NATURE AND SIGNIFICANCE OF MANAGEMENT

Meaning: Management is a process of getting things done through others with the aim of achieving organizational goals effectively and efficiently.

Definitions:

1. Management is an art of getting things done through other people – Marry Parker Follet.
2. Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups can perform efficiently and effectively towards the attainment of group goals. It is the art of getting the work done through and with people in formally organized groups. – Koonts and O'Donnel.

Effectiveness versus Efficiency

Effectiveness and efficiency are two sides of the same coin. But these two aspects need to be balanced in every organization. For example, a company's targeted production is 5000 units in a year, to achieve this target the manager operates the employees on double shifts with high salary which resulted in high production cost. In this case the manager was effective but not efficient.

If the manager reduces the output with fewer resources to cut down the cost but not achieving the target, consequently the goods do not reach the market and hence competitors may enter into the market. This is a case of being efficient but not effective.

Therefore, **effectiveness means achieving the goals in time** and **efficiency means achieving the target with minimum cost or resources.**

Hence it is important to the management to achieve goals (effective) with minimum resources (efficiency). Usually high efficiency is associated with high effectiveness which is the aim of all managers. High efficiency without being effective is not desirable and both inefficiency and ineffectiveness leads to poor management.

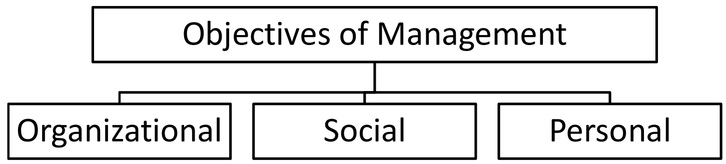
Efficiency	Effectiveness
Maximum output with limited resources.	Actual result with planned result.
To do the things perfectly.	To do perfect things.
Completing the task in minimum cost.	Completing the task in time.

Characteristics of Management:

1. Management is goal oriented – Management aims at achieving certain specified objectives (goals) of the enterprise.
2. Management is Pervasive – Management activities are universally applicable in all types organizations anywhere in the world.
3. Management is multidimensional – Management has three dimensions:
   a. *Management of work* – All organizations are engaged in doing some work such as school for education, factory for production of goods, hospitals for treatment etc.
   b. *Management of people* – Managing human resource as individual and group.
   c. *Management of operations* – Management is also focusing in the production process by which the inputs are transformed into output with help of technology.

4. Management is a continuous process - which involves planning, organizing, staffing, directing and controlling.
5. Management is a group activity – Management cannot exist independent of the group or organization it manages. Goals and objectives of an organization can be effectively attained by a group rather than by an individual.
6. Management is a Dynamic Function – Management principles are not static in all situations. It must be adopted according to the changing needs of the organization.
7. Management is an intangible force – Its presence is felt by the result of the organization e.g. increase in profit.

Objectives of Management

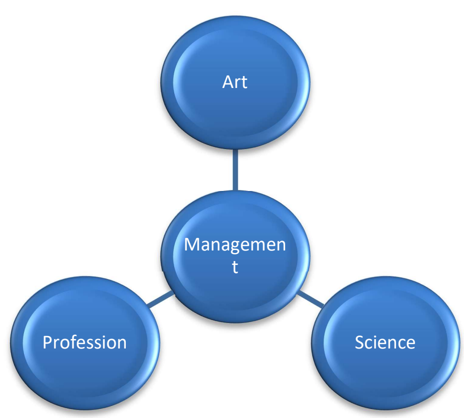


1. **Organizational Objectives (Economic Objectives) –** Objectives set by management for the organization are called organizational objectives. The elements of economic objectives are **Survival, Profit and Growth.**
2. **Social Objectives –** A business should conduct the activities to fulfill the expectations of the society. Undesirable activities should not be undertaken for maximizing profit.
3. **Personal Objectives –** The management must reconcile personal goals with organizational objectives to have harmony in the organization.

Importance of Management:

1. **Helps in achieving group goals** – Proper management of all individuals in an organization is very essential for the accomplishment of organizational objective. Group goal is more important than the individual objectives.
2. **Increases efficiency** – Managements helps to achieve the goals with minimum resources.
3. **Creates a dynamic organization** – Appropriate changes must be introduced in the organization as and when it is needed. Management helps the people (employees) to adapt such changes through proper training and motivation.
4. **Helps in achieving personal objectives** – Along with the organizational objectives, individual members in the team should be able to achieve their personal goals.
5. **Helps in the development of society** – Management develops not only the organization but also the society.

Nature of Management:



1. **Management is an Art** – Art means the application of knowledge and personal skill to achieve desired results. Management is certainly considered as an art because a manager uses his skills and knowledge in his day to day activities for achieving the goals of the organization. As an art management has the following features:

a. **Existence of theoretical knowledge:** Art presupposes the existence of certain theoretical knowledge. This knowledge is derived from the experiences of experts and is published in the form of books and literature in different fields like dance, music, public speaking, management etc.
b. **Personalised application:** The use of basic knowledge varies from person to person. Eg: Two dancers, two speakers, two actors etc. will differ in demonstrating their art.
c. **Based on practice and creativity:** Art involves creative practice of existing theoretical knowledge. Eg: All music is based on seven basic notes, however what makes the composition of a musician unique is his use of these notes in a creative manner.

2. **Management as a Science** – Science is a systematically organized body of knowledge. It is based on logically observed findings, facts and events. The essential features of science are as follows:
   a. Systematised body of knowledge
   b. Principles based on experimentation
   c. Universal validity

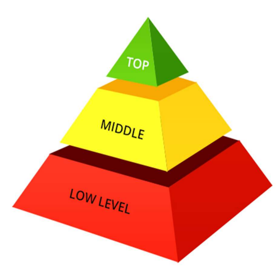
Although management has a systematized body of knowledge, they cannot be compared with the principles of physical science, which are definite and exact. Therefore, **management is an inexact or soft science.**

Management as a Profession – A profession is an occupation backed by specialized knowledge and training and to which entry is regulated by a representative body. Because of satisfying the following features, management may said to be a profession.

a. Well defined body of knowledge – developed by management experts.
b. Restricted entry – Management requires formal education and training provided by formal institutions like Universities, Professional Organizations such as ICAI (Institute of Chartered Accountants of India), IIM (Indian Institute of Management) etc.
c. Professional association – for the implementation of code of conduct – Eg. All India Management Association (AIMA).
d. Ethical codes of conduct - All professions are bound by a code of conduct, which guides the behavior of its members. Eg: Doctors take an oath of ethical practice at the time they enter the profession.
e. Service Motive – The primary objective of a profession is providing service to the society.

But management is not an exact profession, because it does not strictly meet all the criteria of a profession like qualification, membership of a professional body etc.

Levels of Management – Levels of management refers to the arrangement of managerial positions in an organization. There are generally three levels of management. They are Top Level, Middle Level and Lower Level (Supervisory or Operational) Management. The hierarchy of level is shown below:



Top Level Management: Top level management consists of managers at the highest level in the management hierarchy. Chairman, managing directors, board of directors, chief executive and general managers are regarded as top level management in a business organization. This level of management is responsible for framing business policies and taking major decisions. They perform administrative functions more than the managerial functions.

Functions of Top Level Management:

1. It lays down the objectives of the business organization.
2. It prepares strategic plans and policies.
3. It issues necessary instructions to departmental heads.
4. They appoint the executives for middle level.
5. It co-ordinates the activities.
6. It controls all the departments of the organization.
7. It builds and maintains relations with outside public.

Middle Level Management: This level of management consists of different departmental heads. These managers receive orders and instructions from top level managers and pass them to their subordinates. They are responsible for executing the plans formulated by top management. This level consists of production manager, finance manager etc. This level acts as an intermediary between the top management and the lower level management.

Functions:

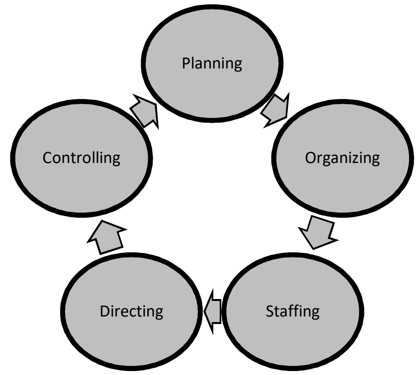
1. Maintain closer watch on day to day results.
2. Participate in operating decisions.
3. Implement the policy decisions made by the top management.
4. Communicating policies of top level to the lower level.
5. Planning the activities to be carried out by their own department.
6. Directing the managers at the lower level.
7. Evaluating the performance of departmental employees.
8. Reporting to top level management.
9. Co-operating with other departments to achieve organizational goals.
10. Motivating and rewarding employees based on their performance.

Lower Level Management: This level is also known as *Supervisory Management or Operational Management.* It consists of foreman, supervisors, finance and accounts officers, sales officers etc. They assign specific jobs to the workers, evaluate their performance and report to the middle level management.

Functions:

1. Plan day to day activities.
2. Assign workers to different jobs and task.
3. Report feedback information daily.
4. Take corrective actions whenever necessary.
5. Maintain personal and immediate contact with production employees.
6. Act as a link between middle level management and workers.
7. Provide on the job training to workers.

Functions of Management:



"**Management** is what management does". It is a dynamic process consisting of several activities. The activities or elements which a manager performs are called functions of management. They are planning, organizing, staffing, directing and controlling.

1. **Planning** : Planning is the initial task of every management. It helps in determining future course of action to be followed for achieving organizational goals. It is the act of deciding in advance 'what to do', 'when to do', 'who will do' a particular job. It is a process which involves thinking before doing.
2. **Organizing:** It is a process of establishing relationship among the members of the enterprise. The relationship is created in terms of authority and responsibility. Organization provides the framework within which people associate for the attainment of organizational goals.
3. **Staffing:** Staffing function comprises recruitment, selection, training, development and appraisal of employees in an organization. Its aim is to place the right person at the right job at the right time.
4. **Directing:** It is concerned with instructing, guiding, and inspiring people in the organization to achieve organizational goals. Direction is not only issuing orders and instructions by superior to subordinate, but also guiding, motivating and leading them.
5. **Controlling:** It deals with the measurement and correction of the performance of persons against the predetermined standard. It involves the following steps:
   a) Establishment of standards, b) Measurement of performance, c) Comparing actual performance with standards, d) Taking corrective actions.

Coordination – The essence of management

Coordination refers to the process of integrating the activities of different units of an organization to achieve the organizational goals. Coordination is needed in all the functions of management and in all the levels of management, therefore, **coordination is considered as the essence of management.**

Characteristics of Coordination:

1. **Integration**: It refers to the unification of all the unrelated activities or diverse interest which must be brought together so as to accomplish the work effectively.
2. **Unity of action:** Coordination helps to maintain unity of action among the activities of one department with that of another. For instance, the purchase department should purchase enough material which are necessary for the production department. Imbalance between these two departments will cause loss to the organization.

3. **It is a continuous process:** Management is a continuous process and coordination is associated with all other functions of management, so that it is a continuous process.
4. **It is an all pervasive function:** Coordination requires at all levels of management and in all departments of the organization.
5. **It is the responsibility of all managers:** All managers in the organization are responsible to coordinate the activities in their respective levels of management.
6. **It is a deliberate function:** A manager has to coordinate the efforts of different people in a deliberate manner. Even if the members in a department are very cooperative, coordination gives a direction to that willing spirit. Cooperation without coordination may lead to wasted effort and coordination without cooperation creates dissatisfaction

Importance of Coordination:

1. **Growth in size –** As an organization grows in size, the number of people employed will also be increased. All individuals differ in their habits, approaches etc. So that it becomes necessary to coordinate their efforts to the common goal.
2. **Functional differentiation –** The functions of an organization is divided into departments and their objectives are also different. For example, marketing department may try to increase the sales volume by offering 10% discount, but the finance department may not approve it because of loss in revenue. In such a situation coordination has a vital role in the integration of efforts by the above two departments.
3. **Specialization –** Now a days many organizations appoint specialists in different jobs. These specialists may think that, they are qualified to evaluate, judge and decide in their professional area. They do not take advice from others. This often leads to conflict among different specialists. Here also coordination plays an important role to bring harmony among these personnel for the benefit of the orgnaisation.

Management in 21st Century

Due to the development of communication technology and the positive changes in government policies towards international business, it is possible to think of the world as a “global village” and the scope of international and intercultural relationships is rapidly expanding. Therefore, the modern organization is a global organization that has to be managed in a global perspective.

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PRINCIPLES OF MANAGEMENT

Meaning: Principles refers to a statement which reflects the fundamental truth about some phenomenon. Management principles are derived on the basis of observation and analysis of events which managers have to face in actual practice.

Definition

"Principles of management are the guiding rules or laws for managerial action" – H.G. Hicks.

Nature of Management Principles:

1. **Universal Applicability -** Management principles have universal application in all types of organizations and in all places like business organizations, police force, sports clubs, family etc.
2. **General Guidelines –** Management principles are derived from experience and analysis and they are in the form of mere statements. These statements are guidelines for action but not provide solution to all managerial problems.
3. **Formed by practice and experimentation**
4. **Flexible -** Management principles never remain static; they are applied in given situations.
5. **Mainly behavioural -** Human behavior is unpredictable and it is often situational. This complex human behavior needs a sense of direction and guidance. Management Principles attempt to provide such guidance in human action. For instance **Team work** as a principle is good for attainment of organization goals, but it is a personalized intellectual task like painting a picture, individual contribution is more valid than team work.
6. **Cause and effect relationship –** Cause and effect relationship is indicated by management principles. For example, the principle "Unity of Command" states that presence of a single boss avoids confusion. Here the presence of Unity of Command is the cause and avoidance of confusion is the effect.
7. **Contingent -** Management Principles are to be applied in accordance with the situation and organizational requirements, then only it will be successful.

Significance of Principles of Management

1. **Providing Managers with useful insights into reality:** Adherence to the principles of management will add to their knowledge, ability and understanding of managerial situations.
2. **Optimum Utilization of Resources:** Principles of Management point out how time, money, materials and human efforts can be used economically to improve productivity. This fact can be seen in the principles of division of work, delegation of authority etc.
3. **Scientific Decisions:** With the help of Management Principles, managers can take appropriate decisions in right time.
4. **Meeting changing environment requirements –** Management principles are highly flexible and therefore can be modified to meet changing requirements of environment.

5. **Fulfilling social responsibility –** Good quality products to the customers, care for environment, opportunities for employment, education for the children of employees etc. are some of the examples for social responsibilities.
6. **Management training, education and research –** A well organized and systematic body of knowledge (management principles) is essential for imparting training and education to managers for functioning efficiently.

Fayol's Principles of Management

Henry Fayol (1841-1925) – French Engineer in a mining company – became the Managing Director of the company – author of "General and Industrial Management" – his management thoughts are acceptable even today – father of Modern Management. A brief description of Fayol's fourteen principles of management is given below:-

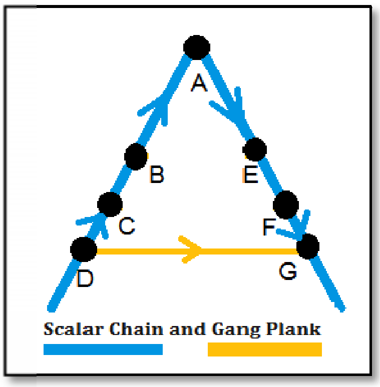
1. **Division of Work** – This principle states that a complex work should be divided into small tasks, and each task should be assigned to a particular employee. This makes each task simpler and easier to perform and results in efficiency because by doing a small part of work repeatedly, the employee acquires speed and perfection. This principle is applicable to both technical and managerial activities.
2. **Authority and Responsibility** – Authority is the right to give orders to the subordinates. Responsibility means obligation to perform the work in the manner desired and directed by authority. If authority is given to a person, he should also be made responsible.
3. **Discipline** – It means obedience, respect for authority and observation of established rules. It ensures the smooth running of the organization and applicable for workers and management.
4. **Unity of Command –** This principle states that each employee should receive orders from one superior only. More than one superior at a time leads to confusion.
5. **Unity of Direction** – This principle states that the activities, which have a common objective must be grouped together and under one head. In other words, all the operations and departments in the organization should be directed towards the common goal.

Differences between Unity of Command and Unity of Direction

Basis	Unity of Command	Unity of Direction
1. Meaning	One subordinate should receive orders from only one superior at a time	Each group of activities having the same objective must have one head and one plan
2. Aim	It prevents dual subordination	It prevents overlapping of activities
3. implication	It affect an individual employee	It affects the entire organization

6. **Subordination of Individual Interest to General Interest –** The business enterprise is superior to individuals. The interest of the business must prevail over personal interests of the individuals.
7. **Remuneration of Employees**- The remuneration for work done must be fair and reasonable. It must inspire the employees to work hard so that the organization earns more profit.

8. **Centralization and Decentralization** - Centralization refers to concentration of authority at one place or one level in the organization i.e., top management. Decentralization means dispersal of authority to lower levels. There should be a balance between centralization and decentralization based on the nature of the job. Anyhow utmost centralization or decentralization is not good.
9. **Scalar Chain –** Scalar chain refers to the line of authority or the chain of superiors starting from the highest and moving towards the lowest rank. It is a must that communication should pass through this chain of command. But in case of urgency the established chains can be violated and Gang Plank (direct contact) between two concerned authorities may be established.



Short-circuiting the chain of command where emergency decisions are to be taken is known as **Gang Plank.**

10. **Order** – This principle is based on the general saying, "Have a place for everything and keep everything in its place". All materials are to be kept in proper place (**Material Order**) and the right man is to be assigned the right job (**Social Order**).
11. **Equity** – (Equality) This principle says that superiors should be impartial while dealing with their subordinates.
12. **Stability of Personnel** – Fayol says that managers and workers should not be shifted from their positions frequently. A person needs time to adjust himself to new work environment.
13. **Initiative –** It implies the creativity in an individual which must be utilized for the development of the organization.
14. **Esprit de Corps** (Union is Strength) – The contribution of a team is more significant than that of an individual. Team spirit helps in developing an atmosphere of mutual trust and understanding.

Acronym: DADEE SURCOSISU

Taylor's Scientific Management

F.W. Taylor (1856 – 1915) – father of Scientific Management – American Mechanical Engineer in Midvale Steel Company – keen analyst and critical of management for poor performance of their organization – conducted a series of experiments for more than two decades and finally launched the movement in 1910 which is known as "**Scientific Management".**

WRITINGS: 'The Principles of Scientific Management' series of articles published in 'The American Magazine' during march-may 1911, later published in book form.

Meaning and Definition – Scientific Management refers to the application of science in management practices. He advocated a detailed scientific study of each job to determine the best way of doing it.

Definition – "Scientific Management means knowing exactly what you want men to do and seeing that they do it in the best and cheapest way" - F.W.Taylor.

Aims and objectives

1. Increasing production – by the use of standardized tools, methods and devices.
2. Improved quality – by using quality control and research.
3. Reducing cost – by using scientific techniques of production.
4. Selection of right person for right work – by scientific selection and training to workers.
5. Reduction of wastages – by proper handling of resources.
6. Provision of incentive wages – by applying differential piece wage system.

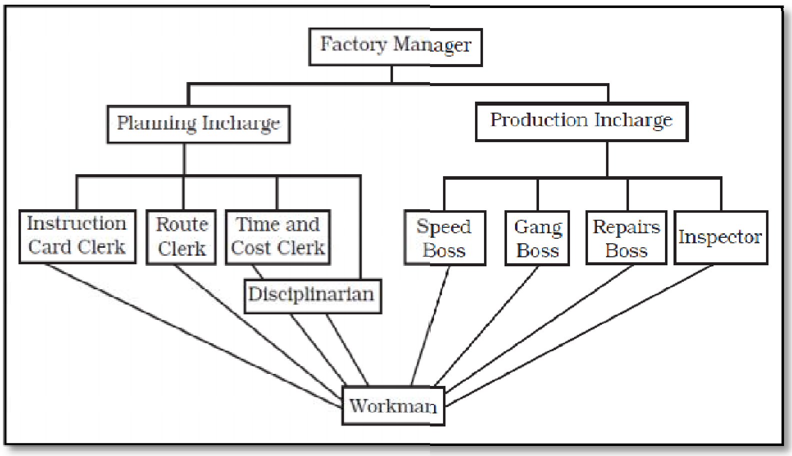
Principles of Scientific Management

1. **Science, not rule of thumb** – Rule of thumb means application of traditional methods or the methods decided by the managers based on their past experience. All these methods are often untested and unscientific; they do not guarantee success. In other words, the rule of thumb can be seen as 'the dictatorship of the manager' which should be avoided. Taylor suggested 'thinking before doing', i.e "Trial and Error Method' should be avoided and a scientific study must be done before solving any problem or doing a work.
2. **Harmony, not discord** (conflict) **–** This principle states that there should be complete harmony between management and the workers. This can be achieved through a change in the attitude of workers and the management. Taylor calls it as "Mental Revolution". Management should share the gains with workers and the workers should work hard and accept changes for achievement of goals.
3. **Co-operation, not individualism –** This principle is an extension of "Harmony, not discord". This principle states that there should be complete cooperation between management and workers instead of individualism. Management should take workers into confidence and give them participation in decision making. Workers should not indulge in unnecessary strikes and raise unreasonable demands. Taylor suggested that there should be equal division of work and responsibility between the workers and the management.
4. **Development of each and every person to their greatest efficiency and prosperity –** This principle states that the efficiency of all workers is a must for which they have to be provided with maximum prosperity. For this, Taylor advocated scientific methods for selection, training and development of workers. If workers put in their best effors, it ensures maximum prosperity not only to workers but also to the organization.

Techniques of Scientific Management

1. **Standardization and simplification of work –** It refers to the process of setting standards for every business activity.
2. **Method Study –** It is conducted to know the best method of doing a job.
3. **Motion Study –** It helps to eliminate unnecessary movements of men and material while doing a job.
4. **Time Study –** Through time study, the minimum time required for each element of work is determined. It helps in fixing a standard time for the job which will save cost, time and effort.
5. **Fatigue Study –** It seeks to determine the amount and frequency of rest intervals in doing a job. Intervals should be scientifically determined. This would help to recoup the energy lost in continuous work.

6. **Differential piece wage system –** It refers to a wage system in which dual wage rates are fixed to differentiate between efficient and inefficient workers. E.g., Standard output per day 30 units, two wage rates are Rs.10 and Rs.8 per unit. Worker Ajith produces 30 units a day and gets Rs.300. Worker Mohan produces only 28 units and he earns Rs. 224 only. Here Mr. Mohan loses Rs.76 just for a shortfall of 2 units. Taylor recommended that this system will be enough to motivate the inefficient worker to perform well or otherwise he will leave the organization.
7. **Functional Foremanship –** Taylor said that, specialization must be introduced in the organization. Functional foremanship is a form of organization which involves supervision of a worker by several specialist foremen.



a. **Instruction Card Clerk –** To lay down the exact method of doing a work, use of tools and equipments etc.
b. **Route Clerk -** To lay down the sequence of operation and direct the workers to follow the same.
c. **Time and Cost Clerk –** To lay down the time table for doing various jobs and maintain the records of the cost of work.
d. **Disciplinarian –** To enforce rules and regulations and maintain discipline among workers.
e. **Speed Boss –** Ensures that machines are run at their optimum speed.
f. **Gang Boss –** To assemble and set up various equipments and tools to enable the workers begin their work immediately after entering the shop.
g. **Repair Boss –** Ensures regular cleaning, servicing and repair of machines to keep them in efficient working order.
h. **Inspector –** To ensure that the workers do their work to the desired quality and that the jobs are executed as per specifications.

Fayol versus Taylor – A Comparison

No.	Basis	Henri Fayol	F W Taylor
1.	Perspective	Top level management	Floor level of a factory
2.	Unity of command	Strictly followed	Not considered as important, a worker receives orders (support) from 8 specialists
3.	Applicability	Universal	Specialized situation only
4.	Basis of formation	From personal experience	From observation and experimentation
5.	Focus	Improving overall administration	Increasing productivity
6.	Personality	Practitioner	Scientist
7.	Expression	General theory of administration	Scientific management

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BUSINESS ENVIRONMENT

Meaning – Environment refers to the surroundings in which a person or organization operates. Business environment means the political, social, economic, technological and cultural forces outside a business firm with which the entity deals. The environment also includes institutions like suppliers, customers, competitors, financiers and the government with which the firm has to deal in order to achieve its goals.

Business environment is the aggregate of all conditions, events and influences that surround and affect it.

Business environment may sometimes provide opportunities for growth as well it may constrain (threat) the growth of an organisation. The non availability of cheap electricity may be a constraint for firms depnding on power. Government control on use of ground water is a limiting factor for the manufacturers of soft drinks. BPO is an opportunity to reduce cost of operations. The emerging demand for houses is an opportunity for cement manufacturers. Manufacturers of conventional cameras, conventional tape recorders etc. realised the threat of their product becoming obsolet due to change in technology.

Features of Business Environment

1. **Totality of external forces –** Business environment is the sum total of all individuals, institutions and other factors and forces external to business firms which are out of control.
2. **Specific and general forces**
   a. Factors which affect the business directly in the day to day working are called specific forces, e.g., investors, customers, competitiors, suppliers etc.
   b. Factors which influence an enterprise indirectly are called general forces, e.g., social, political, legal, technological conditions etc.
3. **Interrelatedness –** Various elements of business environment are closely related or interdependent, for e.g., Technological development may result in lose of employment opportunitites.
4. **Dynamic Nature -** The business environment is always changing. E.g, technological improvement, entry of new competitors, govt. policy etc.
5. **Uncertainty –** Buiness environment is uncertain as nobody can predict what will happen in future. This is more true in case of information technology and fashion industries where changes are occuring too frequently.
6. **Complexity –** Business environment is a complex phenomenon as nobody can predict the impact of a minute change in the enviornment on a product or service.
7. **Relativity –** Business environment is relative since it differes from country to country or even from region to region.

Importance of Business Environment

Modern business world is a world of competitions. Those who are incompetent to face this competition will be out of the field. For this it is vital to adapt things according to the environment.

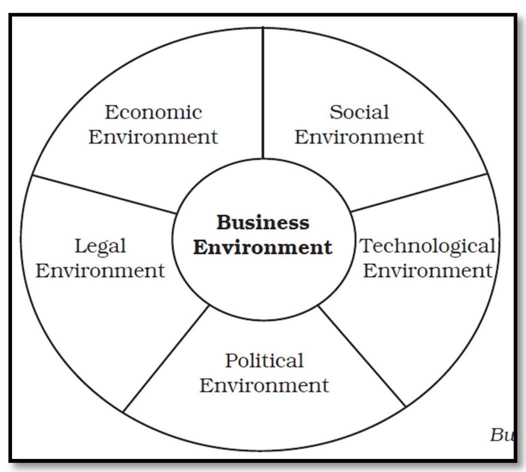
For adjusting the operations of an organization according to the environment, environment scanning is essential. Environment scanning means monitoring the environment of each organization and identifying the constraints and opportunities before them.

The importance of business environment (Importance of Business Environment Scanning)

1. **Identification of business opportunities and getting the first mover advantage –** Identification of opportunities at an early stage helps the firm to be able to exploit them without losing them to competitors. E.g., Maruthi Udyog Ltd. became the leader in the segment of small car market.
2. **Identifying threats and early warning signals –** Environmental awareness helps the managers to identify various threats; it provides the business early warning signals to plan its future course of action. E.g., Entry of multinational companies in Indian market gave a warning signals for the domestic industries to make some preparations like cost reduction, improving quality, reducing wastages etc.
3. **Tapping useful resources –** Environment provides various resources to the business like materials, machinery, water, finance, electricity, labour etc.
4. **Coping with rapid changes –** Business environment is highly dynamic such as change in market condition, technology, competition etc. To cope with these changes managers must be dynamic. This is possible through proper environment scanning.
5. **Assisting in planning and policy formulation –** Environment scanning gives vital information which can be taken as the basis for deciding future course of action (planning) or framing guidelines for decision making (policy formulation).
6. **Helps in improving performance –** Those enterprises which continuously monitor their environment and adopt suitable policies will improve their performance.

Dimensions / Factors of Business Environment

1. **Economic Environment -** Economic condition, economic system, economic policy, inflation rates, interest rates, tax rates etc. are the main components of economic environment. Some economic policies of Government may favorably affect the business whereas it may adversely affect some others. For example, import restriction on some goods may give advantage to home industries producing such goods, while, liberalization on import attracts foreign producers may create difficulties to home producers.



2. **Social Environment –** The social environment greatly influences the working of a business. A business gets its inputs from society and returns the output again to the society according to its needs. The social environment is made up of population trends, individual needs and cultural factors. The business should adopt a business strategy which should be suitable for social-cultural environment.
3. **Technological Environment –** It consists of new approaches to producing goods and services. Production methods and services are fast changing. New instruments and new procedures are developing rapidly. Computer aided production system made a drastic change in the business sector, DTP facility increased the speed and quality of printing which wiped out the old printing machines, CDs and DVDs adversely affected video cassettes and tape recorders, mobile phones with numerous interactive features have affected many business segments.
4. **Political Environment –** Political environment includes political parties and their ideology, type of government (single or coalition-union of different parties), stability of the government, policy towards business etc. All these factors have far reaching impact on the growth and profitability of business. For instance, Coco-Cola Multi National Company discontinued its operations in India in the late seventies due to government policy. Again in 1989 another government welcomed such multinational companies to India.
5. **Legal Environment –** It includes the Acts that have been passed by the Central and the State Governments. The laws related to business made by government are of utmost importance. All members of business community must follow these laws. In India, business is regulated with the help of following legislations: **a**. Trade Mark Act – 1969, **b**. Essential Commodities Act – 1955, **c**. Consumer Protection Act – 1986, **d**. The Contract Act, **e**. Companies Act – 1956, **f**. Factories Act, **g**. Industrial Disputes Act, **h**. Workers Compensation Act, **i**. Minimum Wages Act, **j**. Income Tax Act – 1961, **k**. Sales Tax Act etc.

Economic Environment in India

Till 1991 India followed an economic policy with a socialist bias. The policy was based on the primacy of public sector and control and regulations on private sector. From 1991 onwards the Government started implementing sweeping economic reforms. As part of economic reforms, the government of India announced a new industrial policy in 1991.

Features of Industrial Policy

a. Reduced the number of industries to 6 which require compulsory licensing.
b. De-reserved many industries which were earlier reserved for the public sector.
c. Carried out disinvestment process in case of many public sector companies.
d. Liberalized foreign capital policy – 100% Foreign Direct Investment (FDI) in many segments.
e. Granted permission for technology agreement with foreign companies.
f. Set up Foreign Investment Promotion Board (FIPB) to promote foreign investment in India.

Liberalization, Privatization and Globalization **(LPG)** are the major programs of this new policy.

1. **Liberalization –** Liberalization means liberating the economy from the regulations and restrictions on economic growth. The old policy of licenses, permits, quotas and controls discouraged private enterprises. Import licensing, foreign exchange regulations, progressive taxes, price controls, etc. discouraged investments. Acts like MRTP Act prevented large business houses from fresh investment, expansion and modernization. All these policies adversely affected industrialization and economic growth.

   The new policy of liberalization through de-licensing and decontrols frees the economy from restrictions. Licenses and permits have been replaced by broad guidelines.

2. **Privatization –** The word "Privatization" was implemented by the management expert Peter Drucker. It is just opposite to "Nationalization". Privatization is a trend all over the world now, in India the priority given to the public sector is gradually being reduced and the role of private sector is being encouraged. The main features of privatization are as follows:
   a. Disinvestment of a part of the shares held by the government in Public Sector Undertakings (PSUs). This results in passing of ownership, control and management of PSUs to the private sector.
   b. De-reservation of areas formerly reserved for the public sector. This allows the private sector to enter into new areas.
   The government is withdrawing from many economic activities like running business and is concentrating more on areas like primary and secondary education, provision of basic health care, development of infrastructure etc.

3. **Globalization –** Globalization means free movement of goods, capital and labour across the globe. This involves reduction of import duties and encouragement of foreign investment.

   It has to be remembered that while liberalization and privatization are policies, globalization is a fact. As Amartya Sen (Nobel Prize winner) said, "*Globalization is a not a policy, it is a phenomenon. There are gains and pains from globalization. Appropriate policies have to be formulated to maximize the gains and minimize the pains."*

Demonetization

The Govt. of India made an announcement on Nov 8, 2016 that the two largest denomination notes Rs.500 and Rs.1000 were demonetized. This led to 86% of Indian currency in circulation invalid. The people had to deposit invalid currency in the banks along with certain restrictions on withdrawals.

The aim of demonetization was to curb corruption, fake notes, use of currency for illegal activities like terrorism, accumulation of black money generated by income that has not been declared to the tax authorities.

Aims and Features of Demonetization

1. **A tax administration tool –** The people who have black money had to declare their unaccounted wealth and pay taxes at a penalty rate.
2. **To stop tax evasion –** The Govt. implemented this policy to control tax evasion.
3. **To channelize the savings –** It was implemented to channelize the savings into formal financial system by encouraging bank deposits.
4. **Cash less economy –** Govt. announced demonetization with an aim of creating a digital economy with the support of formal financial system / banks. (Internet banking, e-wallets, PoS [Point of Sale] etc.)

Impact of Demonetization

1	Money / Interest rates	i. Decline in cash transaction ii. Bank deposits increased iii. Increase in financial savings
2	Private wealth	Declined since some high demonetized notes were not returned and real estate prices fell
3	Public sector wealth	No effect
4	Digitization	Digital transactions among new users increased
5	Real estate	Prices declined
6	Tax collection	Rise in income tax collection because of increased disclosure

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PLANNING

Planning means deciding in advance **what** is to be done, **when** is to be done, **how** is to be done and by **whom** is to be done. So that it is a process of thinking before doing.

Definition: "Planning is deciding the best alternative among others to perform different managerial operations in order to achieve the predetermined goals" – Henry Fayol.

Importance of Planning

1. **Planning provides direction –** Planning provides direction for action. This ensures effective implementation of plans and direction of effort towards attainment of objectives. If you don't know where you are going, no road will take you there.
2. **Planning reduces uncertainty –** Planning enables an organization to cope up with uncertainty and change. With the help of planning, an enterprise can predict future events and make due provisions for them.
3. **Planning reduces overlapping and wasteful activities –** Planning co-ordinates the activities of individuals and departments in an orderly manner, which will help to avoid wasteful activities.
4. **Planning promotes innovation and creativity –** Planning is a process of thinking in advance; there is a scope for finding better methods for productivity. This makes the managers innovative and creative.
5. **Planning facilitates decision making –** Planning helps in decision making by selecting the best alternative among the various alternatives.
6. **Planning establishes standards for control –** Plans serve as standards for evaluation of performance. It will help to ensure proper control by comparing the actual performance with the standard performance.

Features of Planning

1. **Planning Focuses on objectives –** Every organization has its own objectives and every plan must contribute towards the accomplishment of these objectives.
2. **Planning is the primary function of management –** Planning is the first function of management. All other functions are performed to implement the plan.
3. **Planning is pervasive –** Planning is required at all levels of management, top management undertakes long range plans, middle management is concerned with departmental plans and the lower level management is related to short term plans.
4. **Planning is continuous –** Planning is an on-going process. Usually a plan is prepared for a specific period of time. At the end of the period a new plan is prepared in accordance with the requirement of future condition. E.g. Shortage in raw material in a month may lead to revise the plan for the next month.
5. **Planning is futuristic –** Planning is looking ahead and preparing for the future. Hence forecasting is the essence of planning. E.g. Keeping an umbrella in our bag with us foreseeing the chance of rain.

6. **Planning involves decision making –** If there are various alternatives to achieve an objective, then we have to select the best one (decision making) only after proper analysis. E.g. If a company has three suppliers for the same raw materials, they have to select only the best one by analyzing all the facts such as price, promptness, quality etc.
7. **Planning is a mental exercise –** Planning is an intellectual process which involves foresight, imagination and judgment.

Limitations of Planning

1. **Rigidity (inflexibility) –** Planning restricts the individual skill, initiative and creativity, because employees are required to work strictly in accordance with the plans.
2. **Planning may not work in dynamic environment –** The scope for planning is limited up to a certain extent especially in the organizations having rapid changing situations e.g. Fashionable products.
3. **Planning reduces creativity –** Managers at middle and lower levels are just implementing the plans formulated by the top management, thus it reduces the creativity among them.
4. **Huge Cost –** Planning is a very expensive and time consuming process which involves the collection of data, analysis, interpretation etc. Hence it is not suitable for quick decisions as well as for small concerns.
5. **Time consuming –** Sometimes plans to be drawn up take so much time, but there is no much time left for their implementation.
6. **Does not guarantee success –** Planning may create a false sense of security in the organization that everything is going smooth; it affects independent thinking and creativity of managers.

Planning Process (Steps in Planning)

1. **Setting the objectives –** The first step in planning is the establishment of objectives. The objectives must be clear and specific. The objective of the entire organization is laid down first, and then it is broken down into departments and individuals. E.g. Rs.10000 profit is the objective for this month, then it is divided as how many units may be produced by production department, how many units may be sold by sales department etc.
2. **Develop Planning Premises –** Planning is done for the future which is uncertain, certain assumptions are made about the future environment. These assumptions are known as planning premises. E.g. A business is anticipating increase in the sales of computers assuming that sales tax on computers will be decreased by the government.
3. **Identifying alternatives –** There are alternative ways for achieving the same goal. For example, to increase sales, different ways are there, like advertisement, reducing prices, improve quality etc.
4. **Evaluating alternatives –** The positive and negative aspects of each alternative should be evaluated based on their feasibility and consequences.

5. **Selecting the best alternative –** After analyzing the merits and demerits of each alternative, the most appropriate one is to be selected by evaluating cost, risk, benefit to organization etc.
6. **Implementation of plans –** Implementation means putting plans into action to achieve the objective. For the successful implementation, the plans are to be communicated to the lower levels at every stage.
7. **Follow Up –** Plans are to be evaluated regularly to check whether they are proceeding in right way, shortfalls can be located and remedial actions can be taken well in advance.

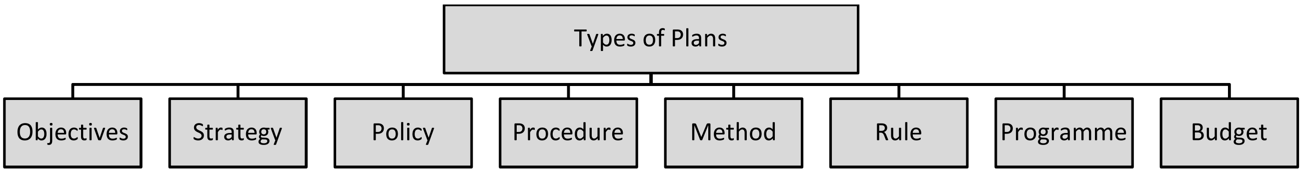
Types of Plans

An organization has to prepare a plan before making any decision related to business operations. These plans can be classified into single-use plans and standing plans.

Single use plan – It is developed for a one-time event or project. Such a course of action is not likely to be repeated in future. The duration of such plan may depend upon the type of project, may be for one day, a week or a month such as organizing an event, a seminar, a conference etc. Single use plans includes Budgets, Programmes and Projects.

Standing plan – It is used for activities that occur regularly over a period of time. It is usually developed once but is modified from time to time to meet business needs as required. Standing plans include Policies, Procedures, Methods and Rules.

Based on what the plans seek to achieve, plans can be classified as follows:



1. **Objectives –** Objectives are the ends towards which an activity is aimed. They are the results to be achieved. In other words objectives are the goals, aims or purpose that the organization wishes to achieve. Examples of Objectives: Improvement in the sale of a product by 10%.
2. **Strategy –** It is a comprehensive plan for accomplishing an organization's objectives by considering the business environment, i.e., changes in economic, social, political, legal environment etc. E.g., discount sale, scratch coupon, gifts for customers etc. are some of the strategies that can be adopted for sales promotion. It has three dimensions:
    a) Determining long term objectives
    b) Adopting a particular course of action
    c) Allocating the resources required to achieve the objectives
3. **Policy –** It is a guideline in decision making to various managers. It defines the limit within which decisions can be made. E.g. "Promotion is based on merit only" states that while taking decision on promotion, merit will be the sole criterion.

4. **Procedure –** Procedure is a chronological order or steps to be undertaken to enforce a policy. E.g. To implement the policy of selecting employees, the selection procedure may be developed consisting of Inviting applications, tests, interviews, references and then prepare the list of selected candidates.
5. **Rules –** Rules are the guidelines for conducting an action. They specify what should be done or not to be done in a given situation. E.g. Office opens at 10am, smoking is prohibited inside the office.
6. **Methods –** Methods provide detailed and specific guidance for day to day action. Eg. Time rate system or Piece rate system in wage payment, most suitable method is to be adopted in the organization for better performance.
7. **Programs –** It includes all the activities necessary for achieving a given task. E.g. Opening 5 new branches in different parts of the country, deputing employees for training, installing a new machine etc.
8. **Budget –** It is a plan which states the expected results of a given period in numerical terms. E.g. Production Budget, sales budget, cash budget, expenditure budget etc.

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ORGANIZING

Organising is the process of identifying and grouping various activities and bringing together physical, financial and human resources and establishing productive relations among them for the achievement of specific goals.

Steps in the process of organizing

1. **Identification and Division of Work –** It means dividing total work into specific activities, these activities are then grouped into jobs and assigned to different individuals or departments. This brings specialization and productivity.
2. **Departmentalization –** In this 2nd step, combine similar or related jobs into larger units called departments. This grouping of activities called departmentalization. E.g. manufacturing department, marketing department etc.
3. **Assignment of duties –** After forming departments each employee should be placed in their respective positions under a manager and allocate them the duties based on their skill and knowledge.
4. **Establishing reporting relationship –** Various positions in the organization are arranged in a hierarchy with a clear definition of authority and responsibility. Each employee should know from whom he has to take orders and to whom he is accountable. This will facilitate the smooth functioning of the enterprise.

Importance of Organizing

1. **Benefits of Specialization –** Organizing helps to increase productivity and efficiency due to specialization because it involves division of labour.
2. **Clarity in working relation –** Organization structure allocates authority and responsibility. It specifies who is to direct whom. It minimizes conflicts and confusion about the respective powers and privileges of managers.
3. **Optimum utilization of resources –** Organizing helps to avoid duplication of work because specific jobs are assigned to individuals and departments, which leads to optimum utilization of resources.
4. **Adaptation to change –** A sound organization facilitates adjustments to changes due to changing conditions in the external environment with respect to technology, markets, products etc.
5. **Effective administration –** Clarity in authority – responsibility relationships, assignment of duties etc. enables the management to effectively administer the activities in the organization.
6. **Development of Personnel –** Organizing provides creativity among managers. Through delegation of authority, superiors can be engaged in exceptional matters and the lower level managers get an opportunity to develop.
7. **Expansion and growth –** Organizing helps in the growth and expansion of an enterprise by bringing an order for everything instead of chaos, removes conflict among people over work and creates a suitable environment for team work.

Organization Structure

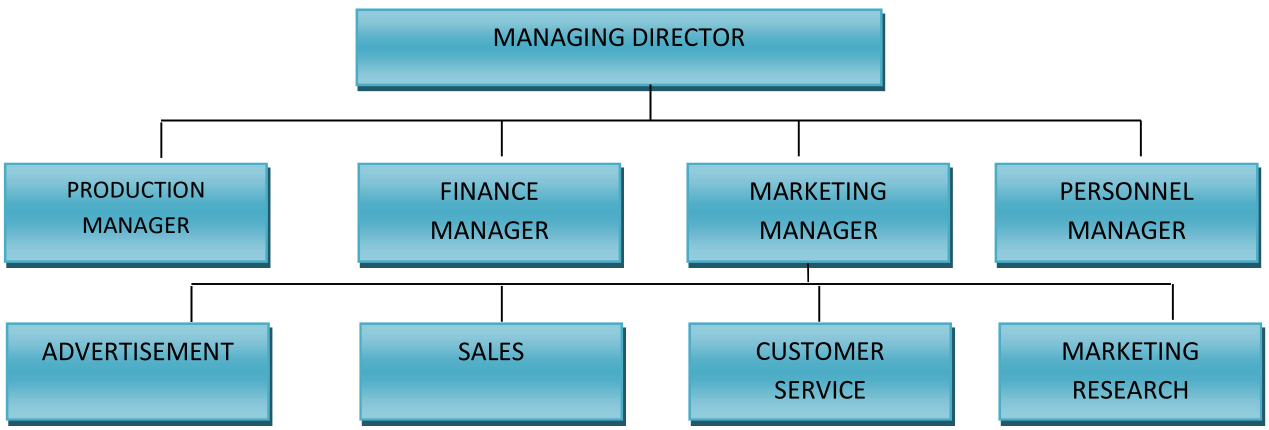
Organization structure is the established pattern of relationships among various parts of the enterprise. It states the relationship among various positions and activities. The structure provides a framework for managers and employees for performing their functions.

The span of management, to a large extent gives shape to the organizational structure. Span of management refers to the number of subordinates that can be effectively managed by a superior. This determines the levels of management in the structure.

A proper organization structure is essential to ensure a smooth flow of communication and better control over the operations of a business enterprise.

Types of Organization Structure

1. **Functional Structure –** This organization structure is **formed on the basis of different functions** or work to be done in the enterprise. For example, Production, Marketing, Finance, Human Resource etc.



Advantages

1) **Specialization –** In this structure, employees perform the same work repeatedly which will lead to specialization and high performance.
2) **Better control and coordination –** Since the tasks in a department are similar, this kind of structure promotes better control.
3) **Increased profit –** Increased managerial and operational efficiency leads to high profit.
4) **Cost reduction –** This structure helps to minimize the duplication of work, so that cost of production can be reduced.
5) **Training becomes easier –** As focus is only on a specific function, it makes training of employees very easier.
6) **Due attention –** It ensures due attention to different functions.

Disadvantages

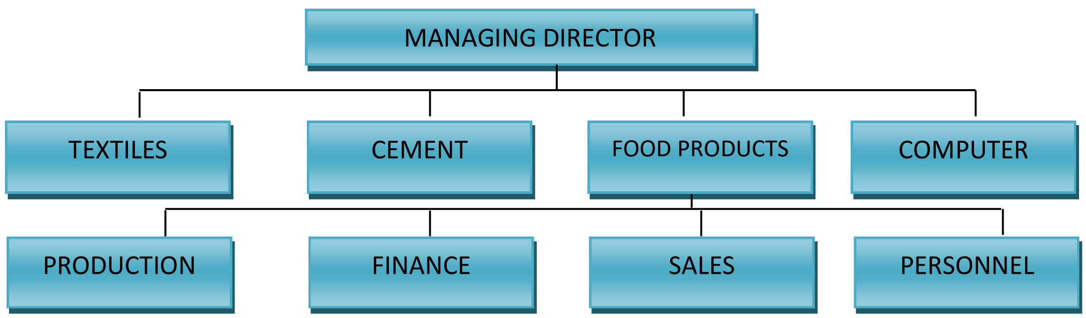
1) **Less importance to organizational interest –** This structure gives more emphasis to functional heads or departments. So that only a least importance may be given to the overall objectives of the organization.

2) **Coordination problem –** Coordination is quite difficult in this structure, as the information may be passed among various departments.
3) **Interdepartmental conflicts –** There may be conflict between two or more departments. E.g., Production department insisting on increase in production may cause difficulties for purchase department to procure materials in time.
4) **Inflexibility in promotion –** Functional heads may not get training for top management positions, hence they may not be promoted.

Suitability – Functional Structure is suitable in the following cases:

a) When the size of organization is large.
b) Where there are diversified activities.
c) Where a high degree of specialization is required.

2. **Divisional Structure –** It is an organization structure based on divisions or products. It is suitable for large organizations having different products or having business in different areas.



Advantages

1) **Skill development –** Product specialization helps in the development of various skills of the divisional head which makes him suitable for higher positions.
2) **Fixation of responsibility –** Divisional head can be made responsible for profit from his product or area.
3) **Quick decisions –** Each division functions as an autonomous body, quick decisions can be taken.
4) **Expansion and growth –** New divisions can be added without any disturbance to the existing ones.

Disadvantages

1) **Conflicts among divisions –** Allocation of funds to various divisions is a problem.
2) **Increased cost –** Each division is having similar functions, e.g., production, finance, marketing etc. This leads to duplication of activities.
3) **Independent authority is harmful –** The divisional manager is independent, so that he can do as he likes.

Suitability – Divisional structure is suitable to:

1. Where a large variety of products are manufactured.
2. Where an organization works in various parts of the country.
3. Where an organization grows and requires more departments.

Comparison – Functional and Divisional Structure

Basis	Functional	Divisional
1. Formation	Based on functions	Based on product lines
2. Specialization	Based on functions	Based on products
3. Responsibility	Difficult to fix on department	Easy to fix on a department
4. Managerial development	Difficult	Easy
5. Cost	Economical	Increase in cost
6. Coordination	Difficult for a multi product orgn.	Easy for a multi product orgn.

Formal and informal organization

1. **Formal Organization –** It refers to the structure of relationships deliberately designed by the top management to attain the objectives. Here the responsibility, authority etc. will be specified. Every subordinate is expected to obey his superior in the formal chain of command.

"An organization is formal when the activities of two or more persons are consciously coordinated towards a common objective." – Chester Bernard

Features

a) **Superior Subordinate relationship –** It is well defined in a formal organization and it clarifies as to who has t report to whom.
b) **Rules and procedures –** It lays down rules and procedures to attain the objectives.
c) **Deliberately created –** by the top management to facilitate smooth functioning of the organization.
d) **Coordination is possible –** Efforts of different departments are coordinated.
e) **Emphasis on work –** It gives priority to the work rather than the individuals.

Advantages

a) **Easy to fix responsibility –** as the superior subordinate relationship is clearly defined.
b) **Avoidance of duplication of work –** Since the role of each individual is clearly specified, there is no chance for duplication.
c) **Unity of command –** Communication through the chain of command ensures unity of command.
d) **Accomplishment of goals –** In a formal organization, there is a framework for the job to be performed by each employee and it ensures the attainments of goals.
e) **Stability –** Specific rules, behavior of employees etc. provides stability to the organization.

Disadvantages

a) **Procedural delays –** it is because the communication is passed through the official chain of command.
b) **No creativity –** Employees cannot deviate from the rules and procedures laid down by the top management, hence there no chance for creativity.
c) **More emphasis on structure and work –** It gives importance only to the job but not for human relations.

2. **Informal Organization –** Informal organization structure is developed within the formal organization spontaneously. *The network of personal and social relationships on the basis of friendship and common interest is called informal organization.*

Features

a) It originates from within the formal organization as a result of **personal interaction** among employees.
b) No official **rules and regulations.**
c) Independent **channel of communication** without specified direction.
d) It emerges **spontaneously.**
e) No definite **structure.**

Advantages

a) **Speedy communication** is possible as there is no official chain of command.
b) It fulfills **social needs** and provides **job satisfaction** for employees.
c) **Supports formal organization** – For instance, the reaction of employees towards plans and policies can be tested through informal organization.

Disadvantages

a) Since there is no prescribed line of communication, **false news** may be spread and its responsibility cannot be fixed on a particular person.
b) If the informal group is strong, they may oppose the plans of top management, which will lead to **delay in growth** of the business.
c) It gives priority to personal interest rather than organizational interest, which will be **harmful to the organization.**

Differences between formal and informal organization

Basis	Formal Organization	Informal Organization
1. Meaning	Structure of authority created by management	Network of social relationship among the employees
2. Origin	Established on the basis of company rules and regulations	Originated as a result of social interaction
3. Authority	Based on the position in the management	Based on personal qualities
4. Behavior	It is directed by rules	There is no set behavior pattern

5. Flow of Communication	Through the scalar chain	It can take place in any direction (Grapevine)
6. Nature	Rigid	Flexible
7. Leadership	Managers are leaders	Leaders are chosen by the group

Delegation of Authority

Delegation means assigning work to others and giving them authority to do it. In other words, *it is the downward transfer of authority from a superior to the subordinate*. It enables the managers to distribute their workload to others.

Elements of Delegation

1. **Authority –** Authority means the right of an individual to command his subordinates and to take action within the limits of his position.
2. **Responsibility –** It means the obligation of a subordinate to perform the duties assigned. It always moves upwards and it cannot be delegated. The authority granted must be in parity with the responsibility otherwise delegation of authority will become ineffective.
3. **Accountability –** Accountability means answerability for the final outcome of the assigned task. It cannot be delegated and flows upwards. Here a subordinate is accountable to his superior for his performance and at the same time the superior would still be accountable for the outcome.

Authority is delegated – Responsibility is assumed or accepted – Accountability is imposed.

Responsibility is derived from authority while accountability is from responsibility.

A comparative study on the elements of delegation

Basis	Authority	Responsibility	Accountability
Meaning	Right to command	Obligation to perform assigned duty	Answerability for outcome of the assigned task
Delegation	Can be delegated	Cannot be delegated	Cannot be delegated
Comes from	Formal position	Delegated authority	Responsibility
Flow	Downward	Upward	Upward

Importance of Delegation

1. **Effective management –** By entrusting the tasks with subordinates, top executives are able to concentrate on important matters.
2. **Employee development –** Through delegation, subordinates get tremendous opportunities to utilize their talents, which will lead to their ultimate development.
3. **Motivation of employees –** Delegation motivates the subordinates to improve their performance.
4. **Facilitates growth –** Delegation enables workforce to assume more responsibilities and take up leading positions, thus it helps the growth and expansion of the organization.
5. Delegation strictly follows the **Managerial Hierarchy.**

6. **Better coordination -** Delegation ensures proper reporting, which will help to coordinate the activities of different employees and departments.

Decentralization

Decentralization refers to the systematic dispersal of authority to the lower levels of organization. An organization is said to be decentralized when managers at middle and lower levels are given the requisite authority to take decisions and appropriate actions on matters relating to their respective areas of work.

Suppose in a company, all leave applications are approved by the General Manager. When he feels that he is over burdened with this work, he may delegate it to the personnel manager. It is a case of delegation of authority. On the other hand, if the General Manager distributes this work to all the departmental managers, it is an instance of Decentralization.

Importance of Decentralization

1. Develops initiative among subordinates
2. Develops managerial talent for the future
3. Quick decision making
4. Relief to top management
5. Facilitates growth of the organization
6. Better control over the departments

Distinction between Delegation and Decentralization

Basis	Delegation	Decentralization
1. Meaning	Entrustment of authority and responsibility from one individual to another	Systematic delegation of authority in the organization
2. Nature	Individualistic	Totalistic under organizational set up
3. Scope	Limited as it is individualistic	Wide as it is organizational
4. Responsibility	Responsibility remains with the superior	Executive is relieved from the responsibility up to a certain extent.
5. Effectiveness	Possible and effective in all organizations	Effective in large organizations
6. Relationship	Establishes superior – subordinate relationship	Creation of semi autonomous units in the organization

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STAFFING

The term staffing is concerned with the recruitment, selection, placement, training, growth and development of all the members of the organization. Placing the right person on the right job at the right time is called staffing.

Importance of staffing

1. **Competent personnel –** Staffing helps to find out competent persons for various jobs.
2. **Higher performance by** placing the right person on the right job.
3. **Survival and growth** of the business by providing proper training and development to the future managers.
4. **Optimum utilisation of human resources** by ensuring the right number of persons on each job positions, i.e., excess or shortage of staff is harmful to the business.
5. **Job satisfaction** and morale of employees can be improved through proper assessment and remuneration policies.

Staffing as a part of Human Resource Management (HRM)

Proper management of human resource in an organisation is called HRM. This duty will be performed by a separate department which is called labour department or human resource department. The various duties to be performed by an HR department is given below:

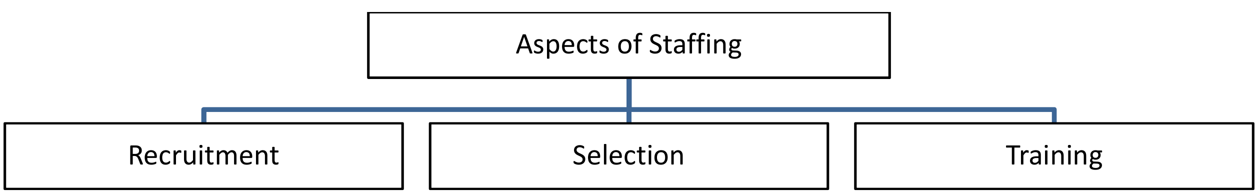
1. Recruitment – search for qualified people.
2. Analysing jobs and collecting information about jobs.
3. Developing compensation and incentive plans.
4. Training and development of employees.
5. Maintaining labour union – management relations.
6. Handling grievances and complaints.
7. Providing social security and welfare measures of employees.
8. Defending company in law suits.

Evolution of HRM is illustrated below:

Staffing Process (Steps in staffing process)

1. **Estimating the Man Power Requirements –** It is concerned with forecasting the future man power needs of the organization for various categories of activities over a specified period. It involves both quantitative and qualitative analysis. Quantitative aspects concerned with the number of personnel in each department and qualitative aspects concerned with the qualifications and experience of each of them.
2. **Recruitment –** It is a process of searching for prospective employees and stimulating them to apply for jobs in the organisation
3. **Selection –** It is a process of choosing and appointing the right persons for various jobs.
4. **Placement and orientation –** These refer to the process of familiarizing the selected candidates with their work units, work groups, jobs and the organization and placing the right one on the right job.
5. **Training and Development –** Training intended to improve knowledge, skills and attitudes of the employees regularly so as to enable them to perform better.
6. **Performance appraisal –** It is the periodic assessment of the performance of the employees to ensure that whether they are in conformity with standards.
7. **Promotion –** It means movement of an employee to a higher position. It gives the employees an opportunity to make use of their enhanced skill and encourages them to grow within the organization.
8. **Compensation –** It involves the determination of wages or salary and other benefits to the employees on the basis of nature of job, risk factors, responsibility, qualification, experience etc.

Aspects of Staffing – There are three important elements of staffing:



RECRUITMENT

Meaning: Recruitment is the process of searching for perspective employees and stimulating them to apply for jobs in the organisation.

Sources of Recruitment

Internal Sources – Recruitment from within the organization is called internal sources of recruitment.

1. **Transfer –** It is concerned with shifting one employee from one job to another having similar status and responsibility. It involves the following features:-
   - **a.** Slight change in duties and responsibilities but no change in salary.
   - **b.** It is a good source of recruitment by filling job positions from other departments where there are excess.
   - **c.** Horizontal movement of employees.

d. Transfer can be applied for training of employees for learning different jobs (job rotation).
e. Transfer does not increase the number of employees in the organisation.

2. **Promotion –** It refers to shifting one employee from a lower position to a higher position. It carries higher status, greater responsibility, better facilities and more pay. Its features are:-
   a. No increase in the number of employees.
   b. Vertical shifting of employees.
   c. Motivation for employees.

Merits of Internal Sources

1. It creates a sense of *security* among the personnel
2. Builds *loyalty* among the employees.
3. *Motivates* the employees for better performance.
4. *Economical*.
5. Ensures *continuity* of employment.
6. It establishes better employer – employee *relationship*.
7. *Surplus and shortage* rectified.
8. It is a tool for *training* to prepare the employees for higher positions.

Limitations of Internal Sources

1. No infusion of new blood - It discourages capable persons from outside joining the organization.
2. Lethargic – The employees become lethargic (lazy) when they are sure about time-bound promotion.
3. Sufficient number of persons having required qualifications may not be available within the organization.
4. It hampers the spirit of competition.
5. Not suitable for the posts requiring innovation.
6. It may encourage favouritism and nepotism (partiality).
7. Reduction in productivity – Frequent transfers and unscientific promotion causes reduction in productivity of the organisation.

External Sources of Recruitment – It refers to the recruitment of candidates from outside the organization.

1. **Direct recruitment –** Under this method a notice is published on the notice board of the enterprise regarding job vacancies. The candidates are assembled on a particular date and the selection is done on the spot.
2. **Casual callers from waiting list –** Most of the employers are maintaining a database with details of applications received from casual applicants and it may be used as a source of recruitment.
3. **Advertisement –** It is the most effective means to search potential employees from outside the organization.
4. **Employment Exchanges –** This is a network of employment exchanges run by the government. Job seekers get themselves registered with these exchanges and their names will be supplied to the business organizations on the basis of their requisition.

5. **Placement Agencies and Personnel Consultants –** Some specialized agencies in the form of personnel consultancy services have been developed in recent times. These agencies also undertake total functions of recruiting and selecting personnel on behalf of the employer and they charge fees for these services.
6. **Campus interviews –** Many organizations conduct preliminary search of employees by conducting campus interviews in universities and colleges.
7. **Recommendations of Present Employees –** Some employers treat the recommendations of their present employees as a useful source of recruitment. This ensures reliability and suitability for the post and it helps in boosting the morale of existing employees.
8. **Labour Contractors –** This is a method of hiring skilled, semi-skilled and unskilled workers. The contractors keep in touch with a large number of workers and bring them at the places where they are required.
9. **Advertising on Television –** This method of recruitment is gaining importance these days. The detailed requirements of the job and the qualities required to do the job are published by the organisations through television.
10. **Web Publishing –** It is now a common source of external recruitment. There are certain sites like www.naukri.com, www.jobstreet.com etc. provide detailed information for both job seekers and job providers.

Merits of External Sources

1. Qualified and experienced personnel
2. Wide Choice
3. Fresh Talent – infusion of new blood
4. Competitive Spirit - Element of competition with the internal candidates.

Limitations of External Sources

1. Dissatisfaction and frustration among existing employees.
2. Time consuming.
3. Very costly.
4. Uncertainty that the qualified and experienced personnel may be appointed.

Differences between Internal and External Recruitment

Internal Source	External Sources
1. Quick Process	Lengthy Process
2. Less expensive	Costly
3. Motivating staff members	Existing workers dissatisfied
4. Limited choice	Wide choice of candidates

SELECTION

Selection begins where recruitment ends. It is the process of identifying the most suitable and promising candidates from the list of recruited persons. This is a negative process, where more candidates will be rejected than appointed.

Differences between Recruitment and Selection

Recruitment	Selection
1. Searching for candidates	Choosing the right person among the candidates
2. Positive process	Negative process
3. Aims to create a large pool of applicants	Aims to ensure most competent people for jobs
4. It is a simple process	It is a complex process

Selection Process

1. **Preliminary screening –** A careful screening of applications is done by a screening committee to eliminate the under qualified candidates.
2. **Selection Test –** Tests are conducted to know the level of ability, knowledge, interest, aptitude etc. of a particular candidate. These tests may be of different types:
   a. **Intelligence test –** To measure the level of intelligence.
   b. **Trade Test –** This test is conducted to check whether the candidate is suitable for that particular trade. For example, to select a driver, candidates' knowledge and technical skill in driving are tested.
   c. **Aptitude test –** To measure the potential for learning new skills.
   d. **Interest test –** To check the interest or involvement of a person on the job.
   e. **Personality test –** To evaluate an individual's emotions, reactions, maturity, values etc.
3. **Interview –** Detailed interviews are undertaken to seek more information from the candidate. This gives the employer to observe the candidate and to assess his level of confidence to take up the job. Usually it is done by an expert interview board.
4. **Checking References –** Reference is a source from which useful information on the candidate can be sought. It may be the names of some outstanding persons, teachers, present employees etc. who know about his experience, skill ability, character etc.
5. **Selection decision –** Final decision is made by the concerned manager based on the performance of the candidates in all the above steps.
6. **Medical Examination –** The physical fitness of the candidates is checked through medical examination. Some organizations undertake medical examination even before testing, for example, armed force, Police etc.
7. **Job offer –** After a candidate has cleared all the above hurdles will be appointed through an appointment letter to join the organisation before a specific date.
8. **Contract of employment –** After the appointment is accepted by the candidate, certain documents are to be executed by the employer and the candidate, in which all the terms and conditions regarding the employment will be specified such as job title, duties and responsibilities, pay scale, allowances, work rules, termination method etc.

TRAINING & DEVELOPMENT

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

Development – It involves the growth of an employee in all respects, like personality development, motivation for growth, career planning etc. Thus employee development is more future oriented and concerned with education than employee training.

Importance of Training and Development

Benefits to the Organisation	Benefits to the Employees
1. Reduce wastages	1. Better career prospects through improvement in skills and knowledge
2. Enhance productivity	2. Higher earnings through better performance
3. Equips the future managers	3. Less accidents due to higher efficiency
4. Reduces absenteeism and employee turnover	4. Increased employee morale and job satisfaction
5. Effective response towards changing environment	

Difference between Training and Development

Training	Development
1. It is an organised activity of increasing knowledge and skills	1. It is a process of learning and growth
2. It enables the employees to do the job better	2. It enables the overall growth of an employee
3. It is limited in scope	3. It is a wider term and includes education and training
4. It is a job-oriented process	4. It is a career oriented process

Training, Education and Development

Training	Education	Development
Aptitudes, skills and abilities of employees to perform specific jobs are increased.	Education imparts qualities of mind and character and understanding of the basic principles and develops the capacities of analysis, synthesis and objectivity. Education is broader than training.	Growth of an employee in all respects.

Training Methods

1. **On the job Training –** Under this method training is imparted among the employees while they are engaged in their work. Here the employees learn by doing. It includes job rotation, apprenticeship, coaching, committee assignments etc.
   a. **Apprenticeship Programmes –** Under this, both knowledge and skills in doing a job are imparted. Here the trainee is put under the supervision of an experienced person in this field. This method is more suitable in electrical work, mining etc.

b. **Coaching –** In this method, a senior manager guides and instructs the trainee as a coach. The coach periodically reviews the progress made by the trainees and suggests change if required.
c. **Internship Training –** According to this, a vocational institute enters into an arrangement with a business enterprise to provide practical knowledge to its students. It is intended for providing practical experience to the students in their fields. For example, MBA students are directed to undertake project work in business enterprises, engineering students are sent to big industrial enterprises to gain practical work experience, Medical students to hospitals etc.
d. **Job Rotation –** The trainee is systematically shifted to various jobs so that he can gain the experience on each of them.

2. **Off the Job Training –** This is concerned with imparting training to employees outside the actual work place. The methods adopted include class room lectures, conferences, case study methods, films, TV shows, etc. The employees can concentrate on training alone since they are away from the work place.

   a. **Classroom lectures / conferences –** It is suitable to convey information, rules, procedures and methods.
   b. **Film shows –** It can be used to provide information through demonstration.
   c. **Case study –** Cases are actual experiences which managers confronted while discharging their duties. Trainees are asked to study the case and to determine the problems and their solutions.
   d. **Computer modelling –** With the help of computer programming the realities of jobs are imitated and the trainees get an opportunity to familiarise the situation, so that they will be able to minimise the mistakes in real job situations. E.g., a computer model can be used to test how safe the design of the car is in a crash, building demolition etc.
   e. **Vestibule Training –** In this case an actual work situation is created in a classroom. Employees use the same materials and equipment for training.
   f. **Programmed instructions –** This is a method of presenting a new subject to the trainees in a graded sequence (simple to complex). Trainees work through the programmed material (text books or computer programs) by themselves at their own speed and after each step test their comprehension by answering some questions.

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DIRECTING

Meaning: Directing is the process of activating human resources to achieve the objectives of the business. The word directing literally means moving into action.

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

Characteristics of Directing

1. **Initiates action –** Directing gives a starting for all actions in the management.
2. **Pervasive –** This function takes place wherever superior – subordinate relationship exists, i.e., in all the levels of management.
3. **Continuous process –** It carried out through the life of the organization.
4. **Flows from top to bottom –** It implies that managers can direct the subordinates.

Importance of Directing

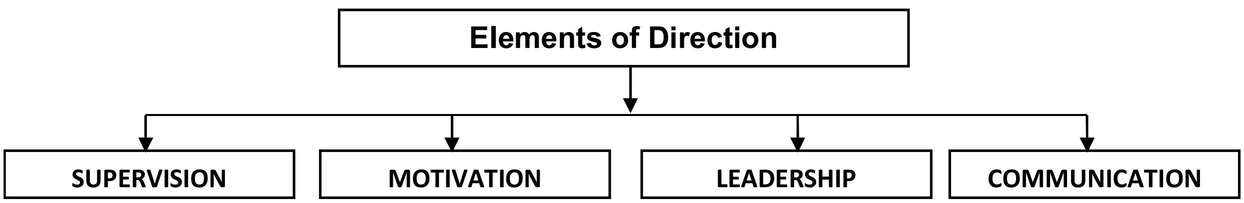
1. **Directing initiates action –** Through direction management conveys and motivates individuals to perform in the desired way to achieve goals.
2. **Integrates employees' efforts –** It is very necessary to coordinate and integrate the activities of all the people in the organization. If their efforts are not integrated properly, the business cannot achieve its objectives successfully.
3. **Means of motivation –** In order to get the best result from business, it is necessary to motivate the workers to contribute their best and it is possible through proper motivation.
4. **Provides stability and balance in the organization –** Direction coordinates and integrates the individual goals and organizational goals so as to achieve maximum results. Effective leadership, supervision, motivation and communication provide stability and balance in the organization.
5. **Facilitates changes in the organization –** Business environment is highly flexible and changing, most of the employees prefer to remain indifferent to new ideas and techniques and unwilling to implement changes. Only through effective direction and motivation they will be induced to accept changes and challenges of their job pleasantly.

Principles of Directing

There are certain principles of directing process which are of great help to managers, which are as follows:

1. **Maximum individual contribution –** Directing helps every individual to contribute their maximum efficiency as there is an element of motivation.
2. **Harmony of objectives –** It helps to remove the conflict between employee's objectives and organization's objectives. For instance, employee expects more salary while organization expects more efficiency, the gap between these two may be reduced with the help of directing.

3. **Unity of command –** While giving direction to the subordinates all the superiors must follow this principle of unity of command.
4. **Appropriateness –** This principle states that, appropriate technique should be adopted by the superiors based on the needs and wants of the employees. For example, some are seeking for monetary benefits but some others for promotion.
5. **Managerial communication –** Effective managerial communication throughout the organization at all levels makes direction effective. It will ensure the free flow of ideas, information, suggestions, feedback, complaints and grievances.
6. **Use of informal organizations –** In every organization, there exists informal group or organizations within the formal organization, the managers should make use of them for effective directing.
7. **Leadership –** Managers should exercise effective leadership while directing. This will influence subordinates positively.
8. **Follow up –** Proper follow up should be there in the organization to ensure that the instructions are strictly followed and the work is being performed as expected.



A. Supervision – The term "supervision" is derived from two Latin words – "Super" and "Vision". Super means over and above and vision means to see. Thus supervision means "Overseeing the activity". In management, supervision means overseeing the subordinates at work. It refers to direct and immediate guidance and control of subordinates in performing their tasks in accordance with the plans and policies of the enterprise.

The person who supervises the subordinates is called "Supervisor". He is also known as Foreman, Overseer, Superintendent, Section officer etc.

Importance / Role / Functions of Supervision / Supervisor

1. Maintain **day to day contact with the workers** and he acts as a guide, friend and philosopher.
2. Acts as a **link between management and employees**.
3. **Maintains group unity** by ensuring harmony among the workers in his group.
4. **Ensures performance of work** by motivating the workers.
5. **Provides on the job training** thereby he can make a good team of workers.
6. **Influences workers** through effective supervision.
7. **Provides feedback –** this will lead to better performance and developing work skills.

B. Motivation – "Motivation means a process of stimulating people to action to accomplished goals."

Features of Motivation

1. **Internal feeling –** Desire to have a car, recognition in the society etc. are the internal feeling of an individual which lead him to be motivated.

2. **Produces goal – directed behavior –** If an employee is interested in promotion he will try to improve his performance, hence motivation produces goal-directed behavior.
3. **Motivation can be either positive or negative –** Better pay, promotion, recognition, assigning important jobs with more responsibilities etc. are positive motivations, whereas punishment, cutting increments, scolding etc. are negative means of motivation.
4. **Motivation is a complex process –** Because of individual differences among the employees, a uniform type of motivation may not satisfy all people in the organization.

Motivation process

Unsatisfied need → Tension → Drives → Search behavior → Satisfied need → Reduction of tension

1. **Unsatisfied need** of an individual is the first stage in motivation.
2. **Tension –** Unsatisfied need creates a tension.
3. **Drives –** Tension stimulates his drives.
4. **Search behavior –** Drives put him into a state of search behavior to satisfy his need.
5. **Satisfied need –** Search behavior ends in satisfied need.
6. **Reduction of tension –** Once the need is satisfied, he is relieved of tension.

Importance of Motivation

1. **Motivation improves efficiency and performance level –** Motivation bridges the gap between ability and willingness to work.
2. **Helps to create positive attitude –** If the organization rewards properly and supervisor gives proper encouragement, the worker may slowly develop a positive approach towards the work.
3. **Motivation reduces employee turnover and absenteeism –** Motivation creates confidence and morale in the workforce and workers will be loyal to the organization, which will result in lower employee turnover and absenteeism.
4. **Motivation ensures accomplishment of organizational goals –** Management through motivation creates willingness to work, which will lead to best results and thereby achieve the organizational goal.
5. **Motivation helps to accept changes -** Business environment is always changing, so that the business has to adopt these changes in time, motivation among the employees will help to adopt these changes without any hesitation.

Maslow's Need Hierarchy Theory of Motivation

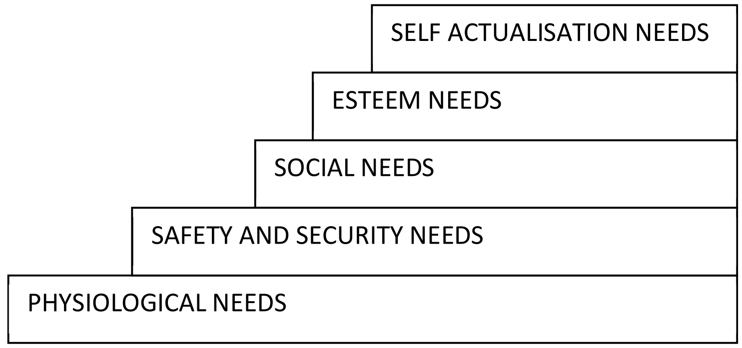
Motivation is based on human needs. To motivate means to satisfy human needs. However, needs take a hierarchy as given by Maslow's theory on need hierarchy.

To motivate the employees, the manager has to understand the needs and wants of the employees. The behavior of an individual at a particular moment is usually determined by his strongest need. Famous Psychologist Abraham H Maslow developed a conceptual framework for understanding the nature and strength of human needs.

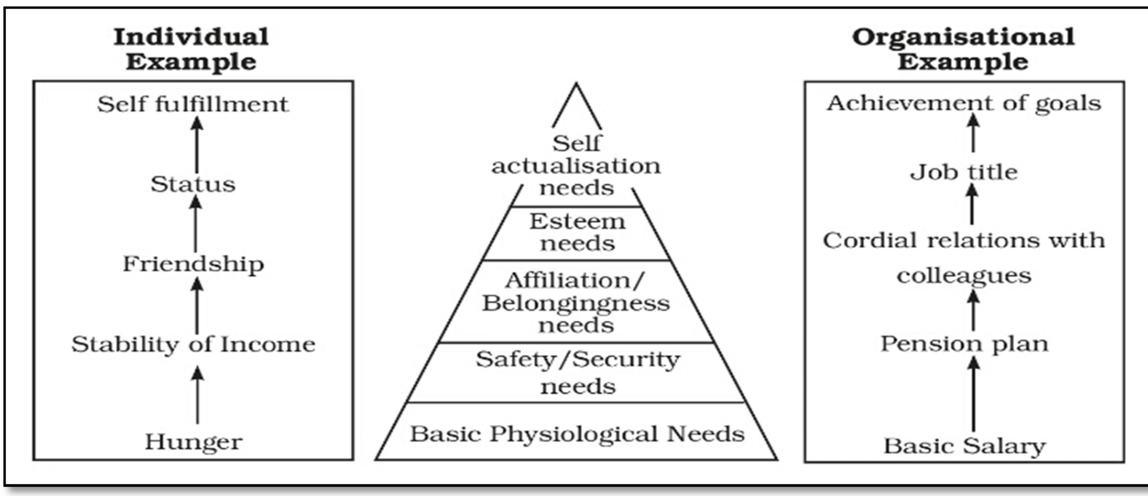
Abraham Maslow – U. S. Psychologist – Father of Management Psychology - Developed the theory of motivation based on the hierarchy of needs.

Maslow suggests two major things about human needs:

a. Each person's need depends on what he already has. Only those needs not yet satisfied can influence behavior. A fully satisfied need cannot influence behavior.
b. Needs can be arranged in a hierarchy of importance. Unless a lower order need is met, a higher order need will not arise.



Maslow's Need Hierarchy



1. **Basic Physiological Needs –** These are the basic needs of an individual like food, clothing and shelter. Unless these needs are met, a higher level need will not arise, the majority of a person's activities will probably be directed towards satisfying them.
2. **Safety and Security Needs –** These are the needs for safety and protection against hazards and dangers. People in the organization want job security, personal bodily security, security of source of income, provision for old age, insurance against risks etc.
3. **Affiliation / Belonging needs (Social Needs) –** These are the needs for love and affection, friendship, a sense of belonging etc. On meeting safety and security needs, social needs come in. Since man is a social being, he has a need to belong and to be accepted by various groups.
4. **Esteem Needs –** These needs are the desire for status, prestige, dignity, self-respect, independence, respect from others etc. The organizations can satisfy these needs by recognizing and appreciating good performance, promotions etc.
5. **Self Actualization Needs –** Self actualization is the need to maximize one's potential, whatever it may be. In other words it is an urge to use one's potentialities for the achievement of life ambition.

As a means of motivation, this theory must be seen as a measure to identify where an individual is in terms of his needs. This will help in deciding what must be provided as a motivator and what is its need satisfying capacity is.

Incentives

In order to satisfy the needs and to motivate the employees, managers offer various incentives. Incentive means all measures which are taken to motivate employees to improve their performance.

Financial and Non-Financial Incentives

Management tries to govern the behavior of employees by satisfying their needs. For this purpose, various financial and non-financial incentives are provided. An incentive is something which stimulates a person to do certain activity.

Individual's needs are varied in nature. Some of them can be satisfied by money while others are not. On this basis, incentives can be classified into two:

Financial Incentives	Non-financial Incentives
• Pay and allowances	• Status
• Productivity linked wage incentives	• Organizational climate
• Bonus	• Career advancement
• Profit sharing	• Job enrichment
• Co-partnership / stock option	• Employee recognition
• Retirement benefits	• Job security
• Perquisites	• Employee participation
	• Employee empowerment

I. **Financial Incentives –** Incentives directly or indirectly associated with monetary benefits are called monetary or financial incentives. These benefits are expressed in terms of money. Monetary benefits not only fulfill the physiological needs but also the need for social status and power.

Financial incentives usually offered by organizations are given below:

1. **Pay and allowances –** For any employee salary is the basic incentive. By salary, we mean basic pay, dearness allowance and such other perquisites.
2. **Productivity linked wage incentives –** Piece rate system.
3. **Bonus –** It is an incentive offered to the employees over and above the salary or wages based on the profitability of the organization.
4. **Profit sharing –** Employees are giving opportunity to share the profit of the organization is a financial incentive, which will highly motivate the employees for better performance.
5. **Co-partnership / Stock option –** Under this system some of the employees are offered to subscribe the shares of the company at a discounted rate than the market price. By this they are becoming the part of owners which will highly motivate such employees. Wipro, Infosys, TCS etc. are following this system.
6. **Retirement benefits –** Financial incentives in the form of Provident fund, pension, gratuity etc. to employees on retirement is a means of motivation while they are in service.

7. **Perquisites –** Many organizations are giving perquisites and fringe benefits to employees such as housing facilities, medical and vehicle allowances, education to children etc. These benefits help to provide motivation to employees and managers.

II. **Non-Financial Incentives –** All human needs cannot be satisfied by money alone. There are certain needs which are psychological, social or emotional in nature. To satisfy them some other motivation methods are required. Non-financial incentives mainly focus on these needs. *Incentives which cannot be measured in terms of money are called non-monetary incentives.* Some of them are given below:

1. **Status –** Status means ranking of positions. The authority, recognition, pay and perquisites, rewards etc. indicate the status of a person in the organization. Status fulfills psychological, social and esteem needs of an individual.
2. **Organizational climate –** Individual autonomy, consideration to employees, rewards etc. help to develop a favorable climate in the organization.
3. **Career advancement opportunity –** Appropriate skill development programs and sound promotion policy encourage employees to improve their performance.
4. **Job enrichment –** it means re-designing the jobs to include many new aspects to make interesting to employees. Inclusion of variety in work requires higher level knowledge and skill, giving workers more autonomy and responsibility, providing opportunities for growth etc., by which the job itself becomes a source of motivation to employees.
5. **Employee recognition programmes –** Acknowledgement and appreciation of good performance is called recognition. It inspires to improve their performance. E.g. congratulating an employee for his good work, Wall of fame, Cash awards, Mementos or certificates etc.
6. **Job security –** Job security ensures stability of income and relieves them of worry. It will make the employees more confident and they will become highly motivated to their work.
7. **Employees Participation –** Employees participation in management refers to involving employees in the process of decision making is means of motivation.
8. **Employee empowerment –** It means giving more autonomy, powers and responsibilities to subordinates, so that they feel that they contribute towards the organization through their job is important.

C. Leadership

"Leadership is the ability of a manager to induce subordinates to work with confidence and zeal" – Koontz and O'Donnell. (Zeal means passion or enthusiasm).

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

Features of Leadership

1. Influence others – Leadership is the ability of an individual to influence others.
2. Change in the behavior of others – Leadership tries to bring changes in the behavior of others.
3. Interpersonal relations – Leadership makes possible good interpersonal relationship between leaders and followers.

4. Achievement of common goal – Leadership implies achievement of common goal of the organization.
5. Continuous process – It is a continuous process of influencing behavior of followers.

Importance of Leadership

1. **Influences the behavior of people –** so that there will be positive contribution from the side of employees.
2. **Personal relations –** by this a leader can maintain good work environment
3. **Introduces changes in the organization –** leadership overrides the problem of resistance to change.
4. **Handles conflicts effectively –** a good leader can handle the conflicts in the organization without any adverse effect.
5. **Provides training to subordinates –** a good leader builds up his successor by providing adequate training.

Leadership Styles

Depending on the use of authority, there are three basic styles of leadership: (i) Autocratic (ii) Democratic, and (iii) Laissez-faire

(i) **An autocratic / authoritarian leader** gives orders and expects his subordinates to obey those orders. This leadership style is effective in many situations like in a factory where the supervisor is responsible for production on time and has to ensure labour productivity.

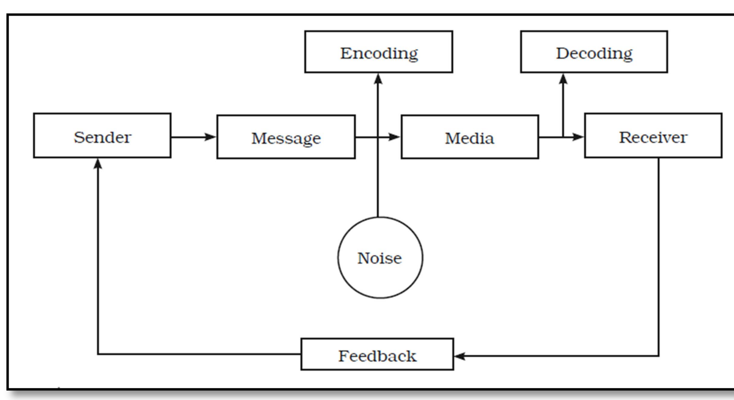
(ii) **A democratic / participative leader** will develop action plans and makes decisions in consultation with his subordinates. He will encourage them to participate in decision making. This kind of leadership style is more common now-a-days.

(iii) **Laissez faire or Free-rein leader** does not believe in the use of power unless it is absolutely essential. The followers are given a high degree of freedom to formulate their own objectives and ways to achieve them.

Depending upon the situation a leader may choose to exercise a combination of these styles when required. For instance, while doing a work, a democratic leader may have to take his own decision in an emergency situation.

D. Communication

The term communication has been derived from the Latin word "Communis", which means "Common". **Communication may be defined as an exchange of ideas, facts, opinions and emotions from one person to another to create mutual understanding.**



Communication process

Elements of Communication Process

1. **Sender –** is the person who sends a message. He initiates the process of communication.
2. **Message –** is the subject matter of communication consists of words, facts, ideas etc.
3. **Encoding –** In order to transmit an idea, the sender translates the idea into meaningful languages like words, actions, pictures, diagrams, gestures etc.
4. **Media/Channel –** It is the medium through which the message is passed. Eg: face to face talk, telephone, letter, radio, television etc.
5. **Decoding –** Receiver converts the symbols received from the sender to give him the meaning of the message.
6. **Receiver –** is the person or a group who is supposed to receive the message. Eg: Listener, reader, observer etc.
7. **Feedback –** It means the reaction, replay, response which the receiver sends to acknowledge his understanding.

Noise in Communication Process – It means some obstruction or hindrance in communication. This may be caused to the sender, message or the receiver. Reasons are as follows:

a) Ambiguous symbols leading to faulty encoding
b) Poor telephone connection
c) Inattentive receiver
d) Faulty decoding
e) Prejudices
f) Wrong gestures and postures

Importance of Communication

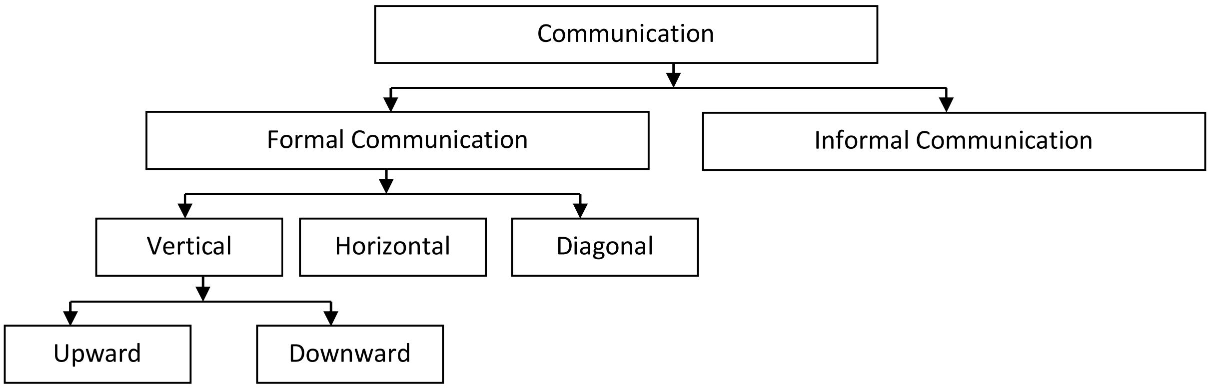
1. **A basis for coordination –** Coordination among different departments in the organization is possible only through proper communication.
2. **Smooth working of the enterprise –** When there is a communication gap, all organized activities come to a standstill.
3. **Basis for decision making –** Communication provides the required data for decision making. Also the management decisions are conveyed to subordinates for execution through communication.
4. **Increases managerial efficiency –** Conveying the goals, issuing instructions, allocating jobs, evaluating performance etc are done through communication, which will improve the efficiency of management.
5. **Promotes cooperation and industrial peace –** Two way communications promotes cooperation and mutual trust between management and workers which will result in industrial peace.
6. **Establishes effective leadership –** In order to influence the subordinates the leader should possess good communication skills.
7. **Boosts morale and provides motivation –** Good communication improves human relations in industry, this will boost up the morale of employees and managers and they will be motivated.

Types of Communication

1. **Oral Communication –** Exchange of information with the help of spoken words is called oral communication. E.g. Face to face interaction, telephone, mechanical devices like signals, intercom, mobile phone etc.

2. **Written Communication –** Exchange of information through written words in the form of letters, memos, circulars, reports, instruction cards, manuals, magazines, books etc. It moves generally downward and acts as record for future reference.

Communication taking place in an organization may be classified as follows:



Formal Communication – Communication through the official chain of command is called formal communication. Thus, formal communication flows through the scalar chain of authority. Generally it may takes place in the form of written communication such as notes, memos, letters, reports etc.

1. **Vertical Communication –** Communication flows vertically, i.e., upward or downward.
   a) **Upward Communication –** It refers to flow of communication from lower level to higher level. It consists of information relating to subordinates' work performance, opinion, suggestions, complaints etc.
   b) **Downward Communication -** It refers to flow of communication from higher level to lower level. There are many ways in which a superior can communicate with his subordinates like Notices, Circulars, Memos, Reports, Meetings etc.
2. **Horizontal Communication –** Transmission of information among the persons of the same level and status is known as horizontal communication. Flow of information from the Purchase Manager to the Production manager is an example for horizontal communication.
3. **Diagonal Communication –** Communication between people in different departments, one holding a higher position than the other. If a **sales executive** requests the **production manager** to improve the quality of the product, it forms a diagonal communication. Though it violates the principal of unity of command, it will help to save time and to speed up action.

Informal Communication

Informal communication is based on informal relationship among the members of an organization at same or different level. This is free from all formalities of formal communication. It is usually oral and is conveyed by gestures, a glance, smile etc. It may involve work related or other matters of mutual interest. Informal communication often supplements formal communication.

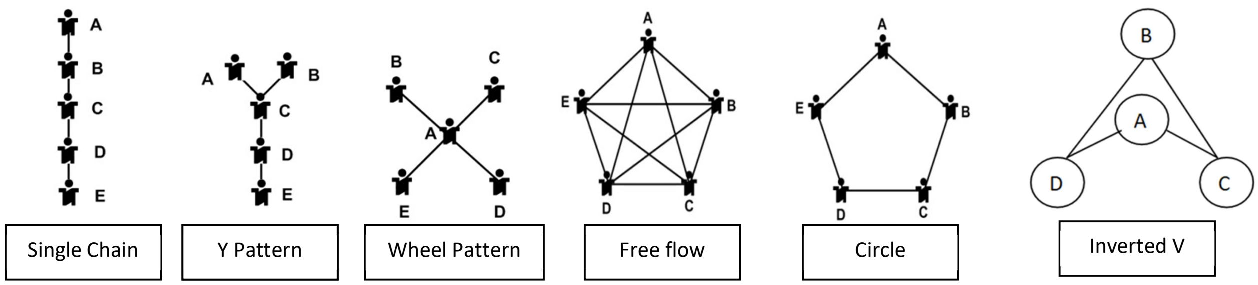
Grapevine Network (Grapevine Communication)

The network or pathway of informal communication is called grapevine. The origin and direction of flow of information cannot be easily traced. Grapevine is structure less and it grows towards all direction.

Differences between Formal and Informal Communication

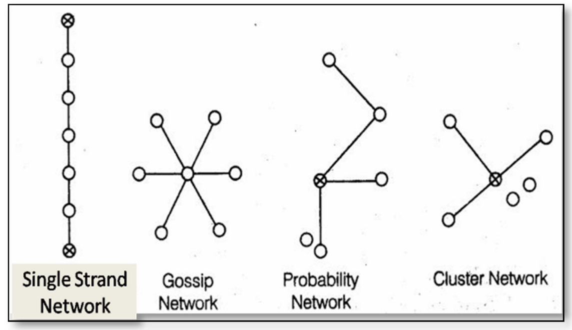
Formal Communication	Informal Communication
1. Passes through official chain of command	1. It is independent from official chain of command.
2. It is slow	2. It is very fast
3. It is mostly in written form	3. It is verbal communication
4. Mainly consists of work related matters	4. Both work related matters and social communication
5. Easy to fix responsibility	5. Not possible to fix responsibility
6. Orderly and systematic	6. Unsystematic
7. It serves organization needs	7. Serves organizational and social needs of individuals
8. Impersonal in nature	8. Highly personal in nature
9. Chances of distortion of information are very low	9. Chances of distortion of information are very high

Formal Communication Network – It refers to the pattern through which members of a work group communicate. The different pattern of communication (networks) as follows:



1. **Single Chain –** In this pattern, the persons at the two extremes interact with one person and all other members communicate with two each, i.e., from superior to subordinates.
2. **"Y" Pattern –** This pattern is slightly centralized. Some persons are closer to the centre of the network. E.g., A, B and D and are closer to C than E.
3. **Wheel Pattern –** here communication flows from one central person, who is generally the group leader. In this case, communication initiates from A and all other members can communicate through "A" alone. Communication between B to C, C to D etc. is not possible.
4. **Free flow** (All Channel Pattern) **–** This pattern permits all the members to communicate with each other in the group. This is the most decentralized form of communication network.
5. **Circle Pattern –** This pattern permits each person in the group to communicate with two in the group.
6. **Inverted V Pattern –** Here a subordinate is allowed to communicate with his immediate superior as well as his superior's superior.

Informal Communication Network



1. **Single strand –** Single line – each person communicates to the other by keeping a strict sequence.
2. **Gossip –** each person communicates with all others on non-selective basis.
3. **Probability –** individual communicates with other individual on a random basis.
4. **Cluster –** here the individual passes information to only those persons in whom he has trust.

Barriers to Effective Communication – Any type of hurdle, block or bottleneck in the path of communication is called barriers to effective communication. They are as follows:

1. **Semantic Barrier –** The term semantic is used to describe things that deal with the *meanings of words and sentences.* Words and symbols used to communicate may mean different things to different persons. People interpret the same message in different ways depending upon their attitude, experience, education etc.
   For example, **profits** may mean one thing to a manager while it is interpreted differently by the workers. The Words **buy, by and bye**, they have same pronunciation, but different meaning and spellings. To overcome this barrier, the message must be simple, clear and precise.

   Reasons for semantic barriers:

   a. Badly expressed message – due to wrong words or inappropriate words.
   b. Symbols with different meaning – a word or a symbol are having different meaning.
   c. Faulty translation – from one language to another.
   d. Un-clarified assumptions – For instance, a boss asks the subordinate to take care of guest. To boss, it means the subordinate should take care of conveyance, accommodation, food and all other necessary things until he leaves the company, but the subordinate may interpret that the guest should be taken to hotel with care. Here the guest suffers because of these unclarified assumptions.
   e. Body language and gesture decoding – If what is said and what is expressed through body movements and gestures differ, communication may be wrongly perceived.
2. **Psychological Barriers –** Emotional or psychological factors which act as barriers to communicators are called psychological barriers. Angry mood, troubled mind etc. are the examples. Some of them are as follows:
   a. Premature evaluation – Here the receiver comes to conclusion without fully going through the message.
   b. Lack of attention – Suppose an employee explains his problem to a manager while he is very busy with the preparation of a report for his superior, he will be less attentive and does not grasp the message, and the employee get disappointed.

c. Loss by transmission and poor retention – When a communication is passed through various levels, there is a possibility of loss in communication. Similarly people cannot retain all that is received as information for a long time if they are inattentive or not interested.
d. Distrust – If the sender and receiver don't believe each other, they cannot understand each other's message in true sense.

3. **Organizational Barriers –** The complex organizational structure with scalar chain restricts free and frequent communication. Too many levels may cause delay and distortion in message. To overcome this barrier management may permit horizontal and diagonal communication. Some of the organizational barriers are given below:
   a. Organizational policy – If an organization is highly centralized, it is not supportive to free flow of communication.
   b. Rules and regulations – Communication strictly through the chain of command may cause delays.
   c. Status - Some superiors may not be ready to talk freely with the subordinates. Similarly subordinates also not feel confident to talk freely with superiors. They pass information what superiors would like to hear and hold back unpleasant facts.
   d. Complexity in organizational structure – Too many levels in the management may cause delay and distortion.
   e. Organizational facilities – if proper facilities are not provided such as intercom, public addressing system, complaint box, suggestions box etc. the communication may not flow freely.
4. **Personal Barriers –** These are the personal factors of both the sender and the receiver.
   a. Fear of challenge to authority – If a superior feels that a particular communication may adversely affect his authority, he will hold it or suppress it.
   b. Lack of confidence – Some superior will never take into confidence the subordinates.
   c. Unwillingness to communicate – Subordinates may also be unwilling to communicate with their superiors on the fear that it will adversely affect their interest.
   d. Lack of proper incentives – If there is no reward or appreciation for the suggestions of subordinates; they will not ready to communicate.

Improving Communication Effectiveness

1. **Clarify the ideas before communication -** it is the duty of the communicator to clarify the message clearly before he is going to communicate the same.
2. **Communicate according to the needs of receiver –** The sender must understand the capacity of the receiver and he must know what type of information the receiver needs and in what form.
3. **Consult others before communicating –** It is better to consult with others in developing a plan for communication.
4. **Beware of languages, tone and content of message –** The language and tone used by the sender should be stimulating to evoke response from the listeners.

5. **Convey things of help and value to listeners –** It is better to know the interest and needs of receivers while communicating a message. If the message is related to their interest there will be positive response, else they become passive listeners.
6. **Ensure proper feedback –** The sender should take efforts to have feedback from the listeners time to time.
7. **Communicate for present and future –** The communication should aim at present and future goals of the organization.
8. **Follow up communication –** Proper follow up and review of instructions given to subordinates will help to remove hurdles if any.
9. **Be a good listener -** Careful listening is a prerequisite for effective communication. Patient listening solves half the problem.

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CONTROLLING

Meaning

Controlling is the process through which management ensures that the actual performance conforms to the planned performance. It discovers deviation from the results expected. It also identifies the reasons for deviations and suggests suitable action to avoid their recurrence in future.

Importance / Advantages of Controlling

1. **Accomplishing organizational goals –** It measures actual performance with standards and making corrective actions on deviations, so that the organization can achieve its goals smoothly.
2. **Judging accuracy of standards –** Controlling helps to check the accuracy of standards in changing environment, which helps to revise the standards if needed.
3. **Efficient use of resources –** Controlling seeks to reduce wastages of resources.
4. **Improving employee motivation –** Controlling ensures employee awareness regarding what is expected to do and what is the standards fixed on him, so that he will be motivated to give better performance.
5. **Ensures order and discipline –** Controlling ensures an order and discipline as there is a close watch on the activities of all employees.
6. **Coordination –** In order to coordinate the activities of different persons and departments, an effective system of control is necessary.

Limitations of Controlling

1. **Difficulty in setting standards –** Controlling will be effective only when standards are fixed in quantitative terms. But employee morale, job satisfaction, customer response etc. cannot be expressed quantitatively, so that controlling becomes less effective.
2. **Little control on external factors –** External factors such as Government policy, technological changes, competition etc. cannot be controlled by the organization.
3. **Resistance from employees –** Employees may oppose the control measures taken by the firm, because they may feel that it will reduce their freedom. E.g., CCTV.
4. **Costly affair –** Small organizations cannot afford to install an effective control system as it is very costly.

Relationship between Planning and Controlling – The entire planning process will turn to be waste unless adequate control measures are exercised. The relationship between planning and control may be summed up as follows:

a. Planning and control are <u>interdependent and inseparable functions of management</u>. Without a plan there is nothing to control. Thus planning is useless without control and controlling is useless without plan.

b. Planning and controlling are <u>interrelated and in fact reinforce each other</u> in the sense that:

- Planning makes controlling easier and effective.
- Controlling reveals the shortcomings of plans and calls for improvement in future.

c. Planning is looking ahead while controlling is looking back – Planning is a forward looking function as plans are prepared for future period. Whereas, controlling is a post-mortem of past activities to find out the deviations, so that it is a backward looking function of management.

However, some people argues that, controlling is a also a forward looking function as it provides valuable information of past experience for future planning.

Controlling Process (Steps in Controlling)

1. Setting Standards
2. Measurement of Actual Performance
3. Comparison of Actual Performance
4. Analyzing Deviations
5. Taking Corrective Actions

1. **Setting performance Standards –** In order to achieve the goals, standards of performance have to be determined in planning itself.

   Quantitative Standards - As far as possible, standards must be in concrete and tangible forms which will make evaluation process easy. For example, the profit expected from a particular product, time required for completing a task, cost of production for one unit is Rs.100 etc.

   Qualitative Standards - Standards can also be in intangible forms. The results expected from a training programme, loyalties of workers, Improving motivation level of employees, etc. are the examples for qualitative standards.

2. **Measurement of actual performance –** The second step is to measure actual performance of employees or departments. It should measure actual performance of each activity in terms of quality and quantity.
3. **Comparison of actual performance with standards –** Comparison of actual performance with the standards reveals the deviations between actual and desired results.
4. **Analyzing deviations –** At this stage, the extent of deviations and causes of such deviations are to be found out. It is important to ascertain whether deviations are within the expected range. Deviations in key areas of business require urgent attention. Managers can rely on the following in this regard.
   a. **Critical Point Control –** The control measures should be focused on key result areas (KRAs) which are critical in the success of an organization. These KRAs are the Critical Points, if anything goes wrong at this critical point, the entire organization will suffer. Example: 5% increase in labour cost is a serious matter than 20% increase in postal charges.

b. **Management by Exception (MBE) / Control by Exception -** All deviations need not be brought to the attention of top management. Only those deviations which seem exceptionally high and which cannot be easily solved by lower level management alone should be reported to top management. Example: 2% increase in the material cost (if it is within the permissible limit) need not be reported, whereas, if it is far beyond the limit, say 10% increase, it requires immediate attention of management on a priority basis. In other words, the top level management is concerned with highly exceptional matters only and the routine matters will be handled by the lower levels.

5. **Taking corrective actions –** As soon as deviations are reported, it is the duty of the executives to take steps to correct the past action so that deviations may not occur again and the plans are properly executed. If there is no deviation or if the deviation is within the permissible limit, let the situation remains as it is.

   At times, the deviations may be such that which cannot be rectified and beyond the control of management, they may take necessary decisions by modifying the goals and standards.

   Some examples for corrective action:

Cause of deviation	**Corrective action to be taken**
Defective material	Change the supplier or quality
Defective machinery	Repair or replace
Obsolete machinery	Undertake technological up gradation
Increase in lobour turnover	Improve working conditions and provide better incentives
Defective process	Modify the existing process

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FINANCIAL MANAGEMENT

Introduction – Finance refers to money, cash or fund available to carry out business operations. It is the life blood of business. A business enterprise requires funds at different stages - to start a business, to operate and expand it.

Financial Management

"Financial management is considered to be the management of the finance function". It deals with planning, organizing, directing and controlling financial activities like procurement and utilization of funds and distribution of earnings to owners.

"Financial management deals with procurement of funds and their effective utilization in the business" – S.C. Kuchhal.

Role and Importance of Financial Management

All items in the financial statements (Balance Sheet and P/L Account) of a business are directly or indirectly affected by the financial management decisions, some of them are given below:

a. **The size and composition of fixed assets** – A decision to invest (capital decision) Rs. 100 crores in fixed assets would result in the increase of fixed capital.
b. **The amount of current assets** – Cash, inventory, accounts receivables etc. are also affected by the financial management decisions.
c. **Amount of long term and short term funds** – Financial management decisions will directly influence the availability of long term as well as short term funds in the business; it will affect the liquidity and profitability of the organizations.
d. **Debt – equity ratio –** Decisions regarding finance will determine the amount of debt, equity capital, preference capital etc.
e. **All items in the Profit and loss account –** Financial management decisions will affect all the items in P/L account also. For instance, if the organization is depending highly on borrowed funds, it may call for higher interest expense, which will result in poor profits.

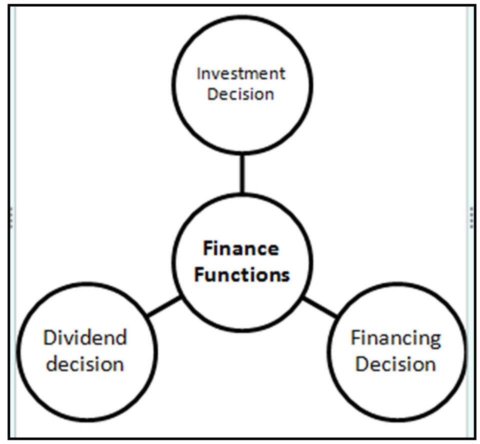
Objectives of financial management

1. **Profit maximization-** The financial management should ensure maximum return on investment to the shareholders.
2. **Wealth maximization –** The ultimate objective of decision makers must be to increase the wealth of shareholders or investors.

   Wealth of owners = Number of shares held X market price per share

The financial management focuses on three major financial decision areas namely **investment, financing and dividend decisions**. They are collectively known as the finance functions of business.

Financial Decisions (Finance Functions)



1. **Investment Decision –** It is concerned with how firm's valuable funds are to be invested in various assets. It will include the following:
   a. Long term investment decisions (capital budgeting decision) E.g., Purchasing a new machine, opening a new branch etc.
   b. Short term investment decision (working capital decision) – related to the day to day working of a business. E.g., Level of cash in hand, inventory etc.

Factors affecting Capital Budgeting (Investment Decision)

a. **Cash flow of the project –** The inflow and outflow of cash in the business should be considered before making capital budgeting decisions. Some projects will take a long period of time to start inflow of cash.
b. **The rate of return –** While selecting a project, the rate of return must be considered. If two projects having 10% return and 15% return with almost equal risk, normally, the 2nd one may be selected.
c. **Investment criteria involved –** Investment decisions must be based on certain capital budgeting techniques or calculations regarding the amount of investment, rate of return, interest rate, cash flow etc.

2. **Financing Decision –** it is concerned with the quantum of finance to be raised from various long term sources. They are shareholders' fund and borrowed fund such as shares, debentures, loans etc. But a proper mix of the above securities is very much essential for maintaining a good capital structure of the company.

Factors affecting financing decision

a. **Cost –** Try to obtain the fund from cheaper sources.
b. **Risk –** Risk factor in each source must be considered.
c. **Flotation cost –** Cost of raising finance should be less.
d. **Cash flow position –** A stronger cash flow position recommends more debt financing.
e. **Fixed cost –** If fixed operating costs like rent, insurance premium, salaries etc. are high, it is better to reduce debt financing having fixed interest burden.
f. **Control –** More dependence on owners fund will reduce control among the existing shareholders.
g. **Capital market condition –** During rising trends in capital market, it is easy to accumulate shareholders fund, otherwise better to depend on borrowed fund.

3. **Dividend Decision –** It is concerned with the disposal of profits. Profits are required for different purposes. A portion of the profit is to be retained in the business for growth and expansion. That part of profit is called retained earnings and the rest of the profit is to be distributed to the shareholders in the form of dividends. Here is the role of financial management that, how much is to be retained and what would be distributed.

Factors affecting dividend decision

a. **Amount of earnings –** Dividend decision is always depend on the amount of profit during the current period.
b. **Stability of earnings –** Stable earnings promotes higher dividend.
c. **Stability of dividend –** It will improve the confidence of shareholders and higher reputation for the company.
d. **Growth opportunities –** Fewer dividends may be given to the investors if the company is having growth and expansion projects.
e. **Cash flow position –** Payment of dividend involves outflow of cash, therefore, enough cash must be available for the declaration of dividend.
f. **Shareholders' preference –** Normally, shareholders want to get regular income from their investment, hence at least a minimum dividend may be distributed every year.
g. **Taxation Policy –** If tax on dividend is higher, it is better to pay less by way of dividends. But the dividends are free of tax in the hands of shareholders as a dividend distribution tax is levied on companies. In the present tax policy, shareholders may demand higher dividend.
h. **Stock Market Reaction –** Investors generally evaluate the companies on the basis of their dividend declaration status. Higher the rate of dividend gives a positive impact in the market.
i. **Access to Capital Market –** Reputed companies generally have easy access to the capital market and therefore they may depend less on retained earnings to finance their growth. So that they may declare high rate of dividend than small companies.
j. **Legal Constraints –** While declaring dividends, the companies have to follow the restrictions laid down by Companies Act.
k. **Contractual Constraints –** While granting loans to a company, sometimes the lender may impose certain restrictions on the payment of dividends in future.

Financial Planning – When the process of planning employed in finance, it is called financial planning. It involves the estimation, procurement, utilization and administration of funds. Its objective is to ensure that enough funds are available at right time, but having no surplus funds. *It involves the following aspects*:

a. **Estimation of quantum of finance**
b. **Determining the pattern of financing –** proportion of various securities to be issued.
c. **Proper utilization of finance –** through effective policies and programs.

Types of financial planning

a. **Long term financial planning –** focuses on capital expenditure for long term growth and investment in business – usually 3 to 5 years.
b. **Short term financial planning –** in the form of budget – usually for a period of 1 year or less.

Objectives of Financial Planning

1. To ensure availability of funds whenever required – it includes estimation of funds for long term and short terms needs of the organization.

2. To ensure that the firm does not raise resources unnecessarily – it will help to minimize the loss due to idle fund in the organization.

Importance of financial planning

1. **Forecasting –** It helps the organization to foresee the future financial requirements in advance.
2. **Avoiding uncertainties –** Helps in meeting unexpected situations by arranging necessary funds.
3. **Coordination –** Helps to coordinate the activities of all departments in the organization by allotting them necessary funds in time.
4. **Reduces wastages –** Through proper planning about the financial requirements helps to reduce wastages and duplication of efforts.
5. **Easy evaluation –** It helps to evaluate the actual performance of the organization based on the plans formulated in advance.

Capital Structure

Capital structure refers to the mix or composition of long term sources of funds such as equity share capital, preference share capital, debentures, long term loans and reserves and surplus. In other words, it refers to the proportion of borrowed funds to owner's funds. *(It is a mix between owners' funds and borrowed funds).* Owners' funds are called **equity** and borrowed funds as **debt.**

The capital structure of a company consists any of the following forms:

1. Equity shares only.
2. Equity shares and preference shares.
3. Equity shares and debentures.
4. Equity shares, preference shares and debentures.
5. Equity, Preference, debentures and long term loans.

Financial Leverage – The proportion of debt in the capital structure is called financial leverage or capital gearing or trading on equity. When the proportion of owners' funds in capital structure is very small, it is said to be high geared, whereas if borrowed fund is less than equities, it is called a low geared company.

As the financial leverage increases (highly geared) the cost of funds declined and therefore more earnings per share, but the financial risks increases.

The impact of financial leverage on profitability:

Descriptions	Company A	Company B	Company C
No. Equity shares @ Rs.10	30,000	20,000	10,000
Equity Capital	3,00,000	2,00,000	1,00,000
10% Debentures (borrowed fund)	NIL	1,00,000	2,00,000
Total Capital	3,00,000	3,00,000	3,00,000
Profit @ 20% on investment	60,000	60,000	60,000
Interest on debentures	NIL	10,000	20,000
Net Profit	**60,000**	**50,000**	**40,000**
Earnings per share	2.00	2.50	4.00
Leverage	**Unlevered**	**Low**	**High**

Note: Income tax on profit is ignored.

Trading on equity – *It refers to the use of fixed income securities such as debentures and preference capital in the capital structure so as to increase the return on equity capital.* In other words, equity share holders get additional profits with the help of employing others fund. It is also known as **financial leverage or capital gearing.**

For example, A company raises Rs.50,000 through equity shares and earns a profit of Rs.5000. Here the rate of return is 10%. On the other hand, if the company raises Rs.40000 by way of 6% debentures and Rs.10000 through equity shares, the rate of return to equity shareholders is increased to 26% as follows:

Total Investment 40000 +10000	= 50,000
Total Profit	= 5,000
Interest on debentures 40000 * 6%	= 2,400
Balance of Profit to equity shareholders (5000-2400)	= 2,600
Rate of return on equity share capital (2600/10000*100)	= 26%

Factors Affecting the Choice of Capital Structure

1. **Cash flow position –** The size of projected cash flow must be considered before we include the borrowed fund in capital structure. This cash flow in future must be enough to meet the payment obligations in the matter of normal business operations, investment in fixed assets and to meet the debt service commitments such as payment of interest and repayment of principal.
2. **Interest coverage ratio –** ICR refers to the number of times, earnings before interest and taxes (EBIT) covers the interest obligation. Higher the ratio means lower the risk for the company to pay off interest in time.

$$\boxed{ICR = \frac{EBIT}{Interest}}$$

3. **Debt Service Coverage Ratio (DSCR) –** The cash profits generated from the operations must be enough to service the debts and preference share capital.
4. **Return on Investment (ROI) –** If ROI is higher than rate of interest for debt, borrowed fund can be increased in capital structure, otherwise, increase in equity portion is good.
5. **Cost of debt –** If the firm is able to borrow at a lower rate, it may prefer more debt than equity in capital structure.
6. **Tax rate –** Income tax liability can be reduced by employing borrowed funds in capital structure, as the interest on debt is a deductible expense.
7. **Cost of Equity –** When a company increases debt in their capital structure, the financial risk faced by the equity shareholders may increase, so that the company cannot use debt beyond a point.
8. **Floatation cost –** It is the cost incurred for floating (issue) securities such as brokerage, underwriting commission etc. It is generally less in case of debts.
9. **Risk Consideration –** A business has two types of risks; they are financial risk (to pay interest, preference dividend, repayment of debt etc.) and business risk (operating risk). It must be considered while choosing a suitable capital structure.
10. **Flexibility –** The capital structure should be capable of being adjusted according to the needs of changing conditions. To maintain flexibility, the company should maintain some borrowing power to take care of unforeseen circumstances.
11. **Control –** If the control of the management is to be retained, debt financing is recommended for raising additional fund.

12. **Regulatory Framework –** Rules and regulations framed by SEBI etc. must be considered while choosing a capital structure.
13. **Stock Market Conditions –** During depression in capital market, investors will prefer fixed interest bearing securities for safety and hence it is not advisable to issue shares that time. In a booming situation, issue of share will be more preferable.
14. **Capital Structure of other Companies –** Capital structure followed by other companies in the same industry may be adopted by considering whether they are in conformity with the industry norms or not.

FIXED CAPITAL AND WORKING CAPITAL

Fixed Capital

Fixed capital represents a long term investment which needed to acquire fixed assets like land and building, plant and machinery, vehicles etc., benefits of which are expected to be received over a number of years in future.

Management of fixed capital – It refers to the allocation of firm's capital to different projects or assets which will have a long term implications in the business.

Importance of management of fixed capital

1. **Long term growth –** This capital is invested in fixed assets and long term projects, therefore, it will affect the future prospects of business.
2. **Large amount of funds involved –** A major portion of capital may be blocked in this areas, hence careful planning and detailed analysis is very essential in this segment.
3. **High risk –** Investment decisions involving huge capital outlay influence the overall performance of the business.
4. **Irreversible decision –** Once the decision to acquire a permanent asset is taken, it becomes very difficult to reverse that decision. It is possible but with huge losses.

Factors affecting the requirement of fixed capital

1. **Nature of Business –** The nature and character of business determine how much fixed capital is required. In a manufacturing concern fixed assets require huge investments.
2. **Scale of Operations –** Large scale business generally require huge investments in fixed capital than a small scale business organization.
3. **Choice of technique –** Highly mechanized and automated industries require large amount of fixed capital.
4. **Technology up gradation –** Assets in certain industries become obsolete sooner, this requires replacement faster which will demand more fixed capital, e.g., computers, mobile phone manufacturing equipments etc.
5. **Growth prospects –** Higher investment in fixed capital is necessary, if the organization is in the way of growth and expansion.
6. **Diversification –** When a firm diverts its operations to new segments, higher fixed capital requirement arises, e.g., ITC Company diverted its business to note books manufacturing along with their traditional item of cigarettes.
7. **Method of acquiring fixed assets (financing alternatives) –** If it is on hire purchase or lease system, less amount of investment is required for cash purchase.

8. **Collaboration –** By collaborating with other firms, the requirement of fixed capital can be reduced, e.g., establishment of ATM counters by cooperative banks by collaborating with certain scheduled banks.

Working Capital

Working capital is that part of capital required for investing in short term or current assets like inventory (raw materials, work in progress and finished goods), bills receivables, sundry debtors, cash required for day to day affairs like salaries, wages, rent, etc. There are two concepts of defining working capital as follows:-

i. Gross working capital = Total investment in current assets

ii. Net working capital = Current assets – Current Liabilities

Factors affecting Working Capital Requirements

A business concern must neither have excessive nor inadequate working capital. Both the situations are dangerous. Following are the factors influencing working capital requirements:

1. **Nature of business –** Concerns which do not keep very high stock of finished goods and sells on cash basis can manage with less working capital.
2. **Scale of Operations –** Generally big enterprises have to keep higher working capital.
3. **Business Cycle –** In boom period, the production and sales will be larger and hence huge amount of working capital is required. But in case of depression, it will be less.
4. **Seasonal Factors –** Industries that produce and sell seasonal goods require large amount of working capital.
5. **Production cycle –** Longer the period of manufacture, larger is the amount of working capital required.
6. **Credit allowed –** A liberal credit policy results in higher amount of debtors and thereby more working capital requirement.
7. **Credit availed –** If a business gets credit facility from its suppliers for goods, lesser would be the working capital requirement.
8. **Operating efficiency –** If cash, debtors and inventories are efficiently managed, working capital requirement can be reduced.
9. **Availability of raw materials –** If raw materials are available regularly without any shortage, less working capital is needed.
10. **Growth prospects –** If a firm is growing fast, it will require large amount of working capital to meet higher production and sales.
11. **Level of competition –** In case the competition is high, more shall be the stock of finished goods, this increases working capital requirement.
12. **Inflation –** Huge amount of working capital is needed at the time of inflation (price rises) to maintain a constant volume of production and sales.

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MARKETING

Market in traditional sense – The word market is derived from a Latin word, "Marcatus", which means a place of business, in other words, it is a location where buyers and sellers of goods assembles to facilitate exchange, market thus refers to a place.

The term market used in various contexts is given below:

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

Market in modern sense - the term market has a wider meaning; it refers to the aggregate potential demand for a product or service. For example, we say the market for car is booming, we are referring to the enhanced collective demand for cars.

Marketing – Marketing can be defined as an exchange transaction in between buyer and seller. All activities connected with transfer of goods and services from the producer to the consumer come within the purview of marketing. They include production, transportation, storage, advertising etc. Though selling and sales promotion are integral part of marketing, they are not everything, therefore marketing is a broader term and is concerned with the identification of needs and wants of consumers and finding out ways and means for satisfying them.

Definition – *"Marketing is the performance of business activities that direct the flow of goods and services through producers to consumers or users."* – American Marketing Association

According to Philip Kotler – *"Marketing 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."*

The above definition gives the following **features of marketing**:-

1. **Needs and Wants –** Marketing process helps the people in getting what they want. The focus of marketing is on the satisfaction of their needs and wants. A marketer's job is to identify the needs of consumers and develop products or services accordingly.
2. **Creating a market offering –** Market offering means a complete offer of a product or service. While offering products to customers, it should include the features like size, quality, taste, price, availability etc.
3. **Customer value –** Consumer buys a product based on its value to satisfy their need. So the marketer should always add value to his products, so that the customer prefers it.
4. **Exchange Mechanism –** It refers to a process through which two or more parties come together to obtain the desired product or service from someone, in return making a payment to the other. Essential conditions in exchange mechanism are as follows:
   a. Two parties – buyer and seller.
   b. Offering something – Seller offer a product and the buyer, money.
   c. Ability to communicate – Each party should communicate and deliver the product or service.
   d. Freedom – Each party has the freedom to accept or reject the offer.
   e. Voluntary – Acceptance or rejection of the offer must not be on compulsion.

What can be marketed? Usually products are marketed, in marketing literature, anything that can be value to the buyer may be termed as product. It may be tangible or intangible products. It also includes person, place, event, experience, organization etc.

What can be marketed?	
Products	Mobile Phones, clothes, TV etc.
Services	Insurance, Health care, Service of doctors, CAs, Online trading etc.
Ideas	Blood donation by Red Cross, Polio vaccination etc.
Persons	Political parties for election of candidates.
Place	Tourist centres, Pilgrim places etc. (*God's own country* by Kerala Tourism)
Experience	Lunch with a celebrity, mountaineering etc.
Events	Sports events, Fashion show, Horse race, Film festival etc.
Information	Marketing information, Technology information etc. e.g., T V Channel rating
Organizations	Companies communicate with people. E.g., Philips says "Let's make things better"

Marketer or Seller – Marketer refers to any person, who takes a lead role in the process of exchange, normally it is the seller.

Consumer seeks satisfaction by consuming products and services, whereas the marketer or seller provides the satisfaction by offering products and services to satisfy the consumer's needs. HMT, Hindustan Lever Ltd., Hospitals, KTDC, Travel agencies, software developers etc. are sellers or marketers. They are also creating new needs in the minds of consumers like use of washing machine, vacuum cleaners, cooking range, mobile phone etc. Some of these products become the 'part and parcel' of our life, but many of them were unknown to the older generations.

Marketing Management – Marketing management is the functional area of management concerned with planning, organizing, directing and controlling the activities related to marketing of goods and services to satisfy customer's wants.

Process of marketing management

1. **Choosing a target market –** If a business enterprise is producing medical equipment, the target groups will be doctors and hospitals. For a text book publisher the target market is a group of teachers and schools, colleges and universities.
2. **Create demand for the product –** Here the marketing management should try to increase the demand for their products by ensuring the customer satisfaction, so that more customers will be attracted.
3. **Create superior values –** In order to attract more customers, the marketing management can add more superior values to the product or service. E.g., free insurance and maintenance on purchase of a vehicle.

Marketing and Selling

Marketing is a continuous process of identifying consumer needs and fulfilling such needs through product development and promotion and pricing. It begins before production and continues even after the sales. Contrary to this selling is the mere transfer of ownership of goods from the seller to the buyer.

Differences between selling and marketing

Selling	Marketing
1. It is a part of marketing by which the transfer of ownership of goods from seller to the buyer	1. It is a wider term consisting of identification of customer needs and developing products to satisfy their needs
2. Transfer of title of goods	2. Satisfaction of customer needs and wants
3. More emphasis on profit maximization through maximum sales	3. Making profit through customer satisfaction
4. Selling takes place after production of goods	4. Marketing begins before production
5. Give emphasis on bending the customer in accordance with the product	5. Develop the product based on customer needs
6. It involves promotion and persuasion	6. It has an integrated approach including product, price, physical distribution and promotion

Marketing concepts (Marketing management philosophies)

Philosophies → / Basis ↓	Production concept	Product concept	Selling concept	Marketing concept	Social concept
Starting point	Factory	Factory	Factory	Market	Market, Society
Focus	Quantity	Quality	Existing product	Customer needs	Customer needs and welfare of society
Means	Availability of products and affordable prices	Product improvement through better quality	Selling and promotional measures	Integrated marketing (Selling of satisfaction rather selling a product)	Integrated marketing
Ends	Profit through volume of production	Profit through quality products	Profit through sales volume	Profit through customer satisfaction	Profit through customer satisfaction and welfare of society

The Societal Marketing Concept

It is an extension of marketing which involves the satisfaction of customer needs and wants by considering the welfare of the society. It should pay attention to the social, ethical, environmental aspects etc.

Functions of marketing

1. **Gathering and analyzing market information –** This will help to identify the needs of customers and can take vital decisions. It is highly useful for analyzing opportunities, threats, strength and weakness of the firm.

2. **Marketing plan –** A proper marketing plan should be developed to achieve the marketing objectives of the firm. E.g., to increase the market share of a product in next one year by 20%.
3. **Product designing and development –** The product should be developed and designed to meet the customer needs. Marketing department should always be on the look out to make necessary changes in the product such as packing, price, size, colour, shape and design.
4. **Standardization and grading –** Standardization refers to producing goods in predetermined standards such as quality, price, packaging etc. which ensures uniformity and consistency. So that buyers need not inspect, test and evaluate such goods in their future purchases.
   Grading is the process of classifying products into different classes on the basis of quality, size, weight etc. It is needed in agricultural products. This helps in realizing higher price for better quality.
5. **Packaging and Labelling –** Package is a container or a wrapper or a box in which a product is enclosed. It is done for protecting the goods from damage in transit and storage, now a days it is also used to establish the brand. Labelling refers to designing and developing the label to be put on the package to give the specifications of the product in 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. E.g., BMW, TATA, JIO, Pears, Coco-cola etc.
7. **Customer support service –** These are after sales services, handling customer complaints, maintenance services, technical services and customer information. All these will provide maximum satisfaction to the customers.
8. **Pricing –** Price of a product means the amount of money that have to pay to obtain a product. A sound pricing policy is an important factor for selling the products to customers. The pricing policy of a firm should attract all types of customers.
9. **Promotion –** It means informing the customers about the firm's products and persuading them to buy these products. Promotion techniques include advertising, personal selling, sales promotion and publicity.
10. **Physical distribution –** It involves planning, implementing and controlling the flow of materials and finished goods from the origin to the point of use to meet the customer requirement at a profit. A suitable distribution channel must be selected by the marketing management in this regard.
11. **Transportation -** It is an integral part of marketing as it helps in making available the product at the terminal point of consumption.
12. **Storage or warehousing –** Goods are produced in anticipation of future demand. They have to be stored properly in warehouses to protect them from damages.

Role of Marketing

a. Role in a firm – Marketing plays a significant role in achieving the objectives of a firm. It emphasizes that customer satisfaction is the key to survival and growth of an organization. For example, what products or services will be marketed by a firm will depend upon what do its customers need.

b. Role in the Economy – Marketing plays an important role in the economic development of the country and helps in raising the standard of living of the people. It also accelerates the economic activity leading to higher incomes, more consumption and increased savings and investment.

Factors affecting marketing decisions

i) **Controllable factors –** They are internal factors which can be controlled by the firm. They are of four groups – Product, Price, Place or distribution and Promotion. They are commonly known as **four Ps** of marketing.

ii) **Non-controllable factors –** They are external factors such as consumer behavior, traders' behavior, competitors' behavior and government's behavior.

Marketing mix

It is the term used to describe the combination of four inputs which constitute the core of the company's marketing system, the product, the price structure, the promotional activities and the place of distribution. It is also known as four '**P**s' of marketing mix, namely Product, Price, Place (distribution) and Promotion.

Elements of marketing mix

1. **Product –** *Product means goods or services or anything of value which is offered for sale in the market*. It is the most important component of marketing mix, which involves planning, developing and producing the right type of goods and services needed by the consumer.
2. **Price –** The price of a product should be fixed that the firm is able to sell it profitably. It may consider credit policies, discount system, terms of delivery, payment, retail price, cost of production, competition, government regulations etc.
3. **Place –** It refers to marketing efforts undertaken to make the product available at the right time in the right place. There are products which are produced at one part of the country and it is consumed in different places during different seasons.

   In Kerala textile items are largely sold during Onam season, so that most of the producers will come to this place and ensure the supply of their product here and in Deepavali season they will move towards some other States. It involves two major functions, 1) Physical distribution and 2) Channels of distribution.
4. **Promotion –** Promotion means all those activities undertaken by a sales manager to inform the consumers about the product(s) of the company and persuade them to buy. He has to make the consumers know where, when and how the products are available. There are four elements which constitute promotion mix. They are advertising, personal selling, publicity and sales promotion.

PRODUCT

Consumer Products – Products which are purchased by the ultimate consumers for personal or family use, but not for resale. E.g., soap, toothpaste, calculator, furniture, shoes etc. These consumer products are again classified on the basis of shopping efforts involved and durability.

A. Shopping efforts involved

1. **Convenience products –** They are the consumer products that people usually purchase frequently, and with least purchasing efforts. E.g., soap, toothpaste, bread, magazines, biscuits etc. Its features are:
    a. Purchased with least efforts and time
    b. Generally essential products.
    c. Purchase unit is small and low price.
    d. Standardized price and most of them are branded items.
    e. Heavy competition on such products, hence heavy advertisement is needed.
    f. Sales promotion techniques and short term incentives are needed.
2. **Shopping products -** These are the products purchased by the consumers by spending considerable time in comparison of features like price, quality, size, style etc. e.g., home appliances, clothes, jewellery, furniture, TV, Computer, Washing machine etc. Its features are:
    a. Durable in nature.
    b. Price and profit per unit is comparatively high.
    c. Since the unit price is high, consumer take much efforts before purchasing decision.
    d. Buying of these products is generally pre-planned but no impulse buying (without a plan).
    e. Generally handled by retailers.
3. **Speciality Products –** These products have unique characteristics and brand loyalty of the highest order for which consumers willing to make special purchasing effort. E.g., paintings, artwork, antiques, idols etc. Its features are:
    a. Demand for such products is inelastic, even if the price increases, demand does not decrease.
    b. Demand for such products is limited as there will be small number of buyers.
    c. These products are costly.
    d. They are available only in specific places, so the buyers have to take extra effort.

B. Durability basis

1. **Durable goods –** These are tangible consumer products which have long period of life. E.g., TV, Car, Refrigerator, Mobile phones etc. Its features are:
    a. It remains in use for a long period.
    b. High cost and high profit margin.
    c. High selling effort is needed.
    d. Guarantees and after sales service provided.
2. **Non-durable goods –** These are consumer goods which are normally consumed once or for a few uses. E.g., soft drinks, soap, toothpaste, detergents, stationery items etc. Its features are:
    a. Low price and low profit margin.
    b. Available in all areas.
    c. Heavy advertisement.
3. **Services –** It refers to those activities, benefits or satisfactions, which are offered for sale and are intangible in nature. E.g., services offered by a doctor, lawyer, hair cutting, dry cleaning, tailoring, repair work etc. Their features are:
    a. Intangible in nature.
    b. Inseparable from its source (cannot separate service from the service provider)

c. Services cannot be stored.
d. Highly variable based on the persons providing them.

Assignment: *Prepare a chart showing the classification of consumer products and industrial products.*

Industrial Products

These products are used as inputs in making other products. E.g., engines, lubricants, machines, raw materials etc. Its features are:

a. **Number of buyers will be limited** when compared to consumer goods.
b. **Distribution channel will be short** (direct selling or one level channel)
c. Industries are **located in certain regions**, for example, demand for power loom comes from Mumbai, Bangalore etc. where textiles industries are concentrated in India.
d. **Derived demand** - The demand for industrial products is derived from the demand for consumer products. E.g., demand for leather is derived from the demand for shoes etc.
e. **Role of technical consideration** – It is significant in industrial products, because of it's complex nature.
f. **Reciprocal buying** – It means mutual buying, for example; TATA Motors buys tyres from MRF, which in turn buys trucks from TATA.
g. **Leasing out** – Instead of outright purchase of heavy machineries, it may procure on lease basis.

Classification of industrial products

1. **Materials and parts –** These products are used for manufacture of useful finished goods. It may include:
   Raw materials such as *farm products* like cotton, sugarcane etc. and natural products like crude oil, iron ore etc.
   Manufactured materials – These are partly processed goods which are used in making finished goods. They are of two types – *component materials* like iron, yarn, cement etc. and *component parts* like tyres, battery motors etc.
2. **Capital items –** *Installations* like elevators, main frame computers etc. and *equipments* like tools, machinery etc.
3. **Supplies and business services –** short lasting goods for producing finished goods. E.g., *repair items* like nails, paints etc. and *operating supplies* like lubricants, cotton waste etc.

Branding

It refers to the process of giving a name or sign or a symbol to a product for identifying and distinguishing it from competitors. E.g., Titan, Audi, Bata, Lifebouy, Pears etc.

Terms related to branding:

a. **Generic name** – It means the name of whole class of a product. E.g., soap, book, pen, camera, paracetamol etc.
b. **Brand –** It is a name, term, symbol or design to identify the goods or services. E.g., Pears, Classmate, Reynolds, Canon etc.
c. **Brand name –** It is a part of the brand consisting of a word, letter or group of these that can be pronounced. E.g., Lux, Reynolds etc.

d. **Brand mark –** It is a part of brand that appears as a symbol, design, picture etc. which cannot be pronounced. E.g., symbol of LIC, emblem of SBI etc.
e. **Trade mark –** It is the legal version of a brand. It is a brand name or brand mark registered with legal authorities. *When a brand name is registered, it becomes a Trade Mark*. Once it is registered it is legally protected and others cannot use this as a duplicate.

Advantages of branding

To Marketers	To Customers
a. Helps to make an identity	Helps in identifying the product
b. Helps in advertising and display programs	Ensures quality and confidence in the mind of customers
c. Enables the firm to charge higher price than the competitors	Status symbol
d. Easy to introduce new product	Helps to increase the level of satisfaction

Characteristics of a good brand name

1. **Short and simple –** brand name should be short, easy to pronounce and to remember. E.g., Hero, Maruti, VIP, Vim etc.
2. **Suggests the benefit of product** and its quality. E.g., Rasika, Boost, Fair N Lovely.
3. **Distinctive –** It should be unique such as Liril, Sero, Titan etc.
4. **Adaptable –** Brand name must be suitable for packing and labeling and to suit different advertisement media and different languages.
5. **Versatile –** Better it is multi-purpose to adopt new products. E.g., Acer, V-guard etc.
6. **Legal protection –** the brand should be capable of being registered.
7. **Staying power –** the name chosen as brand name should not get outdated. ("3G Mobiles" is an outdated brand).

Packaging

It refers to the designing and producing the container or wrapper of a product. It has an important role in the marketing success or failure of a product.

Levels of packaging

1. **Primary packaging –** The immediate container of a product is called primary packet. e.g., the plastic cover of a shirt, tube for shaving cream, tooth paste etc. and a bottle for horlicks.
2. **Secondary packaging –** It gives an additional protection for the product. E.g., the card board box for a tooth paste tube.
3. **Transportation packing –** It is a further packaging of products for storage and transportation. E.g., a toothpaste manufacturer may send the goods to the retailers in a large box containing 100 pieces.

Importance of Packaging

1. **Rising standards of health and sanitation –** More people prefer to buy packed goods as the chances of adulteration are minimum.
2. **It is suitable for self service outlets.**

3. **Innovational opportunities –** New ideas can be implemented in packaging which will increase the scope of marketing the products. E.g., soft drinks, mango juices etc. in specially designed packages (foils).
4. **Product differentiation –** The colour, size, material etc. of the packages will help to identify the product and its quality up to a certain extent. E.g., Body spray, Shampoo etc.

Functions of packaging

1. **Product identification –** Packaging helps the customers to identify the product easily. E.g., Toothpaste, Soap etc.
2. **Product protection –** It helps the product from breakage, leakage, contamination, evaporation, pilferage (theft) etc.
3. **Facilitating the use of the product –** The size and shape of the product should be in such a way to use the product conveniently. E.g., Hand wash, Tooth paste, Powder tin etc.
4. **Product promotion –** Beautiful packages attracts consumers, and it serves as a promotional tool for the product as it is a silent salesman.

Labelling

Labelling refers to the designing and developing the label to be put on the package. It may be attached to the product and carries information about the product and the producer in the form of a tag, sticker etc.

Functions of Labelling

1. **Describe the product and specify its contents** and it may give its usage, precautions to be taken etc.
2. **Identification of product or brand**
3. It also gives **information about the name and address of manufacturer**, net weight, MRP etc.
4. **Grading of products** such as Green label for 1st quality, Yellow for 2nd quality and Red for 3rd quality.
5. **Helps in promotion of products -** a well designed label will catch the attention of consumers. "Free Tooth Brush inside", "Save Rs.10/-", "Free Mobile Recharge Rs.50/-" etc.
6. **Providing information required by law,** e.g., statutory warning on the package of cigarette, "Smoking is injurious to health" etc.

PRICE

Pricing – Price of a product is the amount of money paid by the buyer (or received by the seller) in consideration of purchase of a product or service. Pricing is the function of determining product value in terms of money before it is offered to consumers for sale. A good pricing policy enables a firm to achieve maximum sales revenue.

Factors affecting price determination

1. **Product cost –** It includes cost of production, selling and distribution expenses. While fixing prices for the products or service, a margin of profit over the cost should be considered. The cost of a product consists the following:
   a. **Fixed cost –** do not vary with the volume of production. E.g., Rent, salary, insurance etc.

   - b. **Variable cost –** Cost which vary based on the volume of production. E.g., raw material cost, labour cost, power etc.
   - c. **Semi-variable cost –** Cost which vary with the level of production, but not in direct proportion. E.g., Commission to a salesman beyond a particular level.
2. **Utility and demand –** Pricing is affected by the elasticity of demand. In case of inelastic demand a firm can fix a higher price and vice versa.
3. **Extent of competition –** If there is no competition in the market, a firm can fix the price for its product by its own, and they are the price makers. If the competition is very high in the market, the price should be fixed by considering the price of competitors, and they became the price takers.
4. **Government and legal regulations –** The prices of certain products are regulated by government. E.g., cement, sugar, etc.
5. **Pricing objectives –** If the firm wants to maximize profit in short run, it would charge high price and if it wants to capture maximum market share for its products, it would charge only a low price. Some pricing objectives are:
   - **a.** To Obtaining market share leadership
   - **b.** To Survive in a competitive market
   - **c.** To Attaining product *quality* leadership (high prices may be charged for maintaining high quality)
6. **Marketing methods used –** Price fixation is also affected by various elements like distribution system, advertising, sales promotion, type of packaging, credit facilities, after sales services, guarantee etc.

PLACE (PHYSICAL DISTRIBUTION)

In order to ensure availability of products at the right **Place**, two factors require consideration; they are Channel of distribution and Physical distribution.

A. Channels of distribution

The path taken by the goods in their movement from the producer to the consumer is referred to as the channel of distribution.

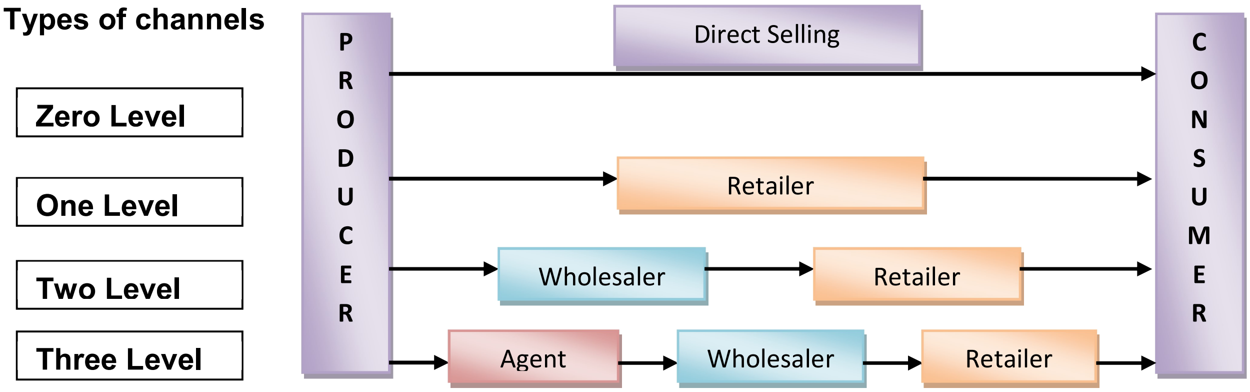
Producer ⇒ Wholesaler ⇒ Retailer ⇒ Consumer

Functions of distribution channels / middlemen

1. **Sorting –** sorting goods procured from various sources on the basis of size and quality. E.g., apples, pepper, cardamom, coffee etc.
2. **Accumulation of goods –** they are collecting a large quantity of stock in order to ensure continuous flow of supply.
3. **Allocation –** breaking the bulk into smaller lots for distribution. E.g., a large box of pens divided into small packets containing 10 units.
4. **Assorting –** It means stocking various related products by the middlemen, to meet the customer requirements fully; (Assorted = Mixed). E.g., a cricketer's requirement of bat, ball, gloves, helmet, shoes, dress etc. can be fulfilled by a single sports goods dealer.

5. **Product promotion –** Middlemen also undertakes certain promotional activities like demonstrations, special displays, contests etc. to push up sales.
6. **Risk taking –** Middlemen takes the risk on account of price and demand fluctuations, spoilage, damage etc.

Types of channels



1. **Direct channel (Zero level) –** In this case, no intermediary is involved. It implied direct selling of goods to the customer. Mail order business, internet selling, door to door selling or through own retail network etc. are the examples.

Producer ⇨ Customer

2. **Indirect channels –** The manufacturer seeks the help of one or more intermediary to move the goods from the place of production to the place of consumption is called indirect network.
   a. **One level** – Here only one intermediary is in the distribution channel, the retailer. E.g., Maruti Udyog Ltd. sells their cars through their approved retailers.

   Producer ⇨ Retailer ⇨ Customer

   b. **Two level channel –** Here one more middlemen, the wholesaler joins the channel along with the retailer (2 middlemen). This channel is suitable to the products with widely scattered markets. E.g., soap, cloth, tooth paste etc.

   Producer ⇨ Wholesaler ⇨ Retailer ⇨ Customer

   c. **Three level channel –** In this channel the producer by an arrangement hands over the entire output to his selling agent in order to relieve from the problems of distribution.

   Producer ⇨ Agent ⇨ Wholesaler ⇨ Retailer ⇨ Customer

Factors determining choice of channels

1. **Product related factors**
   a. **Industrial goods –** Highly expensive and with a few buyers, hence direct channel is preferred.
   b. **Consumer goods –** Less expensive and frequently bought, hence long network is good.

c. **Perishable goods –** Short channel is more suitable
d. **Durable goods –** Long channel is good.
e. **Unit value of product –** Cheaper goods are usually traded through long channels.
f. **Complex products –** requiring technical details such as industrial or engineering products may prefer short channels.

2. **Company characteristics –** if the company is having sufficient funds, it can go for direct selling or through short channels. Likewise, if they want to maintain a control over the channel members, short channels are better.
3. **Competitive factors –** If a competitor has selected a particular channel and they are successful, sometimes we may also follow it, whereas some other companies may avoid such channels.
4. **Market factors –**
   a. **Size of market –** Where number of buyers is small, short channel is required and for large number of customers, longer channel would give better result.
   b. **Geographical concentration –** Small channel is better if the buyers are only in a particular area and if they are scattered over a large area, long channel is better.
   c. **Size of order –** If the size of order and its value is high, shorter channel is good and in case of consumer goods long channel is better.
5. **Environmental factors –** Economic condition, legal constraints etc. are considered here. For example, in case of depression period, shorter channel is preferred.

B. Physical movement / physical distribution

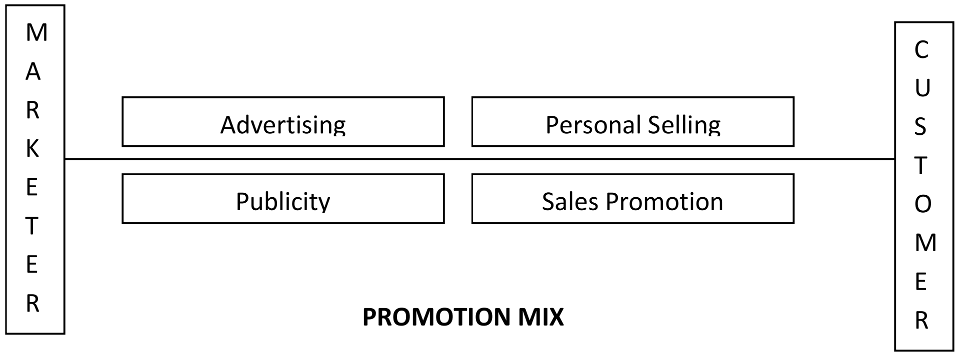
Physical distribution involves the handling and movement of goods from production centre to the place of consumption.

Components of Physical Distribution

1. **Order processing –** It begins with the receipt of an order from the customer, It involves the preparation of invoice, instructions to the warehouse keeper for dispatch, granting of credit facilities, sending bills etc. Quick processing helps to retain the customers for ever.
2. **Transportation –** It is the means of carrying goods and raw materials from the point of production to the point of sale. It is important because unless there is no proper movement (transportation), the sale cannot be completed.
3. **Warehousing –** It is inevitable factor in the movement of goods, it involves the decisions regarding type of warehouse, (i.e., own warehouse or rented warehouse), location of warehouse, cost of warehousing etc.
4. **Inventory control –** In order to ensure prompt supply of goods a proper inventory level must be maintained. It must not be too high or too low. High level of inventory results in blocking of capital and high management cost. Low level may lead to stock out situations. Major factors determining inventory levels are:
   a. **Level of customer service –** Higher the level of customer service, greater will be the need of inventories.
   b. **Accuracy of sales forecast –** If the sales forecast is more accurate, the need for inventory can be minimized.
   c. **Time required to meet additional demand –** If it is taking much time to meet additional or unexpected demand, the need for inventory level will be high.
   d. **Cost of inventory –** It includes holding cost / carrying cost such as warehousing cost, blocked up capital cost etc. If the cost of inventory is high, less inventory is maintained.

PROMOTION

All activities connected with informing and persuading the customers are collectively known as promotion mix. It includes Advertising, Personal selling, Sales promotion and Publicity..



PROMOTION MIX

1. **Advertising -** Advertising is any paid form of non-personal presentation and promotion of ideas, goods or service of an identified sponsor. The message which is presented or disseminated is known as advertisement.

Features of advertising

a. **Paid form –** The sponsor or marketer bears the cost of communication.
b. **Impersonality –** No face to face contact between seller and buyer, but through a media.
c. **Identified sponsor –** Advertisement is done by a sponsor.

Merits of advertising

a. **Mass reach –** It reaches a large number of population with the help of news papers, television etc.
b. **Enhancing customer satisfaction –** They feel more comfortable and assured about quality.
c. **Expressiveness –** Messages can be expressed in a very attractive manner with the help of modern technology.
d. **Economy –** It is in the sense that, it can reach millions of people. As a result the per unit cost becomes low.

Limitations of advertising

a. **Less forceful –** Since it is impersonal, the prospects (public) may not give attention to the message.
b. **No feedback –** There is no immediate and accurate feedback.
c. **Inflexibility –** The message is always standardized and not customized according the needs of different customer groups or occasions.
d. **Low effectiveness –** A large number of advertisement is shown by the media, hence it may not be seen or heard by the target group.

Objections to advertising (Criticisms)

a. **Adds to cost –** It is a fact that while fixing price for a product by the manufacturer, they will consider the advertisement expense too, it will increase the price.
b. **Undermines social values –** It is another criticism against advertisement that it demoralizes the social values.
c. **Confuses the buyers –** Advertisement of similar items of different firms with claiming superiority of their products will make confusion among the consumers.

d. **Encourages the sale of inferior products** with the help of faulty advertisement.
e. **Some advertisements are in bad taste** for instance, women running after a man because he is using a perfume, tooth paste etc.

2. **Personal Selling -** It implies a face-to-face contact or conversation between seller and buyer by which the consumers will be motivated to purchase the products.

Features of personal selling

a. **Personal form –** face to face contact.
b. **Development of relationship –** Salesman develops a personal relationship with the customers.

Merits of Personal selling

a. **Flexibility –** The presentation of product can be adjusted to suit the prospective buyer.
b. **Direct feedback –** Face to face communication facilitates the salesman to adapt the presentation according to the needs of customers.
c. **Minimum wastage –** This strategy can be adopted only to the targeted customers, hence the company can minimize the wastes of efforts compared to advertisement.

Role / Importance of personal selling

To Businessmen

a. Effective promotional tool – It helps to explain the merits of a product thereby increasing sales.
b. Flexible method – It is more flexible than advertising and sales promotion, as it is adaptable in accordance with the customer tastes.
c. Minimum wastage of effort – Less wastages of effort compared to advertisement etc.
d. Consumer attention is more.
e. Lasting relationship – among the sales persons and the customers.
f. Personal rapport – Personal relationship with customers increases the strength of business.
g. Role in introduction of a new product – It helps in persuading the customers to buy new products.
h. Link with customers – through persuasive role, service role and informative role by a sales person.

To Customers

a. Help in identifying needs – It helps in identifying the needs of customers and to satisfy them.
b. Latest market information – may be given to the customers such as price changes, availability of product, etc.
c. Expert advice – Proper guidance help customers in making better purchase.
d. Induces customers – to purchase new products.

To Society

a. Converts latest demand into effective demand – as a result the economic activity in the society is accelerated to more jobs, more income etc.

b. Employment opportunities – It offers more employment opportunities especially for youth.
c. Mobility of sales people – promotes travel and tourism in the country.
d. Product standardization and uniformity in consumption pattern in diverse society is possible.

Differences between Advertising and Personal Selling

	Advertising	**Personal Selling**
1.	Impersonal communication	Personal form of communication
2.	Standardised message is transmitted	Based on customers needs
3.	Not flexible	Highly flexible
4.	Reaches a large number of people	Limited number of people only
5.	Cost per person is low	It is very high
6.	It can cover the market in a short time	Take a lot of time
7.	Media is used such as TV, Radio etc.	Use of sales persons
8.	No direct feedback	Direct and immediate feedback is possible
9.	Useful in consumer goods having a large number of consumers	Useful in industrial products having only a limited number of customers

Sales Promotion – It refers to short-term activities, which are aimed at promoting sales such as rebates, discounts, free gifts, contests, refunds, premium etc.

Sales promotion tools are designed to promote customers, middlemen and sales persons.

a. **Customers –** Free samples, discounts, contests, gifts, lucky draws, etc.
b. **Middlemen –** Cooperative advertising, dealer discounts, incentives, contests etc.
c. **Salespersons –** Bonus, salesmen contests, special offers, etc.

Advantages of sales promotion

a. It catches the buyers' **attention.**
b. **Useful in new product launch.**
c. **Synergy in total promotional efforts –** Sales promotion supplement the personal selling and advertising efforts. Hence it gives synergy (overall effectiveness) of promotional efforts of the firm.

Limitations of sales promotion

a. **It is a reflection of crisis –** Frequent sales promotion activities may give an impression that the firm is not in a position to manage its sales.
b. **Spoils the product image –** Consumers may feel that incentives are offered to sell sub-standard product.

Commonly used sales promotion techniques

1. **Rebates –** It is a deduction on the price to make it attractive to the buyers to buy on special occasions.
2. **Discount –** Certain percentage of price is reduced as discount from the price of the product to attract the customers.

3. **Refunds –** Seller offers to refund a part of price on next purchase on production of packets or wrappers etc.
4. **Product combinations –** It is a free offer of an article along with a product to make buyers attractive to buy more or for repeated buying (Free Pen drive with a digital camera).
5. **Quantity gift –** It may be an extra quantity of the same product at the same price either inside or outside the packet.
6. **Instant draws and gifts –** Scratch card and gifts to the customers on purchase.
7. **Lucky draw –** A coupon is given to the customers, which is to be deposited in a box at the business premises by filling the name and phone number. The winner is selected by lucky draw later.
8. **Usable benefit –** E.g., Purchase goods worth Rs. 5000 and get a holiday package of Rs. 2000 free.
9. **Full finance @ 0% -** No need to pay any amount or full amount at the time of purchase but in easy installment without interest.
10. **Sampling –** It refers to offering a free sample of a product to the customers on the purchase of some other products or journals.
11. **Contests –** Customers can participate in some competitive event and winners are given awards.

Publicity – It is similar to advertising with the difference that it is a *non paid form of communication.* It refers to favourable news about an organization and its products or service appearing in mass media.

Features of publicity

a. **Unpaid form –** It does not involve any direct expenditure.
b. **No identified sponsor –** It has no sponsor at all but message goes as a news item.

Advantages

a. **Credibility –** Usually it is more credible than the advertisement message.
b. **Wide reach –** It can reach even those who have no chance for attending paid communication.

Limitations

a. **No control –** It cannot be controlled by the firm.
b. **Only news value items –** A firm cannot make use of publicity to promote *all its products*.

Public Relations

Public relation can be defined as publicity through media which is very important in present day business. It is ranked second after personal selling in promotional mix. Since they can be used very effectively to reach the most influential people, this is considered as an effective tool for promotion.

Public relations tools: News, Speeches, Events, Written materials, Public service activities etc.

Role of Public Relations

1. **Press relations –** Information about the organization or products needs to be presented in a positive manner in the press. Eg; Launching a new car.
2. **Product publicity –** A company can invite attention of the public on their products by sponsoring sports and cultural events, exhibitions etc.

3. **Corporate communication –** It may be in the form of newsletters, annual reports, brochures, audio-visual materials etc. among the public and the employees of the organization.
4. **Lobbying –** It means influencing the government officials, ministers etc. in a positive manner to formulate suitable industrial, telecom, taxation policies etc.
5. **Counselling -** The public relations department advises the management of the company to interfere into general issues which affect the public. Eg: Contributions for flood victims.

Marketing Objectives of Public Relations

a. **Building awareness –** Public relations department can place stories about the product in the media, which will help to create an excitement among the targeted customers. Eg: News reports, Interviews etc. about a film.
b. **Credibility –** If news about a product comes in the media, it always gets credibility.
c. **Stimulates sales force –** As the product is publicized through the media, it is very easy to convince the customers.
d. **Reduces the promotion cost –** Maintaining good public relations results in less advertisement and sales effort.

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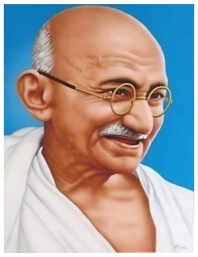
CONSUMER PROTECTION



A customer is the most important person in our premises.
He is not dependent on us, we are dependent on him.
He is not an interruption in our work; he is a purpose of it.
He is not an outsider of our business; he is a part of it.
We are not doing him a favour by serving him.
He is doing us a favour by giving us an opportunity to do so
------ Mahatma Gandhi

Consumer is said to be the king in a free market economy. The earlier approach of "Caveat emptor" (let the buyer beware) has been changed to "Caveat venditor" (let the seller beware).

With the growing competition and to push up the sales, businessmen indulge in exploitative and unfair trade practices which include supply of defective and unsafe products, adulteration, false and misleading advertising, hoarding, black marketing etc., so there arises the need for providing protection to consumers.

Consumer - Definition

Consumer Protection Act, 2019 defines a consumer is an individual or organization who buys goods and services for a consideration.

Some other definitions for consumer are as follows:

1. The person who buys any goods for a consideration.
2. A person who hires or avails of any services for a consideration.

Importance of Consumer Protection

Consumers point of view:

1. **Consumer ignorance –** In usual practice, consumers are innocent and ignorant about their rights and reliefs against unfair trade practices. Consumer protection protects them through consumer education.
2. **Unorganized consumers –** Consumers need to be organized in the form of consumer organizations which would protect their interest.
3. **Consumer exploitation –** Consumers need protection against unfair trade practices like defective and unsafe products, black marketing, hoarding, adulteration etc.

Business point of view:

1. **Long term interest of business –** Satisfied customers only provide repeat sales, but also give good feedback to the prospective customers. This will help to increase sales.
2. **Use of resources from the society –** As the business makes use of society's resources, it has the obligation to give reasonable return to the nation and its people.
3. **Social responsibility –** A business has social responsibilities towards different groups like shareholders, employees, etc. Therefore it should not be an exploiter but must be a servant.

4. **Moral justification –** It is the moral duty of any business to protect the interest of consumers. Exploitative, and unfair trade practices must be avoided.
5. **Government intervention –** A business engaging in any form of exploitative trade practices would invite government intervention.

Common unfair trade practices

- Adulteration
- Black marketing
- False weights
- Poor quality
- Exorbitant price
- Misleading advertisement
- Duplication of brands

Consumer Rights

1. **Right to safety –** Consumers have the right to be protected against the goods which are hazardous to health and safety. Manufacturing defects in electrical goods, pressure cookers etc. may endanger the life of consumers.

2. **Right to be informed –** It implies that the producer should disclose all the facts regarding his products. Information as to the quantity, quality, price, date of manufacture, ingredients, precautions of use etc. should be given.

3. **Right to be assured (Right to choose) –** The consumer has the freedom to choose from variety of goods and services at competitive prices.

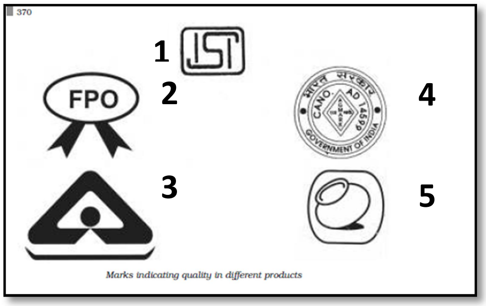
4. **Right to be heard –** Every consumer would like to be assured that complaints or grievances regarding a product or service will be considered.

5. **Right to seek redressal –** When the consumers are cheated or exploited they have the right to get compensation.

6. **Right to consumer education –** A consumer can get protected against fraud and malpractices only with the help of knowledge and proper education, he should know the rights and remedies available to him. It is possible only with proper consumer education.

Consumer Responsibilities

1. **Awareness** about various goods and services available in the market, so that an intelligent and wise choice can be made.
2. **Consumer must exercise his right –** Consumers must be aware of their own rights with regard to the products or services they buy from the market.
3. **Cautious consumer –** Before purchasing, the consumer should insist on getting complete information on quality, quantity, price, utility etc. of the goods.
4. **Filing complaints for redressal of genuine grievances –** Sometimes, consumers ignore the deception (dishonesty) of traders believing that the loss is small. This attitude encourages corrupt business practices to continue.
5. **The consumer must be quality conscious –** While making purchases, he should look for quality certification. Only products having ISI, Agmark, BIS, ISO etc. should be purchased.



Marks indicating quality in different products

1. ISI – Indian Standards Institute (Manufactured Goods)
2. Food Process Order (Food Products)
3. BIS Hallmark (Jewellery)
4. Agmark (Agricultural Products)
5. Eco-mark (Environment - friendly Products)

6. **Understand the risks –** associated with the products, follow strictly the instructions.
7. **Be honest –** Go in for only legal goods and services and discourage illegal marketing.
8. **Insist on cash memo –** If there is any defect in the goods purchased and the consumer has to make a complaint, the cash memo must be produced as proof of purchase. A seller is bound to give cash memo.
9. **File complaints –** if any in appropriate consumer forum, even if the amount involved is very small.
10. **Educate consumers –** Take initiative to educate consumers about their rights.

Ways and means of consumer protection

1. **Self regulation by business –** Firms with social commitment follow ethical standards and good practices in serving the customers. Such firms have set up their customer service and grievance cells to redress the grievances of their customers.
2. **Business Associations –** Federation of Indian Chambers of Commerce, (FCCI), Confederation of Indian Industries (CII), etc. lay down their code of conduct for their members to deal with consumers.
3. **Consumer awareness –** A consumer aware of his rights will be in a position to raise his voice against unfair trade practices.
4. **Consumer organizations –** These organizations can take necessary steps to eliminate consumer exploitation and force the business firms to avoid unfair trade practices.
5. **Government –** Government is always protecting the interest of consumers by implementing rules and regulations in the form of various laws and Acts. Also it provides a three tier system of District Forum, State Commission and the National Commission for redressal of consumer grievances.

Who can a file a complaint under the Act?

1. A consumer.
2. Any voluntary consumer association, registered under the Companies Act, 1956 or under any other law.
3. The Central Government.
4. The State Government.
5. One or more consumers, where there are numerous consumers having the same interest.
6. A legal heir or representative of a deceased consumer.

Redressal Agencies under the CPA 2019

There is a three-tier grievance redressal system for enforcement of the rights of the consumers, they are:-

1. District Forum	2. State Commission	3. National Commission
a. Established by State Govt. b. In all the Districts c. Entertain the complaints where value of goods or service and compensation claimed up to 1 crore. d. Appeal to State Commission within 45 days of order from District Forum	a. Established by State Govt. b. In all the States c. Above 1 crore but less than 10 crore. d. Appeal to National Commission within 30 days of order from State Commission.	a. Established by Central Govt. b. Only at national level. c. 10 crore or more. d. Appeal to Supreme Court within 30 days of order from National Commission.

Relief available through redressal agencies

- **a.** Removal of defects.
- **b.** Replacement of goods or service.
- **c.** Return of price by seller.
- **d.** Payment of compensation by seller for the loss suffered.
- **e.** Discontinuance of unfair trade practices.
- **f.** Withdrawal of hazardous goods.
- **g.** To issue corrective advertisement to neutralize the effect of a misleading advertisement.

Role of Consumer Organisations and NGOs

1. Bringing out brochures, Journals and Monographs (book which is a detailed study of one subject).
2. Accelerating consumer awareness.
3. Collecting data on different products and testing them.
4. Arranging talks, seminars, workshops and conferences for the purpose of focusing the problems of consumers and finding solutions.
5. Encouraging consumers for boycotting goods which are defective and bad quality.
6. Filing suits on behalf of consumers.
7. Investigating into problems of consumers.
8. Resisting against price rigging (dishonesty), adulteration, black marketing etc.
9. To produce films on food adulteration, misuse of drugs and cosmetics.
10. To educate women regarding consumerism.
11. To help business to standardize their products.
12. Helping schools to start consumer education.

Prominent Consumer Organizations in India

- Consumer Coordination Council, Delhi.
- Consumer guidance society of India (CGSI), Mumbai.
- Citizens Action group, Mumbai.
- Consumer Education and Research Centre (CERC) Ahammedabad.
- Common Cause, New Delhi.
- Consumer Unity and Trust Society (CUTS), Jaipur.
- Voluntary Organization in Interest of Consumer Education (VOICE).
- Consumer Action Forum, Kolkatta, Delhi and Chennai.
- Consumer Protection Council, Ahamedbad.

Prominent Consumer Organizations in Kerala

- Consumer Guidance Centre, Cochin.
- Kerala State Consumer Guidance Society, Cochin.
- Kerala Consumer Welfare Association, Cochin.
- Kerala State Consumer Council, Kannur.
- Consumer Guidance Society of India, Thrissur.
- Association for protection of consumers, Thiruvananthapuram.

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