CHAPTER 1

NATURE AND SIGNIFICANCE OF MANAGEMENT

MANAGEMENT-Definition

Management is the art of getting things done through other people -Mary Parker

Characteristics of Management (Features)

1.Management is goal-oriented

Different organisations have different goals. Mgt unites the efforts of different individuals in the organization towards achieving these goals.

2. Management is pervasive

The activities involved in managing an enterprise are common to all organisations whether economic, social or political.

3. Management is multi-dimensional

Mgt is a complex activity that has three main dimensions. These are a)Mgt of work b) Mgt of people and c) Mgt of operations.

4. Management is a continuous process

The process of Mgt is a series of continuous but separate functions (Planning, Organising , Staffing, Directing and Controlling)

5. Management is a group activity

An organisation is a collection of diverse individuals with different needs. This requires team work and co-ordination of individual effort in a common direction.

6.Management is a dynamic function

An organisation interacts with its external environment. In order to be successful ,an organisation must change itself and its goals according to the needs of the environment.

7.Management is an intangible force

Mgt is an intangible force that cannot be seen but its presence can be felt in the way the organisation functions.

Nature of Management

Management as an Art

Art is the application of knowledge and personal skills to achieve desired results. The following are the features of art

1. Practical knowledge

A person must have practical knowledge in solving managerial problems.

2. Personal skill

Every manager has his own style and approach.

3. Concrete results

Every manager applies his skill and knowledge to attain desired results.

4. Creativity

Every piece of art requires creativity, imagination and intelligence. Likewise, Mgt is also creative.

5. Perfection through practice

A manager becomes more efficient through constant practice.

Management as a Science

Science is a systematized body of knowledge acquired through observation and experimentation. Feature of Mgt as science are as follows

1. Systematised body of knowledge

Mgt has a systematized body of knowledge developed by experts and scholars over a period of time

2. Principles based on experimentation

Principles of Mgt evolved over a period of time based on repeated observations and experimentation.

3. Scientific principles

Mgt principles are basically universal in nature, but this has to be modified according to each situation.

4. Cause-effect relationship

Mgt principles establish cause-effect relationship between different factors.

5. Verifiability of results

Like scientific principles, the validity of Mgt principles can also be verified.

Management as a Profession

Profession is an occupation which involves rendering of personal services of expert nature. Mgt as a profession has the following features

1. Well defined body of knowledge

Mgt has a well defined body of knowledge built up by Mgt thinkers and scholars over a period of time.

2. Formal training

Several institutes and universities all over the world offer facilities for studies and training in Mgt.

3. Restricted entry

To become a professional, one must pass prescribed examination such as CA,MBBS etc. But no qualification is prescribed to become a manager.

4. Professional association

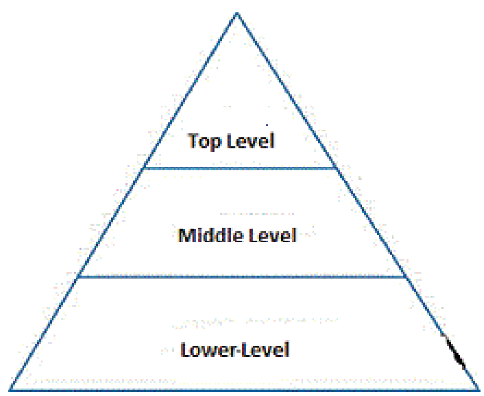
In every profession there is a representative body like Bar Council of India, Medical Council of India etc. But it is not compulsory for managers to be members of Management Association.

5. Code of conduct

Members of a particular profession have to abide by a code of conduct.But, in Mgt there is no uniform code of conduct.

Levels of Management

It refers to the arrangement of managerial positions in an organisation or the hierarchy of managerial positions from top to bottom.



1. Top Management

It is the head of an organisation. It consists of the Board of Directors and the Chief Executive like the Chairman, MD, President

Functions

a) Lays down the objectives of the organisation

b) Formulates policies and plans

c) Organises the business into various departments

d) Co-ordinates and controls the activities of different departments

e) Maintain liaison with Govt, workers, organisations etc.

Middle management

This level consists of heads of departments, eg: Production manager, Finance manager, Marketing manager etc.

Functions

a) Implement the policy decisions taken by the top Mgt

b) Issue detailed instructions to the lower level Mgt

c) Communicate the problems and suggestions of lower Mgt upwards

d) Guide and inspire the lower level managers to attain the objectives of the organisation

e) Serve as a link between top level and lower level.

Lower Management (Supervisory Mgt or Operative Mgt)

It is directly concerned with the control of performance of the operative employees. It includes foreman, supervisors, sales officers, accounts officers etc.

Functions

a) Planning of day to day work.

b) Assignment of work and issuing orders and instructions

c) Arranging materials, machines, tools etc.

d) Supervising the workers and assisting them by explaining work procedures.

e) Sending reports to higher authorities.

Co-ordination

It is the process of integrating the activities of different units of an organisation to achieve the organizational goals. Co-ordination is regarded as the essence of Mgt and not as a separate function.

Features

1. It integrates group efforts

Co-ordination unifies unrelated interests into purposeful work activity.

2. It ensures unity of action

It acts as the binding force between departments and ensures that all action is aimed at achieving the goals of the organisation

3. It is a continuous process

It is a continuous process. It begins at the planning stage and continues till controlling.

4. It is a pervasive function

It is required at all levels of Mgt due to the interdependent nature of activities of various departments.

5. It is the responsibility of all managers

It is the function of all managers at all levels of the organisation.

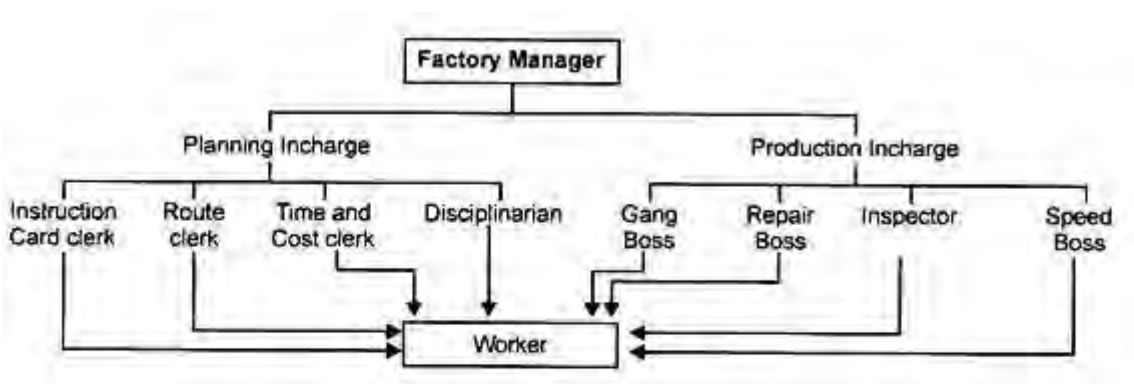
CHAPTER 2

PRINCIPLES OF MANAGEMENT

Techniques of Scientific Management

1. Functional foremanship

It is the technique of separation of planning and execution function at the lowest level. Planning is done in the planning department by four specialists and execution is done in the production department by four specialists as depicted below



Route clerk - Determines the route of completing a work

Instruction cad clerk- Prepares and gives instruction card to workers

Time and cost clerk- Records the time taken for completion of a work and also the cost of work done.

Disciplinarian- Ensures that each job is being performed in a disciplined manner.

Speed boss- Ensures workers perform at the required speed

Gang boss- Arranges machines and tools for work.

Repair boss- Taken care of maintenance of machines

Inspector- Checks the quality of output.

2. Standardisation and simplification of work.

Standardisation refers to the process of setting standards for every business activity. Standards can be set for raw material, time ,product etc.

Objectives of standardization are:-

a) To restrict a given line of product to fixed types, sizes etc

b) To establish standards of quality in materials.

c) To establish standards of performance of men and materials.

Simplification aims at elimination of superfluous varieties , sizes and dimensions.

3. Method study

It is technique to know the best way of doing a job. Its objective is to minimize the cost of production and improve the quality and level of customer satisfaction.

4. Motion study

It refers to the study of movements like lifting, putting things, sitting and changing positions etc. It aims at eliminating unnecessary and inefficient movements so that it takes less time to complete the job efficiently.

5. Time study

It is the technique of determining the standard time required to complete a job. Time recording clock is used for each element of work. It helps to determine the number of workers to be employed and calculating labour costs.

6. Fatigue study

It is the technique of determining the time and frequency of rest intervals required to complete a job. When a worker works continuously, his speed and efficiency in the work diminishes. He should be given proper rest to recoup the energy lost.

7. Differential piece wage system

It refers to a wage system wherein dual wage rates are fixed to differentiate between efficient and inefficient workers and wages are paid accordingly. Under this plan, standard task is set with the help of time and motion study and two piece rates are fixed for each job. A higher piece rate is for those whose production equals or exceeds the standard task. The lower rate is meant for those whose production is below the standard.

Henry Fayol's principles of Management.

Henry Fayol is known as the Father of Modern or General Management. The 14 principles explained by Fayol are as follows

1. **Division of work.**

Dividing the work into small jobs and assigning each of them to competent workers according to their ability and qualification is called division of work. It leads to specialization and increases the efficiency of workers.

2. **Parity between authority and responsibility**

Authority is the right to give orders and power to exact obedience. Responsibility is the obligation to perform the work as desired and directed by the authority. There should be a balance between authority and responsibility.

3. **Discipline**

It means obedience, respect of authority and observation of organisation rules. Good supervision, clear rules and a reward and punishment system help to maintain discipline. Discipline is required for workers as well as management.

4. **Unity of command**

It states that an employee should receive orders from one and only one superior at a time and be answerable to only one superior. If there is no unity of command , there will be confusion , discipline weakened and responsibility cannot be fixed.

5. **Unity of direction**

There should be only one head and one plan for a group of activities having the same objective. This ensures unity of action and co-ordination.

6. **Subordination of individual interest to general interest**

Every worker has some individual interest for working in a company. The company has got its own objectives .According to Fayol the interests of the company should take priority over the interests of any one individual employee.

7. **Remuneration of employees.**

The remuneration should be fair to both employees and the organisation. The employees should be paid fair wages which should give them a reasonable standard of living. At the same time it should be within the paying capacity of the company.

8. **Centralisation and decentralisation**

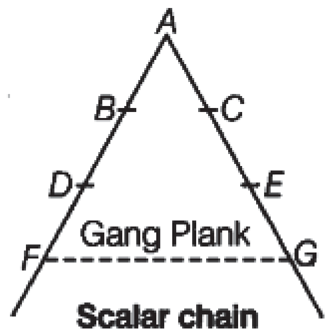
Concentration of decision making authority in the hands of a few is called centralisation and its dispersal among more than one person is called decentralisation. There should be a balance between centralisation and decentralisation. There may be more decentralisation in large organisations than small organisations.

9. **Scalar chain**

The chain of superiors ranging from the highest ranks to the lowest ranks is called scalar chain. The communication should pass through this chain of command only. This is necessary to ensure unity of command and effective communication. But it is time consuming and there may be distortion of messages during its transmission. To do away

with these limitations Fayol suggested Gang Plank for short circuiting the chain for quick communication. In the below picture ,if F wants to communicate

with G, then it should pass through D-B-A-C-E. But using Gang plank F can directly communicate with G



10. Order

It states that people and materials must be in suitable places at appropriate time. It implies that there must be a place for everything. If this is followed, there will be no hindrance in the activities of business.

11. Equity

It means kindliness and justice in the behaviour of managers towards workers. There should be no discrimination against any one on account of sex, religion, language, nationality etc

12. Stability of personnel

It states that employees turnover(people leaving the organisation) should be minimised to maintain organizational efficiency. Workers should not be shifted from their positions frequently. They should be given reasonable time to show results.

13 . Initiative

Employees at all levels should be encouraged to take initiative in work related matters. It is thinking out and executing the plan. A good organisation should have an employee suggestion system whereby initiatives which lead to reduction in cost, time etc should be rewarded.

14. Esprit De-Corps(Union is strength)

Mgt should promote team spirit and harmony among employees. It means the spirit of loyalty and devotion to the group to which one belongs. It ensures co-ordination and co-operation.

CHAPTER 3

BUSINESS ENVIRONMENT

Meaning

Business environment means the sum total of individuals, institutions and other forces that are outside the control of a business but that may affect its performance.

Importance

1. First mover advantage

Early identification of opportunities helps an enterprise to be the first to exploit them. Eg: Maruti became the leader in small car market because they realized the need for small cars in India

2. Identifying threats and warning signals

Environmental awareness helps managers to identify various threats on time and provides early warning signals. Eg: On knowing the entry of MNCs into India, many Indian firms started improving the quality of products, reducing waste etc.

3. Helps in coping with rapid changes

In order to effectively adjust with changes, managers must understand the environment and develop suitable strategies. Eg; Mahindra is adding new features to their new model vehicles ahead of their competitors.

4. Assisting in planning and policy formulation

Understanding the environment gives vital information which can be taken as the basis for deciding future activities and policies.

5. Helps in improving performance

Enterprises which continuously study the environment and adopt suitable policies will improve their performance.

Dimensions of Business Enviroment

Dimensions or factors or elements of business environment include economic, social, political, technological and legal conditions

1. Economic environment

Interest rates, inflation rates, changes in disposable income, stock market indices and the value of rupee are the major elements of economic environment. Eg: Availability of long-term loans at low interest rates would result in increased sale of cars and houses

2. Social environment

It explains the features of the society. It includes social forces like customs and traditions, values, social trends, societies expectation from business etc.Eg: the celebration of Diwali, Id, Christmas etc. provides a lot of opportunities for greetings card companies, sweets manufacturers, fireworks producers, tailoring units etc.

3. Technological environment

It includes forces relating to scientific improvements which provide new ways of producing goods and services, new methods and techniques of operating a business. Eg: Digital Photography, new mobile phones with numerous features, ATM, internet banking, online booking of railway tickets, flight tickets and hotel accommodation etc

4. Political environment

It includes political conditions such as general stability in the country and specific policies towards business. There may be uncertainty of business activities due to political unrest and threats to law and order. Eg:It is very difficult to start a business in countries like Yemen, Iraq, Syria etc. because of uncertain political conditions.

5. Legal environment

It includes various legislations passed by the central and state Govts, court judgments as well as the decisions rendered by various commissions and agencies at Central,State or Local level. Knowledge of Companies Act, Trade Union Act, Factories Act, Consumer Protection Act, etc is important for doing business in India. Eg: Advertisement of alcohol is prohibited.

Features of New Economic Policy 1991

1. Reduced the number of industries under compulsory licensing to Six

2. De-reserved many industries which were earlier reserved for the public sector

3. 100% Foreign Direct investment (FDI) in many activities

4. Granted automatic permission for technology agreements with foreign companies

5. Set up Foreign Investment Promotion Board (FIPB) to promote foreign investment in India

Liberalisation

It means liberating the economy from the legislations and restrictions. It took place in the following manner

a) Abolition of licensing requirement in most of the industries

b) Freedom in deciding the scale operations.

c) Removal of restrictions on the movement of goods and services

d) Freedom in the fixation of prices of goods and services.

e) Simplification of procedures for exports and imports

Privatisation

It aims at providing greater role to the private sector in the nation building process and reducing the role of public sector.

It involves:-

a) Disinvestment of a part of the shares held by the Govt. in Public Sector Units (PSUs)

b) De-reservation of the areas formerly reserved for the public sector

Globalisation

It means integration of various economies of the world into a global economy. It means free movement of goods, capital and labour across the global economy

CHAPTER 4

PLANNING

Meaning

Planning involves setting objectives and developing suitable course of action to achieve these objectives. It is deciding In advance what to do, how to do,when to do and who is to do it. It is the process of thinking before doing. It bridges the gap between where we are and where we want to go.

Features

1. Planning focuses on achieving objectives

Specific goals are set out in plans to achieve organizational objective.Thus planning focuses on achieving objective.

2. Planning is a primary function of Mgt (Primacy of planning)

All other managerial functions are performed within the framework of plans drawn. Thus planning precedes other functions.

3. Planning is pervasive

Planning is performed by managers at all levels as well as all departments of the organisation. The degree and importance of planning depend on the level at which it is undertaken.

4. Planning is continuous

Plans are prepared for a specific period of time. At the end of which new plans are drawn on the basis of new requirements and future conditions. Hence planning is continuous.

5. Planning is futuristic

Planning involves looking ahead and preparing for the future. It involves forecasting of future events such as customers' demand, competition, Govt. policies etc.

6. Planning involves decision making

Planning involves studying and evaluating the alternative courses of action and selecting the most appropriate one.

7. Planning is mental exercise

It is an intellectual process and involves foresight, imagination and sound judgment.

Planning process(Steps in Planning)

1. Setting objectives

The first step in planning is setting objectives. Objectives specify what the organisation wants to attain. Objectives are set for the entire organisation and for each department.

2. Developing premises

Planning premises are the assumptions about the likely shape of events in future. Premises must be based on systematic forecasting. Assessment of future demand, preferences and tastes of customers, competition etc can be made with the help of forecasting

3. Identifying alternatives

After setting objectives and developing premises , the next step is to identify all the possible alternative courses of action.Eg: To increase sales by 20% there may be alternatives like adding new products, offering more discounts etc.

4. Evaluating alternatives

The next step is to evaluate the positive and negative aspects of each alternative. Alternatives are evaluated in the light of their feasibility and consequences.

5. Selecting an alternative

The best plan has to be adopted and implemented. The ideal plan would be the most feasible, profitable and with least negative consequences. Sometimes a combination of different alternatives may be selected.

6. Implementing the plan

This step involves putting the plan into action,ie,doing what is required. At this point of time other managerial functions like organising ,staffing etc. also come into force.

7. Follow up action

To see whether plans are being implemented and activities performed , monitoring the plan is important. It helps in detecting shortcomings and taking remedial measures.

Types of plans

1. Objectives

Objectives are end points towards which all activities of business are directed. These are set by the top Mgt. Objectives should be expressed in quantitative terms. eg: an organisation may have an objective of increasing sales by 20%

2. Strategy

It is a comprehensive plan for accomplishing an objective.It includes three dimensions a) Determining long-term objectives b) adopting a particular course of action c)Allocating resources required to achieve objectives. Eg: Hindustan Lever and Ponds are competitors in the field of soap manufacturing. If Hindustan Lever reduces price , then Ponds will make a counter-plan to retain its market share.

3. Policy

A policy is a general statement which provides guidelines in decision making. They are guides to managerial action and decisions in the implementation of strategy. There are policies for all levels and departments in the organisation. Eg: A company may take a policy to make its requirements of packaging.

4. Procedure

Procedures are routine steps on how to carry out activities. They detail the exact manner in which any work is to be performed. They are generally followed to enforce a policy. Eg: There may be procedure for selecting persons for vacant positions in an organisation.

5. Method

Method refers to the manner in which a task has to be accomplished to attain an objective. Method is only one step of a procedure. Eg. There are different methods for giving training to employees such as on the job training and off the job training.

6. Rule

It refers to specific statements that prescribe what is to be done or not to be done in given situations, allowing no discretion. They will be enforced rigidly. Eg: no smoking in the factory.

7. Programmes

A programme is defined as a detailed statement about a project which outlines the objectives, policies, procedures, tasks, resources to be employed and the budget to implement any course of action.Eg: A book publishing company may have a programme of launching digital books.

8. Budget

It is a statement of expected results expressed in monetary terms.It is a plan which quantifies future needs of an enterprise for a definite period of time. Eg: A sales budget may forecast the sales of different products in each area for a particular month.

CHAPTER 5

ORGANISING

Meaning

Organising is process which co-ordinates human efforts, assembles resources, both human and physical and integrates them all into a whole, to achieve specified objectives. Theo Haimman defines organising as " the process of defining and grouping the activities of the enterprise and establishing authority relationships among them".

Importance of organising

1. Benefits of specialization

Organising involves systematic allocation of jobs amongst the employees. Repetitive work allows a worker to gain experience in that field which leads to specialization.

2. Clarity in working relationships

There is a clear cut definition of working relationship. There is clear line of communication and specifies as to who should report and to whom.

3. Optimum utilization of resources

Organising ensures proper usage of all physical and human resources .Assigning specific duties to individuals avoids duplication of work and makes possible the best use of valuable resources.

4. Adaptation to change

A sound organisation facilitates adjustments to changes due to changes in the external environment. It also provides stability to the enterprise which enables survival and growth in spite of changes.

5. Effective administration

Specific jobs are assigned to individuals and departments. This helps in avoiding confusion and duplication. There is also clarity in authority-responsibility relationships. All these enable the Mgt to effectively administer the organisation.

6. Development of personnel

Through delegation managers can reduce their workload by assigning routine jobs to their subordinates. Managers get time to explore areas of growth and develop new methods of performing tasks. This results in development of managers.

Organisation structure

The organisation structure is defined as the framework within which managerial and operating tasks are performed. It specifies the relationships between people, work and resources.

Types of organisation structure

There are two types of organisation structures. They are Functional structure and divisional structure.

Functional structure

It is an organisation structure wherein jobs of a similar nature are grouped into major functions and these functions are grouped as separate departments. A person will be in charge of each department. We can have production, purchase, finance, marketing and personnel functions.

Advantages

1. A functional structure leads to occupational specialization since emphasis is placed on specific functions

2. It promotes control and co-ordination within a department

3. It helps in increasing managerial and operational efficiency

4. It leads to minimal duplication of effort

5. It makes training of employees easier.

6. It ensures that different functions get due attention.

Disadvantages

1. It places less emphasis on overall enterprise objectives.

2. It may lead to problems in co-ordination as information has to be exchanged among various departments.

3. Conflicts may arise when the interests of two or more departments are not compatible.

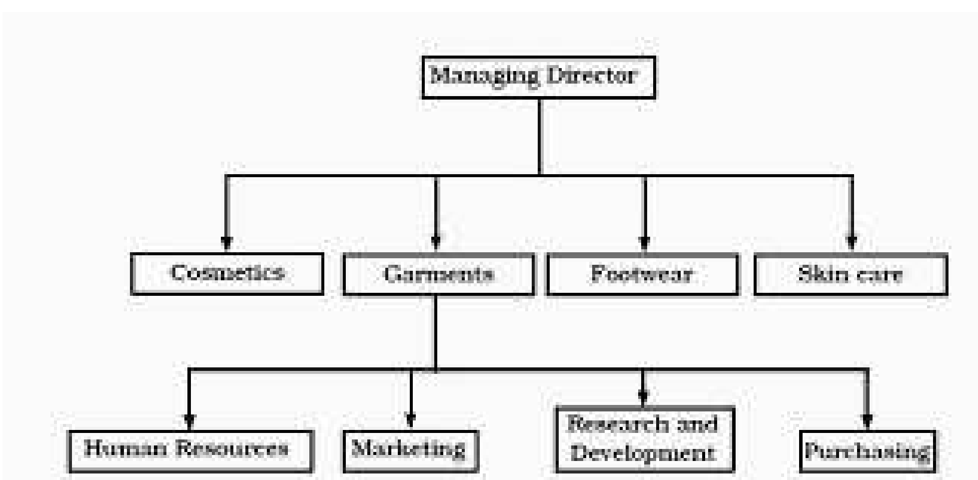
4. People with same skills may develop a narrow perspective and are unable to gather experience in diverse areas.

Suitability

This organisation structure is suitable a) when the size of the organisation is large b) when there is diversified activities and c) where a high degree of specialization is required.

Divisional structure

It is an organisation structure wherein there are separate divisions for different products, each division having functions like production, purchase etc. Each division acts as a profit centre and the divisional head is responsible for its profit/loss.



Advantages

1. Product specialization helps in the development of varied skills in a divisional head and this prepares him for higher positions

2. Divisional heads are accountable for profits in their respective divisions.

3. Each division functions as an autonomous unit which leads to faster decision making

4. It facilitates growth as new divisions can be added without interrupting the existing operations.

Disadvantages

1. Conflict may arise among departments with reference to allocation of funds.

2. Providing each division with separate sets of similar functions increases cost.

3. A manager in a division is independent in his authority and soon becomes powerful. This may make him ignore interests of organisation.

Comparison: Functional and Divisional structure

Basis	Functional	Divisional
1. Function	Based on functions	Based on product lines
2. Specialisation	Functional	Product
3. Responsibility	Difficult to fix on a department	Easy to fix on a department
4. Managerial development	Difficult	Easier
5. Cost	Economical	Increase in costs
6.Co-ordination	Difficult for a multi-product company	Easy for a multi-product company

Formal and informal organisation

Formal Organisation

It refers to the organisation structure which is deliberately planned and created by the Mgt to achieve organizational goals.It specifies clearly the boundaries of authority and responsibility. It also defines rules and procedures of the organisation.

Features

1. It specifies the relationship among various job positions and clarifies as to who has to report and to whom.

2. It lays down rules and procedures which act as a means to achieve organizational objectives.

3. It is deliberately created by the top Mgt.

4. Efforts of various departments are co-ordinated through formal organisation.

5. It emphasizes job positions and not individuals.

Informal Organisation

It is a network of personal and social relations not established by the formal organisation but arising spontaneously as people associate with one another.

Features

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

2. Standards of behavior evolve from group norms.

3. Members follow independent channels of communication without specified direction.

4. It is not deliberately created by the Mgt

5. It has no definite structure

Comparison: Formal Organisation and Informal Organisation

Basis	Formal Organisation	Informal Organisation
1.Meaning	Created by Mgt	Arising out of interactions among employees
2.Authority	Arises out of position in Mgt	Arises out of personal qualities
3.Behaviour	It is directed by rules	There is no set behavior pattern
4.Flow of communication	Takes place through scalar chain	Can take place in any direction
5 Nature	Rigid	Flexible
6.Leadership	Managers are leaders	Leaders may or may not be managers
7.Structure	Has a definite structure	Doesn't have a definite structure

Delegation

Delegation refers to the downward transfer of authority from a superior to a subordinate. It means the granting of authority to subordinates to operate within prescribed limits.

Elements of Delegation

Delegation has THREE elements ,Authority , Responsibility and Accountability

1. Authority

Authority means the right of an individual to command his subordinates and to take corrective action within the limits of his position. Authority flows from top to bottom. That is only superior has authority over his subordinate.

2. Responsibility

It may be defined as the obligation of a subordinate to properly perform the duties assigned. It always flows upward from a subordinate to a superior. Responsibility can not be delegated.

3. Accountability

It means answerability for the final outcome of the assigned task. It can not be delegated and it always flows from a subordinate to a superior.

Importance of Delegation

1. Effective Mgt

Through delegation, top executives are able to function more efficiently as they get more time to concentrate on important matters.

2. Employee development

Through delegation, subordinates get ample opportunities to utilize their talent. It enables them to perform complex tasks and assume more responsibilities.

3. Motivation of employees

Delegation motivates the subordinates to improve their performance as well as their capabilities

4. Facilitates growth

Delegation helps in the growth of an organisation by providing a ready workforce to take up leading positions in new ventures.

5. Better co-ordination

The elements of delegation help to define the powers and duties related to the various positions in the organisation. This helps to develop and maintain effective co-ordination amongst the departments.

Decentralisation

It refers to delegation of authority throughout all the levels of the organisation. Decentralisation is the systematic effort to delegate to the lowest levels all authority, except that which can only be exercised at central points.

Importance of decentralisation

1. Develops initiative among subordinates

It helps to promote self-confidence among subordinates and thereby encourages them to take initiative.

2. Develops managerial talents for future

In a decentralized organisation, subordinates get more opportunities to utilize their talents.This develops managerial talents for future.

3. <u>Quick decision making</u>

In decentralization, decision making power is entrusted with those who are supposed to execute decisions. This speeds up the process of decision making.

4. <u>Relief to top Mgt.</u>

Top executives get enough time to plan ahead, develop new strategies, make important policy decisions and concentrate on co-ordination and control. This is a relief to top executives.

5. <u>Facilitates growth</u>

With each department doing its best, the productivity levels increase and the organisation is able to generate more profits which can be used for expansion programmes.

6. <u>Better control.</u>

In a decentralized set up, it becomes easier to fix standards, evaluate the performance and take corrective action. This will lead to better control.

Comparison: Delegation and Decentralisation

Basis	Delegation	Decentralisation
1. Nature	It is compulsory	It is optional
2.Freedom of action	More control by superiors	Less control over subordinates
3. Status	It is a process of Mgt	It is the result of the policy of the top Mgt
4. Scope	It has narrow scope	It has wider scope
5. Purpose	To reduce the burden of the manager	To increase the role of the subordinates

CHAPTER 6

STAFFING

Meaning

Staffing is putting people to various jobs. It is concerned with the placement, growth and development of all those members of the organisation whose function is to get the things done through the efforts of other individuals.

Staffing Process

1. Estimating manpower requirements

It is concerned with the determination of number and type of personnel required in an organisation for a specified future period. It requires work load analysis and work force analysis. Workload analysis gives an assessment of the number and type of personnel necessary for the performance of various jobs. workforce analysis reveals the number and type of workers available at present in the organisation.

2. Recruitment

It is the processs of searching for prospective employees and stimulating them to apply for jobs in the organisation. In other words, it means discovering the source of employees. It is a positive process.

3. Selection

Selection is the process of choosing the right persons for various persons from among the pool of prospective job candidates It is a negative process.

4. Placement and orientation

Placement refers to appointing the employee on the job for which he has been selected. Orientation means introducing the employee to other employees and familiarizing him with the rules, policies, and procedures of the organisation.

5. Training and Development

These are activities intended to improve knowledge, skills and attitudes of managers and employees regularly so as to enable them to perform better.

6. Performance appraisal

It means evaluating the performance of employees as against certain pre-determined standards. It includes defining the job, appraisal of performance and providing feedback.

7. Promotion

It refers to the shifting of an employee from a lower position to a higher position with higher status and better pay.

8. Compensation

It refers to all forms of pay or rewards given to employees for their work. It may be direct financial payments like salaries, commission, bonus etc. and indirect payments like employer paid insurance, medical facility etc.

Sources of recruitment

There are mainly TWO sources namely Internal sources and External sources

1. Internal sources

It refers to the recruitment for jobs from within the organisation .They include a) Transfers and b) Promotions

a) Transfers

It involves shifting of an employee from one job to another, one department to another without a substantiative change in the responsibilities and status of the employee. It may lead to changes in duties , working conditions etc. , but not salary. It is a horizontal movement of employees

b) Promotions

It refers to the shifting of an employee from a lower position to a higher position. It carries higher status, greater responsibilities, better facilities and more pay. It is a vertical movement of employees.

Merits

1. Employees are motivated to improve their performance

2. It is more reliable source as the candidates are already known to the organisation.

3. Transfer is tool of training the employees to prepare them for higher jobs.

4. Shifting of employees can be done from places where there are surplus to places where there are shortage.

5. It is cheaper as compared to external sources.

Demerits

1. It provides no scope for induction of fresh talent to the organisation.

2. The employees may become lethargic if they are sure of time bound promotion.

3. A new enterprise can not use this source

4. The spirit of competition among employees may be hampered.

5. Frequent transfers of employees may reduce the productivity of the organisation.

External Sources

They refer to the recruitment for jobs from outside the organisation. They include the following

1. Direct recruitment

Here a notice is placed on the notice board of the enterprise specifying the details of the job available. Job seekers assemble outside the organisation on the specified date and selection is done on the spot. Such workers are called casual workers.

2. Casual Callers

Many reputed firms keep a database of unsolicited applicants in their offices. A list of such job seekers can be prepared and can be screened to fill the vacancies as they arise.

3. Advertisement

Advertisement in newspapers or trade and professional journals is used when a wider choice is required. Most of the senior positions in industry and commerce are filled by this method.

4. Employment exchange

Employment exchanges run by the Govt are regarded as good source of recruitment for unskilled and skilled operative jobs. In some cases compulsory notification of vacancies to employment exchange is required by law.

5. Placement agencies and Management consultants

Placement agencies compile bio-data of a large number of candidates and recommend suitable names to their clients.Such agencies charge fee for their services. Mgt consultancy firms help the organisation to recruit technical and professional personnel. They specialize in Middle level and Top level executive placements.

6. Campus recruitment

Colleges and Institutes of Management and Technology have become a popular source of recruitment for technical and professional jobs. Many big organisations maintain laison with the universities, and Mgt institutes to recruit qualified personnel for various jobs.

7. Recommendations of employees

Applicants introduced by present employees or their friends and relatives are a good source of recruitment. Such applicants are likely to be good employees because their background is sufficiently known.

8. Labour Contractors

Labour contractors maintain close contacts with labourers and they can provide the required number of unskilled workers at short notice. Workers are recruited through labour contractors who are themselves employees of the organisation.

9. Advertising on television

The practice of advertising vacant posts in Television is gaining popularity now a days. The job requirements and qualification needed are advertised along with the profile of the organisation.

10. Web publishing

There are certain websites specifically designed to provide information about job seekers and job opening. Eg: www.naukri.com, www.jobstreet.com

Merits

1. The Mgt can attract qualified and trained people to apply for jobs in the organisation.

2. The Mgt has a wider choice while selecting the people.

3. It brings new talent to the organisation.

4. If a company uses external source the existing staff will have to compete with outsiders. This improves their performance

Demerits

1. External recruitment may lead to dissatisfaction among exising workforce.

2. External recruitment takes a long time.

3. It is very costly. A lot of money has to be spent on advertisement and processing of applications.

Selection tests

An employment test is a mechanism that measures the qualities and skills of the candidates. The important tests are:-

a) Intelligence Tests-Measures the level of Intelligence Quotient(IQ) of a person

b) Aptitude Test- Measures the individuals potential for learning new skills.

c) Personality tests- Provide clues to a person's emotions, reactions, maturity and value system etc.

d) Trade Test- Measures the existing skills of the individual. It measures the level of knowledge in the area of profession.

e) Interest Tests- Used to know the interest and involvement of a person in work.

Training Methods

There are mainly TWO methods of training, namely, On the job training and Off the job training

On the job training

It is done at the workplace where the employee is actually working. It is learning while doing.

On the job training methods

1. Apprenticeship Programmes

Here trainees are placed under the guidance of a senior worker in the organisation. People who want to enter skilled jobs like plumbers, electrician, machinist, computer operator etc. have to undergo this training.

2. Coaching

Here, the senior manager guides and instructs the trainee as a coach. The coach sets mutually agreed goals and suggests how to achieve these goals. The coach periodically reviews the progress made by the trainee and suggests changes required, if any

3. Internship Training

It is a joint programme training in which educational institutions and business enterprises co-operate. Selected candidates carry on regular studies for a prescribed period. They also work in some factory or office for acquiring practical knowledge.

4. <u>Job Rotation</u>

Shifting the trainee from one department to another or from one job to another is known as job rotation. This helps the trainee gain understanding of all aspects of organisation. It also allows trainees to interact with other employees.

Off the Job Training

This training is carried out away from workplace. It is called learning before doing

Off the Job Training Methods

1. <u>Class room Lectures/Conferences</u>

This is well suited to convey specific information, rules, procedures or methods. The use of audio- visual methods is more interesting.

2. <u>Films</u>

Film shows can provide and demonstrate skills etc required to be learnt by employees. This media can be used in conjunction with class room lectures and conferences which is very effective.

3. <u>Case study</u>

Cases are actual experiences which managers confront while discharging their duties. Trainees are asked to study the cases, determine problems, analyse cases and find the best solution.

4. <u>Computer Modelling</u>

With the help of computer programming the real ties of the job are imitated. It allows learning to take place without risk that would be incurred if a mistake were made in real life situation.

5. <u>Vestibule Training.</u>

In this method, actual work environments are created in a classroom. Employees use the same materials and equipment. It is usually carried out when employees are required to handle sophisticated machinery and equipment.

CHAPTER 7

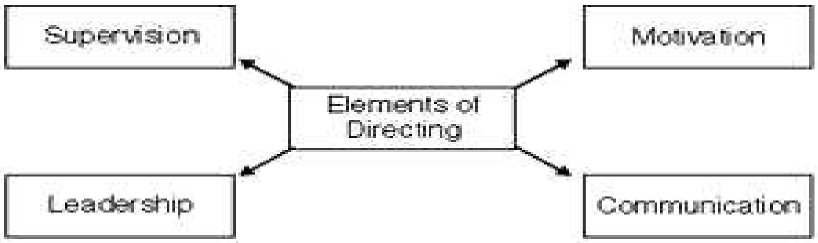
DIRECTING

Meaning

It refers to the process of instructing, guiding, counseling, motivating and leading people in an organisation to achieve its objectives.

"Directing is telling people what to do and seeing that they do it in the best of their abilities"- Ernest Dale

Elements of Direction



Supervision

Supervision means overseeing the subordinates at work. It refers to the direct and immediate guidance and control of subordinates in performance of their task.

Importance/Role/Functions of Supervision/Supervisor

1. Maintain day-to-day contact

The supervisor maintains day-to-day contact with the workers.

2. Acts as link between the workers and the Mgt

Policies of Mgt are conveyed to workers on one hand and the problems of workers to the Mgt on the other.

3. Maintains group unity

By sorting out internal differences and maintaining harmony among workers , he maintains group unity.

4. Ensures performance of work

Supervisor ensures performance of work according to the targets set. He motivates his workers effectively

5. Provides on the job training

Supervisor provides good on the job training to workers and thereby builds an efficient team of workers

6. Influences workers

A supervisor with leadership abilities can boost the morale of workers and thereby influences the workers.

7. Provides feedback

A good supervisor analyses the work performed and gives feedback to the workers.

Motivation

Motivation means inducing or inspiring people to work with greater interest and zeal to achieve the desired goals."Motivation means the process of stimulating people to action to accomplish desired goals"- Scott

Importance of motivation

1. It improves performance of employees

Motivation helps to improve the performance of employees and the organisation. When needs of employees are satisfied through motivation, they put in all their energies for optimum performance.

2. Helps to change to positive attitude

If the organisation rewards properly and supervisor gives positive encouragement and praises for the good work done, the worker may slowly develop a positive approach towards the work.

3. Reduces employee turnover

If suitable incentives are given to employees ,they may not think of leaving the organisation. so,motivation reduces employee turnover.

4. Reduces absenteeism

Good motivational systems like good working conditions, adequate rewards, recognition and good relation with supervisors and co-workers help to reduce absenteeism.

5. Helps to overcome resistance to change

Motivated employees think of positive side of new changes and will co-operate with the Mgt. Thus effective motivation helps to overcome resistance to change.

Leadership

Leadership is the ability of person to induce subordinates to work with confidence and zeal. An individual who possesses various attributes of leadership is called leader.

Features

1. **Leadership indicates ability of an individual to influence others.**
2. **Leadership tries to bring change in the behaviour of others.**
3. **Leadership makes possible good interpersonal relations between leaders and followers.**
4. **Leadership is exercised to achieve the common goal of the organisation.**
5. **It is a continuous process of influencing the behavior of followers.**

Communication

Communication is the process of exchange of ideas, views, facts, feelings etc. between persons to create understanding.

Maslow's Need Hierarchy Theory of Motivation

Abraham Maslow, an eminent U.S. psychologist developed a theory of motivation based on the hierarchy of needs. According to him there are FIVE kinds of needs. They are explained below.

1. Physiological needs

These are the basic needs of an individual. Eg: Need for food, clothing, shelter, sleep etc. An organisation can satisfy these needs by providing basic salary

2. Safety/ Security needs

These needs provide protection against physical and mental harm. An employer can satisfy these needs by offering job security, stability of income, pension, group insurance etc.

3. Social/affiliation/belonging needs

Social needs refer to love and affection, friendship, a sense of belonging, acceptance by others etc. Eg: Employees form informal groups to satisfy these needs.

4. Esteem needs

These needs include desire for prestige, dignity, self-respect, respect from others etc. An enterprise can satisfy these needs through non-monetary incentives like recognizing and appreciating good performance, assigning challenging jobs, providing promotion opportunities etc.

5. Self-Actualisation or Self-Realisation needs

This is the highest level of need in the hierarchy. It refers to the desire to become what one is capable of becoming.Eg: If a mountaineer has climbed a few peaks, he wants to climb the Mount Everest.

Qualities of a Good Leader

1. Physical features

A leader with good physical features can attract people. He can work hard and also make others to work hard.

2. Knowledge

A good leader should have knowledge of work

3. Integrity

A good leader should have honesty and integrity. He should be a role model to others.

4. Initiative

A leader should have initiative. He should grab opportunities for the benefit of the organisation.

5. Communication skills

A leader should be a good communicator. If so, he can clearly explain his ideas and make the people understand his ideas.

6. Motivation skills

A good leader should understand people's needs and motivate them by satisfying their needs.

7. Self-confidence

A leader should have a high level of self-confidence. He should not lose confidence in times of difficulty

8. Decisiveness

A leader must have sound judgment and decisiveness. He should be firm in his stand .

9. Social skills

A leader should be sociable and friendly with his colleagues and followers.

Elements or process of communication

1. Sender

He is the person who sends a message to another person

2. Message

It is the subject matter of communication. It may be in the form of ideas, opinion, feelings, information, order etc.

3. Encoding

It is the process of converting the message into symbols such as words, pictures, gestures etc.

4. Media or Channel

It is the medium through which the message is transmitted such as written form, face to face, phone, internet etc.

5. Decoding

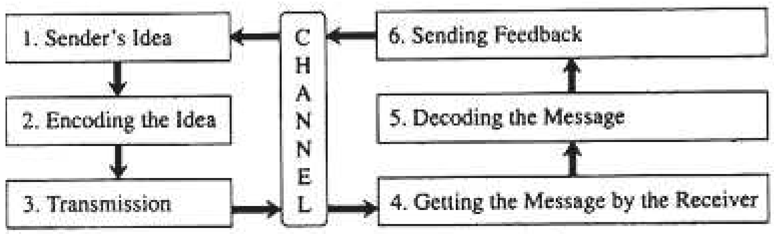
It is the process of converting the encoded symbols of the sender.

6. Receiver

He is the person who receives the message of the sender.

7. Feedback.

It is the response from the receiver. It includes all those actions of the receiver stating that he has received and understood the message of the sender.



Process of Business Communication.

Barriers to communication

Any kind of hurdle in the path of communication process is called barriers to effective communication. These barriers can be grouped into FOUR

1. Semantic Barrier

These are problems and obstructions in the process of encoding and decoding a message into words. Such barriers are arise out of the following

a) Badly expressed message

This may happen due to inadequate vocabulary, usage of wrong words, non-usage of apt words etc.

b) Symbols with different meanings

The same word may mean different things to different people Eg: the word 'value'

c) Faulty translation

This occurs when a message is translated from one language to another.

d) Technical jargon

Use of technical jargon by specialists may not be understood by persons who are not specialists. Eg: Doctors' language

e) Body language and gesture decoding

If there is no match between what is said and what is expressed in body movements, message may be wrongly understood.

2. Psychological barriers

Emotional or psychological factors act as barriers to communication

a) Premature evaluation

Sometimes the receiver comes to conclusion without fully going through the message

b) Lack of attention

The preoccupied mind of receiver and the resultant non-listening of message acts as a barrier.

c) Loss by transmission and poor retention

When communication passes through various levels, there is a chance of message being partially lost or transmission of inaccurate information. Similarly people cannot retain messages for a long time if they are not interested in the message.

d) Distrust

If there is a distrust between the sender and the receiver, it acts as a barrier.

3. Organisational barriers

They refer to communication barriers due to organisation structure, authority relations, rules and regulations etc.

a) Organisational policy

If an organisation is highly centralized , it is not supportive to free flow of communication

b) Rules and regulations

Strict rules, regulations etc. may be a hurdle to effective communication.

c) Status

Persons at top level may not freely talk with lower level people. Similarly subordinates do not feel confident to talk freely with superiors

d) Complexity in organisation structure

Too many levels in the organisation structure cause delay in transmission and distortion in message.

e) Organisational facilities

Lack of facilities like convening frequent meetings, keeping suggestion box, complain box, conducting cultural gatherings may cause communication problems.

4. Personal barriers

These are personal factors of both the sender and the receiver which influences the effectiveness of communication.

a) Fear of challenge to authority

A superior who feels that a particular message will affect his authority, may suppress such message.

b) Lack of confidence of superior on his subordinates

If superiors do not have confidence on the competency of their subordinates, they may not seek their advice or opinions.

c) Unwillingness to communicate

Subordinates may be unwilling to communicate with their superiors on the fear that it will adversely affect them.

CHAPTER 8

CONTROLLING

Meaning

Control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans. Controlling is the process through which management ensures that actual activities conform to the planned activities.

Controlling Process(Steps in control process)

Controlling process involves FIVE steps as described below

1. Setting performance standards

The first step in control process is setting up of performance standards. Standards act as the criteria against which actual performance is measured. Standards can be set in both quantitative and qualitative terms.

Quantitative standards-Standards set in terms of costs to be incurred, revenue to be earned, units to be produced etc

Qualitative standards- Improving goodwill, improving motivation level of employees etc.

2. Measurement of actual performance

Next step is measurement of actual performance. There are various techniques for measurement of performance like personal observation, sample checking, performance reports etc. Quantitative measurement is done for standards set in numerical terms. Qualitative measurement is done through tests and surveys for standards like employee morale, employee attitude etc.

3. Comparing actual performance with standards

The next step is comparing the actual performance with standards. Such a comparison reveals the deviation between actual and desired results.

4. Analysing deviations

At this stage, the extent of deviations and the causes of such deviations are found out. Deviation means the gap between actual result and standard set. Managers can rely on Critical Point Control and Management by exception in this direction

a) Critical point control

Control should focus on Key Result Areas(KRAs) which are critical to the success of an organisation. These KRAs are set as the critical points. If anything goes wrong at the critical points, the entire organisation suffers. Eg: a 5% increase in labour cost is more serious than a 15% increase in postal charges.

b) Management by exception (Control by Exception)

Only significant deviations beyond a permissible limit need be brought to the notice of Mgt and controlled. Eg: if the increase in material cost (say 2%) is within the permissible limit , it can be ignored. But if the increase is 7% , it requires immediate attention of the Mgt.

5. Taking corrective action

The last step is taking corrective action. No corrective action is required if deviations are within permissible limits. If deviations go beyond this level, it requires immediate managerial action.

Techniques of Managerial Control

Managerial control techniques are classified into TWO

1. Traditional techniques and 2) Modern Techniques

Traditional Techniques

These are techniques used by companies for a long time. They are as follows

a) Personal observation

It enables the manager to gather first-hand information. It creates a psychological pressure on employees to perform well as they are personally observed.

b) Statistical reports

Various statistical measures like averages, percentages, ratios etc provide useful information to managers regarding the performance of various areas of an organisation.

c) Break- even analysis

It is technique used by managers to study the cost, volume and profit relationship. Probable profits and losses can be determined at different levels of activity. The level of operation at which total revenue is equal to total cost is called break even point.

d) Budgetary control

It is a technique of controlling the activities of an organisation with the help of budgets. It involves the comparison of actual performance with the budgetary standards.

2. Modern Techniques

They are of recent origin and new to Mgt. They include the following

a) Return On Investment(ROI)

This is used to measure whether or not capital investment has been effectively utilized to get a reasonable amount of return. ROI can be used for measuring the overall performance of an organisation.

ROI = Net Income / Total Investment

b) Ratio Analysis

It is a simple technique used for analyzing and interpreting data contained in financial statements. This is done through computation of accounting ratios.

Types of ratios

i) Liquidity ratios- Calculated to ascertain the short –term solvency of business Eg: Current ratio, Quick ratio

ii) Solvency ratios – It refers to the ability of a firm to meet all liabilities in full .Eg: Debt-Equity ratio, Interest coverage ratio.

iii) Profitability ratios – Calculated to analyse the profitability of business. Eg: Gross Profit Ratio, Net Profit Ratio

iv) Turnover ratios-Indicate the efficiency of Mgt in the use of resources. Eg: Inventory Turnover Ratio, Debtors Turnover ratio

3. Responsibility Accounting

It is a system of accounting in which different departments in an organisation are taken as responsibility centres. The person –in- charge of a centre is responsible for achieving the target fixed. They are of the following types

a) Cost centre

It is a person, department or item of equipment for which costs may be ascertained and used for the purpose of cost control.The person in charge of a cost centre is responsible only for the costs incurred and not revenue.Eg: Production Dept.

b) Revenue Centre

A section of an organisation which is responsible for earning revenue is called revenue centre. Eg: Marketing Dept.

c) Profit Centre

It is a centre responsible for both revenue and costs and thereby profit of organisation.

4. Management Audit

It refers to systematic appraisal of the overall performance of Mgt of the organisation. The purpose is to review the efficiency and effectiveness of Mgt and to improve its performance in future periods.

5. PERT and CPM

Programme Evaluation and Review Technique(PERT) and Critical Path Method(CPM) are techniques useful for planning, scheduling and implementing time- bound projects which involve various complex, diverse and inter-related activities. These techniques concentrate on time scheduling and resource allocation and aim at project execution within the time frame and costs.

6. Management Information System (MIS)

It is a computer based information system. MIS provides information and support to Mgt to take effective business decisions.MIS provides the required information to the managers by systematically processing a massive data generated in an organisation.

Span of management(Span of control)

It refers to the number of subordinates that can be effectively managed by a superior. Supervision and control will be effective only when the subordinates are few in number. Factors affecting span of Mgt are a) Capacity of superior b) Capability of subordinates c) Nature of work assigned and d) Physical location.

CHAPTER 9

FINANCIAL MANAGEMENT

Meaning

Financial Mgt deals with procurement of funds and their effective utilization in the business.

Financial decisions

They refer to decisions taken on financial operations relating to investment, financing and dividend decisions

1. Investment decision

It is concerned with how firm's funds are to be invested in various assets. Investment decision can be of two types – long term and short term. Long term investment decision is also called capital budgeting decision. It means allocating capital on long term basis. Eg: Purchasing a new machine, opening a new branch etc..Short term investment decision is also called working capital decision. It relates to decisions about level of cash, inventory and receivables. These affect the day-to-day working of business.

Factors affecting capital budgeting decisions

a) Cash flows of the project

Investment in long term assets generate cash flows over a period. Cash flows can be inflow (receipts) or outflow (payments) of cash.

b) The rate of return

Rate of return is the criterion for selecting a project. Calculations should be made based on the expected returns from each project and risks associated with them.

c) The investment criteria involved.

The decision to invest in a particular project involves a number of calculations regarding the amount of investment, interest rate, cash flows and rate of return. There are different techniques to evaluate investment proposals which are known as capital budgeting techniques.

2. Financing decision

It is concerned with the quantum of finance to be raised from various long term sources. There are two sources- shareholders' funds and borrowed funds. Shareholders' funds refer to equity capital, retained earnings and reserves. Borrowed funds include debentures, long term loans from financial institutions and banks etc.

Factors affecting financing decision

a) Cost: obtain the finance from cheaper source

b) Risk: Risk involved in each source should be evaluated.

c) Floatation costs: Cost of raising finance should be lower.

d) Cash flow position: A strong cash flow position normally recommends more of debt financing.

e) Fixed operating costs: If fixed operating costs like building rent, insurance, salary etc.are high, owned funds should be used

f) Control: More of owned funds dilute the mgt control over business. Debt financing has no such danger.

3. Dividend decision

Dividend decision relates to how much of the profit earned by the company is to be distributed to shareholders and how much of it should be retained in business for future purposes.

Factors affecting dividend decision

a) Amount of earnings

Dividends are paid out of current earnings and past earnings. So, earnings determine the dividend decision.

b) Stability of earnings

A company having stable earning will be able to declare higher dividends.

c) Stability of dividends

A stable dividend policy will create confidence in shareholders which in turn improves the reputation of the company. So most companies tries to follow a stable dividend policy.

d) Growth opportunities

A company having good growth opportunities will retain a major part of its earnings to finance the required investment. Such companies will declare lesser dividend.

e) Cash flow position

Availability of enough cash is necessary for declaration of dividend.

f) Shareholders' preference

Normally, all shareholders expect to get regular dividend. So, atleast a certain amount is paid as dividend.

g) Taxation policy

Companies have to pay tax on dividend to Govt. If tax on dividend is higher, it is better to pay less dividend.

h) Access to capital market

Companies having easy access to capital market depend less on retained earnings and pay higher dividends.

i) Legal constraints

There are certain provisions in the Companies Act, which place restrictions on payment of dividend. So, companies have to strictly adhere to the provisions in the Companies Act while declaring dividends.

j) Contractual constraints

When companies borrow money for long term, the lender may impose certain restrictions on dividend distribution. Companies should ensure that dividends do not violate the terms of the loan agreement.

Capital structure

Capital structure refers to the mix between owners' funds and borrowed fund funds. " Capital structure refers to the type of securities to be issued and proportionate amount that make up the capitalization".-Gesternberg

Owners' funds- Equity share capital, preference share capital and retained earnings.

Borrowed funds - Debentures, public deposits, loans from banks and financial institutions etc.

Factors affecting the choice of capital structure

1. Trading on equity

It refers to the use of fixed income securities like debentures and preference shares in the capital structure so as to increase the return on equity capital. On the borrowed funds and preference shares , the company pays fixed rate of interest and dividend. If this rate is lower than the company's earnings, the equity shareholders get additional profits.

2. Cash flow position.

Cash flows must be sufficient to cover not only interest payments and repayment of loan but also to meet fixed and working capital needs of the firm.

3. Interest Coverage Ratio.

It refers to the number of times Earnings Before Interest and Tax (EBIT) of a company covers the interest obligation.

ICR=EBIT/ Interest. Higher the ratio, lower shall be the risk of the company.

4. Return on Investment (ROI)

If ROI is higher than rate of interest on debt, debt portion can be increased in the capital structure.

5. Cost of debt

If a firm is able to borrow at a lower rate, it may prefer more debt as compared to equity.

6. Tax rate

As interest on debt is a deductable expense , tax liability is reduced by use of debt. A higher tax rate, thus makes debt relatively cheaper source of finance as compared to equity.

7. Floatation costs

These are costs incurred in connection with issue of shares and debentures, taking loans etc. These affect the choice between debt and equity.

8. Control.

Raising funds through debt financing will not dilute control. Issue of equity shares may dilute control. So, if the mgt does not want to lose control, they should prefer borrowed funds.

9. Regulatory framework

Provisions of Companies Act, SEBI guidelines etc. are to be followed while designing capital structure.

10. Stock market conditions

The mood and sentiments of capital market also influence capital structure. In times of depression, debentures are considered good while equity shares find a better market during rising prices.

Fixed capital

Fixed capital refers to investment in long-term or fixed assets like Land, Building, Plant , Machinery, etc. It is also required to finance long-term projects.

Factors affecting the requirement of Fixed Capital

1. Nature of business

The nature of business determine the amount of fixed capital. Eg: a manufacturing concern needs huge amount of fixed capital.

2. Scale of operation

A large scale business requires more fixed capital than a small scale business.

3. Choice of technique

Capital intensive industries need more fixed capital than labour intensive industries.

4. Technology up gradation

Assets like computers, electronic items become obsolete sooner. To replace them, higher amount of fixed capital is needed.

5. Growth prospects

Higher growth of a firm requires higher investment in fixed assets and hence large fixed capital.

6. Diversification

When a firm diversifies its activities, requirements for fixed capital will increase.

7. Financing alternatives

A firm which procures fixed assets on lease needs lesser fixed capital.

Working Capital

It is that part of capital invested in current assets.It is the capital which is required for the day to day operation of a firm.

Factors affecting the working capital reqirements

1. Nature of business

A trading concern needs a small amount of working capital as compared to manufacturing concern. Similarly service industries require less amount of working capital.

2. Scale of operations

Firms which operate on a large scale should have high inventory and debtors, hence need large working capital.

3. Business cycle

In boom period, production and sales shoot up, hence needs more working capital. In depression period, production and sales will decrease and hence needs small amount of working capital.

4. Seasonal factors

Some businesses are seasonal in their operations. In peak season, due to higher level of activity more amount of working capital is needed. In lean season, due to lower level of activity less amount of working capital is needed.

5. Production cycle

It means the time span between the receipt of raw material and their conversion into finished products. Firms with long production cycle need more working capital than firms with short production cycle.

6. Credit allowed

A liberal credit policy results in higher amount of debtors and thereby more working capital.

7. Credit availed

A business may get credit facility from suppliers of goods. More the credit facility, lesser would be the need for working capital.

8. Availability of raw material

If raw material are available freely and regularly, a firm needs to maintain lesser quantity of stock. The time gap between placement of order and receipt of material (called lead time) is also relevant. If lead time is longer, amount of working capital will be more.

9. Growth prospects

If a firm is growing fast, it will require larger amount of working capital to meet higher production and sales target.

10. Level of competition

Higher the level of competition , more shall be the stock of finished goods to meet needs of customers. This increases the working capital requirements.

11. Inflation

More working capital is needed during inflation because large amounts are required to maintain a constant level of production and sales.

CHAPTER 10

FINANCIAL MARKETS

Money Market

It is a market for short-term funds, which deals in monetary assets with period of maturity upto one year. Low risk, unsecured and short-term debt instruments with high liquidity are issued and traded in this market.

Money Market Instruments

1. Treasury Bill(T- Bill/Zero Coupon Bonds)

These are short-term credit instruments issued by RBI on behalf of the Central Govt. maturing in less than one year. This is an instrument of short-term borrowing by the Govt of India. They are issued at a price which is less than their face value and repaid at par. The difference between the issue price and redemption value is called discount. T bills are available for a minimum amount of Rs. 25,000 and in multiples thereof.

2. Commercial Paper (CP)

It is a short-term unsecured promissory note, transferable by endorsement and delivery with a fixed maturity period. It has a maturity period of 15 days to one year. This instrument is issued by companies. Since it is unsecured , only reputed companies can issue this instrument. Interest rate on commercial paper is less than the market rate.

3. Call Money

It is a short-term finance repayable on demand with a maturity period of 1 to 15 days used for inter-bank transactions. Call money is a method by which banks borrow mutually to maintain Cash Reserve Ratio (CRR). CRR is the minimum balance commercial banks should maintain with RBI. Interest paid on call money is called Call Rate.

4. Certificate of Deposit (CD)

It is an unsecured, short-term instrument in bearer form issued by commercial banks and developmental financial institutions. Such instruments are issued to individuals, corporations and companies in times of tight liquidity. The maturity period ranges from 3 months to 1 year. On maturity the CD holder can get it encashed from the issuing bank. These are issued at discount and redeemable at par.

5. Commercial Bill

It is a bill of exchange used to finance the working capital requirements of business firms. It is used to finance credit sales. On credit sales, the seller draws the bill and the buyer accepts it. On acceptance, the bill becomes a marketable instrument and it is called trade bill. This bill can be discounted with bank if the seller needs funds before maturity. When a trade bill is accepted by a commercial bank, it is called commercial bill.

Functions of SEBI

A. Regulatory functions

1. Registration of brokers, sub-brokers and players in the market.
2. Regulation of brokers, bankers to the issue and the business in stock exchanges.
3. Regulating substantial acquisition of shares and takeover bids by companies.
4. Regulating the working of mutual funds.
5. Levying fees or other charges for carrying out the purposes of the Act.
6. Exercising powers under the provisions of the Securities Contracts (Regulation) Act.

B. Development functions

1. Promoting investors'education and training of intermediaries of securities market.
2. Conducting research and publishing information useful to market participants.
3. Undertaking various measures to develop capital market.

c. Protective functions

1. Prohibiting fraudulent and unfair trade practices in securities market.
2. Controlling insider trading and imposing penalties on such practices.
3. Taking measures for investor protection.
4. Promoting fair practices and code of conduct in securities market.

CHAPTER 11

MARKETING

Marketing

It is a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

Marketing Management

"It is the art and science of choosing target markets and getting, keeping and growing customers through creating , delivering and communicating superior customer values of management".- Philip Kotler

Differences between Selling and Marketing

Selling	Marketing
Selling is only a part of marketing	Marketing is a wide term and includes selling
Focus is on effecting transfer of goods	Focus is on achieving customer satisfaction
Maximising sales and thereby increased profit	Customer satisfaction and thereby increased profit.
It starts after production	It starts before production and continues after sales.
Emphasis is on bending the customer according to the product	Emphasis is on developing the product as per customer needs

Functions of Marketing

1. Gathering analysing market information

A marketer has to gather and analyse market information. It helps to identify the needs of customers and can take valuable decisions for efficient marketing of the products and services.

2. Market planning

Another important activity is to develop marketing plans to achieve the marketing objectives of the firm. Eg: A Car marketer aims to increase his market share from 15% to 25% within the next two years.

3. Product designing and development

It means making the product attractive to the target customers. Eg: when we decide to buy a Car we not only consider its price, mileage etc. but also its shape, colour, style etc.

4. Standardisation and Grading

Standardisation refers to producing goods of predetermined specifications such as quality, price etc which ensures uniformity. Grading is the process of classifying products into different classes on the basis of some features like quality, size weight etc.

5. Packaging and Labelling

It is the function of designing and developing the package for a product. A package is a container or wrapper or box in which product is enclosed. Labelling refers to putting identification marks on the package.

6. Branding

It is the process of giving a name or symbol to a product for identifying and differentiating it from the products of competitors. Eg: Pepsi, Bata, Samsung etc.

7. Customer support services

These are after sales services, handling customer complaints, maintenance services etc.

8. Pricing of product

Price of product is the amount of money customers will have to pay to obtain a product. Demand for a product or service is related to its price. Lower the price, higher would be the demand and vice versa.

9. Promotion

Promotion refers to informing the customers about the firm's products, their features etc. and persuading them to buy these products.

10. Physical distribution

It involves planning, implementing and controlling the physical movement of materials and final goods from point of origin to point of use to meet customer requirements at a profit.

11. Transportation

It involves physical movements of goods from one place to the other.

12. Storage and warehousing

In order to ensure smooth flow of goods in the market, there is a need for proper storage of goods. It helps in avoiding unnecessary delays in delivery.

Marketing Mix

It is set of marketing tools that the firm uses to achieve its marketing objectives in the target market. It consists of various elements which are classified into FOUR categories, known as 4 Ps. These are :

1. Product 2. Price 3. Place 4. Promotion

1. Product

Product means goods or services or anything of value which is offered for sale in the market. Eg: Samsung makes products like television, music system. cell phones etc.

2. Price

It is the amount of money customers should pay to obtain the product. It is dependent on the demand of the product.

3. **Place**

It consists of activities that make a firm's products available to target customers. It involves two functions, namely, a) Physical distribution and b) Channels of distribution

4. **Promotion**

It is the task of informing the customers about the availability of product and persuading them to buy the product.

Product

There are three types of benefits a customer may seek to satisfy while buying a product, namely, a) Functional benefits b) psychological benefits and c) Social benefits. Eg: When one buys car, it provides functional benefit of transportation, it satisfies the need for prestige(psychological benefits) and also provides acceptance from a group (social benefits)

Classification of products

Products may be classified into TWO A) Consumer products and B) Industrial products

A) Consumer Products

These are products purchased by consumers for personal use. They are purchased for final consumption and not for resale. Eg: soap, toothpaste, TV, shoes etc. These are again classified on the following basis;

a) Shopping efforts involved and b) Durability

a) Shopping efforts involved

i) Convenience products

These are products which people usually purchase frequently and with least purchasing efforts. Eg: soap, bread etc.

Features:- 1. The purchasing effort is least 2. These are essential goods 3. The price is low 4. Competition is high.

ii) Shopping products

These are products purchased by customers after spending considerable time in comparisons of features like price, quality, size, style etc. Eg: furniture, clothes, jewellery, home appliances etc.

Features :- 1. These are durable 2. Price per unit is high 3. People take more purchasing effort 4. Buying is pre-planned.

iii) Speciality products

These are products with unique features. Eg: Painting, artwork, antiques etc.

Features:- 1. Products are costly 2. Small number of buyers 3. The demand is inelastic 4. Purchasing effort is very high.

b) Durability basis

i) <u>Durable goods</u>

These are products which have a long period of life and not purchase frequently. Eg: TV, Car, Bike etc.

Features:-1. Long life 2. High profit per unit 3. Guarantees and after sales services

ii) <u>Non-durable goods</u>

These are products which are normally consumed in few uses and are purchased frequently. Eg: soap, toothpaste etc.

Features:- 1.Low per unit profit 2. Easy availability 3. Heavy advertising required

iii) <u>Services</u>

They refer to those activities which are offered for sale and are intangible. Eg: repairs, hair cutting, dry cleaning etc.

Features:- 1.Intangible in nature 2. Cannot separate service from the service provider 3. Services cannot be stored.

B Industrial products

These are products which are used as inputs in making other products. Eg: raw materials, machines, tools, lubricants etc.

Features

1. Number of buyers are limited as compared to consumer goods

2. These are marketed through shorter channels

3. Demand for industrial product is derived from the demand for consumer products.

4. Technical aspects has greater significance in the purchase of industrial products.

Types of industrial products

i) Materials and parts

These include those goods that enter the products completely. Such goods are of two types ; natural products such as cotton, sugarcane, oil seeds etc and manufactured products. Manufactured products fall into two groups- component materials like iron, cement etc and component parts like tyres, battery etc.

ii) Capital items

These are goods used in the production of finished goods. Eg: elevators, computers, hand tools etc.

iii) Supplies and business services

These refer to short lasting goods and services that facilitate developing finished products. Eg: nails, paint, lubricant, writing paper, cotton waste, computer stationery etc

Pricing

Price is the amount paid by the buyer or received by a seller in consideration of the purchase of a product or service.

Factors affecting price determination

1. Product cost

The most important factor affecting the price of a product is its cost. Cost includes cost of production , selling and distribution. There are three types of costs Fixed cost, Variable cost and semi-variable cost.

2. The utility and demand

Pricing is affected by the elasticity of demand of the product. In case of inelastic demand, the firm can fix a higher price. In case of elastic demand, the firm can't fix a higher price.

3. Extent of competition in the market.

If there is no competition, the firm enjoys complete freedom in price fixation. But when there are competitors, price should be fixed by considering the prices of competitors.

4. Govt and legal regulations

Prices of certain products are regulated by govt. Eg: Drugs

5. Pricing objective

If the firm wants to maximise profit in the short- run , it would charge maximum price for the product. But, if it wants to maximise profits in the long- run, it would charge lower price.

6. Marketing methods used

Price fixation is affected by elements like distribution system, salesmen's quality, advertising quality etc.

Promotion

Promotion mix

All activities connected with informing and persuading the customers to buy products are collectively called promotion mix. They include Advertising, Personnel selling, Sales promotion and Publicity.

Advertising

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

Features

1. Paid form

It is a paid for of communication . The sponsor bears the cost of advertisement

2. Impersonality

There is no face-to-face contact between the prospect and the advertiser.

3. Identified sponsor

It is undertaken by some identified person or company.

Advantages

1. Mass reach

It can reach a large number of people covering a vast geographical area.

2. Enhancing customer satisfaction

It creates confidence among prospective customers and thereby enhances their satisfaction.

3. Expressiveness

Use of computer designs and graphics makes advertising very attractive.

4. Economy

It is highly economical in the sense that , it can reach millions of people.

Limitations

1. Less forceful

Since it is impersonal, there is no compulsion on prospects to pay attention to the message.

2. Lack of feedback

As there is no immediate feedback mechanism, evaluation of effectiveness of advertisement is difficult.

3. Inflexibility

As the message is not customized to the requirements of different customers, it is not flexible.

4. Low effectiveness

As the volume of advertisement through various media is more , it may not be heard or seen by the prospects.

Objections to advertising

1. Adds to cost

Advertising adds to the cost of product , which is ultimately passed on to the buyers in the form of high prices.Eg: An advertisement in TV for a few seconds costs the marketer several lakhs of rupees

2. Undermines social values

It undermines social values and promotes materialism. It leads to unnecessary spending.

3. Confuses the buyers

Similar advertisements of different firms are coming in mass media claiming superiority of their products over others. Buyers get confused as to which one is better and should be relied upon. Eg: similar claims of whiteness by Surf, Ujala etc

4. Encourages sale of inferior products

Advertising doesn't make a distinction between superior and inferior products. It persuades people to buy inferior products.

5. Some advertisements are in bad taste

Some advertisements use indecent language or show something which is not approved by some people. Eg: Women dancing with little dress, woman running after a man because he is wearing a particular dress etc.

Personal selling

It involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales.

Features

1. A direct face-to-face dialogue takes place between seller and buyer

2. It allows the salesperson to develop personal relationship with the prospective buyers.

Sales promotion

Sales promotion refers to short-term incentives, which are designed to encourage prospective buyers to make immediate purchase of a product or service.

Merits

1. It catches the attention of prospective buyers because of incentives

2. It can be effectively used at the time of introduction of a new product

3. Sales promotion supplements advertising and personal selling efforts

Limitations

1. Frequent sales promotion activities may give an impression that the firm is unable to manage its sales or there is no demand for its products.

2. Consumers may feel that incentives are offered to sell sub-standard products or is not appropriately priced.

Commonly used sales promotion activities

1. Rebate

It is method of offering products at special prices to clear off excess stock or at festival seasons Eg: An offer to sell a particular brand of car at a discount of Rs. 20,000 for a limited period.

2. <u>Discount</u>

It is offering products at a price less than the listed price Eg: a shirt marketer's offer of '50% discount'.

3. <u>Refunds</u>

A part of the price paid by the buyer is refunded to him if he produces the proof of purchase like empty packet .

4. <u>Premium offer</u>

Giving an article free with the purchase of a product. Eg: tooth brush free with tooth paste, mug free with boost etc.

5. <u>Quantity gift</u>

Offering extra quantity of a product at same price. Eg:'Buy two, get one free', s tooth paste's offer of '20% extra' etc.

6. <u>Instant draws and assigned gifts</u>

A card is given to the buyer and on scratching it , what is written on it is given as prize instantly.

7. <u>Lucky draw</u>

While buying a product a coupon is given which is filled and deposited in a box. At the end of the day or after a particular period, the winner is selected by lucky draw.

8. <u>Usable benefit</u>

A discount voucher is given to the buyer on buying a product entitling him a special discount. Eg: "Buy goods worth Rs.10,000 and get a holiday package worth Rs. 5,000 free'.

9. <u>Full finance @ 0%</u>

Marketers of consumer goods, automobiles etc offer easy financing scheme. Full amount need not be paid at the time of purchase but in easy installments without interest.

10. <u>Sampling</u>

It refers to offer of free sample of product ,say a tooth paste or pen to potential customers while launching a new product.

<u>Publicity</u>

It is a public information about a company, goods or services appearing in the mass media as a news item.

<u>Features</u>

1. It is an unpaid form of communication as the marketer pays no money.

2. It is not sponsored by anybody as the message goes as a news item.

Public Relations

It involves a variety of programmes designed to promote and protect a company's image and its products in the eyes of the public. In other words, it is the relation of an organisation with the public. For this, a separate department is formed in organisation , called Public Relation Department.

CHAPTER 12

CONSUMER PROTECTION

Consumer Rights

The Consumer Protection Act provides SIX rights to consumers which are as follows

1. Right to safety

Consumer has a right to be protected against goods and services which are hazardous to life and health. Eg:substandard electrical appliances might cause serious injury.

2. Right to be informed

The consumer has the right to have information about the product he wants to buy including its ingredients, manufacturing date, price, quantity, instructions for use etc.

3. Right to choose

The consumer has the right to choose from a variety of products at reasonable prices.

4. Right to be heard

Consumer has a right to to file a complaint and to be heard in case of dissatisfaction with a product or service.

5. Right to seek redressal.

Consumer has a right to get relief in case the product or service falls short of his expectations.

6. Right to consumer education

Consumer has a right to acquire knowledge and to be a well informed consumer throughout life.

Legal protection to consumers

1. The Consumer Protection Act,1986.

The Act gives protection to consumers against defective goods, deficient services, unfair trade practices etc.

2. The Sale of Goods act, 1930

This Act gives safeguards and relief to buyers of goods in case the goods purchased do not conform to the implied conditions or warranties.

3. The Essential Commodities Act, 1955

This Act provides for control of production and distribution of essential commodities and ensures their equitable distribution.

4. <u>The Prevention of Food Adulteration Act, 1954</u>

The Act checks adulteration of food items and ensures their purity in the interest of public health.

5. <u>The Standards of Weights and Measures Act, 1976</u>

This Act gives protection to consumers against the malpractice of underweight or undermeasure.

6. <u>The Trade Marks Act, 1999</u>

The Act prevents the use of fraudulent marks on products.

7. <u>The Bureau of Indian standards Act, 1986</u>

The bureau has two sets of activities - a) formulation of quality standards and b) certification through BIS certificate.

Redressal agencies under The Consumer Protection Act

The Consumer Protection Act has set up a three-tier machinery at District, state and National level known as District Forum, State Commission and National commission.

District Forum

a) Consists of a President and two other members , of whom one must be a woman

b) All are appointed by the State Govt

c) Complaint can be made when the value of goods or services along with the compensation claimed is below Rs. 20 lakh

d) On receipt of the complaint, it is referred to the party against whom the complaint is filed

e) If needed, goods or a sample thereof may be sent for testing in laboratory

f) It shall pass an order based on the report and hearing to the party against whom complaint has been received.

g) If the aggrieved party is not satisfied with the decision of the District Forum , he can give an appeal to the State Commission within 30 days.

State Commission

a) Consists of a President and not less than two members , of whom one must be a woman

b) All are appointed by the State Govt

c) Complaint can be made when the value of goods or services along with the compensation claimed is exceeds Rs.20 lakhs but less than Rs. 1 crore

d) On receipt of the complaint, it is referred to the party against whom the complaint is filed

e) If needed, goods or a sample thereof may be sent for testing in laboratory

f) It shall pass an order based on the report and hearing to the party against whom complaint has been received.

g) If the aggrieved is not satisfied , he can give appeal to the national commission within 30 days.

National Commission

a) Consists of a President and at least four other members , of whom one must be a woman

b) All are appointed by the Central Govt

c) Complaint can be made when the value of goods or services along with the compensation claimed exceeds Rs. 1 crore

d) On receipt of the complaint, it is referred to the party against whom the complaint is filed

e) If needed, goods or a sample thereof may be sent for testing in laboratory

f) It shall pass an order based on the report and hearing to the party against whom complaint has been received.

g) If the aggrieved is not satisfied , he can give appeal to the Supreme court .

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