CHAPTER -1

NATURE AND SIGNIFICANCE OF MANAGEMENT

Management is an activity which is necessary whenever there is group of people working in an organization. Management assembles and coordinates various resources such as men, materials, money, methods and machines in the best manner for the achievement of organizational objectives.

Definitions

"To Manage is to forecast and plan, to organize, to command to coordinate and to control" - **Hendry Fayol**

"Management is the art of getting the work done through and with the people in formally organized groups" **- Koontz and O' Donnell**

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Characteristics / Features of Management

1. **Management is a goal oriented process:-** Management always tries to attain the goals and objectives of the organization. It is the duty of management to make maximum results with minimum efforts.

2. **Management is all pervasive (Management is universal):** Management is an essential element of every organized activity irrespective of the size or type of activity. The basic function of management is same in every group activity. Thus management is a pervasive activity

3. **Management is multidimensional:-**

   Management is a complex activity which has three dimensions

   (a) **Management of work**:- All organizations exist for the performance of some work. Eg: In a factory a product is manufactured, in a hospital, a patient is treated. Management translates this work in terms of goals to be achieved and assigns to achieve it.

   (b) **Management of people**:- Despite all improvements in technology' getting work done through people" is still major task for manger. The task of manager is to make people work towards the achievement of organizational goal.

(c) **Management of operations:-** Every organization provides some basic product or service in order to survive. This requires a **production process** of transforming input material and the technology into the desired output for consumption.

4. **Management is a continuous / ongoing process:-** Management is a process because it comprises a series of interrelated functions such as planning, organizing, staffing, directing and controlling that leads to the achievement of desired objectives.it is a continuous process and it does not stop anywhere.

5. **Management is a group activity:-** All enterprises consists of a group of people with different needs. Management is a group activity. It reconciles personal interest with organizational objectives.

6. **Management is a dynamic function:-**Principles of management are dynamic and not static. This is because management adapts itself to the environmental changes and introduces innovations.

7. **Management is an intangible force:-** Management is invisible and intangible. Its presence is visualized by the result of its efforts like high productivity, orderliness, achieved target etc. however one can see only the mangers and not the management because management is what manger does.

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_NATURE OF MANAGEMENT

The nature of management is studied in terms of its dynamic function. There have been arguments on whether management is a science, art, or both or a profession. A close examination into the features of management clearly establishes the fact that the management has the qualities and characteristics of a science, an art and a profession.

(a) Management as an art

Art is the skillful and personal application of a acquired knowledge for the achievement of desired result.It can be acquired through study observation and experience. The main features of art are the following

i. Practical knowledge
ii. Personal skill
iii. Situational
iv. Concrete result
v. Creativity / result oriented approach
vi. Perfection through practice

Management is an art can be seen from the following facts

1. **Practical Knowledge:-** The manager has to perform many valuable functions Such as planning, organizing, staffing, controlling, coordinating etc., which nee practical knowledge and experience. Managers who have practical knowledge can forecast future events and prepare plan accordingly.

2. **Personal skill:-** Management is a personal and individual skill. Every manager has his own style in performing the managerial functions. Since existence of managerial function depends on the personal skill of the manager, one can treat management as an art.

3. **Situational:** Management deals with people who behave differently in different situations. Management has to perform their function on the basis of the particular situation and so managerial functions can be called as an art.

4. **Concrete results:-** Art seeks to achieve concrete result. Management as an art is also directed towards the accomplishment of desired goals.

5 **Creativity:-**Art is basically a creative activity that is an artist produces something which existed never before Likewise management is als creative. a manager efficiently combine the factors of production to create goods and services. Ie. Essence of management is getting things done

6. **Perfection through practice:** Practice makes man perfect. Like other art managerial skill can be improved through constant and dedicated hardworking. A person become an efficient manager after long practice

In short management is the art of getting things done through others because management requires theoretical knowledge and personal skill. Like any other art management is also creative.

(b) Management as a science

Science is the systematized body of knowledge which establishes relationship between causes and their effects. The basic features of science are as follows

- Science is the systematized body of knowledge
- It should establish cause and effect relationship
- This knowledge is obtained through observation and experimentation
- Its principles should have universal application

We can apply these features to management. Management is a body of knowledge. This knowledge is systematic, as it integrates various concepts and principles. The principles of management establish cause and effect relationship between different variables.eg. Lack of balance between authority and responsibility will cause management to become ineffective. Management principles are applicable to all types of organisations irrespective of their nature, size, location etc. Management principles are developed after thorough scientific enquiry. Similarly validity of the management principles can be tested the help of experiments.

Human behavior is depending upon socio economic situations, which go on changing. Absolute measurement is possible in science, but it is impossible in management. Human relations and behavior cannot be predicted. So management is an inexact science (soft science) or social science.Management is both art and science

(c)MANAGEMENT AS A PROFESSION

A profession is an occupation backed by specialized knowledge and training acquired after a formal study. The essential features of a profession are as follows

a. Specialized body of knowledge or technique
b. New entry is restricted by prescribing rigid rules and standard of qualification
c. Establishment of a formal organization to regulate the members
d. There should be an ethical code or standard of conduct which should be followed by the members
e. Priority of service to the society over economic condition.

In order to ensure that management is a profession these features need to be matched with those of management.

1. **Specialised body of knowledge or technique:-** Management is a specialized body of knowledge. It has its own theories, principles and techniques. Management is taught in many universities and colleges. Moreover there is a a number of books and journals in this subject.

2. **Restricted Entry:-**The entry to a profession is restricted through an examination or through acquiring an educational degree. But there is no restriction on anyone being designated or appointed as manager in any business enterprises. Even though professional knowledge and training considered as a desirable qualification., it has not been strictly met in management.

3. **Professional association:-**In every profession there is a statutory association or institution which regulate entry in the profession and grant certificate of practice. Management also formed associations for the regular exchange of knowledge and experience.
   Eg. All India Management Association (AIMA)

4. **Ethical code of conduct.:-**Every profession must have a code of conduct which specifies the norms and professional ethics for its members. The AIMA has framed a code of conduct for managers. The code requires the managers to fulfill their social and moral obligations.

5. **Service motive:-** The primary object of a profession is providing services to the society. Managers recognize their social responsibilities towards customers, workers and other groups.

LEVELS OF MANAGEMENT

In every organization there is a chain of supervisors and subordinators from highest to the lowest. This chain is known as chain of command or management hierarchy. The chain consists of managerial post like chief executive, departmental head, and supervisors. This series of management positions from top to bottom is referred to as levels of management as shown in the below figure.

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TOP MANAGEMENT

Top management is also known as higher level management or administrative management. Board of directors, managing director, general manager, President, Vice president etc. comes under this category. This level of management establishes policies, plans and objectives

Functions of Top management are

- ✓ Determine the objectives of the organization
- ✓ Frame policies and plans
- ✓ Evaluate and control overall performance
- ✓ Coordinating the activities different departments
- ✓ It builds and maintain relations with the outside public
- ✓ They appoint the executives for the middle level.

MIDDLE LEVEL MANAGEMENT

Middle level management consists of heads of various departments (eg. Production manager, sales manager, personnel manager etc.), , superintendents branch managers etc. They are the link between the top management and lower management .Middle management is also known as executory management as they execute the plans of the top management.

Functions of Middle Management

- Receive order and instructions from the top level and pass on tower level.
- Interpret and implement the policies and plans of top management
- Supervise direct and control the lower level managers

- Planning the activities to be carried out their respective departments
- Evaluate the performance of the departmental employees and taking remedial actions if necessary.
- Reporting to the top level management
- Recruit and select the subordinates and provide them leadership and motivation.

LOWER/SUPERVISORY /FIRST LEVEL/OPERATIONAL/BOTTOM LEVEL MANAGEMENT

This level includes foremen, supervisors, finance and account officers, sales officers etc. This level of managers is directly related with the routine functions of the organization. They are responsible for the quality and quantity of work and completion in time.

Functions of Lower level Management:

- Planning of day to day work
- Assign duties to workers and supervise them
- Ensure safety of workers and equipment and solve their problems
- Maintain good personal relations and discipline in the unit
- Sending reports to higher authorities
- Evaluating operating performance
- Taking corrective actions, whenever necessary
- Measurement of performance
- Comparison of performance with standards
- Take corrective actions in necessary.

COORDINATION – The essence of management

Coordination is the orderly arrangement of dissimilar groups of activities to attain the common goals of business. Coordination ensures unity and synchronization of group efforts. Coordination is regarded as the essence of the management and not a separate function. Coordination is the force that binds all the other functions of management. It is the achievement of orderly group efforts and unity of action to in the pursuit of a common purpose. Coordination avoid overlapping and duplication of work

Definition:

" It harmonises, synchronises and unifies individual efforts for better action and betterment of business objectives" - **Henry Fayol**.

Nature / characteristics/ Features of coordination

1. **Coordination integrate group effort:-** Coordination is needed when there is group effort is involved and that group efforts are moving towards the fulfillment of organizational objectives.

2.Coordination ensures unity of action.:- Coordination acts as the binding force between departments and ensure that all action is aimed at achieving the goal of the organization. The heart of coordination is unity of efforts.

3.Coordination is a continuous process:- Coordination is not onetime function but a continuous process. It begins at the planning stage and continues till controlling.

4.Coordination is all pervasive function:-Coordination is required at all levels of management in all departments of an organization

5.Coordination is the responsibility of all managers.

Coordination is the function of every manger in the organization. Top Management coordinate their subordinates work to achieve organizational objectives. Middle level management coordinate with both top level and lower level managers. Lower level managers coordinates the activities of workers to ensure that works proceeds according to plans.

6.Coordination is a deliberate function: A manger has to coordinate the efforts of different people in a conscious and deliberate manner.

IMPORTANCE OF COORDINATION

Coordination is the essence of management. Without coordination management is meaningless. For an organization to effectively and efficiently achieve its objective, coordination is required. Coordination ensures co –operation of all departments of the organization Like a thread in a garland coordination is a part of all management functions . Coordination harmonises the activities of different departments .Coordination is the byproduct of good management. Its importance can be high lightened through the following terms

1. **Growth in size/ Increase in efficiency:-** As an organization grows in size, the number of employees also increases. All individuals differ in their habit of work, background, approaches to situations, relations to others. So it becomes quite essential to integrate their personal goals with organizational goals to smooth functioning of organization.

2. **Functional differentiation:-**In an organization there may be separate departments of production ,finance, marketing and human resources . All these departments may have their own policies , objectives, strategies etc. So there may arise conflict between them. Therefore coordination is essential to link the activities of various departments.

3. **Specialisation:-**In modern business organization, there is high degree of specialization arising out of the complexities of modern technology and diversification. So there requires some mechanism to coordinate the efforts of various specialists in an organization.

4. **Importance to human relations:** There is a high degree of specialization in modern business**.** Specialisation arises the complexities of modern technologies and diversity of task needed to be performed. So there should be some mechanism to coordinate the efforts of various specialists in the organization

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5. **Unity in diversity.** In many organisations there are large number of employees. They have different ideas , culture, views etc.it is only through co ordination we can bring about unity in diversity

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CHAPTER 2
PRINCIPLES OF MANAGEMENT

FAYOL'S PRINCIPLES OF MANAGEMENT

Henri Fayol is popularly known as the Father of Modern general management. .Fayol concentrated management at top level .In the year 1916 , he published his well-known book ' Industrial and General administration' in French language.

Fayol was the first to identify four functions of management – planning, organizing, Directing and controlling although his version was bit different- Plan, organize, command, coordinate and control.

Henri Fayol suggested 14 principles of management for the running the business effectively. They are as follows

1. **Division of work:-**Work is divided into small tasks/jobs .Division of work promotes specialization and avoid waste of time and effort . By doing the same work again and again as the worker gains speed and accuracy. This principle is applied to technical as well as managerial duties.

2. **Authority and Responsibility:-** Authority is the right to give orders to the subordinates and responsibility is the duty in which the subordinates are expected to perform. This principle states that authority and responsibility are co-existing. If the authority is granted to a person he should also be made responsible. Similarly if

anybody is made responsible for a task , he should sufficient authority for getting the work done. Thus there must a parity between authority and responsibility.

3. **Discipline** : Discipline means getting obedience to rules and regulations of the organization it is essential for the smooth running of the business

4. **Unity of Command:** This principle states the employee should receive order from one superior only. He should be accountable to only one superior only. He should be accountable to only one superior. The violation this principle will leads to the following consequences
   (a) Overlapping of orders and instructions (b) difficulty in maintaining discipline and (c) permanent source of conflict.

5. **Unity of direction**:- This principle states that for a group activities having the same objective, there should be one head and one plan. It helps in the effective management of the organization. If the principle is not followed, there will be unnecessary duplication of efforts and wastage of resources.

6. **Subordination of individual interest to general interest.-**An organization is superior to individuals. This principle states that harmony of personal interest and common interest. When the individual interest and common interest differ it is the duty of the manger to reconcile them.

7. **Remuneration of employees**

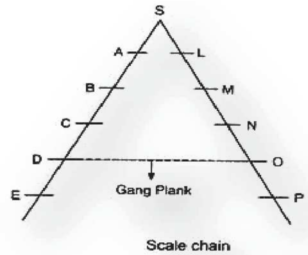
Remuneration should be just and equitable. It should be satisfactory both to the employer and employee. Fair remuneration motivates and keeps up the morale of workers.

8. **Centralisation and Decentralisation**:-

The concentration of decision making authority at the top level is called centralization where as it dispersal to the lower levels is known as decentralization. According to Fayol an organization should strive to achieve a balance between centralization and decentralization.

9. **Scalar chain**:- scalar chain refers to 'the chain of superiors ranking from the ultimate authority to the lowest level in the concern'. It states superior- subordinate relationship throughout the concern and is necessary to ensure unity of command and effective communication. This chain should not be violated in the normal course of formal communication.

However fayol is not in favour of very rigid scalar chain. He had suggested short circuiting the chain of command where emergency decisions are to be taken. This process of short circuiting is called **gang plank**



Suppose ‘ D ’ wants to communicate ‘ O ‘ under scalar chain. D should first of all communicate with ‘ S ‘ through C , B , A and ‘ S ’ has to communicate with ‘ O ‘ through L M and N. In gang Plank ‘D ‘ allowed to communicate with ‘O ‘ directly. This is used in urgent situation only.

10. **Order:-** Order is the arrangement of things and persons in the proper place. According to Fayol , there should be a place for everything and every one. Ie. The right man and the right thing must be in the right place. Order, according to fayol has two components. (a) material order (b) social order. Arrangement of things is known as material order. Arrangement of people is known as social order.

11. **Equity:-** The principle suggest that a fair and just treatment is assured to people in similar positions. Eg. Worker doing the same job should have equal pay. It implies that superiors should be impartial while dealing with their subordinates .Favoritism and nepotism should be avoided.

12. **Stability of tenure of personnel:-**According to Fayol a worker should not be moved from one job to another frequently. Time is necessary for employee to adapt his work and perform it effectively.. Frequent changes of personnel increases cost of selection and training .

13. **Initiative**:- according to this principle , subordinates should be given an opportunity to take initiative in making and executing the plans. It will increase the zeal and energy of employees and help them to be creative.

14. **Esprit de corps (union is strength):-**This principle implies that there should be coordination and team work among the members of an organization. Management must take steps to develop a sense of belongingness among the members of the work group. Team spirit helps in developing an atmosphere of mutual trust and understanding. It inspires people to work harder and improve the quality of work

TAYLOR’S SCIENTIFIC MANAGEMENT

*** F.W. Taylor was the first person to introduce scientific methods in the management process. F.W.Taylor was born in Philadelphia in 1856. He started his career as a mechanist and rose to the position of chief engineer of Midvale steel works. He published his studies through his entitled “ a piece rate system “ and “shop Management”. His famous book “principles and methods of scientific management‘ was published in 1911. That is why; Taylor is regarded as father of scientific management.”
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SCIENTIFIC MANAGEMENT- MEANING AND DEFINITION

Scientific management refers to the application of science to management practices. It involves the replacement of rule of thumb or trial and error method by scientific and systematic approach in decision making.

“**Scientific management means knowing exactly what you want men to do and seeing that they do it in the best and cheapest way**.” -Fredrick Winslow Taylor (F.W.Taylor)

Principles of Scientific management

Taylor formulated the following principles for managing the organization scientifically

1. **Science, Not rule of Thumb**

The development of science for each element of man’s work which will replace the old rule of thumb method.(trial and error method). The basic principle of scientific management is the application of scientific method in solving business problems. Through scientific analysis and investigation, the best method of doing a work can be developed.

2. **Harmony , not Discord (close co ordination between management and workers)**

Taylor emphasized that there should be complete harmony between the management and workers. Taylor believed that the basic interest of the workers and management are same ie. To get more. Management should share the gain of the company if any with the workers . Workers on their part should work hard with discipline and loyalty. both should be part of the family.

3. **Co -operation, not individualism**

There should be complete co- operation between the labour and the management instead of individualism. Competition should be replaced by co –operation. Both should realize that they need each other. This can be achieved through a change in mental attitude of workers and the management towards each other.

The responsibility of both the managers and the workers should be clearly defined. Planning and organizing the work should be the responsibility of managers. The execution of the planned work is the responsibility of workers.

4**.Development of each and every person to his or her greatest efficiency and prosperity**

Under scientific management right men are selected for right jobs. The procedure for selection of workers should be designed scientifically. Management is responsible for their scientific education and training. The management and the workers should try to achieve maximum output in the place of restricted output. This will be beneficial to both the parties.

Mental Revolution

The basic idea behind the principles of scientific management is to change the mental attitudes of the workers and the management towards each other. Taylor called it **'mental revolution'** .

Mental revolution has three implications

- All efforts for increase in production
- Creation of spirit of mutual trust and confidence
- Developing a scientific attitude for solving problems

The management and workers should realize they require one another. Management should share a part of surplus with workers. Workers should perform their jobs with ultimate loyalty and discipline This attitude will be good for both of them and ensure the prosperity of the business.

Techniques of scientific management

To bring scientific management into practice, Taylor suggested the following techniques

1. **Functional foremanship**

F.W.Taylor suggested that specialization should be introduced in the factory. He advocated 'Functional foremanship' for this purpose. Under this system planning and execution are separated from each other. According to this, eight supervisors are supervising the the same worker on eight different aspect of the work.

The supervisors from planning / office levels are

i. **Instruction Card Clerk**:- To lay down the exact method of doing work

ii. **Route Clerk**:- to lay down the sequences of operations and direct the workers to follow the same

iii. **Time and cost clerk**:- To lay down the timetable for doing various jobs and to maintain the cost of the work.

iv. **Disciplinarian:**-To enforce rules and regulations and maintain discipline among workers.

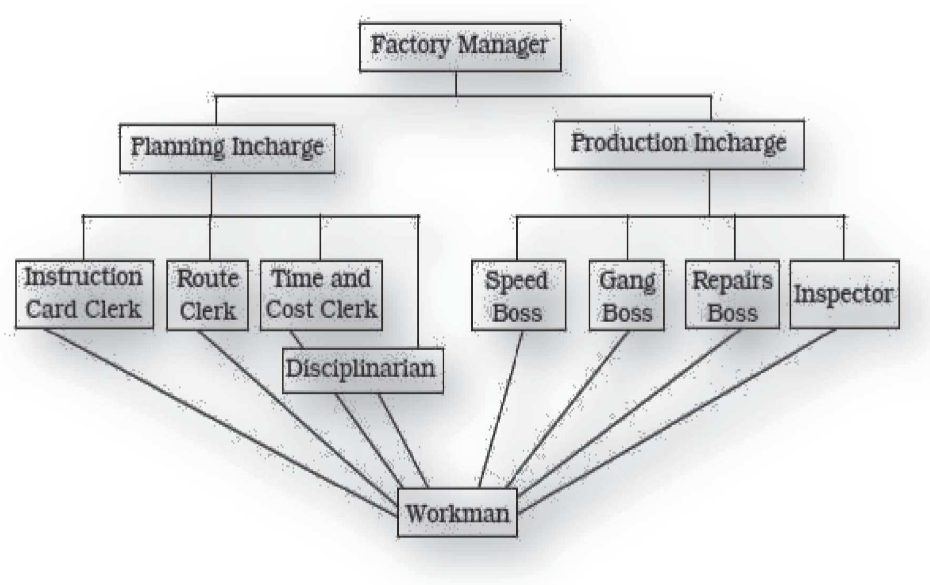
The supervisors in the production/shop level are

i. **Speed boss:-** to determine appropriate speed to run the machines

ii. **Gang boss**:- To assemble and set up machines and tools for a particular job.

iii. **Repair Boss**:- To responsible for keeping the machines and equipment in working order.

iv. **Inspector**:- To check the quality of the work done



Functional Foremanship

2. Standardization and simplification of work

Standardisation involves setting up of standards in every phases of business operation. It includes uses of standard tools and equipment., methods or lines of product, working conditions etc. for maximization of output. Standardization would help to

- ✓ Reduce spoilage and wastage of materials
- ✓ Improve the quality of work
- ✓ Diminishing cost of production
- ✓ Reduce fatigue of workers

Simplification means elimination of superfluous sizes ,varieties and dimensions . Its aim is to eliminate unnecessary diversity of products and thereby reduce costs.

3. Method study

The objective of method study is to find out one best way of doing a job. It helps a lot in handling, transporting and storage of raw materials and goods. The aim of this study is to maximize efficiency in the use of materials, machinery and other factors of production by improving work methods.. Taylor devised the concept of assembly line by using method study

4. **Motion study**

Motion study involves close observation of movements of the workers and machines to perform a particular job. It helps to eliminate wasteful movements and to select the best method of doing a job.

5. **Time study**

It is the determination of time required to complete a particular study. Ie. Fixing standard time for each job. Time measuring devices are used for each element of work. The objective of time study is to determine the number of workers to be employed, frame suitable incentive schemes and determine of labour costs.

6. **Fatigue study**

Continuous work causes physical or mental fatigue. Fatigue study tries to identify the amount and frequency of rest required in completing the work. Rest pauses and intervals should be scientifically determined.

Work study is the term used to embraces the techniques of method study, motion study, time study and fatigue study.

W**ork study = method study + motion study + Time study + Fatigue study**

6. **Differential Piece Rate System**

Taylor suggested the use of a differential piece rate system in order to motivate workers to produce the maximum quantity. He wants to reward efficient workers. Under this system of wage payments two piece rates are laid down

1. A low piece rate for those who are below the standard

2. A high piece rate for those who are at or above the standard task

Standard task is determined after the time and motion study. Suppose a fair day's work is 10 units and two workers A and B produce 8 units and 12 units respectively. If the two piece rate re.1 and Rs.1.50 per unit. Worker A will get Rs. 8 (8X1) and worker B will get Rs 18 (12 X1.50).

Difference between unity of command and unity of direction

Basis	Unity of command	Unity of direction
meaning	One subordinate should receive orders from and should be responsible to only one superior	Each group of activities having same objective must have one head and one plan
Aim	It prevent dual subordination	It prevent overlapping of activities
Implications	It affect an individual employee	It affect the entire organisation

FAYOL VERSUS TAYLOR – A COMPARISON

BASIS	HENDRY FAYOL	F W TAYLOR
1. status	Father of administrative (General) Management	Father of scientific Management
2. Attention	Focuses on the top level management	Focuses on the operational level management
3. Applicability	Applicable universally	Applicable to specialized situations(factories)
4. emphasis	Improve overall administration(stress on human aspect)	Stress on increasing productivity (not the human aspect)
5. personality	practitioner	Scientist
6. Results	Personal experience	Observation and experimentation
7. Unity of command	Strictly followed	Not considered as important. Under functional foremanship a worker receives order from 8 specialists

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CHAPTER -3
BUSUINESS ENVIRONMENT

Business is an economic activity. It has direct and indirect relationship with society. No business can exist in the society without considering the forces such as government, competitors, customers, suppliers, creditors etc.

Definition

' Business environment is the aggregate of all conditions, events and influence that surround and affect it.' – **Keith Davis**

Business environment is the sum total of all the factors and forces in society which has direct or indirect influences on business and its activities.

IMPORTANCE OF BUSINESS ENVIRONMENT

Successful business persons would be those who may be ready to adapt to its environment. An in-depth understandings of the environment helps in planning and policy formulation. The importance of the environment is discussed under the following heads

1. **Identifying business opportunities and getting the first mover advantages**

   Identification of opportunities possible only through awareness of environment. Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors. Eg:- V – Guard establishing their amusement park Wonder la, MarutiUdyog Ltd is small car segment, Eastern's packed food items (ready to eat, ready to cook items) etc.

2. **Identify threats and early warning signal**

   Threats refer to environmental changes that will hinder a firm's performance. Environmental awareness helps mangers identify various threats. It provides the business early warning signals to plan its future course of action.

6. **Tapping useful resources:-**

   Environment is a source of various resources to business enterprises. Environment provides inputs such as materials, machines, finance water, lab our etc. to the enterprises. The enterprise assembles these inputs. The enterprise in turn supplies the environment with its outputs such as goods and service for customers, taxes to govt. etc. thus environment act as a sources of inputs and an outlets for outputs.

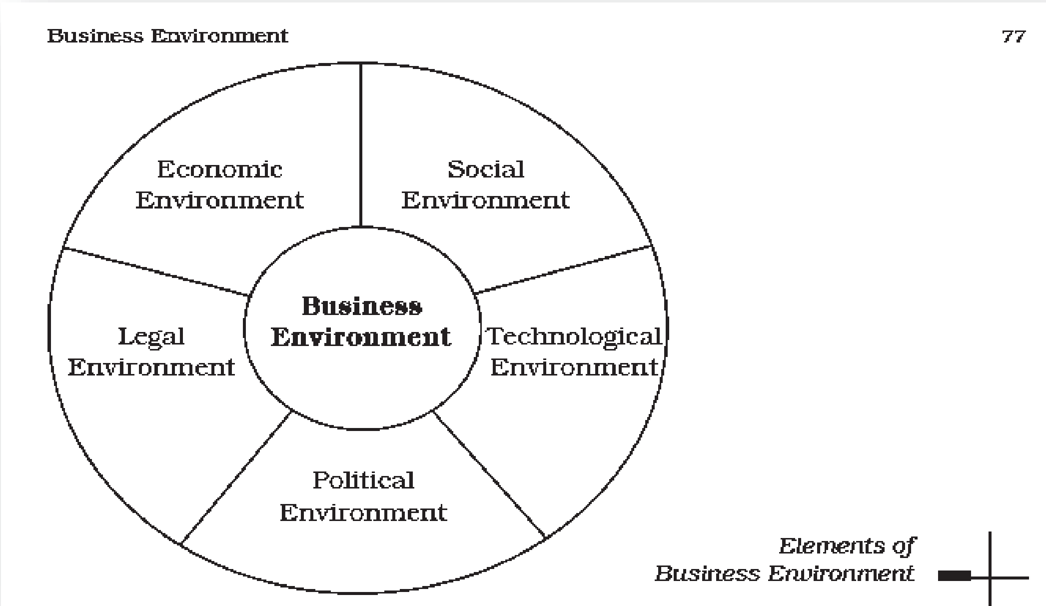
7. **Coping with rapid changes:-** Today's environment highly dynamic. To cope up with rapid changes in the environment, management must be dynamic and examine the environment and develop a suitable course of action to withstand competitors in the market.

8. **Assisting in planning and policy formulation:-** Environment provides both opportunities and threats to a business. Environmental monitoring gives vital information which can be taken as the basis for deciding the future course of action (planning) or framing guidelines for decision making (policy)

8. **Helps in improving performance**:- The future of environment is very much linked with what is happening the environment. Those enterprises which continuing monitor their environment and adapt suitable policies and business practices will improve their performance

DIMENSIONS / FACTORS / ELEMENTS OF BUSINESS ENVIRONMENT

Dimension of business environment include economic, social, political, technological and legal conditions. Influences of these factors are very relevant in the decision making process and for improving the performance of a business enterprises



The various factors constituting the general environment of business is given below

1. **Economic Environment:-**

Economic environment refers to all factors which have an economic impact on business. It includes tax and interest rates, insurance, foreign Investments, Corporate profits, Inflation rates, employment rates, foreign trade balances, liberlisation, privatization, Disinvestment etc. Economic environment has three aspect such as economic conditions, economic policies and economic system of the country. Scanning of economic environment helps a business enterprise to take advantage of these situations.

2. **Social environment:-**

Social environment means social and cultural factors that affect business directly or indirectly. These social factors include attitude of people cultural heritage, life style, customs and belief of people, literacy rate, birth and death rat e, education system demographic distribution etc . Various social problems like concern for environment, demand for socially responsible making, need for safety in product etc also affect in business. The business should adapt a business strategy which should be suitable to socio cultural environment.

3. **Technological Environment**

Changes in technology have rendered several traditional production processes obsolete. Several new products with added value series have replaced conventional products. Introduction of digital cameras, Internet banking, ATM's, Phone banking, BPO are some of example for this. The preferences and likings of consumers change with technological advancement. Luxuries of yesterday become the necessities of today. Every business organization should made use of the advantage of technological innovations with a view to improve quality of product.

3. **Political Environment**

Political and government environment means attitude of government towards business. Stability of government and policies of ruling party has great impact on business. Political ideology ofgovt. ,philosophy of political parties, relation of state and central govt. are the elements of political environment. Governments. can restrict or prohibit certain business activities. So the working of the business should be in tune with the thinking of political parties and voters.

5. **Legal Environment**

Legal environment involves the legislation passed by the parliaments and state legislature. Legal environment can be defined as the legal enactments made by the government with a view to control the business. In India business is regulated with the help of the following legislation

(a) Trade Mark Act 1969, (b) Essential commodities Act -1955 (c) Companies Act 1956 (2012) (d) Industrial dispute at -1947 (e) Consumer protection Act – 1986 (f) Factories Act -1948 (g) Industrial dispute Act -1947 (h)workmen Compensation Act 1923 etc.

ECONOMIC ENVIRONMENT IN INDIA

The year 1991 marks a turning point in India's economic history. Till 1991 India followed an economic policy with a socialist bias. Primacy of the public sector, control and regulation of private sector, protection to domestic industry through high custom duties, progressive taxation was the important features of socialist economic policy.

Since 1991 India has been going an economic reform. We now adopted a policy of liberlisation, privatization and globalization. We have started modernizing the county's industrial system. Unproductive controls are removed. Private investment including foreign investments is being encouraged. The policy iterates the objectives employment generation, reduction of socio economic disparities, removal of poverty and attainment of self-reliance

Features of 1991 Industrial policy:-

- ✓ Licensing has been abolished for most of the industries
- ✓ Most of the industries reserved for public sector under earlier policy were de reserved
- ✓ Disinvestment was carried out in case of many public sector Industrial enterprises
- ✓ Liberalize the inflow of direct foreign direct investment
- ✓ Automatic permission was now granted for technology agreement s with foreign companies
- ✓ FIPB(Foreign Investment Promotion Board) was set up to promote and channelize foreign investment in India

Liberlisation, Privatisation and Globalisation (LPG) became the guiding principles of the new industrial policy

2. **Liberlisation:**- Liberlisation means liberating the economy from unnecessary controls and regulations. It means the end of license- permit- quota raj. . The old policy of permit, licenses, and quotas discouraged private enterprises. The new policy allowed industries to expand their

capacity freely as per the need of the market. Through delicensing and decontrols it frees the economy from restrictions. Licenses and permits have been replaced by broad guidelines. It simplifies the procedures of export and import.

3. **Privatisation:-** Under this policy the private sector is allowed to play a major role in economic activities. This is opposite to nationalization. Privatisation means private ownership, control and management of public sector units(PSU) passing to the private sector.it involves

    i. Disinvestment of a part of shares held by government in PSU
    ii. Dereservation of areas formally reserved for the public sector.

4. **Globalisation:-** Globalisation means integrating the economy of a country with the world economy. It views entire world as a single market. Globalisation refers to the process of increasing economic integration and growing economic interdependence between the counties in the world economy. It is also known as neo-liberalism. Globalisation has four parameters

    i. Free flow of goods and services across nations
    ii. Free flow of capital among nations
    iii. Free flow of technology between nations
    iv. Free flow of Labour among different nations

CHAPTER-4
PLANNING

Planning is the fundamental function of management. it is the foundation on which other functions like organizing, staffing, directing and controlling activities are based. Planning lays down objectives and the steps necessary to achieve them. Planning is a continuous process. It is not exclusively the function of top management. Every manger in the organization performs some planning

MEANING AND CONCEPT

Planning is deciding in advance what is to be done, when is to be done and by whom. It is a process which involves thinking before doing. Forecasting is the essence of planning. Planning brides the gap between where we are and where we want to go. .

"Planning is deciding in the present what to do in the future" - ***Philip Kotler***

" Planning is deciding in advance what is to be done. It involves the selection of objectives, policies, procedures and programmes from among alternatives" -

-M.E.Hurley

FEATURES/ NATURE/ CHARACTERITICS OF PLANNING

The following are the important characteristics of planning

1. **Planning is goal oriented:-** Planning involves selecting the objectives and developing steps necessary to achieve them. Unless objectives are known a manager cannot do any planning

2. **Planning is the primary function of management(Primacy of management)**

It is the primary function of management because all other functions are performed within the framework of plan drawn. Without planning, there is nothing to organize, no one to coordinate and no need to control. Thus planning lays the foundation for other managerial function.

3. **Planning is pervasive:-**Planning is required at all levels of management as well as in all departments of the organization. Managers at the top level prepare long-term plans for the organization as whole, mangers at middle level formulate departmental plans nad mangers at lower level prepares operating plans.

4. **Planning is Futuristic (forward looking):**-Planning is looking ahead and preparing for the future. Planning is concerned with deciding in the present what has to be done in future.
5. **Planning involves decision making:-**Planning is the process of choosing the best alternative among the alternative courses of action. There is no need of planning if there is only one way of doing things.

6. **Planning is continuous :-** Planning is continuous and never ending process. Plans need to be modified or new plans are to be undertaken. Thus planning is a continuous process.

7. **Planning is mental exercise:-** Planning is a mental exercise involving creative thinking and imagination. Planning requires a conscious determining of course of action on the basis of goals , facts and considered estimates. Thus planning is a process of thinking before doing.

PLANNING PROCESS (STEPS IN PLANNING)

Planning is deciding in advance what to do and how to do. The various steps involved in planning process are as follows

1. **Setting objectives:-** The first step in planning is setting objectives. Objectives are the goals which the management seeks to achieve. It must be specific and clear. The objectives should be for the organization as a whole and then must be broken down into departmental and sectional objectives

2. **Developing planning premises.-** Planning is done for the future , which is uncertain. Certain assumptions are made about the future environment. The assumptions are known as planning premises. It involves anticipation of future demands, competition, technology, economic conditions etc. Planning premises may be internal or external. It also can be controllable andnon-controllable.

3. **Identifying alternative courses of action:-** The next step is to search for and examine alternative courses of action. There probable consequences also be assessed.

4. **Evaluating Alternative courses:-** Evaluation of alternatives is the process of examining the benefits and defects of various alternatives . Generally the alternatives are analysed on the basis of costs, risks , benefits, after effects etc.

5. **Selecting the best alternative:-** After studying the advantages and limitations of all the alternatives the most suitable one is selected. In fact planning is the process of finding out this best alternative

6. **Implementing the plan:-** Implementation of plan means putting plans into action so as to achieve the objectives of the business. Proper implementation leads to the success of plan

.

7. **Follow up action:-** Follow up is essential to appraises the effectiveness of planning. This will help in detecting shortcoming and taking remedial measures well in advance. Monitoring the plans is equally important to ensure that objectives are achieved

TYPE OF PLANS

Plans can be classified into several types depending on the use and the length of the planning period. Planning can be classified into two broad categories

1. Single use plan **2. Standing plan**

Single use plan and standing plans are part of the operational planning processes

Single Use plan (adhoc plan)

A single use plan is developed for a onetime event or project or particular situation. That is non-repetitive in nature. It ceases to exist once the purpose is over.

Eg:-programmes, budgets, projects, strategies etc.

Standing Plans:- Standing plans are used repeatedly in situation of similar nature. They are made to achieve uniformity and unity of efforts. That serves as ready guides to action.

Eg:- objectives, policies, procedures, rules etc.

1. OBJECTIVES:-

Objectives are defined as ends with which the management seeks to achieve by its operations. Objectives are' goals established to guide the effort of the concern each of its components'. Objective indicates the destination of the organization. They serve as a guide for overall business planning. Eg:- increasing the sale of a product by 5%

.

2. STRATEGY :

Strategy means a specific programme of action for accomplishment of enterprise goals. Strategies are plans made in the light of the plans of the competitors. This comprehensive plan includes three dimensions

- ✓ Determining long term objectives
- ✓ Adapting a particular course of action

- ✓ Allocating resources necessary to achieve the objectives

Strategies are single use plans because they change frequently in accordance with market condition.

3. POLICY

Policies are general statements formulated to provide guidelines in decision making to various mangers. A policy tells the members of the organization to how to deal with a particular situation. Every executive has to honour policy and his decisions should not violate it.

Eg:

1. An enterprise may adopt a policy of employing only local people
2. Promotion is based on merit only.
3. It may have a policy not to employ any people over 60 years of age

4. PROCEDURE

Procedure is guide to action. They tell how a particular action is to be carried out. Procedure is a series of steps established to accomplish a specific project.it prescribes the exact manner in which the polices are to be implemented.

Eg: purchase procedure, procedure for recruitment.

5. METHOD

Methods provide detailed and specific guidelines for day to day action. It explains how each step in the procedure is to be carried out. It deals with a best way to carry out a particular task. It is a standing plan

. Eg: methods of wage payments like piece rate system and Time rate

6. RULES

Rules are the prescribed guidelines for conducting an action. They specify what should be done or not to be done a given situation. A rule is rigid and definite leaving no scope for discretion or deviation. They facilitate discipline and uniformly in action in the organization.

Eg :

I. No smoking
II. No admission without permission
III. .Employees should report for work daily at 10 am

7. PROGRAMME

Programme includes all the activities necessary for achieving a given objective. Programmes are the combination of policies, procedures, rules and budgets. It is action based and result oriented.

Eg:

i. Manufacturing 1000 mobile phones in july 2015
ii. Introducing a new product in the market
iii. Opening 10 branches in the different part of the country.
iv.

8. BUDGET

'A budget is a plan as a statement of expected results expressed in numerical terms'

-Koontz and O Donnell

A budget is a plan for allocation of resources. It expressed in numerical terms such as rupees, product units and manpowers.It is an instrument both planning and control.Cash budget, production budget, sales budget and master budget are the important budgets in business.

CHAPTER -5
ORGANISING

MEANING AND DEFINITION

Organsing is the process of arranging people and physical resources to carry out plans and accomplish organizational objectives. Organising is concerned with establishing interrelationship among jobs, sections, departments and positions.

'organising is the process of defining and grouping the activities of the enterprise and establishing authority relationships among them' **-Theo Haimann**

' organizing is the process of establishing effective authority relationships among selected works, 'persons and work places in order for the group to work together effectively "

- George.R .Terry

IMPORTANCE OF ORGANISING

Organization is the frame work through which mangers get things done through others. Sound organization is the backbone of effective management due to the following reasons

1. **Benefits of specialization:-** In the process of organizing work is divided and subdivided into convenient jobs. Similar jobs are grouped into departments. Thus organizing promotes specialization which in turn leads to efficient and speedy performance of tasks.

2. **Clarity in working relationships**:- Organising defines each job and clearly differentiates the work of one from the others. It helps to remove duplication of work and fixation of responsibility. The role, tasks, authority, responsibility of each job clearly spelt out.

3. **Optimum utilization of resources:-** The proper assignment of job avoids overlapping or duplication of work results in preventing confusion and minimizing wastage of resources and efforts

4. **Adaptation of Changes:-** A properly designed organization structure is flexible. It facilitates adjustments to changes due to changing conditions in the external environment with respect to technology, markets, products etc.

5. **Effective administration**:-Organisation provide clear description of jobs and related duties. This leads to avoid confusion and duplication. Clarity in working relationship enables proper execution of work. This brings effectiveness in administration.

6. **Development of personnel:-** Organising provides creativity among managers. Through delegation, mangers can get their work reduced by assigning routine jobs to their subordinates. By doing so , subordinate get an opportunities to develop .ie. developing new methods and ways of performing tasks

7. **Expansion and growth:-** Sound organization can alone provide smooth expansion and avoidance of problems caused by rapid growth of an enterprise.

ORGANISATION STRUSTURE

Organisation structure is the outcome of the organising process. An organization structure is the pattern of authority – responsibility relationships among various levels of management and other personnel of the enterprise .it is the frame work within which manager and other employees perform their various functions

Organisation Chart:- is the diagrammatical representation of the organization structure. It shows the relationship between different authorities.it also shows the systematic channel for communication.

ELEMENTS OF ORGANISATION STRUCTURE

1. **Job design:-** The various tasks to be accomplished under each job and qualities, skills and qualifications required to undertake the job is specified in job design.

2. **Departmentation:**- Once the jobs are defined , similar jobs are grouped together to form a department. It is called departmentation.
3. **Span of control/ management**.:- Span of control is the number of subordinates that a supervisor can effectively manage.The number of superior subordinate relationship increases geometrically with the increase in the number of subordinates

   .
4. **Delegation of Authority**:- Delegation authority means granting authority to subordinates to operate within prescribed limit. Delegation of authority is the essence of sound organization.

TYPE OF ORGANISATION STRUCTURE

Organisation structure is a structure of relationships between various positions of the enterprise. The structure of organization can be classified under two categories. They are:

1. Functional structure 2. Divisional Structure

1. Functional Structure:-

A functional structure is are in which all business activities are divided into various functions and each function is entrusted to a specialist department manager. The functions of each department must be clearly defined. In functional organizational structure each major functions of business is considered as separate department. All departments reported to a coordinating head.

Advantages:

1. It is very simple to understand and logical in classification
2. It provide specialization . Thus making possible efficiency in operation
3. It facilitate delegation of authority
4. It facilitate coordination of activities within each department
5. It eliminate costly duplication of efforts

Disadvantages

1. When the organization grows, it will be difficult to coordinate all functions
2. Slow adaptation to change in environment
3. Responsibility for profits is at top only
4. Conflict of interest may arise when the interests of departments are not compatible
5. Limits the development of general managers.

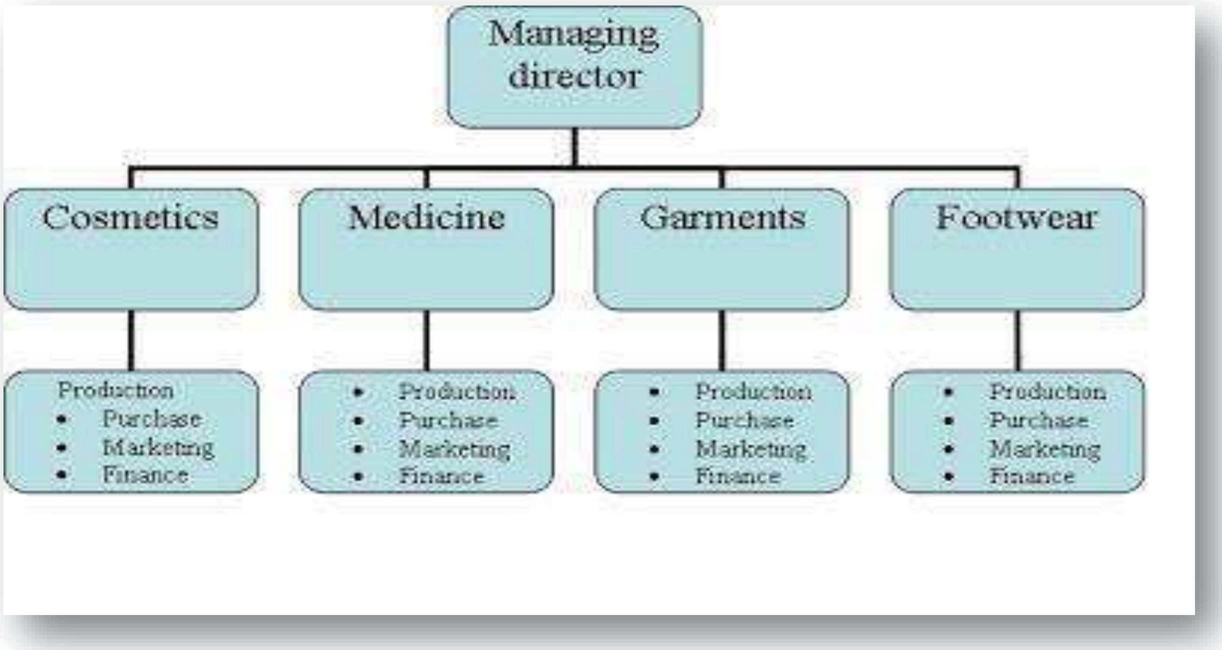
Suitability:-It is suitable when

- Size of enterprise is large
- There are diversified activities

- An enterprise requires high degree of specialization

Divisional structure/ product structure

Divisional structure is the division of organization on the basis of products. In this structure the products come under similar category are grouped together and it is called division. Each division will be under the charge of a separate manager. Each division may be subdivided into production, sales, finance and personnel activities.



Advantages:

1. It brings about efficiency and economy of operations
2. It gives freedom of action to each division
3. Decision making can be faster and effective
4. It focus individual attention on each product line which facilitate expansion and diversification

Disadvantages:

1. There is a duplication of different functions and equipment in various divisions
2. Each division may function as autonomous units and it leads to lack of coordination
3. It is not suitable to small business ,it is a costly affairs
4. There may be underutilization of plant capacity when demand for particular product is inadequate.

Suitability: It is most suitable when

- Large variety of products are manufactured with different productive resources
- When an organization grows and needs to add more employees , create more departments, introduce new levels of management, it will decide to a divisional structure.

DIFFERENCE BETWEEN FUNCTIONAL STRUCTURE AND DIVISIONAL STRUCTURE

FUNCTIONAL STRUCTURE	DIVISIONAL STRUCTURE
1.Focus on Functions- production, finance, sales etc.	1. Focus on products, territories etc
2. Occupational specialization	2.Product specialization
3 . Less autonomy in operation	3 . More autonomy in operation
4 . It is economical	4 .It is expensive
5 .Simple Structure	5 . Complicated Structure
6 . Control of department is simple	6 . Control of division is difficult
7 . Coordination between departments is difficult	7 .Coordination between divisions is simple.

FORMAL AND INFORMAL ORGANISATION

Relationship between individuals in the organization can be classified into formal and informal organization

FORMAL ORGANISATION: Formal organization means the organizational structure designed and established by the management to achieve organizational goals. It is the structure authority, responsibility, line of command , clear definition of jobs will be specified.

'The formal organization is a system of well-defined jobs each bearing a definite measure of authority, responsibility and accountability." **Louis Allen**

"formal organization is a system of consciously coordinated activities of two or more persons towards a common objective"- **Chester Barnard**

Features of Formal organization:

1. It is deliberately created by top management to achieve common goals
2. It is based on specialization or division of labour
3. It defines clearly the authority and responsibility of every person
4. It has written rules and procedures
5. It specifies the official lines of communication and official relationship
6. It emphasis jobs or positions and not individuals
7. It is impersonal

Advantages of Formal organization

1. Organizational work can be done orderly and systematically
2. Avoid duplication of work (3). Unity of command is maintained

(4)It provides stability to the organization (5) Co ordination is possible

Disadvantages of Formal organization

(1)It may leads to procedural delays (2) Inadequate recognition of creativity
(3) Social needs of employees are not looked into (4)t places more emphasis on structure and work

INFORMAL ORGANISATION:- People working together in the formal organization interact or communicate with each other in the course of work. Gradually they develop friendly relationships and form small social groups. The network of these social groups based on friendship is known as informal organization. Thus informal organization is the system of social relationship among the members of a formal organization. These relations are highly in personal in nature.

"informal organization is the network of personal and social relationships not established or required by formal organization" **-Keith Davis**

characteristics of Informal Organisation

1. It arises spontaneously and not preplanned
2. Its relationship is based on social , emotional and psychological needs
3. It is voluntary organization(4) It is based on personal preference and understandings
   (5) It reflects human relationships (6)It has no definite structure or form.
   (7) No written rules and regulations (8) It is highly flexible.

Advantages of Informal organization

1. Quick Communication is possible (2) Give importance to social needs of employees (3). It fills the inadequacies of formal structure.

Disadvantages of Informal Organisation

1. Spreads false news
2. May cause for employees work against management
3. Priority given to personal interests than common interest.

The informal organization is a part of the formal organization. It cannot be separated. In other words a single organization has two faces - the formal one and informal one.. They are two aspects of the same organization and linked to each other.

DIFFERENCE BETWEEN FORMAL AND INFORMAL ORGANISATION

BASIS	FORMAL ORGANISATION	INFORMAL ORGANISATION
1. Formation	Deliberately planned and created by the top management	Arises spontaneously as a result of social interaction among the employees
2. Purpose	It is created to achieve predefined organizational objective	It satisfies personal and social needs of employees
3. Authority	Arises by virtue of position in the management	Arises out of personal qualities
4. Behaviour	It is directed by rules	There is no set of behavioural pattern
5. Nature	Rigid	Flexible
6. Communication	Formal communication through official lines	Informal communication based on convenience
7.Organisational chart	It is supported by organizational chart	There is no such chart
8. Relationship	Based on authority and responsibility	No specific relationship
9. Leadership	Managers are leaders by the virtue of their positions	Leaders are chosen voluntarily by members
10. Stability	It is usually stable	It does not last long.

DELEGATION

Delegation refers to the downward transfer of authority from a superior to a subordinate. Delegation of authority is the essence of sound organization. Delegation is the key element in organizing. The process of delegation involves assignment of tasks, entrustment of authority and imposition of accountability. It is based on the principle of division of labour.

‘ delegation of authority merely means the granting of authority to subordinates to operate within prescribed limits’ **-Theo Haimann**

‘ The ability to get results through others’ **L.A.Allen**

PROCESS OF ELEMENTS OF DELEGATION

The following are the components of the process of delegation

1. **Assignment of duties to subordinates:-** The first step in delegation is the assignment of duty to the subordinates. The delegator tells his subordinates to carryouta specific task in a specific period of time.
2. **Granting of authority**:- Nobody can carryout his duties unless he has the requisite and matching authority. Thus the superior should delegate authority to his subordinates to carry out the duty assigned to him.
3. **Creating on obligation or accountability:-** Once the authority is delegated, subordinate

become accountable for the performance of their duties. Subordinate have to report to their superior about their performance.

ELEMENTS OF DELEGATION

Authority, responsibility and accountability are the three basic elements of delegation of authority. Authority is delegated, responsibility created and accountability is imposed.

1. **AUTHORITY**:- Authority is the right to command. Henri Fayol defined authority as' the right to give orders and exact obedience'. He stated the difference between official authority and personal authority. Authority which derived by a person on account of his position in the organization is known as official authority. On other hand personal authority is derived by a person on account of his intelligence , knowledge, skill and experience. Authority flows from top to bottom. Authority determines the superior subordinate relationship.
2. **RESPONSIBILITY**:- Responsibility is described as an obligation to perform a task. It originated from the superior subordinate relationship in an organization. It cannot be delegated or transformed. Responsibility always flows upwards .ie. From a subordinates to a superior.
   ' Responsibility is the obligation of a subordinate to perform the assigned and implied duties' -Koontz and O' Donell.

   There is a close relationship between authority and responsibility. If the authority is delegated without responsibility is likely to be misused. If sufficient authority is not granted, the subordinates cannot discharge his assigned duties.

3. **ACCOUNTABILITY**:- Accountability is the obligation to perform responsibility when subordinate is assigned some duties to be performed , he will be accountable to his superior for doing or not doing that work. Thus accountability is the obligation for the performance of work assigned and authority delegated. Accountability cannot delegated and moves upwards.

OVERVIEW OF ELEMENTS OF DELEGATION

BASIS	AUTHORITY	RESPONSIBILITY	ACCOUNTABILITY
1. Meaning	Right to command	Obligation to perform an assigned task	Answerability for the Final outcome of assigned task
2. Delegation	Can be delegated	Cannot be delegated	Cannot be delegated
3. Origin	Formal position	Delegated Authority	Responsibility
4. Flow	Flows down wards	Moves upwards	Moves upwards

IMPORTANCE OF DELEGATION

When the size of an organization expands ,a manager alone cannot do all the work himself. He has to share his work and authority with others. It reduces the work load of superiors. So the manager can concentrate on important matters and leaving the routine matters to his subordinates.. The advantages of delegation are as follows.

1. **Efficient Management**:- The manager who delegates authority can perform more than one who does not. Delegation of authority relieves the top executives from heavy load of work. It enables him to concentrate on policy matters and decision making. This would increase his effectiveness.

2. **Employee development:-**Delegation provide opportunities to make familiarity with the work of superiors . It makes them better leaders and decision makers. Thus delegation helps by preparing better future managers.

3. **Motivation of employees**:- Some employees are willing to take more responsibility , since it will satisfy their ego. Such employees feel motivated when they are delegated authority

.

4. **Facilitation of Growth**:- Delegation of Authority prepares executives for the future. This enables the organization to face challenges effectively and promotes the potential for growth.

5. **Basis of Management hierarchy:-** Delegation of authority establishes superior subordinates relationships which are the basis of hierarchy of management . Delegation of authority decides the power that each position enjoys in the organization.

6. **Better Coordination**:- Delegation elements like authority , responsibility and accountability clearly defines the power, rights and various job position in the organization. Clarity in reporting helps to develop and maintain effective coordination amongst departments, job positions and function of management.

DECENTRALISATION

Decentralisation of authority means the disposal of decision making authority to lower levels.

'Decentralisation refers to the systematic efforts to delegate to the lower levels all authority except which can be executed at the central points' -**Louis Allen**

'Everything that goes to increase the importance of the importance of the subordinate's role is decentralization' - Henry Fayol

Decentralisation explains the manner in which decision making responsibilities are divided among hierarchical levels. Decentralization refers to delegation of authority throughout all the levels of the organization.

CENTRALISATION AND DECENTRALISATION

'Everything which goes to increase the subordinate's role is the decentralization; everything which goes to decrease it is centralisation' -Henry Fayol

Decentralisation is often viewed as the opposite of centralization. Decentralisation is the disposal of power to the lower levels of the organization while centralization is the concentration of power at one point (Top levels). No organization can be completely centralized or completely decentralized. They exist together. Their degree differ from organization to organization.

IMPORTANCE OF DECENRALISATION

Decentralization is not merely the transfer of authority to lower levels, but a philosophy of management. The main benefits of decentralization are as follows

1. **Develop Initiate among subordinates:-** Decenralisation helps to promote self-reliance and confidence amongst the subordinates. Lower level mangers are given more freedom to the managerial decisions. This will improve their career prospects.
2. **Develops Managerial talents for the future:-**Decentralisation promote opportunity to the subordinates to make familiarity with the work of superiors .it make them better leaders and decision makers. Thus decentralization help by preparing better future mangers
3. **Quick decision making:-** The subordinates have sufficient authority to take quick decisions. They need not consult their superiors on every issue. This avoids delay in decision making and facilitates quick decisions.
4. **Relief to top management:-** Decentralisation relieves the top executives from the heavy load of work. It enables them to concentrate on higher functions of management.

5. **Facilitate Growth:-** Decentralisation prepares executives for the future. This enables the organization to face future challenges effectively and promotes the potential for growth.

6. **Better Control:-** In decentralized set up , it becomes easier to fix standards of performance, evaluate the performance and take corrective action. This will lead to effective control.

DISTINCTION BETWEEN DELEGATION AND DECENTRALISATION

Basis	**Delegation**	**Decentralisation**
1. meaning	It refers to the entrustment of responsibility and authority from one individual to another	It refers to the systematic delegation of authority through out the organization
2. Scope	It is narrow compared to decentralisation	It is wider term which include delegation
3. Need	It is compulsory	It is optional
4. status	It is a process	It is the result of the policy of the organization(It is a situation)
5. Nature	It is Individualistic	It is totalistic
6. Purpose	To reduce the burden of manager	To increase the role of subordinates in the organization by give them more auto my

CHAPTER - 6
STAFFING

Human beings are the key resource in any organization. Filling the right person for the right job in the right place is the function of staffing. An organization can achieve its objectives only when it has the right persons in the right positions.

MEANING AND DEFINITION

In simplest terms staffing is 'putting people to jobs'. . The term staffing is concerned with the recruitment, selection, placement, training, growth and development of all members of the organization. .

'The staffing function pertains to the recruitment, selection, development, training and compensation of subordinate managers' - Koontz and O' Donnell

'Staffing function is concerned with the placement , growth and development of all those members of the organization whose function is to get things done through the effects of other individuals'

-Theo Haiman

STAFFING PROCESS/ELEMENTS

The process of staffing consists of several interrelated activities such as planning human resources requirements, recruitments, selection, training and development, remuneration and so on. These activities together make the staffing process. The steps are given below

1. **Estimating the manpower requirements/Human Resource Planning/ Man power planning**

   ' manpower planning is the process of determining and ensuring that the organization will have adequate number of qualified personnel' - **Dale. S. Beach**

   The first major step in the staffing process is the estimation of manpower requirements. It is a planning process by which ensures right number of right people at the right place doing the right things so as to obtain organizational objectives. This process is also known as manpower planning or human resources planning. It is the process of estimating the requirement of human resources both quantitatively and qualitatively (work force analysis and work load analysis) Manpower requirements are estimated through job analysis.

2. **Recruitment:-** recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization. Recruitment is a process as it stimulates people to apply for jobs.

3. **Selection:** selection process starts immediately after recruitment. Selection is the process

of choosing the most suitable persons from the applicants. Selection is a negative process as more candidates are rejected than hired.

4. **Placement and Orientation/ Induction:-** Placement refers to putting the right person on the right job. Placement is the process of matching the candidates with the jobs in the organization. Orientation/ Induction is the process of introducing and familarising newly appointed candidates with their jobs , work groups and the organization. So that they feel at home in the new environment. It is a process of socilaisation

5. **Training and Development:-** Training is the act of increasing knowledge and skill of an employee for doing a particular job. The main purpose of training is to bridge the gap between job requirements and present competence of the employee. Training is beneficial to both employee and employer.

   Development aims to improve the overall personality of an individual. This term is mostly used in the contest of managerial staff. Development is the preparation of employees to meet future needs.

6. **Performance Appraisal / Evaluation**

   It is the periodic measurement and assessment of the behavior and performance of employees. Here the actual performance can be compared with the predetermined standards to measure employee’s performance. Performance appraisal undertaken to determine promotion policies, training needs and develop a suitable compensation method.

7. **Compensation:-** Compensation means the remuneration paid to employees. Compensation includes direct financial payments like wages, salaries, incentives, commissions, bonus etc and indirect payments like employer paid insurance behalf of employee and vacation

   Direct financial payments are two types a time based and performance(piece rate) based.. A time based plan means salary and wages are paid either daily, weekly or monthly or annually. Performance based plans means salary/ wages are paid according to piece work.

8. **Promotion and career planning:-** Promotion means movements of an employee from present position to a higher position. Promotions are an important part of people’s career. Promotion results in increased responsibilities, authority , scale of pay and job satisfaction.

RECRUITMENT

‘ Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation’ - Edwin . B Fippo

The process of identification of different sources of personnel is known as recruitment. Recruitment is a positive process as it stimulates people to apply for jobs

Sources of Recruitment

Employees may be recruited from within the organization and from outside .thus there are two sources (i) Internal sources (ii) External Sources

I **.Internal sources**: When recruitment is made from within the organization , the source is internal sources. Internal sources comprises **(a) transfer (b) promotion**

(a) **Transfer:-** Transfer is concerned with the shifting an employee from one job to another having similar status and responsibility. Through transfer there is no change in the status and compensation of employees. Transfer is a good source of filling the vacancies with employees from overstaffed departments. It is a horizontal movement of employees.

(b) **Promotion**:- Shifting an employee from one post to a higher post is known as promotion. It is based on seniority or merit or both. Promotion results in increased responsibilities, authority, higher status, better scale of pay and job satisfaction.

Merits of Internal sources:-

1. It motivates the employees for better performance
2. It is quite economical
3. It ensures continuity of employment
4. It establishes better employee employer relationship
5. It is less time consuming process.

Demerit of Internal sources

i. There is no opportunity for efficient outsiders
ii. It hampers the spirits of competition
iii. It restricts the choice of most suitable candidates
iv. It is not suitable for those post requiring innovation and original thinking
v. It may encourage favoritism and nepotism.

II. External sources;

The external sources of recruitment refer to the recruitment of candidates from outside the organization. Following are the most popular methods of external sources of recruitment

(a) **Direct recruitment:-** Sometimes a notice of vacancies is put up on the factory gate or office notice board.. people read it and assemble on the gate at the specified date and time.. This source is used to fill up causal or temporary vacancies at the lower level.

(b) **Casual callers (waiting list):-** Most employers maintain a database with details of applications received from casual applicants. Applications may treat as a source of recruitment, when vacancies arise in the organization.

(c) **Advertisement:-** Advertising in newspapers and journals is a common method of encouraging people to apply for jobs.by means of advertisement, the organization is able to communicate its requirements of people. But it often brings a flood of response, many are unsuitable.

(d) **Employment exchange:-** Employment Exchanges run by the government are an important sources of recruitment of personnel. Job seekers get themselves registered with these exchanges . The name of these persons will be supplied to business concerns on the basis of their requisition.

(e) **Personnel Consultants:-** They undertake the work of recruiting personnel on behalf of employers. The consultants are very helpful in procuring top and middle level executives. These agencies also undertaken total functions of recruiting and selecting personnel to the organization. They charge fees for this purpose.

(f) **Campus recruitment:-** Universities, colleges and institutions are also the sources of recruitment of personnel. The employers maintain a close liaison with these institutions. This is become a popular sources of recruitment for technical, professional and managerial jobs. Employers select candidate after interviewing them.

(g) Recommendations of the present employees

Under this method, the present employees are encouraged to recommend suitable persons among their friends and relatives for employment in the concern. This policy keeps the employees happy and also in good morale.

(h) **Labour contractors:-**Un skill and semi-skilled labours may be recruited through labour contractors. They are ready to supply required number of workers on payment of commission.

(i) **Advertising on Television**: - Now a days the practice of telecasting of vacant posts over TV is developing. The details about the job and organization are published.

(j) **Web publishing**:- Internet is becoming a common source of recruitment in these days. There are certain websites specially designed dedicated for the purpose of providing information about both job seekers and job opening. Eg. www. Naukri.com, www. Jobstreet.com

Merits of external Sources

1. External sources make available qualified and trained personnel
2. Fresh and talented people are available in the organization
3. It provides wider choices
4. It increases competitive spirit in the organization

Demerits of external sources

1. It is expensive
2. It creates dissatisfaction among the existing employees
3. It is a lengthy process with many procedures

DIFFERENCE BETWEEN INTERNAL AND EXTERNAL RECRUITMENT

INTERNAL SOURCES	EXTERNAL SOURCES
it involves find out required employees from within the organization	it involves find out required employees from outside the organization
It is economical	It is expensive
It requires less time	Time consuming process
Limited choices for selection	wider choices are available.
Existing staff motivated	Existing staff feel disappointed and frustrated
Availability of fresh and talented persons are limited	Fresh and talented persons are available.

Selection Test

Selection begins where recruitment ends. It is the process of identifying the most suitable and promising candidates from the list of recruited persons.

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Selection Tests:- Those candidates who have passed the preliminary interview will be asked to appear for the selection test . Tests are conducted to know the level of ability, knowledge, interest,aptitude etc. of a particular candidate It helps to measure the abilities and skills of a candidates in terms of job specifications

Tests can be classified into two (i) proficiency test and (ii)aptitudeTests.

(A) Proficiency test are conducted to measure the skills and aptitude already possessed by the candidate. It consists of trade test and Dexterity Test.

Achievement Test or Trade Test: it seeks to measure the applicant's level of knowledge and skill in a particular trade or occupation . For eg:- select a driver for a firm, candidate's knowledge and skill in driving are selected.

Skill or dexterity Test:- it measure the speed and efficiency with which a candidates uses his hands, fingers, eyes and other part of the body. For eg:- To select a typist his spped and accuracy are tested before final selection.

(B) Aptitude Test:- It is a measure of individuals potential to learning new skills. It includes the person's capacity to develop .

Aptitude tests are the following type

(i)Intelligence test:- It seeks to measure a person's mental alertness in terms of reasoning , comprehension , memory, capacity to relate things etc. It is an indicator of person's learning ability.

(a) Personality Test: it seeks to measure temperament and emotional make up of a person.

Training –

"Training is the art of increasing the knowledge and skill of an employee for doing a particular job." Its purpose is to enable them to do their jobs better. A capable and competent person may not do the best on his job unless he is systematically trained.

TRAINING METHODS

Training methods are broadly classified into two

(a) On the job training method and

(b) Off the job training method

I. ON THE JOB TRAINING METHOD

Under this method the employee is given training when he is on the job. The trainee learns by observing and actually doing the job. Ie. Learning by doing. The different methods of on the job training are:-

(a) **Apprenticeship Programmes:-** Apprenticeship programmes put the trainee under the guidance of a master worker. These are designed to acquire a high levels of skill. People who wants to enter skilled jobs like plumbers, electricians, machinists are often required to undergo apprenticeship training.. trainee receive stipend while learning.

(b) **Coaching:-** Under this method the supervisor guides or coaches his subordinates to acquire knowledge and skills. The instructions are given by the supervisor. The subordinate learns the work by doing.

(c) **Internship Training:-** It is a joint programme of training conducted by educational institutions and business firm. Selected candidate carry on regular studies in an educational institution. They also work in some factory or office to acquire practical knowledge and skills.

(d) **Job rotation:-** The trainee is systematically transferred to various jobs so that he can gain the experience each of them. It helps to familiarize the trainee with various aspects of firm's operations.

II. OFF THE JOB TRAINING METHODS

This is concerned with imparting training to employees outside the actual work place. Training provided by the experts. This focus more on learning than doing. off the job training enables employees to concentrate better because they are free from job pressure. Popular off the job methods are

(a) **Class room Lectures/ Conference:-** Class room lectures or conference approach is well suited to convey specific information, rules, procedures or methods. The use of audio – visual methods or demonstrations will be more interesting. Conferences helps the employees to discuss the various aspects of a particular topic. Experts are delivering lectures after discussions.

(b) **Films:-** They can provide information and explicitly demonstrate skills that are not easily represented by other techniques

(c) **Case study:-** cases are actual experiences which managers confront while discharging their duties. Trainees are asked to study the cases to determine problems, analyses cases and select the best solution. Case study method is very much useful for imparting decision making skills.

(d) **Computer Modeling:-** with the help of computer programming the realities of the job are imitated. This will allow learning to take place without the risk or high costs that would be incurred if a mistake was made in the real life situation.

(e) **Vestibule training:-** some kinds of works cannot be trained in the actual work place with original work environment. Such works are trained in artificial work place known as Vestibule school. Vestibule school is a separate section or department of the industrial plant. Here the work environment –similar to the actual conditions –is created artificially and the trainee is placed there to train without any pressure

(f) **Programmed Instructions:-**This method incorporates a pre-arranged and proposed acquisition of some specific skills or general knowledge. Information is broken into meaningful units and these units are arranged in a proper way to form a logical and sequential learning package.

CHAPTER-7
DIRECTING

MEANING AND DEFINITION

Directing is an important managerial function that initiates action. As a function of management, directing is concerned with instructing, guiding, supervising and inspiring the employees to achieve the predetermined objectives. Direction in this way is the heart of management in action.

Direction is called management in action. Direction serves as link between planning and control.

'Directing consists of the processes and techniques utilized in issuing instructions and making certain that operations are carried on as planned' - **Theo Haimann**

'Directing is telling people what to do and seeing that they do it in the best of their ability' **–**
-Ernest Dale

ELEMENTS OF DIRECTION

Direction has the following for elements

(1) **Supervision (2) Motivation (3) leadership (4) Communication**

SUPERVISION

The term Supervision is derived from two Latin words 'super' and 'vision'. 'Super' means 'over the above ' and vision means ' looking over'. Thus in ordinary sense supervision means' overseeing the activity'. In management, supervision means overseeing the subordinates at work. The person who supervises the operation is known as supervisor.. Supervisor also known as Foreman, Overseer, superintendent, Section officer etc

MOTIVATION

The word motivation is derived from the word *'motive'*. Motive means needs, wants, drives or impulses within an individual. Motivation is meant for influencing the human behavior for action.it is an inner feeling to satisfy the needs and wants of human being. In management, Motivation means stimulating people to action to accomplish desired and predetermined goals. It is nothing but an act of inducement.

'Motivation means a process of stimulating people to action to accomplish desired goals'
- **William Scott**

LEADERSHIP

Leadership is one of the most important elements of direction. Mangers at all levels are expected to be leaders of their subordinates. Leadership is the ability of a leader to influence the performance and behavior of his subordinates. It is the ability to build up confidence and zeal among the people. A leader may or may not be a manager. But a manager must be a leader

COMMUNICATION

The communication has derived from the Latin word 'communis 'which means common. Hence communication means sharing of ideas in common. Communication plays the same role in an organization as the nervous system of the human body. Communication is the wheels or vehicles of the organization. Good managers are good communication and poor managers are poor communication.

DEFINITION

'Communication is an exchange of facts, ideas, opinions or emotions by two or more persons' - **William Newmann & Summer**

'Communication is the process of passing information and understanding from one person to another'
-Keith Davis

'Communication is the process by which people create and share information with one another in order to reach common understanding' **- Rogers**

MASLOW'S NEED HIERARCHY THEORY

Abraham .H. Maslow , an American Psychologist has developed a classification of human needs, which is known as hierarchy of needs. According to him, Human needs can be classified into five categories and can be arranged in the order of their priority. They are (1) **Physiological Need (2) Safty/ security Need**

(3) Social need (4) Esteem and ego need (5) Need for self –realisation/ self actualisation

Fig. 17.2: Maslow's Need Hierarchy

1. **Physiological Needs:-** These are the basic need of an individual like need for food, clothing, shelter. In the organizational context, basic salary helps to satisfy these needs.
2. **Safety/ security needs**:- These needs consists of the need for protection from physical danger and for economic security. Eg:- physical security- protection against fire, accident Economic security- job security, stability of income, pension, gratuity, insurance etc.
3. **Social need/ affiliation/Belongingness needs:-** These needs refers to affection, sense of belongingness, acceptance and friendship
4. **Esteem/ Status needs**:- these needs consists of self-respect, desire for personal worth and dignity , autonomy status, reputation, prestige, self-confidence and recognition. Etc.
5. **Self actualization needs :-** Self actualisation is the need of the higher order. It is found in a person whose first four needs have already been satisfied. These needs include growth, self- fulfillment and achievement of goals.

Assumptions of Maslow's theory

Maslow's theory based on the following assumptions

1. People’s behaviour is based on their needs. Satisfaction of such need influences their behaviour.
2. People needs are an 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 next level of hierarchy only when the lower need is satisfied.

LEADERSHIP

“Leadership is the ability of a manager to induce subordinates to work with confidence and zeal” – Koontz and O’Donnell.

In a business organization, leadership may be defined as the process influencing the behavior of employees at work towards the accomplishment of organizational objectives.

QUALITIES OF A GOOD LEADER.

Effectiveness of leadership very much depends on the qualities of the leader. A leader should possess the following qualities.

1. **Physical features**:-The physical personality of an individual depends his physical features like height, weight, appearance etc. A leader should possess some of these qualities to attract people.
2. **Knowledge:**- A good leader should have required knowledge and competence
3. Integrity:- A leader should possess high level of integrity and honesty. He should be a role model to others.
4. **Initiative and creative ability:-** A good leader should have courage and initiative
5. **Communication skill**s:- A leader should be able to communicate his ideas with his followers. A leader should be not only a good speaker but a good listener, teacher and counseller.
6. **Motivation skills:-** A leader should be an effective motivator. He should understand the needs of the people and motivate them through satisfying their needs.
7. **Self-confidence:-** A good leader should have confidence in his ability to lead others.
8. **Emotional stability:-** The leader should have a cool temperament and emotional balance.
9. **Objectivity:**- A leader should have an objective outlook free from bias and prejudice.
10. **Social skills:-** A leader should be sociable and freely with his colleagues and followers.
11. **Empathy:** Empathy means the ability to look of things from others point of views. Empathy will help the leader to understand the preferences and feelings of subordinates

COMMUNICATION

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DEFINITION

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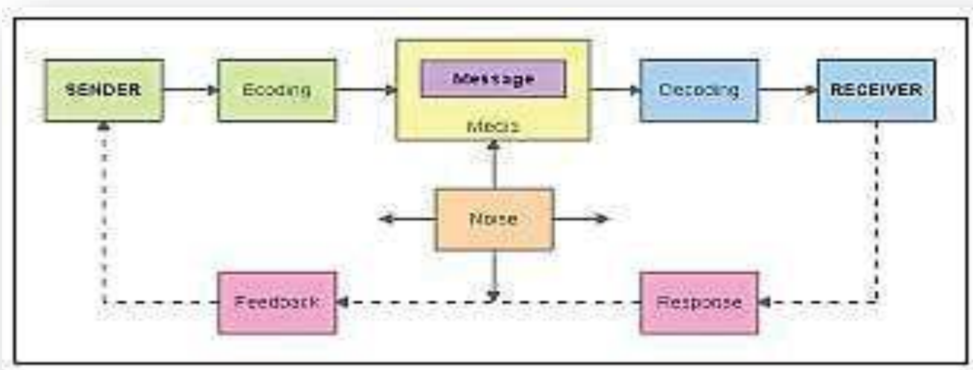
PROCESS / ELEMENTS OF COMMUNICATION



Communication has been defined as a process. This process involves elements like source, encoding, media/channel, decoding, noise and feedback.

1. **Sender:-** Communicator or sender is the person who conveys the message. The sender represents source of communication.
2. **Message or Idea**:- The subject matter of communication is known as the message. It may be an opinion, order, appeal, views, suggestions etc.
3. **Encoding:**- It is the processing of converting the message into communication symbols.
4. **Media/ channel:-**It is the path through encoded messages is transmitted to receiver. The channel may be written form, face to face, phone call, internet etc.
5. **Recording:-** It is the process of converting encoded symbols of the sender.
6. **Receiver:** the person who receives communication of the sender.
7. **Feedback:**- The receiver sends his response to the sender of the message. This response is known as feedback. When feedback is received by the sender the communication process is complete.
8. **Noise:-** It includes some obstruction or hindrances to communication.
   eg : Ambiguous symbols that leads to faulty encoding , Poor telephone connection, An Inattentive receiver, faulty decoding etc.

BARRIERS OF COMMUNICATION

It is very essential for the management to maintain an efficient flow of communication in all directions. But in practice perfect communication is rarely achieved. There are certain factors which may disrupt the flow of communication. Such factors are barriers of communication

The barriers of communication in the organization can be broadly grouped as: semantic barriers, Psychological barriers, Organisational barriers and personal barriers. They are briefly discussed below.

1. **Semantic Barriers:-** In semantic barriers, we mean the problems and obstructions in the process of encoding and decoding a message into words or impressions. Words and symbols used to communicate may mean different things to different persons. People interpret the same messages in different ways depending upon their attitude, experience and education etc.. Normally such barriers results on account of use of wrong words, badly expressed messages, faulty transactions, different interpretations, symbols with different meanings, technical jargon unclarified assumptions etc.

2. **Psychological Barriers**:- Emotional or psychological; factors acts as barriers to communicators. For eg. A worried person cannot communicate properly and on angry receiver cannot understand the real meaning of message. The state of mind of both sender and receiver of communication reflects in the effective communication. some of the psychological barriers are:-
    a. **Premature Evaluation**:- Some people have the tendency to form a judgment before listening to entire message. This leads to misunderstanding and acts as a barrier to communication.
    b. **Lack of attention**;- When the receiver does not pay complete attention to the message the communication become ineffective. In attention may takes place due to tension, depression etc.
    c. **Lack of transmission and poor retention:-** When oral communication passes through various levels successive transmissions of the message results in loss of information or inaccurate information. More over people cannot retain the information for long time due to inattention.
    d. **Destruct:-** Destruct between communicator and receiver acts as a barrier. If the parties does not believe each other, they cannot understand each other's message in its original sense.

3. **Organisational barriers**:- The factors related to organization structure, authority relationships, rules and regulations may sometimes act as barriers to effective communication. Some of these barriers are:-
    a. **Organisational policy**;- If the policy is not supportive to free flow of communication hamper effectiveness of communication.
    b. **Rules and regulations**:- Strict rules and regulations may be hurdle to effective communication.
    c. **Status:-** A status conscious manager may not allow his subordinates to express their feelings freely.
    d. **Complexity in Organisation structure**:- In an organization, where there are a number of managerial levels, communication get delayed and distorted.
    e. **Organisational Facilities:-** Facilities like frequent meetings , suggestion box,

complaint box, social and cultural gathering, transparency in operations etc. will encourage free flow of communication. Lack of these facilities may create communication problems.

4. **Personal Barriers**:- Personal aspects of both the sender and the receiver may hinder effective communication. Some of the personal barriers are:-
   a. Fear of challenges to authority:- if the superior realizes that a particular communication may adversely affect his authority , he may not convey that communication
   b. Lack of confidence of superior on his subordinates:- Some superiors will never take into confidence the subordinates. They are reluctant to seek their advice or opinion.
   c. Unwillingness to communicate:- People at lower level do not feel free to talk to superiors. They may feel that it may adversely affect their interest
   d. Lack of proper incentives:- If there is no motivation or incentive for communications, subordinates may not take initiative to communicate

CHAPTER -8
CONTROLLING

Managerial functions commence with planning and end at controlling. Planning involves setting up objectives while controlling seeks to ensure performance as per plan.

MEANING AND DEFINITION OF CONTROLLING

Controlling is the process of ensuring that actual activities conform to planned activities. It is one of the important functions of management .it is the evaluation and correction of the performance of subordinates.

'Controlling is the measuring and correcting of activities of subordinates to assume that events conform to plans' -**Koontz and O 'Donnel**

"control is the process of taking steps to bring actual results and desired results closing together' **– Philip Kotler**

"Management control seeks to compel events to confirm to plans' **- Billy E . Goetz**

"Management control is the process by which managers assume that resources are obtained and used effectively in accomplishment of organisation's objectives"
- **Robert Antony**

CONTROLLING PROCESS

Controlling is a systematic process involving the following steps

1. Establishing standards of performance
2. Measurement of actual performance
3. Comparison of actual performance with standards
4. Analysing deviation
5. Taking corrective action

1. **<u>Establishing standard of performance:</u>**- The first step in the process of control is to set a standard for performance. Standards are determined on the basis of objectives to be attained. Standards serve as benchmarks towards which an organization strives to work. It is the criterion against which actual performance can be compared. Generally standard is expressed in terms of quality, quantity, cost and Time. The standards should be simple, attainable, definite, reasonable, quantitative, and flexible .

2. **<u>Measurement of actual performance</u>**:- Once performance standards are set , the next step is measurement of actual performance. It is the assessment of output both quantitatively and qualitatively. There are several techniques for measurement of performance. These include personal observation. Sample checking, performance report etc. As far as possible performance should be measured in the same units in which standards are set as this would make their comparison easier.
3. **<u>Compare actual performance with standard</u>**: The third step in control process is the comparison of actual performance with the standard. It reveals the deviations from the standards. If the performance matches the standard, it may assume that everything is under control..

4. **<u>Analysing Deviations:-</u>** At this stage the extent of the deviation and the causes are determined. Deviation means gap between actual performance and standards. Deviation may be positive or negative. Deviations in key areas of business require urgent attention.
   Managers can rely on the following in this regard.

   <u>CRITICAL POINT CONTROL</u>: It is neither economical nor easy to keep a check on each and every activity in an organization. Control should, therefore focus a key result areas(KRA) which are critical to the success of an organization. These are set as critical points. If anything get wrong at the critical points the entire organization suffers.

   <u>MANAGEMENT / CONTROL BY EXCEPTION</u>:-It is based on the belief that an attempt to control everything results in controlling nothing. All deviations need not to be brought to the attention of management. Usually only those deviations which seems exceptionally high and which cannot be solved by lower level management alone, should be reported to top management. This is what is called management by exception.

TECHNIQUES OF MANGERIAL CONTROL:

Managerial control techniques may broadly be classified into two

1. Traditional Techniques 2. Modern Techinique

TRADITIONAL TECHNIQUES:-

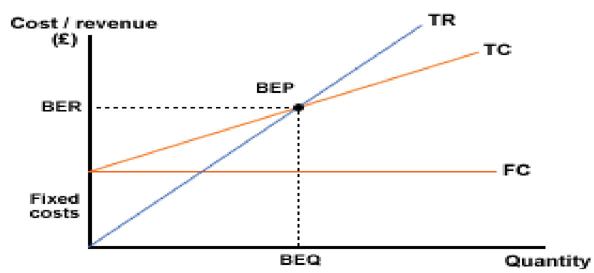
These are techniques used by companies for long time these techniques haven't become obsolete and still being used. These include

- ***Personal Observation***
- ***Statistical Reports***
- ***breakeven analyses***
- ***. Budgetary control***

a. **PERSONAL OBSERVATION**:- This is the most traditional method of control. Personal observation enables the manager to collect firsthand information about the employees. It creates a psychological pressure on employees to perform well as they are personally observed. But it is time consuming and cannot be employed in all situations.

b. **STATISTICAL REPORTS:** Statistical analysis in the form of averages, ratios, correlations etc. present useful information to the mangers regarding the performance at various areas of the organization. It provides the information for inter firm comparison and future decision making.

c. **BREAK EVEN ANALYSIS:-** Break even analysis is a technique used by managers to study the relationship between costs volume and profit (CVP). It determines the probable profits and losses at different levels of activity. The sales volume at which there is no profit or loss is known as break-even point. ie. Total Revenue = Total cost.



$$\text{Break even point} = \frac{\text{fixed cost}}{\text{selling price per unit} - \text{variable cost per unit}} = \frac{\text{fixed cost}}{\text{contribution per unit}}$$

Break-even point analysis enables the management to have a check on the variable cost and also determine the levels of activity at which firm can make its targeted profit.

d. **BUDGETARY CONTROL:** A budget is a numerical or quantitative statement for a definite period of time for the purpose of obtaining a given objectives. Budgeting means the process of preparing budgets. Budgetary control is a technique of controlling the activities of an organization with the help of budgets. It involves the comparison of actual performance with the budgetary standards. Comparison reveals the reasons for variance to take corrective action to achieve the organizational objective.

Following are the important types of budgets.

Sales Budget*: a statement of what an organization expects to sell in terms of quality as well as value.*

Production Budget*:- a statement of what an organization plans to produce in the budgeted period.*

Material budget*: A statement of estimated quality and cost of materials required for production.*

Cash Budget*:- Anticipated Cash inflows and outflows for the budgeted period.*

***Capital Budget**: Estimated spending on major long term assets like new factory or major equipment.*

***Research and Development Budget**: Estimated spending for the development or refinement of products and processes.*

Advantages of Budgetary Control:

1. Budgetary Control guides the management in planning and policy formation
2. It facilitates 'management by exception' by identifying areas which require special attention
3. It results the coordinated efforts of all individuals and departments of the organization.
4. It aims maximization of profit through cost control and proper utilization of resources.
5. It is a good guide to the management for making future plan.
6. It minimizes wastages and losses and hence increases productivity.

MODERN TECHNIQUES:-

Modern techniques are of recent origin and new to management literature. It include the following

- ❖ Return on Investment (ROI).
- ❖ Ratio Analysis
- ❖ Responsibility Accounting
- ❖ Management Audit
- ❖ PERT and CPM
- ❖ Management Information system (MIS)

a. **RETURN ON INVESTMENT (ROI):-** Return on investment is a yardstick for measuring the efficiency of the business to earn reasonable amount of return on capital investment. ROI can be used for measuring overall profitability or performance of the organization or its departments.

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

Net income may be either the profit before tax or after tax. Total investment includes both working as well as fixed capital invested in the business. A high ratio implies better performance of the business.

b. **RATIO ANALYSIS:-** a ratio is an arithmetic expression of relationship between two figures. Ratio analysis refers to analysis of financial statements through computation of ratios. Commonly used accounting ratios are

1. <u>Liquidity Ratios</u>**:** Liquidity ratios are calculated to determine short term solvency of business. Ie. Ability to meet short term obligation. Eg:- current ratio, quick ratio.

2. <u>Solvency ratios</u>:- Ratios which are calculated to determines the long term solvency of business are known as solvency ratios. Thus these ratios determine the ability of a business to service its indebtedness.
   Eg. Debt- equity ratio, proprietary ratio, Interest coverage ratio.

3. <u>Profitability Ratios</u>:- These ratios are calculated to analyses the profitability in relation to sales or capital investment in business.
   Eg: Gross profit ratio, Net profit ratio, Return on capital employed.

4. <u>Turn over Ratios/ Activity Ratios</u>:- It is calculated to determine the efficiency of operation based on effective utilization of resources. Higher turnover means better utilization of resources.
   Eg: Inventory Turnover Ratios, Stock Turnover ratio, Debtors Turnover Ratios

c. **RESPONSIBILITY ACCOUNTING:-** It is a system of accounting in which different sections/ departments/divisions in an organization are taken as 'Responsibility Centre's'. The person in charge of a Centre is responsible for achieving the target fixed.
   Responsibility Centres are of the following types:

1. **<u>Cost Centre/Expense Centre</u>**:- Cost Centre is a segment of an organization in which mangers are held responsible for the cost incurred. In the Centre but not for the revenues. Eg. In a manufacturing organization, production department is classified as cost Centre.
2. **<u>Revenue Centre:-</u>** A revenue Centre is a segment of organization which is primary responsible for generating revenue. Eg:- Marketing department of an organization may be classified as a revenue Centre.
3. **<u>Profit Centre:-</u>** A profit Centre is a segment of an organization whose manger is responsible for both revenues and costs. Eg. Repairs and maintenance department may be treated as a profit Centre provided it bills other departments in the organization for the services rendered to them.

4. **<u>Investment Centre:-</u>** This Centre is not only responsible for profit but for investment made in it in the terms of assets. The investment is separately calculated and return on investment is taken as the basis for judging the performance of the Centre

d. **MANGEMENT AUDIT:-** Management Audit refers to systematic appraisal of the overall performance of the management of an organization. The purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods. It is helps in identifying the deficiencies in the performance of the management function.

<u>Advantages of Management Audit:</u>

1. It helps to locate present and potential deficiencies in the performance of management function
2. It suggests the ways and means of increasing managerial efficiency.
3. It improves the coordination in the functioning of various department so that they work together effectively towards the achievement of organizational objectives.
4. It ensures updating of existing managerial policies and strategies in the light of environmental changes.

Conducting this kind of audit may create problem as there is no standards for it. Also management audit is not compulsory under the law.

e. NETWORK TECHNIQUES (PERT & CPM)

PERT (Programme Evaluation and Review Technique) and CPM (Critical Path method) are important network techniques useful in planning and controlling. These techniques are especially useful for planning; scheduling and implementing time bound projects involving performance of a variety of complex, diverse and interrelated activities. Both are decision making tools assisting in project completion. These techniques concentrate on time scheduling and resource allocation and aim at effective project execution within the time frame and costs.

Steps involved in using PERT/CPM

1. Arrange all activities in a logical sequence
2. A network diagram is prepared to show the sequences of activities, the starting point and termination point of the projects.
3. Three time estimates – optimistic, most likely and pessimistic – are made.
4. The Longest path in the network is identified **the critical path.** All activities lying in the critical path are called Critical activities.
5. Plan may be modified for prompt execution and timely completion of the project.

CHAPTER – 9
FINANCIAL MANAGEMENT

Finance is the life blood and nerve Centre of a business. Business needs money to make money. It is necessary to start, run, expand and modernize any organization. The success of every business depends on how funds are raised in right time, in right quantity, at the least cost and from right sources.

FINANCIAL MANAGEMENT

Financial management is the management of finance in the organization. It means planning and controlling of financial activities in an organization. It involves all managerial activities concerned with acquisition and utilization of funds. It includes each and every aspect of financial activity in the business.

Definitions

" Financial management is the application of the planning and control functions to the finance function" - Howard and Upton

" Financial Management is an area of financial decision making, harmonizing individual motives and enterprise goals" -Westing and Brongham

Financial decisions/Finance Functions

Financial decision refers to decision concerning financial matters of a business firm. There are many kinds of financial management decision that the firm makes in pursuit of maximizing shareholders' wealth. Viz, kind of assets to be acquired, pattern of capitalization, distribution of firms' income etc. we can classify these decisions into three major group

1. Investment decisions 2. Financing decisions 3. Dividend decisions

1. **Investment decisions**: Investment decisions are decision related to the selection of assets in which funds will be invested by a firm. The investment decision relates to how the firm's funds are invested in different assets. Investment decision should be taken only after considering volume of requirements. Returns and risks involved with all these. For this purpose Finance manger analyses various alternatives available for investment and evaluate profitability and risks involved with each of it. Thus investment decisions are based on risk –return analyses

Generally two types of investment decisions are to be taken by Finance Manager. They are decision relating to long term investment and short term investment.

a. **Long Term Investment decisions:** involve decisions to invest money on fixed assets to acquire them. Such decision is known as **management of fixed assets or Capitalexpenditure decision or capital budgeting**.
b. **Short Term Investment Decisions** involve decision to invest money on current assets. (cash, inventory, account receivables etc.) .Such decision is known as **management of current assets or working capital management or liquidity decision**. This decision affect day to day working of business.

CAPITAL BUDGETING

" Capital budgeting is long term planning for making and financing proposed capital outlays"
-**Charles . T. Horngren** -

The process of making capital budget is known is **capital budgeting**. Capital budget gives an estimate of the amount of capital required for acquiring fixed assets. Capital budget is the statement of expenditure on fixed assets or long term projects and the benefits of which are likely to acquire in future. Capital budgeting decisions are long term investment decisions.

It is highly important in times of

- Replacement of existing assets * Purchase of additional assets

Steps in capital budgeting

1. Develop alternative projects for long term investment
2. Evaluate suitability and profitability of these investment projects
3. Selecting the best project for implementation
4. Allocating funds for such selected projects (5) .Evaluation of the projects.

IMPORTANCE OF CAPITAL BUDGETING DECISIONS

Capital budgeting decisions are important due to the following reasons

1. Capital budgeting decisions have long term implications for the firm because they affect the future profitability and growth of the firm.
2. Capital investment decision involves a heavy amount of funds. In most cases the decisions are irreversible and amount invested cannot be taken back without causing substantial loss.
3. Capital budgeting decisions are always intended to make future earnings. Such future earnings are the basis of future competitive strength of a firm

FACTORS AFFECTING CAPITAL BUDGETING DECISIONS(investment decisions)

E very decision on capital budgeting has a long term impact on the business. Capital Budgeting involves investment of large amount of money. So capital budgeting requires careful evaluation on the viability of projects. Following factors need to be considered while taking a decision on capital budgeting.

1. **Cash flow of the project:** Investment in long term assets generates cash flows over a period. Cash flows can be cash inflows (receipts) or cash outflows (Cash payments). These cash flows should be carefully analyzed and evaluated before making a capital budgeting decision.
2. **The rate of return:** Rate of return is the criteria for selecting a project. The company compares the return from different investment proposals. Suppose there are two alternative proposals –one with 10% return and the other with 12% return. Under normal circumstances the higher rate of return should be selected.
3. **The investment Criteria Involved:** A number of calculations are to be made with respect to amount of investment, interest rate, cash flows, rate of return etc. While making investment decision. Again different capital budgeting techniques used to evaluate investment proposals (eg: NPV, IRR, payback period).

II. **FINANCING DECISIONS**: Financial decision is concerned with the functioning of business activities. There are a number of sources from which funds can be raised. Broadly there are two sources shareholders fund (owned fund) and borrowed funds. Owned funds consist of equity share capital, preference share capital and retained earnings. Borrowed funds include debentures, loans and public deposits.

The cost of each type of finance has to be estimated (Flotation cost). Some sources may be cheaper than others. Eg: Debt is considered to be the cheapest of all other sources. Tax deductibility of interest makes it still cheaper. But the debt has to be repaid after a fixed period of time. Interest on debt has to be paid irrespective of profit or loss. The risk of default of payment (Financial risk) is there. There is no such compulsion to pay any dividend on equity shares.

A Finance Manger has to select such sources of funds which will make optimum capital structure. A debt equity ratio should be fixed in such a way that it helps in maximizing the profitability of the concern. A judicious mix of both owned funds and borrowed funds has to be decided.

Generally there are two kinds of financing decisions

(a) Total amount of capital to be collected through various sources (capitalization)

(b) The proportion of each source in the capitalization (capital structure)

Factors affecting Financing Decisions

Important factors affecting financing decisions are as follows

1. **Cost**: Obtain the finance from cheaper sources.
2. **Risk**: Risk involved in each source should be evaluated.
3. Flotation Cost: Cost of raising finance (Flotation cost) should be lower.
4. **Cash flow position:** A stronger cash flow position normally recommended more of debt financing.
5. **Fixed operating Costs:** If a business has high level of fixed operating cost (eg: rent, insurance, salary), lower debt financing is better. Similarly if fixed operating cost is less, more of debt financing may be preferred.
6. **Control considerations:** More of owned funds dilute the management control over business . Debt financing has no such danger.
7. **State of Capital market:** Health of capital market may also affect the choice of source of fund. During boom period, more people invest in equity. During depression, people does not like to take risk and are not interested in buying equity shares.

III. **DIVIDEND DECISION**: Dividend is that portion of profit which is distributed to shareholders. Dividend decision relates to the appropriation of earned profits. The two major alternatives are to retain the profits or to distribute them to shareholders. A company has to decide how much profit to distribute as dividend and how much to retain for investment in the business. The dividend policy of the company should be to maximize market value per share. Thus the financial manager should determine the optimum dividend payout ratio.

FACTORS AFFECTING DIVIDEND DECISION

1. **Amount of earnings**: It is the main determining factor of dividend policy, because dividend can be paid out of current and past earnings.
2. **Stability earnings:-** A company having stable earnings is in a position to declare higher dividend, otherwise strict dividend policy followed.
3. **Stability of dividend:-** Companies generally follow a stable dividend policy. They follow increasing dividend policy when there is confidence that their earning capacity has gone up.
4. **Growth opportunities:-** Companies having good growth opportunities retain more money. Out of their earnings so as to finance the required investment
5. **Cash flow position:** Dividend involves an outflow of cash. A company may be profitable but short in cash. Availability of enough liquid cash in the company is necessary for declaration of dividend.
6. **Shareholder's preference:** Desire of shareholders for dividends depends upon their economic status. Small shareholders and retired people prefer regular income wealthy investors are interested in capital gain
7. **Taxation policy**: The taxation rate affects the net earnings of a company and thereby its

dividend policy also. If tax on dividend is higher, it is better to pay less by way of dividends.

8. **Stock market reactions:**An increase in dividend policy has a positive impact on the share price. It is good news for the investors and hence stock price increase .Decrease in dividend has a negative impact on the share price.
9. **Access to capital market**:-large and deputed companies tend to pay higher dividends than the smaller companies which have relatively low access to the market
10. **Legal constraints:-** As per the provisions of companies Act dividend can be paid only out of current or past profit after providing for depreciation. No dividend can be paid out of capital. Such provisions must be adhered to while declaring the dividend.
11. **Contractual constraints:** Sometimes the creditors may impose certain restrictions on the payment of dividends in future. The company doesn't violate the terms of the loan agreement at the time payment of dividend.

CAPITAL STRUCTURE

Capital structure refers to the mix between owner's funds and borrowed funds. Capital structure refers to the mix or composition of long term sources of funds. Such as equity share, preference shares, debentures etc.

" **Capital structure or financial structure** of a company refers to the type of securities to be issued and proportionate amount that make up the capitalization" -Gerstenberg

The capital structure of an enterprise may consists of any one of the following

- Equity only
- Equity shares and preference shares
- Equity shares and debentures
- Equity shares, preference shares and debentures
- Equity shares, preference shares, debentures and long term loans

It is the duty of the finance manager to see that there is optimum capital structure. A capital structure is said to be optimum when the proportion of debt and equity is such that it results in minimizing overall cost of capital and maximizing the value of the firm.

The proportion of debt in the overall capital is also called **financial leverage**.

Financial leverage = debt / equity or debt / (debt + equity)

Owned capital includes equity shares and preference shares and borrowed (Debt) capital include loans, debentures, bonds etc.

Factors affecting the choice of capital structure

1. **Trading on equity or Financial leverage**

Trading on equity refers to the use of the fixed cost sources of funds (debentures, preference shares etc.) in the capital structure of a company, with a view to increase return on equity shares. Hence existing shareholders wisely make use of creditor ship securities to increase their own income. This technique is generally called financial leverage. The EPS (earnings per share) is more when debt is used in capital employed.

2. **Cash Inflow of the business** :- Companies which have regular cash inflow can issue more debt capital as they are in a position to repay the debt regularly.

3. **Interest coverage Ratio (ICR) :-** The interest coverage ratio refers to the number of times Earnings before interest and taxes(EBIT) of a company covers the interest obligation

   ICR = EBIT/Interest

   The higher the ratio, the lower shall be the risk of company.

4. **Debt Service Coverage Ratio (DSCR)**

   A debt service coverage ratio takes care of the deficiencies referred to in the ICR. It is calculated as follows

   $$\frac{\text{Profit after tax + Depreciation + Interest + Non cash. exp.}}{\text{preference dividend + interest + Repayment obligation}}$$

   A higher DSCR indicates better ability to meet cash commitments and that type of company can include more debt capital in its capital structure.

5. **Return on Investment (ROI) :** if the ROI of the company is higher , it can choose to use trading on equity to increase its EPS. ie. Its ability to use debt is greater.

6. **Cost of debt:-** More debt can be used if debt can be raised at a lower rate.

7. **Tax Rate:** Cost of debt is affected by the tax rate. A higher tax rate makes debt relatively cheaper and increases its attraction vis – a vis equity.

8. **Cost of capital** :- The capital structure should provide minimum cost of capital. Usually debt is a cheaper sources of finance when compares to shares. An ideal capital structure is that which has least cost.

9. **Control :-** If the existing equity shareholders does not want to lose control over the company affairs, they would prefer to issue preference shares and debentures to raise more funds. If they are not concerned about control they may issue equity shares to raise funds.

10. **Flotation cost**:- Issue expenses like brokerage, underwriting commission etc. on equity shares are high compared to creditor ship securities. These expenses are called flotation cost. If the company does not want to spend more on floatation, then they issue debenture.

11. **Stock market conditions:** In the times of depression debentures are consider good while equity shares find a better market during raising prices. (Boom period) .

12. **Flexibility:** the capital structure should be designed in such a way that the company should be able to effect changes as and when required. Debt capital is highly flexible as it can increase or reduce very easily.

13. **Risk consideration:** Use of debt increases the financial risk of the business. Financial risk refers to a position when a company unable to meet its fixed financial obligation like payment

of interest, dividend on preference shares etc.

14. **Regulatory frame work:-** The structure of capital of a company is also influenced by the statutory requirement applicable to them.

15. **Capital structure of other companies:-** A useful guidelines in the capital structure planning is the debt equity ratios of other companies in the same industry.

FIXED CAPITAL:

The amount invested in acquisition and development of fixed assets is known as **fixed capital (Blocked** capital). The money invested in fixed capital is blocked and not available for day to day dealings. Fixed capital is represented by fixed assets like Plant and machinery, land, buildings etc. **Fixed assets are of two types** 1. Tangible assets (Land, Buildings, Plant etc.) and 2. Intangible assets (Goodwill, patents, trade mark etc.)

Decision concerning fixed capital are important because

- These decisions have effects on long term growth of business
- Huge amount of funds are involved.
- Such decisions not reversible without incurring heavy loss.

MANAGEMENT OF FIXED CAPITAL

Fixed asset required for a long term period. Therefore it is raised from long term sources of finance. Shares, debentures, Long term loans, **ploughing back of profit** are the main sources of fixed capital. Fixed capital provides the foundation of business and acts as the cushion to absorb the shocks of business. Management of fixed capital involves allocation of firm's capital to different projects or assets with long term implications of the business. These decisions are called **investment decision or capital budgeting decision or management of fixed capital or capital expenditure decisions.**

Investment in these assets means expenditures in acquisition, expansion, modernization, replacement etc. These decisions include purchase of land, building, adoption of advanced technology, expenditure incurred for merge etc. **capital budgeting decisions are significant** because of the following **reasons.**

1. **Long term growth :** These decisions have long term implications. It affects future profitability and growth of the firm. A wrong decision adversely affects the growth of the business.
2. **Large amount of funds involved:-** It requires huge investment of funds. But the available funds are usually limited. Hence it is important to plan and control capital expenditure.
3. **Risk involved:-** Fixed capital involves investment of huge amounts. It affects the return of the firm as a whole for a long run. So it involve huge risk.
4. **Irreversible decision:** Once the decision for acquiring permanent assets is taken, it becomes very difficult to reverse that decision. It is possible but with huge losses.

Factors affecting the requirement of fixed capital

The amount of fixed capital varies from business to business. This is determined by the following factors.

1. **Nature of business:-** The nature and character of business determine how much fixed capital is required. Eg: A trading concern needs lower investments in fixed assets compared with a manufacturing organization.

2. **Scale of operations/ size of business:** A large sized business will generally require huge investment in fixed assets as compared to a small sized business.
3. **Choice of techniques:-** Some industries are capital intensive while others are labour intensive. The requirement of fixed capital would be higher in capital intensive industries.

4. **Technology up gradation:-** In certain industries assets become obsolete sooner. Consequently their replacement becomes due faster. Higher investments in fixed assets may therefore require for such business.

5. **Growth prospects:-** Higher growth of an organization generally requires higher investments in fixed assets.

6. **Diversification:** When a firm diversifies its activities, requirements for fixed capital will increase.

7. **Financing alternatives:-** when an assets is taken as lease , the firm pays lease rentals and uses it.By doing so it avoids huge sum required to purchase it and there by reducing investment in fixed assets.

8. **Level of collaboration:** At times certain business organization share each other's facilities. Eg: ATM facility. Such collaboration reduces the investment in fixed assets for each one of the participants.

WORKING CAPITAL

Working capital is the amount of capital which is required for day to day working of a business. Working capital refers to that part of capital which is available and used for carrying out routine business operations or financing current assets such as cash , marketable securities, debtors and inventories. It is also known as **circulating capital or revolving capital**. There are two concepts of defining working capital

(a) **Gross workingcapital** and (b) **Net working capital**

(a) **Gross working Capital** : Gross working capital is the capital invested in total current assets. It is the total investment in all the current assets like cash, inventories, prepaid expenses etc.
(b) **Net working capital**: Net working capital means current assets minus current liabilities. In other words net working capital is the excess of current assets over current liabilities.

Working capital = Current assets- current liabilities (current liabilities are those which are to be paid off within a short period of time ie. One year.)

In net working capital concept, working capital may be positive or negative. When the current assets exceed current liabilities, the working capital is positive, otherwise working capital will be negative.

Factors affecting working capital requirements

1. **Nature of business :-** The amount of working capital depends upon the type or nature of business. A trading organization usually needs a smaller amount of working capital compared to manufacturing organization. This is because in trading concern sales can be effected immediately upon the receipts of goods.

2. **Scale of operation:-** high scale of organization demands high amount of inventory and debtors. Such organization therefore, requires large amount of working capital.

3. **Business Cycle:-** In boom period, when the business is prospering , large amount of working capital is required due to raise in prices, increase in sales etc.. In times of depression the sales decline and large amount of working capital may lie idle.

4. **Seasonal operations:** Industries that produce and sell seasonal goods require large amount of working capital during the peak season.

5. **Production cycle:-** Production cycle is the time span between the receipt of raw material and their conversion into finished goods. Larger the process period of manufacture, larger is the amount of working capital required.
6. **Credit Policy:-** A concern buying raw materials on credit and selling product on cash requires less amount of working capital and vice versa. A liberal credit policy required large amount of working capital.

7. **Operating efficiency:-** If cash, debtors and inventories are efficiently managed, working capital requirement can be reduced.

8. **Availability of raw materials:-** If the raw materials are available freely and continuously , lower stock of materials is required. In addition the time lag between the placement of order and the actual receipt of the material (lead time) is important. Larger the lead time, larger the quantity of material to be stored.

9. **Growth prospects:-** The working capital need of a concern depends on the expansion and growth of its business activities.

10. **Level of competition:** In case market is highly competitive, liberal credit terms may have to be granted to customers. This leads to higher investment in debtors. ie. Require more working capital.

11. **Price level changes**:- During inflation , price level increases and large amounts of working capital is necessary to maintain same quantity of current assets.

12. **Dividend Policy:-** A firm that gives a steady high rate of cash dividend needs more working capital.

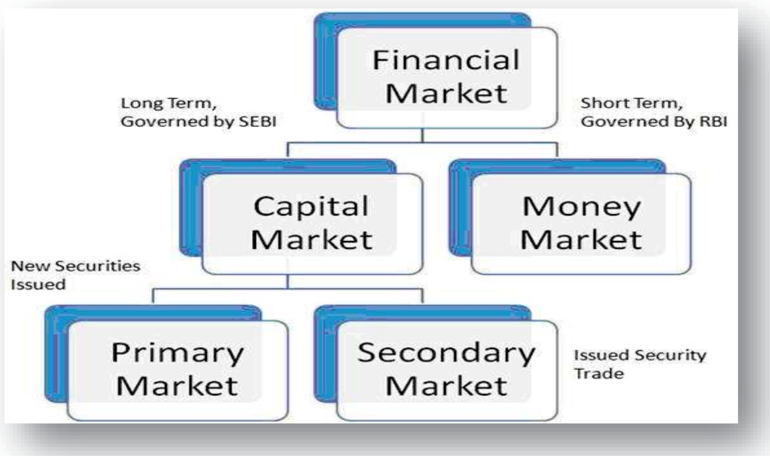
CHAPTER-10
FINANCIAL MARKET

Financial market is the place where financial assets are bought and sold. Financial market act as an intermediary between two group who perform savings and investment functions. Financial market acts as a linking pin between the savers and investors by mobilizing funds between them

Classification of Financial market

Financial market consists of two major segments

1. **Capital market**- which is a market for medium and long term funds and
2. **Money market-** which is a market for short term funds



MONEY MARKET:

Money market is the market for short term funds. Short term funds are meant for the use for a period up to one year. It constitute major source of working capital finance. Money market securities close substitutes for money. It is a market where low risk, unsecured and short term debt instruments that are highly liquid are issued and traded everyday. Money market has no physical location, but its activity conducted through the telephone and internet

MONEY MARKET INSTRUMENTS

1. **Treasury Bills (T- Bills)/ Zero coupen Bonds:-** These Bills are issued by Reserve Bank of India (RBI) on behalf of the Government of India. These are short term credit instruments for a period of less than one year. Treasury bills are negotiable instruments and freely transferable. It does not carry interest. They are issued at a price which is lower than their face value and repaid at par. Treasury bills are available for a minimum amount of Rs. 25000 and in multiple thereof.

2. ***Commercial paper:-*** In India Commercial paper have been introduced in 1989 on the recommendations of Vagal Committee. It an Unsecured promissory note with a fixed maturity period of 15 days to one year. It is sold at a discount and redeemed at par. The original purpose of commercial paper was to provide short term funds for seasonal and working capital funds. It is a negotiable instrument transferable by endorsement and delivery. Fund raised through commercial paper are used to meet the flotation cost. This is known as bride financing.

3. **Call money:-** Call money is a short term finance repayable on demand, with a maturity of one day to 15 days. The day to day surplus funds, mostly of banks are usually trades as call money. Banks may borrow money when they face with temporary shortage of funds. Similarly bank with surplus of funds can also lend for short time period. The interest rate paid for call money loans is known as the call rate. This market is also known as "over the telephone market". Call money is a method by which banks borrow mutually to maintain CRR (Cash Reserve Ratio), CRR is the minimum balance a commercial bank should maintain with RBI.

4. **Certificate of Deposit (CD) :**Certificate of deposit is unsecured, negotiable, short term instruments issue by commercial banks and development financial institutions. The period of these deposits ranges between 91 days to one year. Only banks can issue such a certificate.. The major difference between CD's and Fixed deposits is that CDs are transferable and tradable and FDs are not.

5. **Commercial bill/ trade Bill/ Bill of exchange :** A commercial bill is a bill of exchange to finance the working capital requirements of business firms. The trader who has received a bill can discount it with his bankers. The bank in turn can rediscount these bills in the commercial bill markets. Rediscounting provides short term liquidity to such banks. When a trade bill is accepted by a commercial bank it is known as a commercial bill.

CAPITAL MARKET

This is the market for medium and long term funds. Financial assets with a maturity of more than year is a part of capital market. It is a market for long term capital. The capital market provides long term debt and equity finance for the government and the corporate sector.

A. wide variety of instruments is used to raise funds in the capital market. These instruments are ownership securities (Equity shares and preference shares) and creditor ship securities (debentures and bonds). The capital market consists of development banks, commercial banks and stock exchanges.

Features of capital market

- Participants: The participants of capital market are financial institutions, banks, corporates entities, foreign investors, stock exchanges etc.
- Instruments: the main instruments traded in the capital market are – equity shares, debentures, bonds, preference shares etc.

- Investment outlays: it requires less investments as value of securities is generally low
- Duration: capital market deals with medium term and long term securities
- Liquidity: High liquidity
- Safety:- Capital market instruments risky both in return and principal repayment.
- Return: Capital market instruments yield a high return

SEBI(SECURITIES AND EXCHANGE BOARD OF INDIA)

Securities and Exchange Board of India (SEBI) is the regulatory and developmental agency of Indian capital market. It was established in 1988 and was given statutory status through the securities Exchange Board of India Act 1992. SEBI was to set up to protect the interest of investors promote the development of stock market and regulate it. Its headquarters is at Mumbai.

Functions of SEBI

Functions of SEBI are classified as protective functions, regulatory functions and developmental functions. These functions reveal the objectives of SEBI, such as to protect, develop and regulate the market. Because of these functions SEBI is often called watch dog of capital market.

I. Protective Functions

1. Prohibition of fraudulent and unfair practices relating to securities market like making misleading statement, price rigging etc.
2. Prohibiting insider trading in securities
3. Undertaking steps for investor protection
4. Promotion of fair practices and code of conduct in securities market.

II. Development Functions

1. Promote investor education programmes
2. Promote training of intermediaries
3. Promote online trading
4. Promote fair practices in capital market
5. Conduct researches on capital market and publish useful information
6. Permit primary market operations through stock exchanges

III. Regulatory Functions

1. Register of brokers and sub brokers and other players in the market
2. Registration of collective investment schemes and mutual funds
3. Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers
4. Levying fees or other charges for carrying out the purposes of the Act.
5. Collect information about functioning of stock exchanges and undertake inspection,

enquires and audit of them.

CHAPTER -11

MARKETING

MARKET

The term market has its origin in the Latin word 'marketus' it means mercantise, wares or trades. The term 'market' is used in a variety of contexts. Traditionally market is the place where exchange of products takes place. Eg.Chala market, Chenganassery market etc.

There term market used in various contexts is given below:

1. Product market (Cotton market, Vegetable market, share market etc.)
2. Geographical market – (Local market, national market, international market)
3. Based on types of buyers (Consumer market and industrial market)
4. Based on quantity of goods (Wholesale and Retail market

Modern concept of market

Now a days a market need not necessarily be a place or area. In fact, market constitutes aggregate demand of the potential buyers of a commodity or service. Market is an idea or concept describing an area, place or demand for products. In the word of **DUDDY**

"Markets are people with money to spend and desire to spend it"

MARKETING

Marketing includes all activities involved in the creation of place, time and possession utilities. **Marketing means what a marketer does.**

"Marketing is concerned with the people and the activities involved in the flow of goods and services from the producer to the consumer. " –**American Marketing Association**

"Marketing includes those business activities which are involved in the flow of goods and services from production to consumption " **- Converse**

MARKETING AND SELLING

Marketing and selling are often used as synonyms, but they are different words bearing different meanings. Selling is the process of exchanging something for value. Marketing gives more attention to customer satisfaction. Selling is only one part of marketing. Major differences between marketing and selling are given below

Marketing	selling
1. Markeing focuses on the need of the customer	1. Selling focuses on the need of the seller
2. Marketing begins before actual production takes place	2. Selling takes place after the production

3. Customer oriented- Customer is treated as a king. He is the supreme importance	3. Producer and product oriented- product enjoys supreme importance
4. Marketing aims at profit maximization through customer satisfaction	4. Selling aims at profit maximization through increase sales volume
5. The principle of caveat Vender (let the seller beware) is followed	5. The principle of Caveat Emptor(Let the buyer beware) is followed
6. An integrated approach is followed in marketing. For eg: product planning, development, advertising, selling etc.	6. Fragmented approach to selling is followed. Attempt is made to sell whatever is produced
7 Marketing aims at long term profit maximisation through growth and stability	7. Selling aims at short term profit maximisation
8 Marketing is wider term- which include selling	8. Selling is only part of marketing

FUNCTIONS OF MARKETING

The movement of goods from the producers to the ultimate consumers involves a number of activities. These activities are known as marketing functions. They are:

1. **Gathering and analyzing market information :** one of the important functions of marketer is to gather and analyze market information. This is necessary to identify the needs of the customers and product planning and developments. Information are obtained from customers, salesmen, dealers, press reports etc. with the growth ofcomputers, a new trend has emerged in the collection of market information. It helps to SWOT (strength, weakness, Opportunities, and threats) analysis of the organization.

2. **Market Planning:** The marketing objectives of the organization can be achieved through proper marketing plans. The marketer has to develop a complete plan to cover various important aspects like plan for increasing the level of production, promotion of products, introduction of new products, increasing demand etc. For that he has to study the introduction market situation, attitudes of customers, competitors, government policy etc.

3. **Product planning and development :** Product planning and development begins with identification of customer needs. Based on the identified needs, the products are designed and developed so as to suit the requirements of users. Product planning and development involves the systematic study regarding the size, design, name, price, uses, color, quality, quantity, packing etc. of a product. Product planning and development have great relevance in marketing as it has direct impact on demand.

4. **Standardisation and Grading:** Standardization is the setting up of certain specifications on products like quality, quantity, sizes, design utility etc. which helps in achieving uniformity and consistency in the output. It facilitates purchases by description. For eg: product having ISI mark or Agmark can be purchased and the buyer can be assured of its quality.
   Grading is a part of standardization. Grading is the act of classifying the products into different groups based on quality, quantity, size etc. Standardization is the basis of

grading. When goods manufactured are not of uniform quality they need grading. Grading is very much required in case of agricultural produce like food grains, mango, apple etc. Grading helps in getting good price for the products.

5. **Packaging and lebelling**: Packaging refers to designing the package for the products. Package is the wrapper or container in which a product is enclosed or sealed. Packaging is the process of putting the goods in the package for the purpose of easy marketing.

   Packaging is necessary to reduce spoilage, breakage and leakage of the product in times of storage and transportation. Packaging is the, method of sales promotion.

Package usually contains a label on it. Putting label on the package is called labeling. This provides useful information to the buyer regarding the product such as quality, size, price etc. A good package acts as a silent salesman in self-service stores such as super bazars, super markets.

6. **Branding:** branding is the act of giving a special name, symbol, design or a combination of all these to a product, in order to distinguish it from others. Brand name helps in creating product differentiation. Branding crates goodwill and it ensures repeat sales. Brand name plays an important role in the success of a product. Colgate, Titan,Amul, Daldaetc are popular brands in India.

   If a company manufactures and sells variety of products under a single brand name, it is called blanket family branding. Eg: Samsung, LG, Sony etc.

   If a company gives different brand names for their different products it is called separate family name. eg: V-Guard, Wounderla, V-star of V-Guard company Kochi.
7. **Pricing of product:** pricing is the process of fixing price for the goods and services. Pricing is important as it determines the volume of sale and profit. Generally pricing is done after considering the factors like cost of production, demand for the product and competition.

8. **Customer support services:-** A very important function of marketing management includes the development of customer support services. These are after sales services, handling customer complaints, maintenance services, technical services and customer information. All these services are required to provide maximum satisfaction to the customers.

9. **Promotion:** promotion refers to use of various communication tools to inform and persuade customers about their firm's product. This includes advertising, personal selling, sales promotion and publicity.

10. **Physical distribution:** Physical distribution means movement of goods from place of production to the place of distribution. It is concerned with physical handling of goods. The two major decision areas under this function include 9a) Decision regarding channels of distribution (wholesalers, retailers) to be used and (b) physical movement of the product from the producer to consumers.

11. **Transportation:** Transportation facilitates the movement of goods from one place to another. Thus it provides place utility and brings together producers and consumers. There are different modes of transport like rail, water, air and road. Generally the mode

of transportation is selected by considering various factors like speed, distance to be covered, safety etc.

12. **Storage and warehousing:** Storage refers to holding and preserving goods until the buyers demand them. Storage creates time utility by removing the hindrance of time between productions.
    - Storage facilities bulk production of goods in anticipation of demand
    - Storage facility enables consumption of seasonally produces goods throughout the year.

Warehousing facilitates storage of goods. It stabilizes the price of commodity. It assists the process of financing also.

MARKETING MIX

The concept of marketing mix developed by the prof. N.H. Borden.

- Marketing mix is a set of marketing tools that the firm uses to pursue its marketing objectives in the target market – Philip Kotler

- - Marketing mix is the term used to describe the combination of the four inputs which constitute the core of company's marketing system- the product, the price structure, the promotional activities and the distribution system. – Stanton.

The term marketing mix is used to describe a combination of four elements – the product, price, physical distribution and promotion, These are popularly known as ' Four P's'. Of marketing. Marketing mix developed to satisfy the anticipated needs of the identified markets.

Significance of marketing Mix

1. Marketing mix is the link between business and customers
2. Marketing mix helps to increase sales and profits
3. Marketing mix gives equitable consideration to all marketing elements
4. Marketing mix ensures proper integration of elements
5. Marketing mix ensures customer satisfaction.

COMPONENTS/ELEMENTS OF MARKETING MIX

E.J. McCarthy, an American Marketing Expert has stated Marketing mix in terms of four P,s viz product, promotion, price and Place.

Marketing mix may be explained as total marketing programme of the business. Every business need to determine its optimum marketing mix in order to achieve its goals and objectives. The four components of marketing mix-products, price, place and promotion -are explained below.

1. **Product Mix** : Product means goods or services or anything of value' which is offered to the market for sale. . In this sense, product includes physical goods, services, places, organizations and ideas.. Product is anything that can be offered to a market to satisfy a want or need. Product is the most visible components of the marketing mix.

In Marketing mix product refers to planning developing and producing right type of products and services. It involves decision on quality ,size, design, packaging , colour, brand, label, packages. Etc. The whole range of products offered by a firm is called product mix.

2. **Price Mix** : Price may be defined as the exchange of goods or services in terms of money. Without price there is no marketing in the society. The price is a matter of vital importance to the buyer and the seller. The variables usually involved in price mix are as follows.
   (a) Determination of the right price (b) Pricing policies and strategies (c) Discounts, rebates and levels of margin (d) Terms of delivery (d) Credit policy etc.
3. **Place or Physical distribution mix**: Place or promotion mix consists of all the activities involved in transferring ownership and physical possession of the product to consumers. Its purpose is to make the product or service available to customers at the right time and the right place. Ie. It create time and place utility. Distribution mix includes
   (a) Channels of distribution (b) Physical Distribution

Physical distribution includes all those activities which are involved in moving products or services from manufacturers to consumers. Channels of distribution are the routes through which goods move from the producer and consumers. Place or distribution mix creates convenience for the customer.

4. **Promotion Mix** : Promotion deals with informing and persuading the customers about the firm's product. Promotion mix it includes communication activities undertaken to inform and convince customers. Promotion mix involves decisions about advertising, personal selling and other sales promotion techniques. Thus the promotion efforts are directed at informing potential customers that right products is available at the right place and at the right price.

   Marketing mix is used as a tool towards the customers in order to ascertain their n eeds, tastes , preferences etc. marketing mix must face competition. It must satisfy the demands of the society. Thus the firms can attain the objectives- profit, Market share, ROI, sales volume etc.

II. PRICING:

Price may be defined as the exchange of goods or services in terms of money. Pricing is the process of fixing price for the goods and services Pricing is considered as a regulator of the demand of a product and effective competitive weapon.

Functions of Pricing

- Price should ensure minimum profit to owners
- Price should return the cost of product to manufacturer.
- Price should increase competitive strength of the marketer
- Price should be attractive and capable of increasing demand.

Factors affecting Price determination:

There are number of factors which affect the fixation of the price of a product. Some of the important factors are

1. **Pricing Objective:** price of a product depends upon the firm's objective. A firm may decide out of several objectives eg: profit maximization, a specific level of profit, target level of sales, a particular share of the market, prevailing market price etc. The price of the product must be in line with the firm's pricing objective

2. **Product cost:** Cost and price of a product are closely related. The price must cover all production cost and fair return of product. No business can survive for long without covering its costs. Cost is of two types. Viz Fixed and variable. The impact of these two costs should be considered while taking pricing decisions.
3. **Utility and demand:** the utility provided by the product and consumers demand set the upper limit of the price which a buyer is willing to pay. The price of a product is affected by the elasticity of demand of the product. If the demand of the product is elastic, high price may be fixed. On the other hand, if demand is elastic the firm should

not fix high prices, rather it should fix lower prices than that of the competitors.

4. **Competition:** prices charged by competitors often act as the guide in a pricing decision. For eg: Maruti Udyog has to decide the price of its ZEN and ALTO cars keeping in view the competing brands like SANTRO, INDICA and PALIO.
5. **Government and Legal Regulations:** Prices of certain products are regulated by the government.eg: Edible oils, sugar, cement etc. In such cases, prices should be fixed accordingly Government can declare a product as essential product and regulate its price.
6. **Marketing Methods used:** pricing is also affected by other elements of marketing such as distribution system, sales promotion techniques, quality and amount of advertising, quality of salesmen, the distributor's attitude towards the price, customer services provides etc.

PROMOTION

Promotion is the fourth important element in the marketing mix of a company. Promotion is a process of communication involving information, persuasion and influence. Thus promotion means informing customers about the product and service and stimulating them to buy it. It includes all activities that are undertaken to increase sale.

Promotion mix refers to combination of promotional tools used by an organization to achieve its communication objectives. The important elements /tools of promotion mix are

(a) Advertising (b) Personal Selling/ salesmanship, (c) Sales promotion and (d) Advertising

a). **ADVERTISNG**

Advertising is most widely used form of product promotion. It is a non-personal presentation of an idea or a product. It involves transmission of standard message to a large no. of people. The message is transmitted is known as "Advertisement".

Definition

"Advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor" - American Marketing Association

"Advertising is mass communication of information intended to persuade buyers as to maximize profits" –Little Field

Features Of advertising

1. **Non personal communication:** It is a mass non personal communication reaching large group of buyers. The advertiser has no face to face contact with the public/customers. It create awareness among the consumers about the product.
2. **Paid form of communication:** Advertising is a paid form and hence commercial in nature. The advertiser has to pay to the advertising media for the space or time used to communicate the message to customers.
3. **Identified Sponsor**: Advertising is identifiable with its sponsoring authority or advertiser. It should discloses the sources of opinions and ideas, it presents.

Merits of Advertising

Advertising plays a very vital role in modern business and performs several functions

Benefits to manufacturers and Traders

1. Advertising helps to create a steady demand for the products of a manufacturer.
2. Advertising creates new customers and widens the market for a product.
3. Advertising helps in creating a good image of the firm and reputation for its product.
4. Advertising makes it easier for sales men to approach the potential customers
5. Advertising reduces the cost of distribution by popularizing the products
6. Advertising promotes large scale production. This is in turn reduces the total cost per unit of production

Benefit to consumers

1. Advertising makes purchasing easy for the consumers
2. It saves time and efforts in selecting the products
3. IT educates the consumers about the various use of goods and also how to use them.
4. It compels the producer to maintain high standard.
5. Advertising is the connecting link manufacturer and the consumers. It eliminates the middlemen.

Benefits to society

1. Advertisement generates employment opportunities directly and indirectly.
2. Advertising is an effective tool which raises the standard of living of the people of the country.
3. Advertising educates the members of the community in the various uses of products.

Evils/ limitation/defects of advertising

Advertising is often criticized as being economically wasteful and socially undesirable. The main points of criticism against advertising are given below

1. Advertising sells people things they neither need nor want
2. People are not really influenced by advertising
3. Advertising results in higher prices
4. Advertising is false and misleading
5. Most advertising is irrelevant
6. Most advertising exhibits bad taste or sponsors it
7. Advertising is too intrusive
8. It tends to create monopoly
9. Advertising regulates discussions of public issue through its control of the news media
10. Advertising is often emotional rather than rational
11. Advertising creates unhealthy competition among the businessmen.
12. Advertising is regarded as an economic waste. A considerable portion of

advertisement escapes the attention of consumers.

SALES PROMOTION

Sales promotion refers to all those activities which promote sales except personal selling and publicity. Sales promotion is the connecting link between personal selling and advertising. Sales promotion is considered as a special selling efforts to accelerate sales. Sales promotion activities include offering cash discount, sales contests, free gifts and free distribution etc.
Merits of sales promotion:

1. It helps to create demand for the products
2. It helps to increase the sales
3. It provides strong incentive to buy the goods immediately
4. It helps to meet competition effectively
5. It helps to enhance the reputation of the firm
6. It helps to introduce new products by creating initial demand.

Demerits of sales promotion

1. Sales promotion activities are having temporary and short life. The benefits are also short lived for three or four months.
2. Brand images is affected by too many sales promotion activities
3. Sales promotion activities are non-recurring in their use.
4. Consumers may feel that incentives are offered to sell substandard products.
5. It is expensive and leads to a rise in the price of the products.

Commonly used sales promotion tools

1. **Rebate:** As per this technique the product is made available at a specified price less than the original price. The amount deducted from the original price is termed as rebate.

2. **Discount:** under this technique a certain percentage of price is reduced from MRP (Maximum Retail Price) at the time of sale. The deducted portion is called discount. Generally this technique is applied in special seasons , such as festivals, school reopening etc.

3. **Refund:** Here the seller offers refund of part of price collected from the seller on production of proof of purchase say: return of empty foils or wrapper.

4. **Product combination/Premium/gift:** Under this method a free gift is given to buyer along with the product. He bought. Eg: A tooth brush is given along with tooth paste.

5. **Quantity Gift :** Here the marketer offers additional quantity of products along with the quantity purchased by the buyer.
   Eg: A paste's offer of" 40% extra" or Buy 2 get 1 free, 100 g extra with 1 kg pack of tea etc.

6. **Instant Draws and assigned Gift:** For e.g.: “scratch a card” or “Burst a cracker” and instantly win a Refrigerator, Car, T-shirt, computer with the purchase of a TV.
7. **Lucky Draw:** While buying a product a coupon is given which is to be deposited in a box filling the name. Either at the end of the day or after a particular period the winner is selected by lucky draw method.

8. **Free samples:** Free samples of the product are distributed to the consumers through door delivery, by post or attached to other products. Samples help the consumers to experience the utility of the product.

9. **Contests:** Some firms hold contests for consumers. Consumers who buy the firm’s products are given an opportunity to participate in the contest. Winners are given attractive prizes.

10. **Full Finance @ 0% :** Marketers of consumer goods , automobiles etc offer easy financing scheme. Eg: 24 easy installments. So full amount needn’t be paid at the time of purchase but in easy installments without interest.

11. **Money refund offer:** If the buyer is not satisfied , the whole or part of the price will be refunded to the buyer.

CHAPTER -12

CONSUMER PROTECTION

Marketing begins with customer and ends with the customer. A consumer is to be a king in a free market economy. The earlier approach of “**caveat emptor**” which means ‘Let the buyer beware’ has now been changes to ‘**caveat vendor’** which means ‘ Let the seller beware’. Customer is the beginning and end of our marketing. But in reality consumers are often exploited due to their ignorance and lack of unity among them. Misleading advertisement, adulterated products, underweighting, overcharging, hoardings are some of the examples of exploitation of consumers. Thus there is a need for providing adequate protection to the consumers against such practices of the sellers or manufacturers.

Consumer’s protection is a movement to protect and promote the interest of consumers. Consumer protection means adoption of voluntary measures, legal measures and willingness on the part of business to safeguard the interest of consumers.

CONSUMER RIGHTS

There are six rights provided to consumers under the Act. The right includes the following

1. **Right to safety:** The consumer has the right to be protected against marketing of goods which are hazardous to life and health.

2. **Right to informed:** The consumer has a right to have complete information about the product he intends to buy including its ingredients, date of manufacture, price, quality,

direction to use, possible side effects etc.

3. **Right to choose:** The consumer has the freedom to choose from a variety of products at competitive prices. This implies that marketer should offer a wide variety of products in terms of quality, brand, prices, size etc

4. **Right to be heard:** The consumer has the right to file a complaint and to be heard in case of dissatisfaction with goods and services. Therefore, many reputed firm have, set up their own consumer service and grievance cells.

5. **Right to seek redressal:** The consumer has right to get relief in case of product or service falls short of his expectations. The CPA provides number of reliefs to consumers including replacement of product, removal of defects in the product, compensation for loss etc.

6. **Right to consumer education:** This is the right of consumer to know his rights as per law and the remedies available to him if there is any grievance. This is possible only through consumer education.

LEGAL PROTECTION TO CONSUMERS

The Indian legal framework consists of a number of regulations which provide protection to consumers. They include:

1. **The consumer protection Act-1986 (CPA):** The consumer Protection Act 1986 was passed to promote and protect the rights of customers. The Act came into force from 1stJuly 1987. This ACT is considered to be the '**Magna Carta'** of Indian consumers. The act protects the following rights of consumers.

   (a) Right to safety (b) Right to Information (c) Right to choose (d) Right to heard (e) Right to seek redressed (f) Right to education

2. **The Contract Act 1872 :** The Act prescribes the conditions by which promises made by parties to a contract would be binding on each other.

3. **The Sale of Goods Act 1930:** The Act provides some safeguards and reliefs to the buyers of the goods in case of the goods purchased do not match with express or implied conditions

4. **The Essential Commodities Act 1955** : This Act provides for control of production, Supply, and distribution of essential commodities, check inflationary trends in prices and ensures their equitable distribution.

5. **The Agricultural Produce (Grading and Marking) Act 1937:** The Act prescribes grade standards for agricultural commodities and livestockproducts. The quality mark provided under the Act is known as AGMARK.

6. **The Prevention of Food Adulteration Act -1954:** The Act checks adulteration of food items and ensures their purity in the interest of public health.
7. **The standards of weights and Measurement Act -1976 :**This Act is applicable to those goods which are sold or distributed by weight, measure or number . .It gives protection to consumers against the malpractice of underweight or under measure

8. **The Trade Marks Act -1999 :** This Act prevents the use of fraudulent marks on products and thus provides protection to the consumers against such products.

9. **The Competition Act-2002:** This act replaced Monopolies and Restricted Trade practices Act 1969 (MRTP). The Act provides protection to the consumers in case of concentration of economic power in few hands.

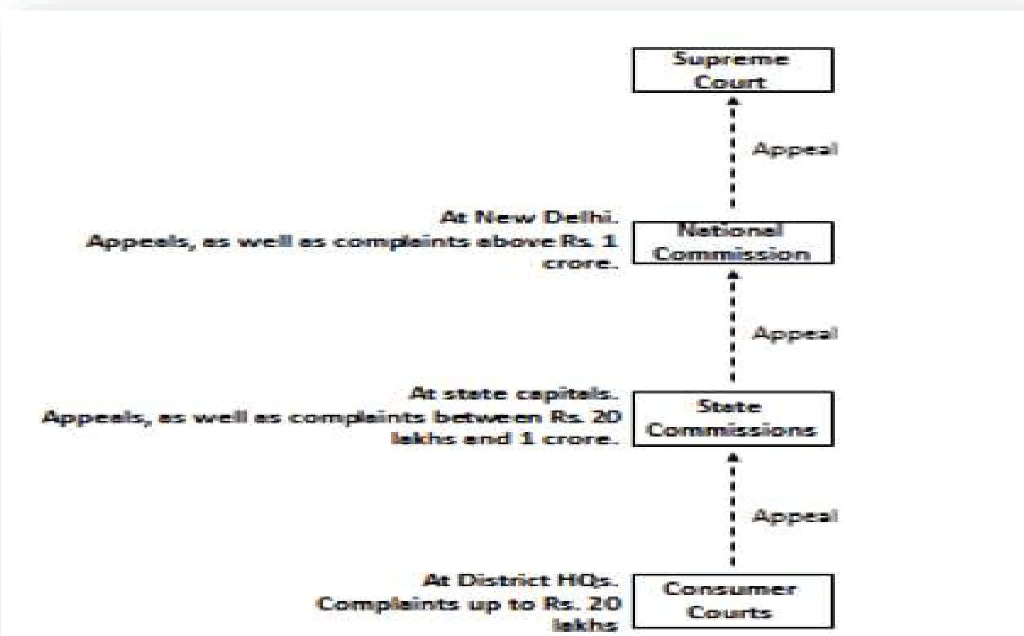
10. **The Bureau of Indian Standards Act -1969:**

    The bureau has two set of activities (a) Formation of quality standards (b) Certification through BIS Certification. Manufacturers will be allowed to use ISI mark on their products only if the products confirm to the prescribed quality standards.

Of all the above, The Consumer protection Act is the most important one.

REDRESSAL AGENCIES UNDER THE CONSUMER PROTECTION ACT

The Consumer Protection Act has set up three-tier machinery at the district, state and national level known as the District Consumer Dispute Redressal Forum, State Consumer Disputes Redressal commission and National Disputes Redressal Commission. They are popularly known as District forum, State commission and national Commission



1. **<u>District forum</u>**: Established by the State Government in each district. This forum can entertain complaints where value of goods or services and compensation claimed up to Rs. 20 lakhs. It consists of one present and two other members (One of whom is to be a woman).The district forum shall pass an order after considering the test report and hearing to the party against whom the complaints is filed. An appeal against the order of district forum can be filed with state Commission within 30 days.

2. **<u>State Commission</u>**: It is established by the State Government. The commission will hear complaints where value of goods or services and compensation claimed is over 20 lakhs but less than Rs. 1 crore. It shall consist of president and not less than 2 members, one of whom should be a woman. The State commission shall pass an order after considering the test report and hearing to the party against whom the complaints is filed. An appeal against the order of state commission can be filed with national Commission within 30 days.

3. **<u>National Commission</u>**: **It is** constituted by the Central Government. The commission will hear original complaints only if the value is Rs 1 crore or more It shall consists 5 members, the president, 4 other members, one of whom is to be a woman. The president of the commission should a person who is/has been a judge of the Supreme Court. The National commission shall pass an order after considering the test report and hearing to the party against whom the complaints is filed. An appeal can be filed against the decision of National commission with the Supreme Court within 30 days.

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