the business was expanding due to good quality and reasonable prices. Also with more people working the market for processed food was increasing. New players were also coming to cash in on the new trend. In order to keep its market share in the short run the company directed its existing workforce to work overtime. But this resulted in many problems. Due to increased pressure of work the efficiency of the workers declined. Sometimes the subordinates had to work for more than one superior resulting in declining efficiency. The divisions that were previously working on one product were also made to work on two or more products. This resulted in a lot of overlapping and wastage. The workers were becoming undisciplined. The spirit of teamwork, which had characterised the company, previously was beginning to wane. Workers were feeling cheated and initiative was declining. The quality of the products was beginning to decline and market share was on the verge of decrease. Actually the company had implemented changes without creating the required infrastructure.

Questions

1. Identify the Principles of Management (out of 14 given by Henry Fayol) that were being violated by the company.
2. Explain these principles in brief.
3. What steps should the company management take in relation to the above principles to restore the company to its past glory?
Problem 2 (Related to case problem –1) The management of company ‘F’ Limited now realized its folly. In order to rectify the situation it appointed management consultant ‘M’ consultants to recommend a restructure plan to bring the company back on the rails. ‘M’ consultants undertook a study of the production process at the plant of the company ‘F’ limited and recommended the following changes —

1. The company should introduce scientific management with regard to production.
2. Production Planning including routing, scheduling, dispatching and feedback should be implemented.
3. In order to separate planning from operational management ‘Functional foremanship’ should be introduced.
4. ‘Work study’ should be undertaken to optimise the use of resources.
5. ‘Standardisation’ of all activities should be implemented to increase efficiency and accountability.
6. To motivate the workers ‘Differential Piece Rate System’ should be implemented.

The above changes should be introduced apart from the steps recommended in case problem-1 (as an answer to question no 3 of that case problem).

It was expected that the changes will bring about a radical transformation in the working of the company and it will regain its pristine glory.

Questions

1. Do you think that introduction of scientific management as recommended by M consultants will result in intended outcome?
2. What precautions should the company undertake to implement the changes?

Give your answer with regard to each technique separately as enunciated in points 1 through 6 in the case problem.

Principles of Management - Meaning, Nature and Significance

Q1 ‘The principles of management are different from those used in pure science.’ Write any one difference

Q2 Why is it said that management principles are universal.

Q3 Explain the meaning of management principles and state how they are derived.

Q4 Explain any three points that highlight the nature of management principles.

Q5 Explain by giving any five reasons, why a proper understanding of management principles is necessary

Fayol’s Principles of Management

Q1 The subordinates in a company receive orders regarding their work from different operative heads for the same task. Which principle of management is overlooked and why?

Q2 It has been observed that the ‘prevailing situation’ in an organization is due to violation of the principle of order. What might have been the prevailing situation?
Q3  An organization does not follow the principles of management. What are the adverse effects of violating each of the following principles of management in the organization:
   (i)  Unity of command
   (ii) Stability of tenure of personnel.

Q4  An organization follows the principles of management. What are the positive effects of following the principles of management in the organization:
   (i)  Scalar chain
   (ii) Division of work

Q5  The production manager asks the foreman to achieve a target production of 200 units per day. But he does not give him the authority to requisition tools and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve the desired target? Explain briefly the principle relating to the situation.

Q6  In your school, you observe that books are kept in office, chalks in the library and office records in the staffroom. How will that affect the achievement of school objectives? Which aspect of management is lacking here and why? As a manager, what steps will you take to rectify the short comings?

Q7  How can Fayol’s principles of Equity and order be applied in a work situation?

Q8  Bring out Henri Fayol’s contribution to the science of management.

Class XII/ Business Studies: Summary and Questions/ 201
Chapter 3: Business Environment

2. What is the importance of environment scanning?
3. Explain the following dimensions of Business Environment with the help of examples:
   - Economic,
   - Social,
   - Technological,
   - Political and
   - Legal
4. Explain the positive impacts of Government policy changes on business with special reference to liberalization, privatization and globalisation in India.
5. Explain the negative impact of Government policy changes on business with special reference to liberalization, privatization and globalisation in India.

NCERT Questions: Long Answer Type

a. How would you characterise business environment? Explain, with examples, the difference between general and specific environment.
b. How would you argue that the success of a business enterprise is significantly influenced by its environment?
c. Explain, with examples, the various dimensions of business environment.
d. What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?
e. What are the essential features of (a) Liberalisation, (b) Privatisation and (c) Globalisation?

Case Study:

Lately many companies have planned for significant investment in organised retailing in India. Several factors have prompted their decisions in this regard. Customer income is rising. People have developed a taste for better quality products even though they may have to pay more. The aspiration levels have increased. The government has also liberalised its economic policies in this regard and permitted even cent percent foreign direct investment in some sectors of retailing.

1. Identify changes in business environment under different heads — economic, social, technological, political and legal that have facilitated the companies' decisions to plan significant investments in organised retailing.
2. What has been the impact of these changes with regard to globalisation and privatisation?
Business Environment - Meaning And Importance

Q1 ‘Environment provides a business with constraints and opportunities.’ Discuss with the help of examples. 3

Q2 Classify the business environment into two major categories and give one example of each. (Economic and Non-economic) 3

Q3 Explain the features of business environment. 3

Q4 Sound understanding of environment provides a competitive edge.’ Explain giving reasons. 5

Dimensions of Business Environment

Q1 What is the impact of economic environment on business? 2

Q2 What is meant by political environment of business? 1

Q3 What is the impact of social environment on business? 2

Q4 Distinguish between general and specific environment of a business. 3

Q5 Explain the meaning of ‘business environment’. Briefly discuss any two dimensions of general environment of business. 5

Impact Of Government Policy Changes On Business And Industry

Q1 ‘Since 1991, India has been following a threefold strategy of Globalisation, Liberalisation and Privatisation.’ Explain each in brief. 6

Q2 ‘Liberalisation and Globalisation have created both challenges and opportunities for Indian businesses.’ 4

Q3 Explain any 5 negative and 5 positive impacts of globalization and liberalization on Business and Industry in India. (Hint: Increased competition, Threat from MNC’s, Fast changing technology, Corporate vulnerability) 5
Chapter 4: Planning

Define planning:
.............................................................................................................................
.............................................................................................................................
.............................................................................................................................

Following Are Some Points Jumbled Up. Please Categorise Them into Features, Benefits and Limitations of Planning

<table>
<thead>
<tr>
<th>POINTS</th>
<th>CATAGORY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Focuses on achieving objectives</td>
<td>1._______</td>
</tr>
<tr>
<td>2. May not work in a dynamic Environment</td>
<td>2._______</td>
</tr>
<tr>
<td>3. Involves decision making</td>
<td>3._______</td>
</tr>
<tr>
<td>4. Promotes innovative ideas</td>
<td>4._______</td>
</tr>
<tr>
<td>5. Establishes standards for controlling</td>
<td>5._______</td>
</tr>
<tr>
<td>6. Mental exercise</td>
<td>6._______</td>
</tr>
<tr>
<td>7. Futuristic</td>
<td>7._______</td>
</tr>
<tr>
<td>8. Limited flexibility</td>
<td>8._______</td>
</tr>
<tr>
<td>9. Provides direction</td>
<td>9._______</td>
</tr>
<tr>
<td>10. Leads to rigidity</td>
<td>10._______</td>
</tr>
<tr>
<td>11. Time consuming</td>
<td>11._______</td>
</tr>
<tr>
<td>12. Reduces risk of uncertainty</td>
<td>12._______</td>
</tr>
<tr>
<td>13. Does not guarantee success</td>
<td>13._______</td>
</tr>
<tr>
<td>14. Continuous</td>
<td>14._______</td>
</tr>
<tr>
<td>15. Reduces creativity</td>
<td>15._______</td>
</tr>
<tr>
<td>16. Pervasive</td>
<td>16._______</td>
</tr>
<tr>
<td>17. Reduces overlapping and wasteful activities</td>
<td>17._______</td>
</tr>
<tr>
<td>18. Primary function of management</td>
<td>18._______</td>
</tr>
<tr>
<td>19. Involves huge costs</td>
<td>19._______</td>
</tr>
<tr>
<td>20. Facilitates decision making</td>
<td>20._______</td>
</tr>
</tbody>
</table>

Answer in one sentence:

1. Explain why rules are the simplest type of plans?
.............................................................................................................................

2. Explain why budget is considered to be a type of plan?
.............................................................................................................................

3. Name any two factors which affect the implementation of a plan?
.............................................................................................................................

4. Is planning an exclusive function of the top management? Why?
.............................................................................................................................

5. Planning requires logical and systematic thinking rather than guess work. Which characteristic of planning is highlighted in this statement?
.............................................................................................................................
6. Following a pre decided plan which may not work because the circumstances have changed, brings to light which limitation of planning?

……………………………………………………………………………………………………………………………………………………………………

State the type of plan in each case:

<table>
<thead>
<tr>
<th>Example</th>
<th>Type of Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Increase sales by 10%</td>
<td></td>
</tr>
<tr>
<td>2. ROI must be 20%</td>
<td></td>
</tr>
<tr>
<td>3. No smoking</td>
<td></td>
</tr>
<tr>
<td>4. Employees will be selected only after a written test</td>
<td></td>
</tr>
<tr>
<td>5. 30% reservation for women while selecting employees</td>
<td></td>
</tr>
<tr>
<td>6. The age for retirement is 60 years with an extension up to 2 years</td>
<td></td>
</tr>
<tr>
<td>7. Visitors to the factory must carry an I card or a letter from the supervisor</td>
<td></td>
</tr>
<tr>
<td>8. The new range of biscuits will be advertised on TV at prime time</td>
<td></td>
</tr>
<tr>
<td>9. At the supervisory level employees will be trained through simulators and the employees at the top level shall be trained through seminars</td>
<td></td>
</tr>
<tr>
<td>10. A company needs a detailed plan for its new project' construction of a shopping mall'.</td>
<td></td>
</tr>
<tr>
<td>11. A plan which is a control device as well</td>
<td></td>
</tr>
<tr>
<td>12. A plan which is a basis for interpreting the strategy</td>
<td></td>
</tr>
<tr>
<td>13. A plan in which the smallest details are worked out within the broad framework of a policy</td>
<td></td>
</tr>
</tbody>
</table>

Write the PLANNING PROCESS in the correct order:

<table>
<thead>
<tr>
<th>Implement the plan</th>
<th>1.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying alternative courses of action</td>
<td>2.</td>
</tr>
<tr>
<td>Setting objectives</td>
<td>3.</td>
</tr>
<tr>
<td>Follow-up action</td>
<td>4.</td>
</tr>
<tr>
<td>Developing premises</td>
<td>5.</td>
</tr>
<tr>
<td>Selecting an alternative</td>
<td>6.</td>
</tr>
<tr>
<td>Evaluating alternative courses of action</td>
<td>7.</td>
</tr>
</tbody>
</table>
Questions for Practice:
a. Define Planning.
b. Explain the features of planning.
c. Explain the importance of planning.
d. Explain the limitations of planning.
e. Explain the steps in the process of Planning
f. Define Single use and Standing Plans-
g. Define the following with examples:
   i. Objectives,
   ii. Strategy,
   iii. Policy,
   iv. Procedure,
   v. Method,
   vi. Rule,
   vii. Budget,
   viii. Programme

NCERT Case Studies and Questions
Short Answer Type
1. What are the main points in the definition of planning.
2. How does planning provide direction?
3. Do you think planning can work in a changing environment?
4. If planning involves working out details for the future, why does it not ensure success?
5. Why are rules considered to be plans?
6. What kind of strategic decisions are taken by business organisations.

Long Answer Type
1. Why is it that organisations are not always able to accomplish all their objectives?
2. What are the main features to be considered by the management while planning?
3. What are the steps taken by management in the planning process?
4. Is planning actually worth the huge costs involved? Explain.

Case Study:
An auto company C Ltd. is facing a problem of declining market share due to increased competition from other new and existing players in the market. Its competitors are introducing lower priced models for mass consumers who are price sensitive. For quality conscious consumers, the company is introducing new models with added features and new technological advancements.

Questions
1. Prepare a model business plan for C Ltd. to meet the existing challenge. You need not be very specific about quantitative parameters. You may specify which type of plan you are preparing.
2. Identify the limitations of such plans.
3. How will you seek to remove these limitations?
Planning - Concept, importance and limitations.

Q1 What is the purpose of planning? 1

Q2 Explain how planning facilitates decision making? 3

Q3 A firm does not believe in the process of planning. What are the likely effects that such a firm will have to bear? (reverse the importance) 5

Q4 Explain any two reasons which suggest that planning is important in managerial process. 5

Q5 ‘Planning is the basis of control, action its essence, delegation its key and information its guide.’ Explain. (relate planning with controlling, directing and organising) 5

Q6 ‘Planning is not guarantee for success for any organization.’ Explain.
   • Statement explanation- 1 mk.
   • Limitations of planning = 4 marks 5

Q7 ‘Planning restricts creativity’. Explain briefly. 3

Q8 Explain the external limitations of Planning. 5

Planning Process

Q1 Explain the meaning of supportive plans or derivative plans with examples. Why are they required? 3

Q2 Defining ‘organisational objectives’ is the first step in the process of planning. Explain, in brief, the other steps in this process. 6

Types of Plans- Objectives, Strategy, Policy, Procedure, Methods, Rules, Budget and Programmes

Q1 A Company needs a detailed plan for its new project. Construction of a Shopping Mall. What type of plan is it? 1
Chapter 5: Organising

NCERT Case Studies and Questions

Multiple Choice
1. Which of the following is not an element of delegation?
   (a) Accountability
   (b) Authority
   (c) Responsibility
   (d) Informal organisation
2. A network of social relationships that arise spontaneously due to interaction at work is called:
   (a) Formal organisation
   (b) Informal organisation
   (c) Decentralisation
   (d) Delegation
3. Which of the following does not follow the scalar chain?
   (a) Functional structure
   (b) Divisional structure
   (c) Formal organisation
   (d) Informal organisation
4. A tall structure has a
   (a) Narrow span of management
   (b) Wide span of management
   (c) No span of management
   (d) Less levels of management
5. Centralisation refers to
   (a) Retention of decision making authority
   (b) Dispersal of decision making authority
   (c) Creating divisions as profit centers
   (d) Opening new centers or branches
6. For delegation to be effective it is essential that responsibility be accompanied with necessary
   (a) Authority
   (b) Manpower
   (c) Incentives
   (d) Promotions
7. Span of management refers to
   (a) Number of managers
   (b) Length of term for which a manager is appointed
   (c) Number of subordinates under a superior
   (d) Number of members in top management
8. The form of organisation known for giving rise to rumors is called
   (a) Centralised organisation
   (b) Decentralised organisation
   (c) Informal organisation
   (d) Formal organisation
9. Grouping of activities on the basis of product lines is a part of
   (a) Delegated organisation
   (b) Divisional organisation
   (c) Functional organisation
   (d) Autonomous organisation
10. Grouping of activities on the basis of functions is a part of
   (a) Decentralised organisation
   (b) Divisional organisation
   (c) Functional organisation
   (d) Centralised organisation

Short Answer Type
   a. Define ‘Organising’?
   b. What are the steps in the process of organising?
   c. Discuss the elements of delegation.
   d. What does the term ‘Span of management’ refer to?
   e. Under what circumstances would functional structure prove to be an appropriate choice?
   f. Draw a diagram depicting a divisional structure.
   g. Can a large sized organisation be totally centralised or decentralised? Give your opinion.
   h. Decentralisation is extending delegation to the lowest level. Comment.

Long Answer Type
   a. Why is delegation considered essential for effective organising?
   b. What is a divisional structure? Discuss its advantages and limitations
   c. Decentralisation is an optional policy. Explain why an organisation would choose to be decentralised.
   d. How does informal organisation support the formal organisation?
   e. Distinguish between centralisation and decentralisation.
   f. How is a functional structure different from a divisional structure?

Application Type
   o Neha runs a factory wherein she manufactures shoes. The business has been doing well and she intends to expand by diversifying into leather bags as well as western formal wear thereby making her company a complete provider of corporate wear. This will enable her to market her business unit as the one stop for working women. Which type of structure would you recommend for her expanded organisation and why?

   o The production manager asked the foreman to achieve a target production of 200 units per day, but he doesn’t give him the authority to requisition tools and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve the desired target? Give reasons.

   o A manager enhances the production target from 500 units to 700 units per month but the authority to draw raw material was not given by him. The production manager could not achieve the revised production target. Who is responsible and which principle was violated?

   o A company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing and sales department at Faridabad. The company manufactures the consumer products. Which type of organisational structure should it adopt to achieve its target?
A company, which manufactures a popular brand of toys, has been enjoying good market reputation. It has a functional organisational structure with separate departments for Production, Marketing, Finance, Human Resources and Research and Development. Lately to use its brand name and also to cash on to new business opportunities it is thinking to diversify into manufacture of new range of electronic toys for which a new market is emerging.

- Prepare a report regarding organization structure giving concrete reasons with regard to benefits the company will derive from the steps it should take.

A company manufacturing sewing machines set up in 1945 by the British promoters follows formal organisation culture in totality. It is facing lot of problems in delays in decision-making. As the result it is not able to adapt to changing business environment. The work force is also not motivated since they cannot vent their grievances except through formal channels, which involve red tape. Employee turnover is high. Its market share is also declining due to changed circumstances and business environment.

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

A company X limited manufacturing cosmetics, which has enjoyed a pre-eminent position in business, has grown in size. Its business was very good till 1991. But after that, new liberalised environment has seen entry of many MNC’s in the sector. With the result the market share of X limited has declined. The company had followed a very centralised business model with Directors and divisional heads making even minor decisions. Before 1991 this business model had served the company very well as consumers had no choice. But now the company is under pressure to reform.

- What organisation structure changes should the company bring about in order to retain its market share?
- How will the changes suggested by you help the firm? Keep in mind that the sector in which the company is FMCG.

Other Practice Questions

1. State any two bases to complete departmentalization.

2. The other name for reporting relationships is ……………………………

3. Give any reason to show why it is necessary to identify and divide the work in to jobs.

..........................................................................................................................
4. After the process of organizing, similar jobs are grouped together. State the benefit derived through this.

5. How does creation of organization structure help in the growth of an enterprise?

6. Which structure is suitable for the following (Give your reason also.)
   a) Automobile manufacturing firm
   b) Stationery manufacturing firm
   c) Software developers
   d) Travel agency
   e) School
   f) Hospital

6. How is the span of management related to determination of levels in an organization?

7. Centralization of authority is not a desirable situation because

   .An important limitation of the informal organization is that it is unstable. How is it overcome in the formal organization?

8. How is the role of a leader different in a formal organization than in an informal organization?
9. State the direction of flow of:
   - Responsibility .............................................
   - Authority ..................................................
   - Accountability .............................................

10. “How well one delegates determines how well one manages”. State any one reason to justify this statement.

11. Decentralization should be handled carefully. Why? State any one reason.

12. How do the concepts of delegation and decentralization differ on the basis of freedom of action allowed to the subordinates?

---

**Basic Questions**

1. Define Organising.
2. What is an organisation structure?
3. Explain the importance of organizing.
4. Explain the Steps in the process of organizing.
5. Explain the features, merits, limitations and suitability of:
   - Functional structure and
   - Divisional structure.
7. Define Informal organization. Explain its features, merits and limitations.
9. What are the elements of delegation?
10. Explain the features of delegation.
12. Explain the importance of decentralisation.

---

**Concept and Importance**

**Q1** What types of relationships are shown by the organization structure?  

**Q2** ‘Identifying and dividing work is the first step in the process of one of the functions of management’. Identify the function and give its importance.

---

**Steps In The Process Of Organizing**

**Q1** Explain briefly the consideration that need to be kept in mind while designing the organization structure of a company.

**Q2** Describe the steps involved in the process of Organizing.
Structure of Organization - Functional and Divisional

Q1 What is narrow span of control? When is it appropriate?  3

Q2 The owner of a small factory manufacturing toys has decided to expand his business by setting up a medium scale unit now to produce mechanical toys and subsequently have a large production unit for complex play things. He also wants to diversify into children’s garments. He wants to know what type of organizational structure will be most suitable for his present and proposed operations and why?  6

Q3 Explain the term Organizational Structure. Distinguish between Functional and Divisional structure on the following bases:
   i. Formation
   ii. Managerial development
   iii. Responsibility
   iv. Suitability

Q4 What is meant by Functional organizational structure? State any two advantages & two disadvantages of such structures.  6

Formal and Informal Organization

Q1 Distinguish between authority and responsibility on the basis of:
   (i) Meaning
   (ii) Origin
   (iii) Delegation
   (iv) Direction of flow.  4

Q2 ‘Formal and informal organization is supplementary to each other’. Discuss.  4

Q3 The employees of Manik Ltd., a software company, have formed a dramatic group for their recreation. Name the type of organization so formed and state its three features.  4

Q4 Distinguish between formal and informal organization on the basis of:
   (i) Formation
   (ii) Purpose
   (iii) Structure
   (iv) Behaviour of members
   (v) Stability
   (vi) Adherence to rules  6

Delegation: Meaning, Elements and Importance

Q1 “Authority can be delegated but accountability cannot.” Explain the statement.  3

Q2 The production manager asks the foreman to achieve a target production of 200 units per day. But he does not give him the authority to requisition tools and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve the desired target? Explain briefly the principle relating to the situation.  3

Q3 Can an over-burdened manager take help from his subordinates? How? Explain the three important things which he should keep in mind while taking such a help.  3
Q4  What is meant by ‘Delegation’? Explain any four points that highlight the importance of delegation in the organization.

Meaning and Importance of Decentralization

Q1  “If we delegate authority, we multiply it by two, and if we decentralize it, we multiply it by many.” How?

Q2  Delegation is related to the concept of decentralization

Q3  Explain through a suitable example, how delegated authority may be extended to decentralized authority.

Q4  ‘A firm cannot function without delegation but it can function without decentralization.’ Explain.

Q5  Can a large size organization be totally centralized or decentralized?

Difference between Delegation and Decentralization

Q1  Distinguish between delegation & decentralization of authority on the following bases: (i) Nature (ii) Purpose (iii) Freedom of action (iv) Level of authority
Chapter 6: Staffing

1. How does staffing ensure higher performance?

2. State true or false with a valid reason:
   a) Staffing includes ‘defending the company in law suits and avoiding legal complications’.
   b) In an existing organization, there is no need for estimating manpower requirements ever.
   c) In a new firm, internal sources of recruitment are not useful.
   d) Training is to achieve the goals of the organization more than the goals of an individual.
   e) A job offer is the same thing as contract of employment.

3. Why can’t recruitment be done before selection?

4. Why performance appraisal is also considered a controlling technique?

5. Give an example of a combination of time and performance based compensation plan in a manufacturing firm.
6. Give one benefit of ‘Transfers’ as an internal source of recruitment.

…………………………………………………………………………………………
…………………………………………………………………………………………

7. Those who are not promoted are unhappy and their efficiency may decline. Which demerit of internal sources is reflected in this statement?

…………………………………………………………………………………………
…………………………………………………………………………………………

8. What is the chief demerit of labour contractors as an external source of recruitment?

…………………………………………………………………………………………
…………………………………………………………………………………………

9. Why are advertisements in newspapers not always used for recruitment? Give three reasons.

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

10. What is the difference between trade test and aptitude test?

…………………………………………………………………………………………
…………………………………………………………………………………………

11. Give an example of a job where intelligence test is not required.

…………………………………………………………………………………………
…………………………………………………………………………………………

12. Training reduces the use of hit and trial methods. Which benefit of training is suggested through this statement?

…………………………………………………………………………………………
…………………………………………………………………………………………

13. Give an example of a job where medical examination may become the first step in the selection process.

…………………………………………………………………………………………

14. How do on the job training methods contribute to the development of future managers?

…………………………………………………………………………………………
…………………………………………………………………………………………
15. Give an example of use of:
   a. Apprenticeship training ............................................................... 
   b. Internship ................................................................................... 
   c. Vestibule ..................................................................................... 

16. Give one reason for the popularity of campus recruitment as a source of recruitment.
   ........................................................................................................ 
   ........................................................................................................ 

**Basic Questions**

1. Define staffing.
2. Explain the importance of staffing.
3. Write a short note on Staffing as a part of Human Resource Management.
4. Explain the steps in the Staffing process.
5. Explain the internal sources of recruitment.
6. Critically analyse the internal sources of Recruitment.
7. Explain the external sources of recruitment.
8. Critically analyse the external sources of Recruitment.
9. Name the sources that can be used to recruit:
   a. Top or middle level managers
   b. Government employees
   c. Lower level managers
   d. Workers
10. Explain the steps in the Selection process.
11. Name the tests used in the election process.
12. Define Training and Development.
13. Explain the importance of training.
14. Differentiate between training and development.
15. What are ‘On the job’ and ‘Off the job’ methods of training?
16. Explain the following:
   a. Induction Training
   b. Vestibule Training
   c. Apprenticeship Training And
   d. Internship Training.

- **Meaning And Importance Of Staffing**

**Q1** You are the Personnel manager of a concern. How would you estimate the manpower requirements of your firm with the help of workload analysis?

**Q2** Why is staffing considered to be the key to other functions of management?
**Staffing As A Part Of Human Resource Management**

Q1 ‘Staffing is the responsibility of all managers and not the Human Resource department alone’. Explain.

**Steps in Staffing Process**

Q1 Name the concept relating to the following:
- Assessing the present and future requirement of workers
- Determining the competence of workers
- Streamlining the attributes of a person required for doing a job
- Searching for prospective candidates

Q2 State the steps involved in the process of Staffing.

**Recruitment - Meaning And Sources**

Q1 Name three external sources that can be used for recruitment of Unskilled or semi-skilled workers

Q2 Despite internal sources of recruitment being economical, why do the companies not always use this source? Give any four reasons.

Q3 Your school has some vacancies of teachers. The eligible staff has been promoted to half of the posts. Explain any four ways through which right-type of people may be invited to fill up rest of the vacancies

**Selection - Meaning, Process.**

Q1 Explain the importance of interview in the selection process.

Q2 A firm provides security services and thus needs candidates who are reliable and do not leak out secrets of their clients. What steps in the selection process needs to be focused on?

Q3 Name and explain the types of employment tests.

Q4 Is selection a negative process? Why? What kind of tests will primarily be used and why to select the following:
- (i) An-interior-decorator,
- (ii) A Computer-operator,
- (iii) A Public-dealing officer, and
- (iv) A School Teacher

**Training and Development - Meaning, Need and Distinction, Methods**

Q1 A newly appointed manager does not believe in training the workers. What will be the impact of his decision on the firm?
Q2 Differentiate between ‘training’ and ‘development’ on the basis of:
   (i) Purpose
   (ii) Level of trainees involved
   (iii) Scope of learning
   (iv) Depth of knowledge imparted
   (v) Initiative in learning
   (vi) Duration

Q3 Explain, in brief, the following methods of training the workers:
   (i) Apprenticeship training
   (ii) Vestibule training
   (iii) Induction training
   (iv) Internship training

NCERT questions

Short Answer Type
1. Briefly enumerate the important sources of recruitment.
2. What is meant by recruitment? How is it different from selection?
3. Define Training. How is it different from education?
4. Distinguish between training and development.
5. Why are internal sources of recruitment considered to be more economical?
6. What is the importance of staffing function in today’s environment?

Long Answer Type
1. Define the staffing process and the various steps involved in it?
2. Explain the procedure for selection of employees.
3. What are the advantages of training to the individual and to the organisation?
4. The staffing function is performed by every manager and not necessarily by a separate department. Explain.

Application Type
1. The workers of a factory are unable to work on new machines and always demand for help of supervisor. The Supervisor is overburdened with their frequent calls. Suggest the remedy.
2. The workers of a factory remain idle because of lack of knowledge of hi-tech machines. Frequent visit of engineers is made which causes high overhead charges. How can this problem be removed.
3. The quality of production is not as per standards. On investigation it was observed that most of the workers were not fully aware of the proper operation of the machinery. What could be the way to improve the accuracy?
4. An organisation provides security services. It requires such candidates who are reliable and don’t leak out the secrets of their clients. What step should be incorporated in selection process?
5. A company is manufacturing paper plates and bowls. It produces 100000 plates and bowls each day. Due to local festival, it got an urgent order of extra 50,000 plates bowls. Advise how the company will fulfill its order and which method of recruitment would you suggest.

Case problems:
1. A company X limited is setting up a new plant in India for manufacturing auto components. India is a highly competitive and cost effective production base in this sector. Many reputed car manufacturers source their auto components from here. X limited is planning to capture about 40% of the market share in India and also export to the tune of at least $5 million in about 2 years of its planned operations. To achieve these targets it requires a highly trained and motivated work force. You have been retained by the company to advise it in this matter. While giving answers keep in mind the sector the company is operating.

Questions
a. Outline the process of staffing the company should follow.
b. Which sources of recruitment the company should rely upon. Give reasons for your recommendation.
c. Outline the process of selection the company should follow with reasons.
d. Which methods of training and development should be company initiate? Explain giving reasons.

2. A major insurance company handled all recruiting, screening and training processes for data entry/customer service representatives. Their competitor was attracting most of the qualified, potential employees in their market. Recruiting was made even more difficult by the strong economy and the ‘job-seeker’s market.’ This resulted in the client having to choose from candidates who had the ‘soft’ skills needed for the job, but lacked the proper ‘hard’ skills and training.

Questions
a. As an HR manager what problems do you see in the company?
b. How do you think it can be resolved?

3. A Public transport corporation has hired 1000 buses for the different routes for the passengers of metropolitan city. Most of the 3000 crewmen (drivers, conductors, helpers etc.) of these buses have been found to be wanting in satisfactorily dealing with public and daily commuters. They seem to be little interested in the job and the job seem to have lost all meaning to them.

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

4. Ms. Jayshree recently completed her Post Graduate Diploma in Human Resource Management. A few months from now a large steel manufacturing company appointed her as its human resource manager. As of now, the company employs 800 persons and has an expansion plan in hand which may require another 200 persons for various types of additional requirements. Ms. Jayshree has been given complete charge of the company’s Human Resource Department.

Questions
a. Point out, what functions is she supposed to perform?
b. What problems do you foresee in her job?
c. What steps is she going to take to perform her job efficiently?
d. How significant is her role in the organisation?
Chapter 7: Directing

“Directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organization to achieve the objectives.”

- **Identify which aspect of importance of directing is highlighted in the following statements:**
  1. A supervisor has clarified the doubts regarding the plans made.
  2. A good leader is one who is able to convince every employee in the organization to make maximum effort.
  3. A manager as to identify the potential of his employees.
  4. Through explanation, manager was able to seek cooperation for implementing new methods of performance appraisal.
  5. Through the directing techniques, a manager seeks to develop commitment and cooperation in the organization.

- **Fill in the blanks: (characteristics of directing)**
  1. Directing initiates .................................................................
  2. Directing takes place at ......................................................... level of a firm.
  3. Directing flows from ......................................................... to .........................................................
  4. Directing is a ................................................................. Process.

**Basic Questions**

1. Define Directing.
2. What are the elements of Directing?
3. Explain the importance of directing.
4. Define Supervision
5. Explain the importance of supervision.
7. Explain the importance of motivation.
8. Explain the Maslow’s hierarchy of needs and its application in management.
10. Explain the financial incentives that can be used by organisations.
11. Explain the non-monetary incentives that can be used by organisations.
12. Who is a leader?
13. Explain the following leadership styles:
- Authoritative
- democratic and
- laissez faire.

15. Define formal communication. What are its advantages and disadvantages?
16. Explain the formal communication networks with the help of diagrams.
17. Define informal communication. What are its advantages and disadvantages?
18. Explain the informal communication networks with the help of diagrams.
19. What are the barriers to effective communication?
20. How can a firm overcome the barriers to effective communication?

**NCERT QUESTIONS:**

**Application type:**
1. The workers always try to show their inability when any new work is given to them. They are always unwilling to take up any kind of work. Due to sudden rise in demand a firm wants to meet excess orders. The supervisor is finding it difficult to cope up with the situation. Suggest ways for the supervisor to handle the problem.

2. Workers of a factory often seek guidance of Production Managers. The production manager finds himself overburdened. Advise the way to relieve production manager.

3. In an organisation employees always feel they are under stress. They take least initiative and fear to express their problems before the manager. What do you think is wrong with the manager?

4. In an organisation all the employees take things easy and are free to approach anyone for minor queries and problems. This has resulted in everyone taking to each other and thus resulting in inefficiency in the office. It has also resulted in loss of secrecy and confidential information being leaked out. What system do you think the manager should adopt to improve communication.

**Case problem:**

Y limited is a bank functioning in India. It is planning to diversify into insurance business. Lately, the government of India has allowed the private sector to gain entry in the insurance business. Previously, it was the prerogative of LIC and GIC to do insurance business. But now with liberalisation of the economy and to make the field competitive other companies have been given licenses to start insurance business under the regulation of ‘Insurance Regulatory and Development Authority’.

Y limited plans to recruit high quality employees and agents and exercise effective direction to capture a substantial part of life and non life insurance business.

**Questions**

a. Identify how the company can supervise its employees and agents effectively. What benefits will the company derive from effective supervision?

b. What financial and non-financial incentives can the company use for employees and agents separately to motivate them. What benefits will the company get from them?

c. How can the company ensure that higher order needs i.e., esteem and self-actualisation as specified by Abraham Maslow are met?
d. Identify the qualities of leadership in this line of business that the company managers must possess to motivate employees and agents.

e. Give a model of formal communication system that the company can follow. Identify the barriers in this model. How can they be removed?
f. How can informal communication help to supplement formal communication model given by you in answer to question 5?

**Meaning, Importance**

Q1 To create a desire among employees to perform to the best of their ability is an important function of management. Explain how it contributes to the success of a firm.

**Elements of Direction**

Q1 Explain the elements of directing.

**Supervision - Meaning and Functions**

Q1 What is Supervision?

Q2 A firm does not have effective supervision. What are the likely effects that the firm will have to face?

Q3 Supervision is not required in an organization. Do you agree?

**Motivation - Meaning, Maslow’s Hierarchy of Needs, Financial And Non-Financial Incentives**

Q1 Rajat a sales manager achieved his sales targets one month in advance. This achievement was displayed on the notice board & a certificate for the best performance was awarded to him by the CEO of the company.
   1. Name the incentive provided to Rajat.
   2. Identify the type of incentive.
   3. List two other incentives of the type identified in part.

Q2 Maslow’s need hierarchy is considered fundamental to the understanding of motivation. Explain the role of need hierarchy in motivation.

Q3 Explain ‘profit sharing’, ‘co-partnership’ and ‘suggestion system’ as monetary incentives

Q4 ‘Money is the only motivator/ human beings can be motivated only thro the use of monetary incentives.’ Comment.
   (Give incentives+ monetary and non-monetary incentives + Maslow’s theory and how monetary incentives satisfy 1st and 2nd order needs but not the others)

**Leadership – Meaning, leadership styles**

Q1 Leadership is a process of influence. Explain.
Q2 Give situations that will call for application of different leadership styles.

Communication - Meaning, Formal and Informal Communication and Barriers To Effective Communication

Q1 Give one example of noise in the process of communication.
Q2 Distinguish between ‘upward’ and ‘downward’ communication
Q3 State any three personal barriers to communication.
Q4 Explain the essentials of effective communication?
Q5 Name the type of formal communication in which the persons of two departments one at a higher position and another at a lower, communicate with each other. Also state the problem which may arise in this type of communication.
Q6 Mohan and Sohan are friends working in Surya Ltd. as Production and Sales Manager respectively. In an interdepartmental meeting Sohan informed Mohan about a change in the marketing policy of the company.
   (a) Identify the type of communication used in the above example.
   (b) Name & explain any two networks of the type of communication identified in part (a).
Chapter 8: Controlling
NCERT QUESTIONS

Short Answer Type
1. Explain the meaning of controlling.
2. ‘Planning is looking ahead and controlling is looking back.’ Comment.
3. ‘An effort to control everything may end up in controlling nothing.’ Explain.
4. Write a short note on budgetary control as a technique of managerial control.
5. Explain how management audit serves as an effective technique of controlling.

Long Answer Type
1. Explain the various steps involved in the process of control.
2. Explain the techniques of managerial control.
3. Explain the importance of controlling in an organisation. What are the problems faced by the organisation in implementing an effective control system?
4. Discuss the relationship between planning and controlling.
5. Define controlling.
6. Explain the features of controlling.
7. Explain the importance of controlling.
8. Explain the relationship between planning and controlling.
9. Explain the steps in the process of control.

Application Type:
Following are some behavior that you and others might engage in on the job. For each item, choose the behavior that management must keep a check to ensure an efficient control system. You are also required to suggest the management how the undesirable behavior can be controlled.

<table>
<thead>
<tr>
<th>Behavior Engaged In On The Job</th>
<th>Management Must Keep A Check On</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Biased performance appraisals</td>
<td></td>
</tr>
<tr>
<td>2. Using company’s supplies for personal use</td>
<td></td>
</tr>
<tr>
<td>3. Asking a person to violate company’s rules</td>
<td></td>
</tr>
<tr>
<td>4. Calling office to take a day off when one is sick</td>
<td></td>
</tr>
<tr>
<td>5. Overlooking boss’s error to prove loyalty</td>
<td></td>
</tr>
<tr>
<td>6. Claiming credit for someone else’s work</td>
<td></td>
</tr>
<tr>
<td>7. Reporting a violation on noticing it</td>
<td></td>
</tr>
<tr>
<td>8. Falsifying quality reports</td>
<td></td>
</tr>
<tr>
<td>9. Taking longer than necessary to do the job</td>
<td></td>
</tr>
<tr>
<td>10. Setting standards in consultation with workers</td>
<td></td>
</tr>
</tbody>
</table>
Case Problem:

A company ‘M’ limited is manufacturing mobile phones both for domestic Indian market as well as for export. It had enjoyed a substantial market share and also had a loyal customer following. But lately it has been experiencing problems because its targets have not been met with regard to sales and customer satisfaction. Also mobile market in India has grown tremendously and new players have come with better technology and pricing. This is causing problems for the company. It is planning to revamp its controlling system and take other steps necessary to rectify the problems it is facing.

Questions

1. Identify the benefits the company will derive from a good control system.
2. How can the company relate its planning with control in this line of business to ensure that its plans are actually implemented and targets attained.
3. Give the steps in the control process that the company should follow to remove the problems it is facing.
4. What techniques of control can the company use?

In all the answers keep in mind the sector of business the company is in.

Meaning and Importance

Q1 Does control help in judging the accuracy of standards and improving motivation of the employees? Explain.

Q2 Controlling is looking back as well as forward looking.

Q3 How does a control system simplify the task of a supervisor?

Q4 Controlling is an indispensable function of management. Do you agree? Give four reasons in support of your answer.

Relationship between Planning and Controlling

Q1 ‘Planning and controlling are inter-dependent and inter-linked activities.’ Explain.

Steps In The Process Of Control

Q1 Give meaning of the term ’Deviation’ as used in the control function of management.
Q2 Which two steps in the process of control are concerned with compelling events to confirm to plan?

Q3 The essence of control lies in action. Explain

Q4 What is compared with what in controlling?

Q5 ‘An ideal control technique checks every bit of performance’. Comment.

Q6 Ert manufacturers machine components. The target production is 200 units per day. The company was successful in attaining the target till 2 months ago. However, over the last 2 months the production has varied between 150-165 units per day.

1. Identify the management function required to correct the above situation and state the procedure to be followed for the same.
2. What steps will you take to ensure that the actual performance is in accordance with the established standards.

Q7 Taking corrective/remedial action is the last step in the process of one of the functions of management.
   (a) Name the function.
   (b) Explain the other steps of the above mentioned function.

Q8 ‘A vigilant eye is the only feature of a good control system.’ Do you agree with this statement? Explain.
Chapter 9: Financial Management

STATE IN EACH OF THE FOLLOWING CASES WHETHER THE WORKING CAPITAL REQUIREMENT WILL BE LESS OR MORE?

1. The firm is manufacturing fans and it is month of May
2. The firm is a coaching centre
3. The firm has a number of branches having a high turnover
4. World over economy is undergoing recession
5. The firm is manufacturing bread and other bakery products
6. The firm is manufacturing led tv’s
7. The customers of this firm are well established firms who can easily get a long credit period on their purchases.
8. The firm is extremely successful having a good track record and always gets sufficient time to repay the bills due
9. The raw material has to be imported, which takes over a month
10. The firm has a high debtors turnover ratio
11. In 2 months time, the production will have to be doubled as the demand is increasing
12. There is stiff competition posed by other sellers of our commodity, in the market
13. The inflation rate has touched an all time high
14. The firm is supplying designer clothes on order

STATE IN EACH OF THE FOLLOWING CASES WHETHER THE FIXED CAPITAL REQUIREMENT WILL BE LESS OR MORE?

1. The firm is manufacturing led tv’s
2. World over economy is witnessing tremendous growth
3. The firm is manufacturing components of mobile phones
4. The firm has a number of branches having a high turnover
5. The firm produces and sells handicraft items
6. In 2 months time, the production will have to be halved as the demand is falling
7. The firm is a leading cosmetic manufacturer and is planning to launch a new range of colour cosmetics at the fashion week
8. The firm is textile firm planning to start a cement manufacturing plant
9. For the new factory the land can be leased
10. The leading men’s clothing brand will sell its new range through popular and major retail outlets
1. A decision to acquire a new and modern plant to upgrade an old one is a ............

2. Financial management aims at .................................................................

..........................................................................................................................

..........................................................................................................................

3. A decision to raise money for long term capital needs of the business from certain sources is called..........................................................

4. Two criteria for taking financing decision .....................................................

and ......................................................

5. Floatation cost means ..............................................................................

..........................................................................................................................

6. Financial risk means ..............................................................................

..........................................................................................................................

7. Which component of capital structure determines financial risk?

..........................................................................................................................

..........................................................................................................................

8. How is the management’s control over accompany diluted?

..........................................................................................................................

..........................................................................................................................

9. How is market value of the shares of a company maximized?

..........................................................................................................................

..........................................................................................................................

10. In the following cases whether a firm should use debt or equity?

    a) A company has high level of fixed operating cost ....................... 
    b) The broker’s commission is very high .................................
    c) Cash inflow are unpredictable and unstable .........................
    d) The shareholders do not wish to dilute their control over the company ..............
    e) Presently the economy is undergoing recession......................

11. Should as company declare dividend or retain the earnings in the following cases:

    a) There is a financially profitable project coming up in one month for the company requiring huge investment ......................
b) The earnings in the past have been unstable ........................................  
c) The company is relatively new and does not have any reputation in the capital market .................................................................  
d) The present tax rate on receiving dividend is high ........................................

Basic Questions
1. Define financial management.
2. Explain the objectives of financial management.
3. Explain the following Financial decisions:
   a. Investment decision
   b. Financing decision and
   c. Dividend Decision
4. Explain the factors that affect Capital Budgeting decisions
5. Explain the factors affecting Financing decision
6. Explain the factors affecting Dividend decision
7. Define Financial planning.
8. Explain the importance of Financial Planning.
10. Explain the factors that affect Capital Structure of a firm.
11. What is fixed capital? Explain the factors that affect the fixed capital requirements of a firm.
12. What is working capital? Explain the factors that affect the fixed capital requirements of a firm.

NCERT QUESTIONS:
‘S’ Limited is manufacturing steel at its plant in India. It is enjoying a buoyant demand for its products as economic growth is about 7%-8% and the demand for steel is growing. It is planning to set up a new steel plant to cash on the increased demand it is facing. It is estimated that it will require about Rs. 5000 crores to set up and about Rs 500 crores of working capital to start the new plant.

Questions
a. What is the role and objectives of financial management for this company?
b. What is the importance of having a financial plan for this company? Give an imaginary plan to support your answer.
c. What are the factors, which will affect capital structure of this company?
d. Keeping in mind that it is a highly capital intensive sector what factors will affect the fixed and working capital. Give reasons with regard to both in support of your answer.

Meaning and Objectives of Financial Management

Q1 What is meant by capitalisation?

Hint:  
Capitalisation refers to the sum total of all long term funds available to a company and the surplus earnings not meant for distribution.
Q2  What is meant by financial management?  

Q3  Why is dividend decision called a residual decision?  

Q4  Primary objective of financial management is to maximize wealth. Explain  

Q5  Are the shareholders of a company likely to gain with a debt component in the capital structure? Explain with the help of an example  

Q6  Explain any 5 factors that affect the dividend policy of a firm.  

Financial Decisions: Meaning and Factors Affecting

Q1  A company wants to establish a new unit in which machinery worth Rs 10 Lakhs is involved. Identify the type of decision involved in financial management.  

Q2  Length of production cycle affects the working capital requirements of a firm. Explain how.  

Q3  ‘Every manager has to take three basic decisions while performing the finance function’. Explain them.  

Financial Planning - Meaning and Importance

Q1  Which process prepares a blue print of an organization’s future preparations relating to Finance? Give any two reasons why this process is needed?  

Capital Structure - Meaning and Factors

Q1  Explain 5 essentials of an optimum capital structure  

Q2  The directors of a manufacturing company are thinking of issuing Rs 20,00,000 additional debentures for the expansion of their production capacity. This will lead to an increase in debt equity ratio from 2:1 to 3:1. What are the risks involved in it? What factors other than risk should the directors keep in mind before taking the above decision?  

Hint: Risks =  

- In case the rate of return on the investment is lower than the cost of debentures, the company may find it difficult to meet its fixed interest obligations  
- If the company is unable to repay the principal amount on the debentures, the firm will face the risk of insolvency  
- Factors determining the capital structure of a business(any three)
Financial Leverage/Trading on equity Capital Gearing

Example 1: A company requires Rs ______________ to finance its operations. Financing options are:

- Equity __________ shares @ Rs 10 per share = Rs ______________ OR
- Equity ______________ shares @ Rs 10 per share = Rs ______________ and debt @ ____% per annum = Rs ______________.

The calculations of EBT (Earnings before Tax), EAT (Earnings after taxes) and EPS (Earning per Share) under the above two alternatives can be given as:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Plan A</th>
<th>Plan B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(– Interest @____%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>[ EBIT = \ \frac{R__ \cdot Debt}{100} ]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(–Taxes @ 10%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EAT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. Of shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS = ___ EAT ___</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No of Shares</td>
<td></td>
</tr>
</tbody>
</table>

Example 2: A company has
- Equity capital of Rs 10,00,000 (1,00,000 equity shares of Rs 10 each)
- Earnings before interest and taxes = Rs 50,000.

The company needs Rs 5,00,000 for expansion of business. The prevailing tax rate is 30%. It has decided to go for debt funds which are available in the market @ 7%pa.

- Should the company proceed with its plans? Give reasons.
The company SHOULD opt for equity financing as:

a) The current return on investment (=5%) is lesser than the interest rate on the debt funds (7%). This will have a negative effect on the financial leverage of the company.

b) It, therefore, will reduce the earning per share for the shareholders.

c) This will also will be reflected in the market prices of shares, which will go down, and as a result, the wealth of shareholders will also be reduced.

All this will be because the EPS will go down, as can be seen in the following table:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Present Financial Position</th>
<th>Financial Position with Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in Rs)</td>
<td>(in Rs)</td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>10,00,000</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Debt</td>
<td>nil</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Total</td>
<td>10,00,000</td>
<td>15,00,000</td>
</tr>
<tr>
<td>EBIT (Interest @ 7%)</td>
<td>50,000</td>
<td>75,000</td>
</tr>
<tr>
<td>[ 7 * 5,00,000 ]</td>
<td>Nil</td>
<td>(-Rs 35,000)</td>
</tr>
<tr>
<td>EBT (-Taxes @ 30%)</td>
<td>50,000</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>(- Rs 15,000)</td>
<td>(- Rs 12,000)</td>
</tr>
<tr>
<td>EAT</td>
<td>35,000</td>
<td>28,000</td>
</tr>
<tr>
<td>No. Of shares</td>
<td>1,00,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>EPS</td>
<td>0.35</td>
<td>0.28</td>
</tr>
<tr>
<td>(=\frac{EAT}{No\ of\ Shares})</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Example 3: A company has

- Equity capital of Rs 10,00,000 (1,00,000 equity shares of Rs 10 each)
- Earnings before interest and taxes = Rs 1,50,000.

The company needs Rs 5,00,000 for expansion of business. The prevailing tax rate is 30%. It has decided to go for debt funds which are available in the market @ 7%pa.

- Should the company proceed with its plans? Give reasons.

The company SHOULD opt for debt financing as:

d) The current return on investment (=15%) is more than the interest rate on the debt funds (7%). This will have a positive effect on the financial leverage of the company.

e) It, therefore, will increase the earning per share for the shareholders.

f) This will also be reflected in the market prices of shares, which will go up, and as a result, the wealth of shareholders will also be increased.
As we can see, the EPS will go up, as can be seen in the following table:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Present Financial Position</th>
<th>Financial Position with Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>(in Rs)</td>
<td>(in Rs)</td>
</tr>
<tr>
<td></td>
<td>Equity =10,00,000</td>
<td>Equity =10,00,000</td>
</tr>
<tr>
<td></td>
<td>Debt = nil</td>
<td>Debt =5,00,000</td>
</tr>
<tr>
<td></td>
<td>Total = 10,00,000</td>
<td>Total = 15,00,000</td>
</tr>
<tr>
<td>EBIT</td>
<td>Rs 1,50,000</td>
<td>Rs 2,25,000</td>
</tr>
<tr>
<td></td>
<td>Nil</td>
<td>(-Rs 35,000)</td>
</tr>
<tr>
<td>EBT (-Taxes @ 30%)</td>
<td>Rs 1,50,000. (- Rs 45,000)</td>
<td>Rs 1,90,000. (- Rs 57,000)</td>
</tr>
<tr>
<td>EAT</td>
<td>Rs 1,05,000</td>
<td>Rs 1,33,000</td>
</tr>
<tr>
<td>No. Of shares</td>
<td>1,00,000</td>
<td>1,00,000</td>
</tr>
<tr>
<td>EPS = (\frac{EAT}{\text{No. of Shares}})</td>
<td>Rs 1.05</td>
<td>Rs 1.33</td>
</tr>
</tbody>
</table>

**Fixed and Working Capital - Meaning and Factors Affecting Both**

**Q1** What is fixed capital? Explain any 4 factors that influence fixed capital requirement of a firm.

**Q2** What is working capital? Explain any 4 factors that influence working capital requirement of a firm.

**State with Reasons In Each Of The Following Cases Whether The Working Capital Requirement Will Be Less Or More?**

1. The firm is manufacturing fans and it is month of May
2. The firm is a coaching centre
3. The firm has a number of branches having a high turnover
4. World over economy is undergoing recession
5. The firm is manufacturing bread and other bakery products
6. The firm is manufacturing led tv’s
7. The customers of this firm are well established firms who can easily get a long credit period on their purchases.
8. The firm is extremely successful having a good track record and always gets sufficient time to repay the bills due
9. The raw material has to be imported, which takes over a month
10. The firm has a high debtors turnover ratio
11. In 2 months time, the production will have to be doubled as the demand is increasing
12. There is stiff competition posed by other sellers of our commodity, in the market
13. The inflation rate has touched an all time high
14. The firm is supplying designer clothes on order

**State with Reasons In Each Of The Following Cases Whether The Fixed Capital Requirement Will Be Less Or More?**

1. The firm is manufacturing led tv’s
2. World over economy is witnessing tremendous growth
3. The firm is manufacturing components of mobile phones
4. The firm has a number of branches having a high turnover
5. The firm produces and sells handicraft items
6. In 2 months time, the production will have to be halved as the demand is falling
7. The firm is a leading cosmetic manufacturer and is planning to launch a new range of colour cosmetics at the fashion week
8. The firm is textile firm planning to start a cement manufacturing plant
9. For the new factory the land can be leased
10. The leading men’s clothing brand will sell its new range through popular and major retail outlets
Chapter 10: Financial Markets

1. What is meant by capital market? Name any two segments of the capital market. (3)
   Or Define capital market. State the two parts of capital market. (3)

2. Nature of the capital market can be well explained by its features. State any three such features of capital market. (3)

3. Explain the concept of primary market Or What do you understand by new issue market?

4. State the different methods of floating new issues in the primary market Or Briefly explain the concept of ‘Initial Public Offer’ Or Explain the various methods through which the securities can be issued in the primary market.

5. What is meant by rights issue?

6. Differentiate between primary market and secondary market. (5/6)

7. What is meant by money market? Name any two participants in the money market. (3)

8. Nature of the money market can be well explained by its features. State any three such features of money market. (3)

9. What do you understand by the term Treasury bill? (1)

10. Explain commercial bill as money market instrument. (1)

11. Explain the concept of commercial paper. (1)

12. Explain the term certificate of deposit. (1)

13. What is call money market? (3)

14. Distinguish between capital market and money market. (6)

15. Define the term ‘stock exchange’. (1)

16. Explain any five functions of a stock exchange. Or In today’s commercial world, the stock exchange performs many vital functions. Do you agree? Give any four reasons in support of your answer. (4)

17. Why was the SEBI set up? (1)

18. What do you understand by SEBI? (4)

19. State the main objectives of SEBI. (3/4)

20. State any five regulatory functions of SEBI. (5)

21. What are the functions of SEBI? Explain them briefly. (6)

22. Why was the need for the establishment of SEBI felt? (4)
FINANCIAL MARKETS – WORK SHEET 2

1. Expand:

<table>
<thead>
<tr>
<th>SEBI</th>
<th>IPO</th>
<th>SCRA</th>
<th>NBFC’s</th>
</tr>
</thead>
</table>

2. Define:
   i. **Stock Exchange**

3. Fill in the blanks:
   i. A company’s securities can be traded on a stock exchange only if it is ................. on it.
   ii. The electronic form of holding the securities is called ......................
   iii. A stock exchange year is divided into periods called ......................
   iv. Separation of control and ownership of the stock exchange from the trading rights of the members is called......................................
   v. Individuals, partnership firms or corporate bodies intermediating directly between the buyers and sellers of securities are called......................

4. What kinds of services are offered by the SEBI to the intermediaries?

5. Functions of stock exchange:
   i. Gives ................. and ............... To existing securities
   ii. ............... of securities
   iii. ...............of transactions
   iv. Contributes to .................
   v. Spreading of ......................
   vi. Provides scope for .................
6. **Write any three:**

a. Regulatory functions
   i. 
   ii. 
   iii. 

b. Protective functions
   i. 
   ii. 
   iii. 

c. Developmental functions
   i. 
   ii. 
   iii. 

---

**Basic Questions**

1. Define Financial markets.
2. What are the types of Financial Markets?
3. Define Money market.
4. Name the instruments used to raise funds in the Money Market.
5. Define Capital market.
6. What are the types of capital markets?
7. Differentiate between money and capital markets.
8. What is a Primary market?
9. How can securities be issued in the primary market?
10. What is a secondary market?
11. Differentiate between Primary and secondary markets.
13. What are the functions that are performed by a stock exchange?
15. What are Depository Services?
16. Define a D’mat Account.
17. What were the objectives of establishing Securities and Exchange Board of India (SEBI)?
18. Name the functions performed by Securities and Exchange Board of India (SEBI).

---

**NCERT QUESTION**

‘R’ Limited is a real estate company which was formed in 1950. In about 56 years of its existence the company has managed to carve out a niche for itself in this sector. Lately, this sector is witnessing a boom due to the fact that the Indian economy is on the rise. The incomes of middle class are rising. More people can afford to buy homes for themselves due to easy availability of loans and accompanying tax concessions. To expand its business in India and abroad the company is weighing various options to raise money through equity offerings in India: Whether to tap equity or debt. Market, whether to raise money from domestic market or international market or
Combination of both, whether to raise the necessary finance from money market or capital market. It is also planning to list itself in New York Stock Exchange to raise money through ADR’s. To make its offerings attractive it is planning to offer host of financial plans products to its stakeholders and investors and also expand it’s listing at NSE after complying with the regulations of SEBI.

a. What benefits will the company derive from listing at NSE?

b. What are the regulations of SEBI that the company must comply with?

c. How does the SEBI exercise control over ‘R’ Limited in the interest of investors?

Concept of Financial Market: Money Market and its Instruments

Q1 Name the concepts relating to the following:

1. Market dealing in second hand / previously issued securities.
2. A person working as an intermediary between the buyers and sellers of security in a stock exchange.
4. Agency established to protect the interests of investors.
5. Securities carrying a fixed rate of interests and predetermined time of repayment.

Q2 Define the following terms:

1. Going public
2. Rights Issue
3. Watering Of equity
4. Unorganized capital markets
5. Price rigging
6. Insider Trading

Q3 Nature of money market can well be explained with the help of its features. State any three such features of money market.

Q4 Who are the users of funds in the Capital markets?

Q5 Who are the suppliers of funds in the financial markets?

Q6 Who are the intermediaries in the financial markets?

Capital Market: Types - Primary and Secondary Market

Q1 What is meant by capital market? Explain its nature

Q2 The directors of a company want to modernize its plant and machinery by making a public issue of shares. They wish to approach a stock exchange, while the financial manager wishes to approach a consultant for new public issue of shares. Advise the director whether to approach the stock exchange or a consultant for the new public issue of share and why? Also advise about the different methods available for making the new public issue of shares.

Hint: Stock exchanges are for previously issued shares so the co must approach the consultant for fresh public issue + methods of issue
Q3 Distinguish between primary and Secondary markets on the basis of:
   a. Securities traded in
   b. Sale of securities
   c. Flow of funds
   d. Buying and selling
   e. Prices
   f. Location

Q4 What are the features of capital market instruments?

Distinction between Capital Market and Money Market

Q1 Distinguish between Capital and Money markets on the basis of:
   a. Participants
   b. Instruments
   c. Investment outlay
   d. Duration
   e. Liquidity
   f. Safety
   g. Expected returns

✓ Stock Exchange - Functions And Training Procedure, Depository Services And
D'mat Account.

Q1 Why are stock exchanges treated as Economic barometers of the country?

Q2 Explain the procedure of trading in a stock exchange

Q3 Explain 5 functions of a stock exchange

Securities and Exchange Board of India (SEBI) - Objectives and Functions

Q1 What is meant by ‘insider trading?’

Q2 What does the abbreviation SEBI. Stand for? Explain the term sensex. How many shares
   constitute sensex?

Q3 Explain any 4 regulatory functions of SEBI.

Q4 Explain 4 protective functions performed by SEBI.
Chapter 11: Marketing Management

Practice Questions

1. ‘Find wants and fill them’, ‘create products and sell them’ are the two important concepts of marketing management. Identify the two concepts.

2. ‘Bending the customer according to the product’ and ‘development of the product according to the customer needs’ are the two important concepts of marketing management. Identify the two concepts.

3. Define a trade mark.

4. A salesman approaches you to promote the sales of water purifier. Which communication tool is the marketer using by sending a salesman at your doorstep?

5. State any one objective of sales promotion.

6. For which kind of products is ‘one level channel’ useful?

7. You are a toothpaste manufacturer and you have introduced a new brand of toothpaste in the market. State any one factor that will consider while deciding the price of this product.

8. What is market offering?
9. Why is packaging called a silent salesman?

10. It is an impersonal form of communication, over which the manufacturer does not have any control. Name and define the promotional tool mentioned.

11. Name and define the marketing function which is involved with the movement of goods from one place to another.

12. Name and define the process of classifying the products on the basis of different sizes, qualities, moisture content, and so on.

13. State the three roles performed by a sales man.

14. It includes planning, organising, directing and controlling the activities which direct the flow of goods and services from the producers to the ultimate consumers. Identify and define the concept.

15. One of the popular TV News Channel (in Hindi) seeks viewer’s choice (through SMS) on which of the given four or five main news stories the day would be broadcasted as detailed story at the prime time, to ensure that the viewers get to listen to the story of their own choice. Identify the marketing function performed here.

16. State the channel commonly used for:
   a. Bulbs: ..................
   b. Helmets: ..................
   c. Shoes: ..................
   d. Pulses: ..................
   e. Customized jewellery: ..................
17. ‘Many advertisements of washing detergents, each claiming to offer the whitest wash’ highlights which objection to advertising.

18. When the sales representative of Unilever discovered that the reason for the sale of the competitor’s product is lower prices. Which merit/ feature of personal selling is highlighted here?

19. Which tool of promotion mix can be used to promote: (be as specific as you can be)
   a. A film star: 
   b. A holiday spot: 
   c. Amusement park: 
   d. Laptops (for eg: advertising in tech journals)
   e. A campaign to promote eye donation: 
   f. School: 
   g. Glue stick: 
   h. Tea: 

Basic Questions

1. Define Marketing.
2. What are the functions of Marketing?
3. Explain the Marketing management philosophies.
4. Differentiate between the Marketing management philosophies.
5. Explain the components of Marketing Mix.
6. What are the components of the Product mix?
7. What is meant by branding?
8. What are the features of a good brand name?
9. What is labeling? What information should be included in the label?
10. What is packaging? What are the levels of packaging?
11. What are the functions performed by packaging?
12. Define price.
13. Name the factors that determining price.
14. What is Physical distribution?
15. What are the types of channels of distribution?
16. Name the factors governing the choice of channels of distribution.
17. Define Promotion.
18. What are the elements of promotion?
19. Define advertising.
20. Explain the role of advertising.
21. What are the objections against Advertising?
22. Define personal selling.
23. Explain the qualities of a good salesman.
24. Define sales promotion.
25. What are the techniques of sales promotion?
26. Define public relations.
27. Explain the role of public relations.
Application based questions

1. As marketing manager of a big hotel located at an important tourist destination, what societal concerns would be faced by you and what steps would you plan to take care of these concerns? Discuss.

2. Suppose you are the marketing vice president of an insurance company, planning to design a new mediclaim policy for senior citizens. What information would you like to collect to perform this task and how will you collect such information? Discuss.

3. What shopping products have been purchased by you/your family in the last six months. Make a list and specify what factors influenced the purchase of each of these products.

4. What information is generally placed on the package of a food product?
   Design a label for one of the Ford product of your choice.

5. For buyers of consumer durable products, what 'customer care services' would you plan as a manager of a firm marketing new brand of motorcycle, Discuss.

Case Problem: Nokia takes four-lane road to consumers.

NEW DELHI: After having grabbed a king-size 79% share of the Rs 15,000-crore mobile handset market in India, Nokia India has found a new way of connecting people. The mobile handset manufacturer has embarked upon a brand new retail strategy that is based on a classification of its consumers into four major groups that separates people in terms of usage, income level and lifestyle. The classification is based on an extensive survey – the Nokia Segmentation Study – that was carried over two years involving 42,000 consumers from 16 countries. It studied the impact lifestyle choices and attitudes have on the mobile devices consumers buy and how they use them.

The strategy, which was announced globally in June last year, is being unfolded in India now. While the nitty-gritty of the new strategy is still being worked out, it is likely that the company would follow separate marketing strategies for the four different segments. The advertising campaigns could be different for the segments.

Nokia’s entire product portfolio has now been re-aligned towards these four groups to address the specific needs of each. The first of these segments Live, aimed at first time users whose basic need is to stay in touch with voice as the main driver, would have basic handsets low on features and price.

―These may be functional phones but the target group for these phones range from SEC C (low socio-economic class) to SEC A1+ (very high socioeconomic class) markets,‖ says Nokia India marketing head Devinder Kishore. The second segment Connect looks at more evolved users who look for more functionality and features and connectivity. Accordingly, phones in this segment would have GPRS, camera and music capabilities. The next two categories, Achieve and Explore, are aimed at high-end users and have Nokia’s top-end handsets. For example, Achieve segment looks at enterprise users who need to have business functionalities in their phones.

Nokia’s new E-series has been put under this segment with handsets having QWERTY keyboards and full Internet capabilities. Aimed at high-end lifestyle users, Explore would be the most prominent segment for the company in the coming years. Says Nokia India multimedia business director Vineet Taneja, “This segment would see the most vibrant growth in the coming year. It will look at five different areas – applications, imaging, mobile TV, music and gaming. We are fast developing the ecosystem to support these areas.”
Nokia acquired music solution and content provider LoudEye and GPS solution provider Gate5. It is all slated to launch its most high-profile handset, which boasts of having a 5 mega pixel camera and GPS capabilities apart from iPod quality music, in February. Says Taneja, "There is increasing demand for convergence and multiple functionalities in high-end handsets. The N-series will try to address that." Nokia feels that the new platform strategy wherein different handsets are launched under a platform, like the N-Series, will become a status and style statement and drive numbers.

Source: [www.economictimes.indiatimes.com](http://www.economictimes.indiatimes.com)

**Question:**

1. Identify the four market segments that Nokia plans to address as per the news report above.
2. What is the basis of classification of the market used by the company?
3. What do you mean by realignment of product portfolio? Illustrate this from the case above. Identify the points that can be highlighted in marketing campaigns for each segment.
4. What are the different considerations in the mind of consumers of each segment while purchasing mobile phones as given in the above case?

**Marketing - Meaning, Functions and Role**

| Q1 | What is meant by Marketing Management? | 1 |
| Q2 | What is the modern concept of marketing? | 3 |
| Q3 | What is the traditional concept of marketing? | 3 |
| Q4 | What role does marketing play in an economy? | 3 |
| Q5 | Define Grading. What kinds of products are subject to the process of grading? | 3 |
| Q6 | State any five functions of management from the management point of view. | 5 |
| Q7 | How can marketing help a firm build its goodwill in the market? | 3 |

**Marketing Management Philosophies**

| Q1 | Which concept of Marketing suggests that the organisation should earn profits thro consumer satisfaction and social welfare? | 1 |
| Q2 | ‘Blindly following the goal of customer satisfaction and profit maximization has led to many social and environmental evils.’ Do you agree? What can be done now? | 3 |
| Q3 | Differentiate between the concepts ‘product’ and ‘production’ in marketing keeping the following as base:  
   (a) Focus  
   (b) Means  
   (c) Ends | 3 |
Marketing Mix - Concept and Elements

Q1 Illustrate with the help of an example how the various concepts of marketing mix are inter-related and inter-dependent.

Q2 Explain the components of marketing mix.

Product - Nature, Classification, Branding, Labelling and Packaging

Q1 Give two examples of convenience products.

Q2 At which level of packaging, the immediate container is referred to?

Q3 Explain any three advantages of labeling.

Q4 Explain any three advantages of packaging.

Q5 What is a product? How can products be classified?

Q6 You have been appointed Brand Manager of Ford Motors. The Company is to introduce a Compact small car in the Indian Market. The name of the car is yet to be decided. You have been asked to chair a Brain Storming Session. Before the suggestions come forward you have to briefly explain the participants as to what constitutes a good brand name with the help of suitable examples.

Physical Distribution: Elements; Channels Of Distribution: Types, Function, And Choice Of Channels

Q1 Enumerate any three product related factors that must be considered while taking a decision on the choice of channel of distribution of a product.

Q2 Explain the major activities involved in physical distribution of goods.

Q3 ‘It is necessary that goods and services must be made available to the customers at the right place, in the right quantity and at the right time.’
   (a) Name and explain the concerned element of marketing mix.
   (b) Explain the components of this element.

Q4 What do you mean by ‘Direct channels of distribution.’?
### Promotion - Elements of Promotion Mix

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Q1</strong></td>
<td>What is the basic difference between advertising and publicity?</td>
</tr>
<tr>
<td><strong>Q2</strong></td>
<td>How can promotion tools like premium, contests, free goods and novelties help in motivating intermediaries like wholesalers and retailers?</td>
</tr>
<tr>
<td><strong>Q3</strong></td>
<td>Explain any three features of advertising.</td>
</tr>
<tr>
<td><strong>Q4</strong></td>
<td>‘Advertising encourages sale of inferior and dubious products’ and ‘Advertising confuses rather than helps’. Do you agree? Give reasons.</td>
</tr>
<tr>
<td><strong>Q5</strong></td>
<td>Distinguish between advertising and publicity.</td>
</tr>
<tr>
<td><strong>Q6</strong></td>
<td>‘Automobiles Ltd offered to sell their new bike at almost Rs 4,000 less than the usual price’ is an example of one of the techniques of sales promotion. Name the technique and explain two other techniques with examples.</td>
</tr>
<tr>
<td><strong>Q7</strong></td>
<td>Advertising and Personal selling both are communication tools used by the marketer to promote their products, yet they differ in their approach. Differentiate between them.</td>
</tr>
<tr>
<td><strong>Q8</strong></td>
<td>‘Various tools of communication are used by the marketer to promote their products’</td>
</tr>
<tr>
<td>a.</td>
<td>Name and explain the two most commonly used non-personal tool of promotion which is paid for by the marketer.</td>
</tr>
<tr>
<td>b.</td>
<td>Explain any two merits and two demerits of this tool. (Advertising)</td>
</tr>
<tr>
<td><strong>Q9</strong></td>
<td>‘The amount spent on advertisement is not wasteful but an investment.’ Comment</td>
</tr>
<tr>
<td><strong>Q10</strong></td>
<td>‘It pays to advertise.’ Explain.</td>
</tr>
<tr>
<td><strong>Q11</strong></td>
<td>The manager of ‘Impact Enterprises’ dealing in cosmetics is facing the problem of poor sales. Suggest and explain any four promotional measures that he can undertake to improve sales.</td>
</tr>
<tr>
<td><strong>Q12</strong></td>
<td>‘The present system of marketing is consumer oriented rather than product oriented.’ Critically examine the statement and in the light of the above explain the objectives of marketing management.</td>
</tr>
</tbody>
</table>

### Price: Factors Influencing Pricing

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Q1</strong></td>
<td>Determination of the price of a product is influenced by many factors. Explain any five factors that have an influence on price.</td>
</tr>
<tr>
<td><strong>Q2</strong></td>
<td>You have published a new book on Marketing management. How will you decide its price?</td>
</tr>
</tbody>
</table>
Chapter 12: Consumer Protection

I. As an aware consumer which quality mark would you find on the package of the following products?

<table>
<thead>
<tr>
<th>Products</th>
<th>Quality Mark</th>
<th>Products</th>
<th>Quality Mark</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Fruit juice</td>
<td>7. Wipers of a car</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Refined oil</td>
<td>10. Gram flour(besan)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

II. Name the right of a consumer related in each statement.

a. The producer should not use aggressive selling techniques to sell his products.
   .................................................................................................................................

b. No seller can sell products which are hazardous to life.
   .................................................................................................................................

c. In case a consumer has suffered a loss he can get monetary compensation for the loss.
   .................................................................................................................................

d. ICICI bank has published a series of advertisements enlightening the consumers about use of credit cards, and hidden conditions in seeking loans.
   .................................................................................................................................

e. Packet of Haldiram’s chips carry a phone number on which a consumer can file a complaint.
   .................................................................................................................................

f. The butter paper wrap on Mc Donald’s burger indicates whether it is vegetarian or non vegetarian.
   .................................................................................................................................

III. Which responsibility of a consumer has not been fulfilled in the following cases?

a. Despite it was written on the cover of the face cream that it should be used only after a patch test, Rina applied it on her face and developed an allergy.
   .................................................................................................................................
b. The loose spices purchased by Aditi were adulterated.

c. Saahil found a worm in a chocolate but did not tell anyone as he thought it is small amount, so there is no point in making a complaint.

d. Neha desperately wanted to watch the movie so purchased the tickets from a black marketer.

e. Rohit did not take cash memo for his mobile to save the sales tax.

**Basic Questions**

1. Explain the importance of consumer protection.
2. Who is a consumer?
3. What is meant by consumer protection?
4. Explain the Rights of consumers.
5. What are the responsibilities of consumers?
6. Who can file a complaint?
7. Against whom can complaint be filed?

**Case Problem:**

Now, filing complaint is just a click away. Filing a complaint in a consumer court’s going to get a lot easier by the end of this year, virtually. No matter which part of the country you’re in, it’s going to happen at the click of a mouse. The project, called Confonet (Computerisation and Computer Networking of Consumer Fora), is being executed on a turnkey basis by the National Informatics Centre (NIC).

“Online registration of complaints, the government hopes, will promote e-governance, transparency, efficiency and streamlining of consumer fora,” said an official in the consumer affairs ministry. Of Rs 48.64 crore set aside for the project, the government has released Rs 30.56 crore so far, the official added.

“Besides software development and testing, networking and project implementation, integration and site preparation, it will include purchase of hardware for all the 583 district fora, 35 state commissions and the National Commission,” the official said.

At present, computer systems and system software have been delivered to 25 state commissions and 300 district fora — never mind the fact that it’s sometimes a long wait before the hardware is finally unpacked and set up in some of the districts. Meanwhile, training of staff, sometimes in the classroom and sometimes through e-learning sessions, are in full swing. “But just setting up an online complaint filing system won’t ensure a strong consumer protection movement in the country — for that we’re working on GenNext and the best way to do that is to go to schools,” the official said. The government is, therefore, involving school children to form consumer clubs so as to involve them in various consumer welfare activities.

Part of the funding for running the club is to come from various state governments, with an equally matching grant from the Centre. However, a number of state
governments are yet to sanction the fund — some of these include Uttar Pradesh, Madhya Pradesh and Kerala.

Source: www.economictimes.indiatimes.com

Question

1. What new measure is the ministry of consumer affairs taking to make filing of complaint easy?
2. What role can you as a student play to contribute to the cause of consumer protection?
3. What scenario of consumer protection do you foresee when the measures proposed in the above news report are implemented?

Importance of Consumer Protection

Q1 Who is a consumer according to the consumer Protection Act?  
Q2 Explain in brief any six reasons as to why consumer protection is needed in India.  
Q3 What is the purpose/objective of Consumer Protection Act?

Consumer Rights

Q1 Which consumer right gives the business firms freedom to set up their own consumer service and grievance cell?  
Q2 What is a complaint under The Consumers’ Protection Act, 1986?  
Q3 Explain any three rights of a consumer under the Consumer protection Act.

Consumer Responsibilities

Q1 Rita wants to buy a packet of juice. As an aware consumer, how can she be sure of the quality of juice she plans to buy?  
Q2 Explain the concept of a PIL.  
Q3 A shopkeeper sold you some spices claiming that they were pure. Later, tests showed that they were adulterated. What precautions should you have taken before buying and what remedies are available to you now.  
Q4 Explain any six responsibilities of a consumer to safeguard his interests.

Role of Consumer Organizations and NGOs

Q1 Non-Government Organisations perform several functions for the protection and promotion of consumers. Name any six functions performed by them..