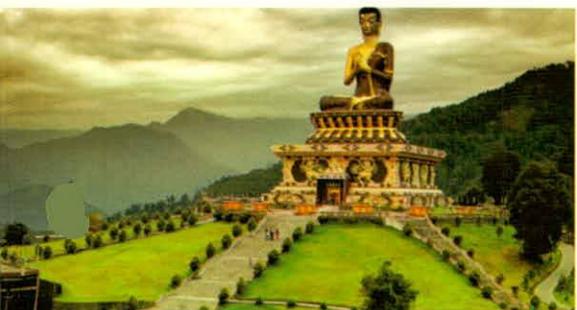
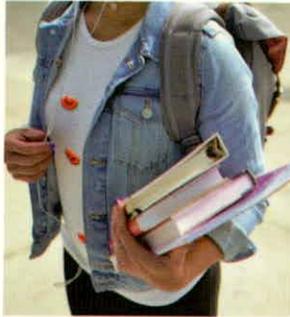




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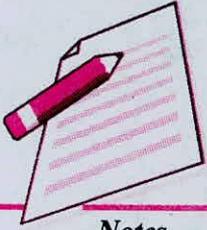
## The Pathways To Higher Studies

# Business Studies

Class-XII



**BUSINESS STUDIES**  
**CLASS 12**



Developed & Published by:  
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Notes

# 1 MANAGEMENT

Management - concept, objectives, and importance, Management as Science, Art and Profession, Levels of Management, Management functions-planning, organizing, staffing, directing and controlling, Coordination- concept and importance

Understand the concept of management.  
 Explain the meaning of 'Effectiveness and Efficiency.'  
 Discuss the objectives of management.  
 Describe the importance of management

## Objective of the chapter:

The basic objective of this chapter is to through some light on the initial concepts of management so that the fundamentals of management can be learned.

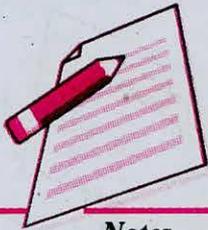
## Introduction

**Management** is a universal phenomenon. It is a very popular and widely used term. All organizations - business, political, cultural or social are involved in management because it is the management which helps and directs the various efforts towards a definite purpose.

According to Harold Koontz, "Management is an art of getting things done through and with the people in formally organized groups. It is an art of creating an environment in which people can perform and individuals and can co-operate towards attainment of group goals". According to *F.W. Taylor*, "Management is an art of knowing what to do, when to do and see that it is done in the best and cheapest way".

Management is a purposive activity. It is something that directs group efforts towards the attainment of certain pre - determined goals. It is the process of working with and through others to effectively achieve the goals of the organization, by efficiently using limited resources in the changing world. Of course, these goals may vary from one enterprise to another. E.g.: For one enterprise it may be launching of new products by conducting market surveys and for other it may be profit maximization by minimizing cost.

Management involves creating an internal environment: - It is the management which puts into use the various factors of production. Therefore, it is the responsibility of management to create such conditions which are conducive to maximum efforts



so that people are able to perform their task efficiently and effectively. It includes ensuring availability of raw materials, determination of wages and salaries, formulation of rules & regulations etc.

Therefore, we can say that good management includes both being effective and efficient. Being effective means doing the appropriate task i.e., fitting the square pegs in square holes and round pegs in round holes. Being efficient means doing the task correctly, at least possible cost with minimum wastage of resources.

### **Meaning of Management**

**Peter F. Drucker defines**, “management is an organ; organs can be described and defined only through their functions”.

**According to Terry**, “Management is not people; it is an activity like walking, reading, swimming or running. People who perform Management can be designated as members, members of Management or executive leaders.”

Management is the process of reaching organizational goals by working with and through people and other organizational resources.

Management has the following 3 characteristics:

1. It is a process or series of continuing and related activities.
2. It involves and concentrates on reaching organizational goals.
3. It reaches these goals by working with and through people and other organizational resources.

### **Nature/ Feature/ characteristics of Management**

Followings are the features of management:

#### **1. Management as a continuous process:**

Management can be considered as a process because it consists of planning, organizing, activating and controlling the resources (personnel and capital) of an organization. So, they are used to the best advantage in achieving the objectives of the organization.

None of the managerial functions would produce the ultimate results in the absence of all other basic functions. Hence, we can say that management is a continuous process.

#### **2. Management as a discipline:**

Since the boundaries of management are not exact as that of any other physical sciences, it may not fit in very well for being addressed as discipline. However, its status as a discipline increases because it continuously discovers many aspects of business enterprises and also passes on the verified knowledge to the practitioners of the managerial process.

#### **3. Management as a career:**

As a career or occupation, management is a broad concept- Management itself can be regarded as a career, but it also presents a variety of interesting and challenging

careers focused on specialized occupations in the fields such as marketing, finance and personnel.

#### **4. Management as an Applied Science:**

Even though management is a science so far as it possesses a systematized body of knowledge and uses scientific methods of research, it is not an exact science, like natural sciences which deal with living phenomena such as botany and medicine. Hence, management is definitely a social science like economics or psychology and has the same institutions which these and other social sciences have.

#### **5. Universal Application:**

Management is a universal activity, applied to any form of activity, economic or otherwise.

#### **6. Goal Oriented:**

Management has the task of attaining certain objectives. The success or failure of the management depends on how far it is able to attain the desired goals. It is judged by the extent to which it achieves its targets.

#### **7. Guidance:**

The main task of the management is guidance in the utilization of material and human resources in the best possible way. Through optimum utilization of resources, it has to ensure that the objectives are attained. The essential element of management is that it gets the work done by coordinating the performance of those who actually perform diverse and specific jobs.

#### **8. Divorced from proprietorship:**

Management does not signify proprietorship. In earlier days, management and enterprise were lumped into the same factor. It now refers to a specialized group of people who have acquired the ability to carry out a project.

#### **9. An activating factor:**

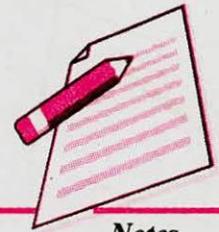
Management is the factor which activates other factors of production. A manager's skill lies in motivating his workers through guidance, training, incentives, rewards, status, security, control, etc. So, a manager's ability lies in the fact that he is able to motivate others to apply their skill to the best advantage of the enterprise in the accomplishment of its objectives.

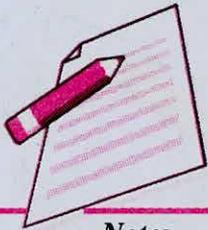
#### **10. Management is a human activity:**

Management functions are discharged only by individuals. No corporate body or an artificial being can perform the work of a management. Although it is an activity which may be performed by an individual it cannot be seen. It can only be felt.

#### **11. Management signifies authority:**

Since the essence of management is to direct, guide and control, it has to have authority. Authority is the power to compel others to work and behave in a particular manner. Management cannot discharge its function without authority. It is the foundation of management. Since management has authority it stands at a higher pedestal.



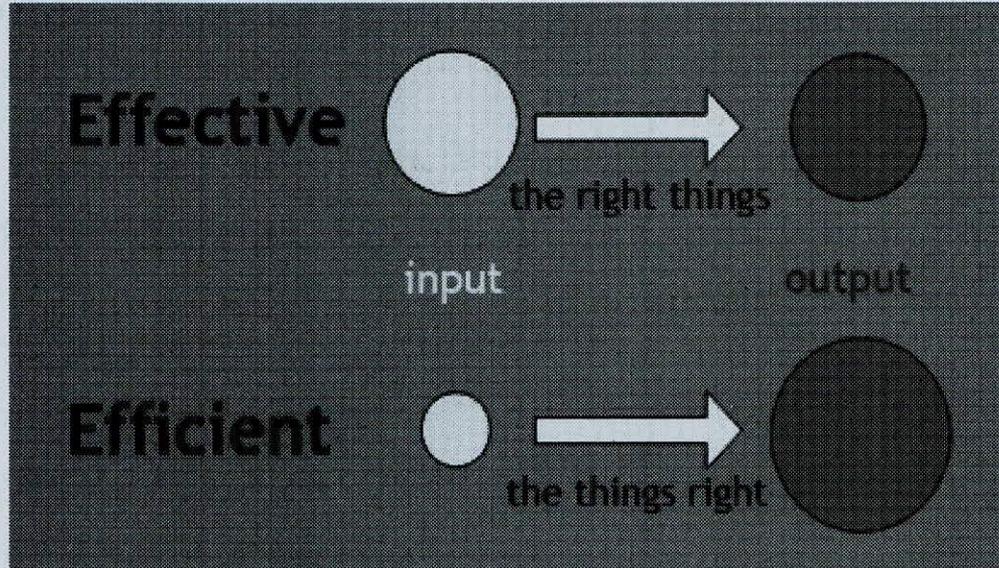


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**12. Leadership:**

The management has to lead a team of workers. It must be capable of inspiring, motivating and winning their confidence

**Effectiveness and Efficiency**



Effectiveness and efficiency are two mutually exclusive terms. If one is present, the other may not be present and vice-versa.

There are some major differences between them which is must for all of us to know as it is useful in our professional as well as personal life:

- 1. Rohini prepared a well-documented and factual report on Co's performance but she could not present it in Board meeting as she could not complete it on time.**

[Hint: Efficient but not effective]

- 2. Best roadways promised to deliver goods in time and charged extra money from Mr. Singh. But the goods were not delivered on time.**

[Hint: Efficient but not effective]

| <b>Effectiveness</b>  | <b>Efficiency</b>  |
|---|--|
| Effectiveness is about accomplishing a task or producing a desired result | Efficiency is about performing a task in a best possible manner                |
| It focuses on achieving the objective                                     | It focuses on maximum result with least time and effort                        |
| Being effective means doing the right things                              | Being efficient means doing things in right manner                             |
| Effectiveness focuses on producing the result                             | Efficiency focuses on completing task using minimum time, effort and resources |

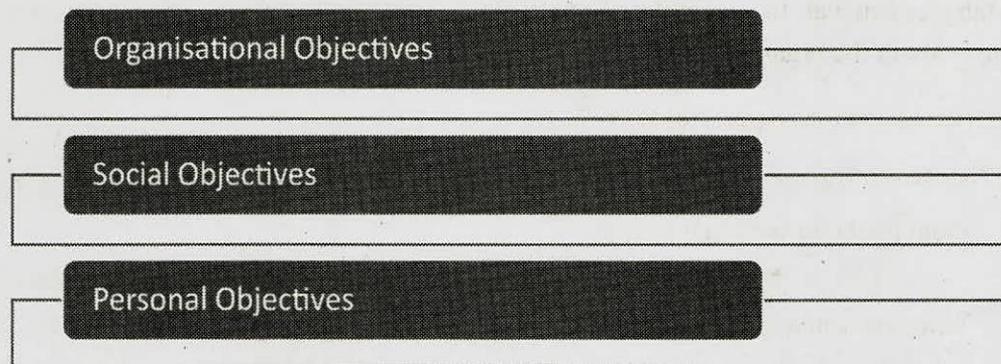


|  |   |
|--|---|
| Higher quality result can be expected from an effective person   | Quick and intelligent work can be expected from an efficient person                                     |
| Effectiveness is primarily concerned about results, not use of resources                               | Efficiency is primarily concerned on the use of time, energy and resources, not necessarily the results |
| It is not process and time oriented  | It is process and time oriented   |
| It looks at whether the something is done or not   | It looks at how the activity is done  |
| Effectiveness has no/less economic sense   | Efficiency has higher economic sense  |
| Effectiveness is the end result  | Efficiency looks at the process/means of doing a task   |
| It is result oriented  | It is yield oriented  |
| Effectiveness has long run perspective. It is used to achieve sustainable growth and long-term profits | Efficiency has short run perspective. It is used to achieve short term goals                            |
| Here, the effectiveness of strategies are measured   | It is measured in operations of the organization  |

### Objectives of Management

In any organization there are different objectives and management has to achieve all objectives in an effective and efficient manner.

These objectives of management can be classified into three categories:



Let's discuss these objectives one by one.

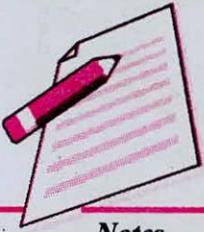
### Objectives of Management: Organisational Objectives

Management is responsible for setting and achieving objectives for the organisation. The main objective of any organization should be to utilise human and material resources to the maximum possible advantage, i.e., to fulfil the economic objectives of a business.

- **Survival:** The basic objective of any business is survival. In order to survive, an organization must earn enough revenues to cover costs.

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- **Profit:** Management has to ensure that the organization makes a profit. Profit provides a vital incentive for the continued successful operation of the enterprise.
- **Growth:** To remain in the industry, management must exploit fully the growth potential of the organization. There are many indicators of growth such as sales volume, increase in the of employee count, the number of products or the increase in capital investment

### Social Objectives

As a part of society, every organisation whether it is business or non-business, has a social obligation to fulfil which is to consistently create economic value for various constituents of society. This includes:

- Environmentally friendly methods of production
- Giving employment opportunities to the disadvantaged sections of society
- Providing basic amenities like schools and crèches to employees

### Personal Objectives

Organization consists of different types of individual who joins it to satisfy their diverse needs. The individual may seek to satisfy needs such as:

- Competitive salaries and perks
- Peer recognition
- personal growth and development

Management has to reconcile personal goals with organisational objectives for harmony in the organisation.

### Importance of Management

1. **Formulate objectives and goals:** - Management determines the objectives and main goals for the organization.
2. **Innovation:** - Management encourages to using new technology and ideas. Innovation makes the organization more efficient.
3. **Guidance:** - Management provides guidance to the workers to work properly and efficiently.
4. **Motivation:** - Management motivates the workers to work hard by providing them various incentives. They also solve their personal problems. In this way they can boost the productivity and profitability of the organization.
5. **Reducing cost by increasing output:** - Management does work through planning, organizing and controlling; thus, it reducing the cost and increasing the output.
6. **Optimum utilization of resources:** - Management utilizes all the physical and human resource effectively; this leads to efficiency in organization. Management provides maximum utilization of scare resources by selecting its best possible alternate. It avoids wastage to utilize proper resources.



7. **Selection of well qualified human power:** - Management selects well qualified and expert human power for different works.
8. **Establishes Equilibrium:** - Management helps in serving an organization in its dynamic environment. It enables the organization to survive in changing environment. The environment of organization changes due to external complexities and hence management has to deal with it. To establish sound organizational structure is one of the objectives of management.
9. **Useful for society:** - Management provided good standard of living to his workers. And management provides useful and quality products to the consumers.

**At the last, in the word of Peter Druker,**

“Management is the dynamic life-giving element in every business without it the resources of production remain resources and never become production”.

**SUMMARY**

Management is the catalyst and brain of industry without which no any organization can established or survive in the business environment. But management was not known in old times as it presently seems, it became this world at the beginning of the industrial revolution when the scale of production became very large and need to control its various stage of production and distribution problems in the industries. This problem required an immediate action and attention for the coordinate of work. Thus, management was born in industries to solve and manage industrial conditions. Now management is worldwide in the modern industry. It becomes essential part of modern industrial world.

According to Trucker, “management is the dynamic life-giving element in every business. Without it the resources of production remain resources and never become production. Management is the catalyst without which no organization can survive and grow”.

**EXERCISE**

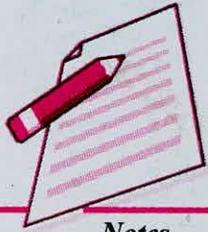
**Multiple choice Questions**

1. Which one of the following statements is not correct?
  - (a) Management is a goal-oriented process.
  - (b) Management is a continuous process.
  - (c) Management is a dynamic process.
  - (d) Management is a rigid process.

**Answer:** (d) Management is a rigid process.

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2. Which one of the following is not an importance of management?

- (a) Integrating various interest groups
- (b) Developing society
- (c) Disciplining employees
- (d) Inculcating creativity

**Answer:** (c) Disciplining employees

3. Management is not

- (a) an applied science.
- (b) a pure science.
- (c) an art.
- (d) an art and science both.

**Answer:** (b) a pure science.

4. In which category does management fall?

- (a) Well-established profession
- (b) Semi-profession
- (c) Emerging profession
- (d) Marginal profession

**Answer:** (c) Emerging profession

5. Top management is concerned with formulation of

- (a) guidelines for supervisors.
- (b) long-term plans.
- (c) short-term plans.
- (d) None of these.

**Answer:** (b) long-term plans.

6. Coordination is

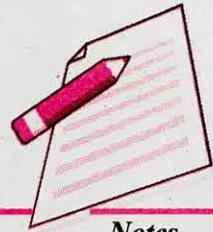
- (a) a management function.
- (b) the essence of management.
- (c) an objective of management.
- (d) a social objective.

**Answer:** (b) the essence of management.

7. The element that aims at integrating group efforts to achieve group objectives is called \_\_\_\_

- (a) Cooperation
- (b) Coordination
- (c) Management
- (d) Directing

**Answer:** (b) Coordination



*Notes*

8. Managing Director is the position of \_\_\_ level of management in a large company.

- (a) Top
- (b) Middle
- (c) Lower
- (d) Middle and Lower

**Answer:** (a) Top

9. Management is multidimensional because it has \_\_\_ dimension(s).

- (a) One
- (b) Two
- (c) Three
- (d) Four

**Answer:** (c) Three

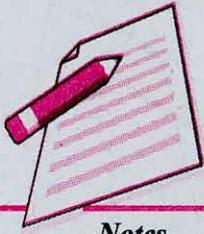
10. Management is a \_\_\_ directed process as it aims at achieving specified goals.

- (a) Continuously
- (b) Future
- (c) Goal
- (d) Deliberately

**Answer:** (c) Goal

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## Review Questions

### Short Answer Type

1. Define management.
2. Name any two important characteristics of management
3. what the importance of management
4. Explain the difference between efficiency and effectiveness
5. What is are the objectives of management?

### Case Study

Company X is facing a lot of problems these days. It manufactures white goods like washing machines, microwave ovens, refrigerators and air conditioners. The company's margins are under pressure and the profits and market share are declining. The production department blames marketing for not meeting sales targets and marketing blames production department for producing goods, which are not of good quality meeting customers' expectations. The finance department blames both production and marketing for declining return on investment and bad marketing. What quality of management do you think the company is lacking?

**Explain briefly. What steps should the company management take to bring the company back on track?**



Notes

2

MANAGEMENT AS SCIENCE

Management as Science, Art and Profession  
Levels of Management

Introductions

### IS MANAGEMENT IS AN ART OR SCIENCE ?

|  |  |
|--|--|
| <p><b>How management is an art</b><br/>Managing is the "art of arts" because it organizes and uses human talent.</p>   | <p><b>How management is science</b><br/>Management follows a systematic method to find a possible solution for a problem</p> |
| <p>Practical knowledge</p>           | <p>Concepts</p>                            |
| <p>Personal skill</p>               | <p>Methods and principles</p>             |
| <p>Creativity</p>                   | <p>Theories</p>                           |
| <p>Perfection through practice</p>  | <p>Organized knowledge</p>                |
| <p>Goal-oriented</p>                | <p>Practice</p>                           |

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## **Management as a Science**

Science is a systematic body of knowledge pertaining to a specific field of study that contains general facts which explains a phenomenon. It establishes cause and effect relationship between two or more variables and underlines the principles governing their relationship. These principles are developed through scientific method of observation and verification through testing.

Science is characterized by following main features:

1. **Universally acceptance principles** - Scientific principles represents basic truth about a particular field of enquiry. These principles may be applied in all situations, at all time & at all places. E.g. - law of gravitation which can be applied in all countries irrespective of the time.

Management also contains some fundamental principles which can be applied universally like the Principle of Unity of Command i.e. one man, one boss. This principle is applicable to all type of organization - business or non-business.

2. **Experimentation & Observation** - Scientific principles are derived through scientific investigation & researching i.e. they are based on logic. E.g. the principle that earth goes around the sun has been scientifically proved.

Management principles are also based on scientific enquiry & observation and not only on the opinion of Henry Fayol. They have been developed through experiments & practical experiences of large no. of managers. E.g. it is observed that fair remuneration to personal helps in creating a satisfied work force.

3. **Cause & Effect Relationship** - Principles of science lay down cause and effect relationship between various variables. E.g. when metals are heated, they are expanded. The cause is heating & result is expansion.

The same is true for management, therefore it also establishes cause and effect relationship. E.g. lack of parity (balance) between authority & responsibility will lead to ineffectiveness. If you know the cause i.e. lack of balance, the effect can be ascertained easily i.e. in effectiveness. Similarly, if workers are given bonuses, fair wages they will work hard but when not treated in fair and just manner, reduces productivity of organization.

4. **Test of Validity & Predictability** - Validity of scientific principles can be tested at any time or any number of times i.e. they stand the test of time. Each time these tests will give same result. Moreover, future events can be predicted with reasonable accuracy by using scientific principles. E.g. H<sub>2</sub> & O<sub>2</sub> will always give H<sub>2</sub>O.

Principles of management can also be tested for validity. E.g. principle of unity of command can be tested by comparing two persons - one having single boss and one having 2 bosses. The performance of 1st person will be better than 2nd.

It cannot be denied that management has a systematic body of knowledge but it is not as exact as that of other physical sciences like biology, physics, and chemistry



etc. The main reason for the inexactness of science of management is that it deals with human beings and it is very difficult to predict their behaviour accurately. Since it is a social process, therefore it falls in the area of social sciences. It is a flexible science & that is why its theories and principles may produce different results at different times and therefore it is a behaviour science. Ernest Dale has called it as a Soft Science.

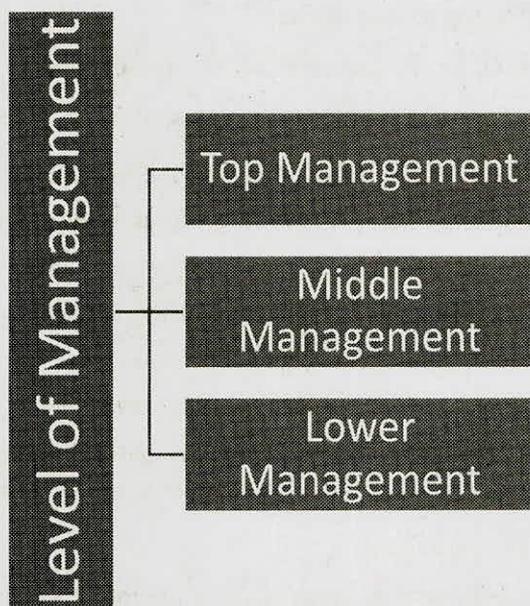
**Management Both a Science and an Art**

Science teaches us to know while art teaches us to do. In order to be successful, managers have to know and do things effectively and efficiently. This requires a unique combination of both science and art of managing in them.

It may, however, be said that the art of managing begins where the science of managing stops. Since the science of managing is imperfect, the manager must turn to the artistic managerial ability to perform a job satisfactorily.

Thus, it may be said that managing in practice is definitely an art but the body of knowledge, methods, principles etc. underlying the practice is science.

Even some people might have a different opinion regarding this matter. But as matter of fact, the art and science of managing are not so much conflicting as complementary.

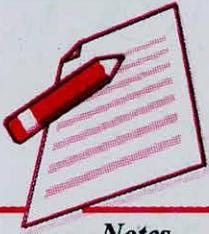


**Levels of Management**

**1 Top Level of Management**

It consists of board of directors, chief executive or managing director. The top management is the ultimate source of authority and it manages goals and policies for an enterprise. It devotes more time on planning and coordinating functions. The role of the top management can be summarized as follows –

- Top management lays down the objectives and broad policies of the enterprise.



- It issues necessary instructions for preparation of department budgets, procedures, schedules etc.
- It prepares strategic plans & policies for the enterprise.
- It appoints the executive for middle level i.e. departmental managers.
- It controls & coordinates the activities of all the departments.
- It is also responsible for maintaining a contact with the outside world.
- It provides guidance and direction.
- The top management is also responsible towards the shareholders for the performance of the enterprise.

## **2. Middle Level of Management**

The branch managers and departmental managers constitute middle level. They are responsible to the top management for the functioning of their department. They devote more time to organizational and directional functions. In small organization, there is only one layer of middle level of management but in big enterprises, there may be senior and junior middle level management. Their role can be emphasized as –

- They execute the plans of the organization in accordance with the policies and directives of the top management.
- They make plans for the sub-units of the organization.
- They participate in employment & training of lower level management.
- They interpret and explain policies from top level management to lower level.
- They are responsible for coordinating the activities within the division or department.
- It also sends important reports and other important data to top level management.
- They evaluate performance of junior managers.
- They are also responsible for inspiring lower level managers towards better performance.

## **3. Lower Level of Management**

Lower level is also known as supervisory / operative level of management. It consists of supervisors, foreman, section officers, superintendent etc. According to R.C. Davis, “Supervisory management refers to those executives whose work has to be largely with personal oversight and direction of operative employees”. In other words, they are concerned with direction and controlling function of management. Their activities include

- Assigning of jobs and tasks to various workers.
- They guide and instruct workers for day to day activities.
- They are responsible for the quality as well as quantity of production.



- They are also entrusted with the responsibility of maintaining good relation in the organization.
- They communicate workers problems, suggestions, and recommendatory appeals etc to the higher level and higher-level goals and objectives to the workers.
- They help to solve the grievances of the workers.
- They supervise & guide the sub-ordinates.
- They are responsible for providing training to the workers.
- They arrange necessary materials, machines, tools etc for getting the things done.
- They prepare periodical reports about the performance of the workers.

### **SUMMARY**

Comparison between art and science as used in management

| Art                  | Science               |
|----------------------|-----------------------|
| Advances by practice | Advances by knowledge |
| Feels                | Proves                |
| Guesses              | Predicts              |
| Describes            | Defines               |
| Opines               | Measures              |
| Expresses            | Impresses             |

It can be seen that management uses both scientific knowledge and art in managing an organization. As the science of management increases so should the art of management. A balance between the two is needed. Neither should be overweighed or slighted.

Some feel that further gains in science of management will restrict art more and more. This is true to a limited extent only. The fact remains that to be useful, knowledge of science must be applied, that is, art must be present. Therefore, the old saying that 'knowledge is power' is partially true.

The correct saying should be 'applied knowledge is power'. People having abundant knowledge may have little use if they do not know how to use knowledge. This is particularly true for management which is a situational phenomenon.

#### **Key Words:**

- Management as Arts
- Management as Science
- Management levels



*Notes*

**MCQ**

1. Management is the combination of
  - (A) Arts, Science and Mathematics
  - (B) Arts, Science and profession
  - (C) Arts, Social science and profession
  - (D) Arts, Science and commerce
  - (d) an art and science both.

**Answer:** (b)
2. Management is not
  - (a) an applied science.
  - (b) a pure science.
  - (c) an art.
  - (d) an art and science both.

**Answer:** (b) a pure science.
3. In which category does management fall?
  - (a) Well-established profession
  - (b) Semi-profession
  - (c) Emerging profession
  - (d) Marginal profession

**Answer:** (c) Emerging profession
4. Top management is concerned with formulation of
  - (a) guidelines for supervisors.
  - (b) long-term plans.
  - (c) short-term plans.
  - (d) None of these.

**Answer:** (b) long-term plans.
5. Managing Director is the position of \_\_\_ level of management in a large company.
  - (a) Top
  - (b) Middle
  - (c) Lower
  - (d) Middle and Lower

**Answer:** (a) Top

**Review Questions**

1. What are the functions of top management
2. What are the functions of middle management
3. What are the functions of lower management
4. What do you understand by the term: management as Arts
5. How management is a science

## 3

## FUNCTIONS OF MANAGEMENT



Notes

Management functions-planning, organizing, staffing, directing and controlling,  
Coordination- concept and importance

**Introduction**

Management has been described as a social process involving responsibility for economical and effective planning & regulation of operation of an enterprise in the fulfillment of given purposes. It is a dynamic process consisting of various elements and activities. These activities are different from operative functions like marketing, finance, purchase etc. Rather these activities are common to each and every manager irrespective of his level or status.

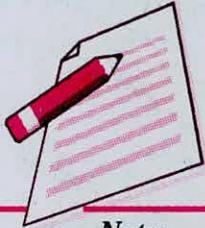
**Functions of Management**

Different experts have classified functions of management. According to George & Jerry, “There are four fundamental functions of management i.e. planning, organizing, actuating and controlling”.

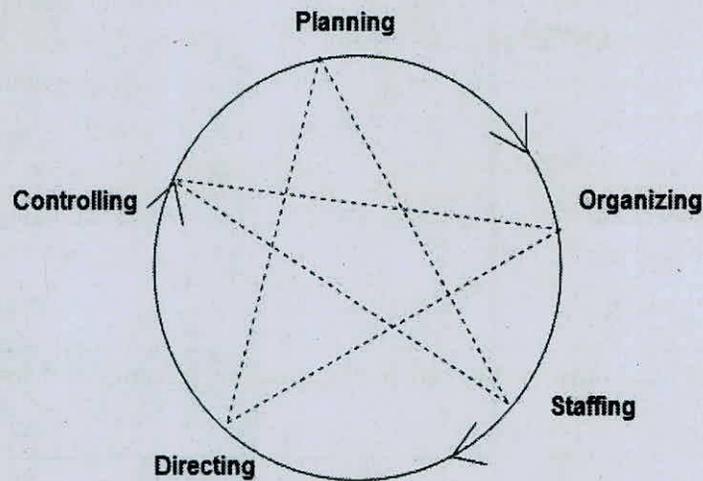
According to Henry Fayol, “To manage is to forecast and plan, to organize, to command, & to control”. Whereas Luther Gullick has given a keyword ‘**POSDCORB**’ where P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Co-ordination, R for reporting & B for Budgeting. But the most widely accepted are functions of management given by KOONTZ and O’DONNEL i.e.

- **Planning,**
- **Organizing,**
- **Staffing,**
- **Directing and**
- **Controlling.**

For theoretical purposes, it may be convenient to separate the function of management but practically these functions are overlapping in nature i.e. they are highly inseparable. Each function blends into the other & each affects the performance of others.



Notes



### 1. Planning

It is the basic function of management. It deals with chalking out a future course of action & deciding in advance the most appropriate course of actions for achievement of pre-determined goals. According to KOONTZ, "Planning is deciding in advance - what to do, when to do & how to do. It bridges the gap from where we are & where we want to be". A plan is a future course of actions. It is an exercise in problem solving & decision making. Planning is determination of courses of action to achieve desired goals. Thus, planning is a systematic thinking about ways & means for accomplishment of pre-determined goals. Planning is necessary to ensure proper utilization of human & non-human resources. It is all pervasive, it is an intellectual activity and it also helps in avoiding confusion, uncertainties, risks, wastages etc.

### 2. Organizing

It is the process of bringing together physical, financial and human resources and developing productive relationship amongst them for achievement of organizational goals. According to Henry Fayol, "To organize a business is to provide it with everything useful or its functioning i.e. raw material, tools, capital and personnel's". To organize a business involves determining & providing human and non-human resources to the organizational structure. Organizing as a process involves:

- Identification of activities.
- Classification of grouping of activities.
- Assignment of duties.
- Delegation of authority and creation of responsibility.
- Coordinating authority and responsibility relationships.

### 3. Staffing

It is the function of manning the organization structure and keeping it manned. Staffing has assumed greater importance in the recent years due to advancement of technology, increase in size of business, complexity of human behaviour etc.



The main purpose of staffing is to put right man on right job i.e. square pegs in square holes and round pegs in round holes. According to Kootz & O'Donell, "Managerial function of staffing involves manning the organization structure through proper and effective selection, appraisal & development of personnel to fill the roles designed un the structure". Staffing involves:

- Manpower Planning (estimating man power in terms of searching, choose the person and giving the right place).
- Recruitment, Selection & Placement.
- Training & Development.
- Remuneration.
- Performance Appraisal.
- Promotions & Transfer.

#### **4. Directing**

It is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. It is considered life-spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals. Direction has following elements:

- Supervision
- Motivation
- Leadership
- Communication

**Supervision-** implies overseeing the work of subordinates by their superiors. It is the act of watching & directing work & workers.

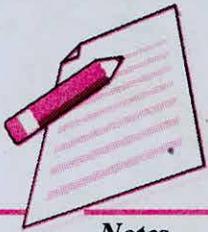
**Motivation-** means inspiring, stimulating or encouraging the sub-ordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose.

**Leadership-** may be defined as a process by which manager guides and influences the work of subordinates in desired direction.

**Communications-** is the process of passing information, experience, opinion etc from one person to another. It is a bridge of understanding.

#### **5. Controlling**

It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. The purpose of controlling is to ensure that everything occurs in conformities with the standards. An efficient system of control helps to predict deviations before they actually occur. According to Theo Haimann, "Controlling is the process of checking whether or not proper progress is being made towards the objectives and goals and acting if necessary, to correct any deviation". According to Koontz & O'Donell "Controlling



is the measurement & correction of performance activities of subordinates in order to make sure that the enterprise objectives and plans desired to obtain them as being accomplished". Therefore, controlling has following steps:

- Establishment of standard performance.
- Measurement of actual performance.
- Comparison of actual performance with the standards and finding out deviation if any.
- Corrective action.

### Meaning of coordination

It is defined as a harmonization of all resources and activities that facilitates in work. It is the essence of management for the achievement for the achievement of harmony of individual effort towards the accomplishment of group goals. It is a process by which the manager achieves harmonious group effort and unity of command of action for the attainment of a common purpose. Without coordination, other function of management can't be integrated.

"Coordination deals with the task of blending efforts in order to ensure successful attainment of an objective."

"Co-ordination" is balancing and keeping the terms together, by ensuring a suitable allocation of working activities of the various members and seeing that these are performed with due harmony among the members themselves." -E.F.L. Brech

### Means/ techniques of coordination

1. **Well-defined goals:** – the first means or technique of coordination is well-defined goals. The goals of the organization should be clear and well-defined. Each individual in the organization should understand the overall goals. When the goals are not well-defined the coordination may not effective.
2. **Sound organization structure:** – coordination is the essence of management. It is not possible without sound organization structure. The authority and responsibility for each and every position and employees should be clearly defined.
3. **Effective communication:** – coordination helps in creating proper understanding among persons. Without effective communication, coordination may be effective. The ideas, opinions should be interchanged freely. It is only through effective communication that even individual understand his/her limitations, positions and responsibility in the organization. Effective communication helps in coordination. Therefore, it is also an important means of coordination.
4. **Proper leadership:** – proper leadership leads the subordinates effectively and efficiently. A good managerial leader uses the motivational tools to coordinate the employees with effective communication system. In short, coordination is made possible through proper leadership.



5. **Proper supervision:** – supervisors coordinate the subordinates and their activities. Top level management cannot coordinate all employees. In short, proper supervision helps in effective coordination.
6. **Better plans and policies:** – coordination is made according to plans and policies of the organization and departments. When the plans and policies are not better coordination is not effective in the organization.
7. **Cooperation:** – without cooperation, coordination may not succeed because coordination is related to employees and their activities. When they are not cooperative, coordination may not be made. So, cooperation is essential in the organization.
8. **Meeting and conference:** – coordination may be possible when all employees their all activities and departmental goals are involved in organizational planning and policies. Their all problems and matters may be involved. When there is environment of constructive discussion and debate with meeting and conference
9. **Group decision:** – the group decision is a decision in which all members of the organization are participated to make decisions. The ideas and feelings are mixed into the decision and coordination may succeed.

### Importance of coordination

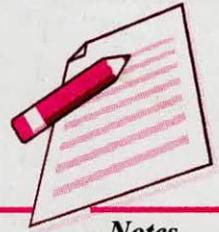
1. **Unity of action:** – an enterprise has diverse resources; technique, activities etc., and they all must be coordinates to bring unity through unity in action.
2. **Increase in efficiency and economy:** – coordination brings efficiency because it is an effort of all organizational members. It also helps to maintain good relation among all levels of management.
3. **Development of personnel:** – coordination helps to obtain information about job, qualities of a job holder which helps to analyze about the potentialities of the job holder and improve coordination system
4. **Differential perception:** – different people have different perception. When all people are coordinated effectively their effort and power are concentrated to achieve organizational goals.
5. **Survival of the organization:** – coordination helps to harmonize the work resources and physical facilities. When their activities are not harmonized the organization can't achieve the goal and it can't survive in the society
6. **Accomplishment of objectives:** – when the employees, their task and available resources are coordinated, their production will be increased and it helps to accomplish the objectives of the organization
7. **Basis of managerial function:** – all managerial functions such as planning, organizing, directing, controlling etc can't be conducted effectively without communication.
8. **Specialization:** – in the absence of coordination in the organization the activities can't be moved in specialized areas. Therefore, it helps in specialization

**Elements/principles/requisites of good coordination**

1. **Simplified organization:** – authority, responsibility, duty and other job description should clearly be described by the organization. Coordination may be simple and easy when all duties and power are clearly simplified,
2. **Harmonized programs and policies:** – an organization must set the programs and policies. These programs and policies must be harmonized. Harmonized policies helps to make coordination effective
3. **Well-designed system of communication:** – without effective communication coordination and harmonizing activities is not possible. Therefore, communication system must be well-designed.
4. **Voluntary cooperation:** - when all members of the organization are voluntarily cooperated, then only coordination can be successful.
5. **Coordination through supervision:** -supervisors are the most important actor to coordinate the workers and their work. Mainly in all organization supervisors coordinate the resources and activities.
6. **Continuity:** – it is never ending process. When it is done continuously, the resources are not used effectively, and they cannot provide the contribution.
7. **Direct contact:** – direct contact is necessary in effective coordination. Face to face contact may provide more effectiveness
8. **Clearly defined goals:** – organizational goals and other departmental goals must be clearly defined otherwise it isn't easy to coordinate the resources and activities.
9. **Effective leadership:** – leadership must be effective. It helps to increase the confidence of employees and it develops the morale of workers. In fact, effective leadership helps in effective coordination.

**SUMMARY**

1. **Planning:** - planning means the determination what is to be done, how and where is to be done, who is to do it and how the results are to be evaluated. Planning consists of :-
  - a. Establishing objectives
  - b. Formulating rules and regulations
  - c. Developing programs
  - d. Scheduling
  - e. Budgeting
2. **Organizing:** - it means identification and grouping the activities to be performed and dividing them among the individuals and creating authority and responsibility relationships among them for the accomplishment of organizational objectives. It consists of :-



- a. Determination of objectives and identification of activities necessary to achieve the objectives
- b. Delegation of authority and relationship among individuals.
- c. Coordination of activities and assignment of duties.
- d. Division of activities into different units or departments

**3. Staffing:** - human resources management is a process consisting of the acquisition, development, motivation and maintenance of human resources. It consists of:-

- a. Manpower planning to determine the quality and quantity of employees required for the jobs to be done
- b. Recruitment for attracting qualified persons
- c. Selection of best candidate
- d. Placement of the right man for the right job
- e. Training and development to increase new skills, knowledge and competency to do job
- f. Motivation of employees
- g. Evaluation performance of employees
- h. Employees welfare

**4. Directing:** - direction embraces those activities which are related to guiding and supervising subordinates .it consists of :-

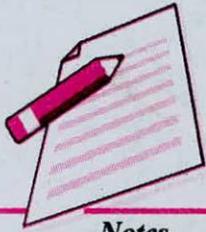
- a. Supervising the subordinates
- b. Communicating the information
- c. Providing effective leadership
- d. Motivating employees

**5. Controlling:** - controlling is the process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations. It consists of:-

- a. Determination of standard performance
- b. Measurement of actual performance
- c. Compares the actual performance with the standard
- d. Analyses deviations
- e. Take corrective actions if necessary.

**Key Words:**

- Planning
- Coordination
- Controlling

**Notes****EXERCISE****Multiple choice Questions**

1. This function of management relating to laying down the foundation for carrying out the other functions of management successfully is

- (a) Organising (b) Staffing  
(c) Planning (d) Controlling

**Answer: c**

2. Supervision, communication, motivation and leadership are the key elements of this • function of management.

- (a) Directing (b) Controlling  
(c) Planning (d) Organising

**Answer: a**

3. This function of Management related to placing the right person at the right job is

- (a) Organising (b) Staffing  
(c) Planning (d) Controlling

**Answer: b**

4. It is a force that binds all the functions Of management.

- (a) Cooperation (b) Co-ordination  
(c) Planning (d) Management hierarchy

**Answer: b**

5. Co-ordination is considered to be the essence of management because

- (a) It is a common thread that runs through all the activities within the organisation  
(b) It is implicit and inherent in all functions of the organisation  
(c) It is a force that binds all the functions of management  
(d) All of the above

**Answer: d**

6. Identify the process that provides the requisite amount, quality, timing and sequence of efforts, which ensures that planned objectives are achieved with a minimum of conflict.

- (a) Management (b) Planning  
(c) Co-ordination (d) Controlling

**Answer: c**

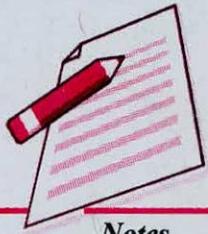
## Review Questions

1. Explain the correlation between planning and controlling
2. What are the functions of management
3. What is the importance of coordination
4. What is the feature of coordination
5. What is Staffing function and its significance

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***Business Studies***



*Notes*



Notes

# 1

## PRINCIPLES OF MANAGEMENT

Principles of Management- concept and significance, Fayol's principles of management Taylor's Scientific management- principles and techniques.

Principles of Management- concept and significance  
Fayol's principles of management  
Scientific management- principles and techniques.

### Objective of the chapter:

The basic objective of this chapter is to through some light on the initial concepts of Principles of Management and its significance in business.

### Principles of Management

"A principle is a rule or belief governing one's personal behaviour. It is a fundamental truth or proposition that serves as the foundation for a system of belief or behaviour or for a chain of reasoning." Principle is a fundamental statement of truth that establishes a cause and effect relationship between two or more variables. Principles are a guide to thought and action. If any principles are applied results are expected. Descriptive principles describe the relationship between variables and prescriptive principles indicate what a person should do for the betterment of his interest to achieve prosperity. Principle of management is concerned with managerial aspect of organization. It is believed that management is as old as mankind however systematic approaches to management are the outcome of efforts made in 20th century

### Nature of management principles

- Management principles are flexible and change with change in environment thus cannot be regarded as final truth. Principles should be applied according to need, place time and social culture. Continuous research re to be carried out.
- Management principles are relative and are applied according to the needs of particular organization.
- Management involves the direction of human behaviour in an organization which are directed towards regulating human for best result.
- Management principles establish cause and effect relationship. The effects are based on management principles which are based on predictions based upon



division of labour which results efficiency. Here division of labour is cause and efficiency is result

The following are the main reasons which highlight the importance of the principles of Management:

**Improving efficiency of managers:** Management principles serve as a guideline for doing work with greater efficiency. These principles help managers to take a more realistic view of different managerial problems and to direct human behaviour effectively. The conscious manager can become more effective by using the established management principles to solve problems.

**Improving art of management:** Management principles help in improving the art of management by suggesting how things should be done to get good results in an efficient manner. These principles provide a means of organizing knowledge and experience in management.

**Useful for research and practical guidance:** The network of management principles represents a key area for conducting research studies. These principles have expanded the horizons of knowledge and promoted further research. These principles have provided new ideas, imagination and vision to the organization.

**Helpful in management training:** Management principles are also needed to train managers. These principles provide a conceptual framework for systematic training and development of future managers. New techniques of management training make training programs more meaningful and efficiency.

**Useful for spreading knowledge:** Management principles are useful for spreading knowledge of management through teaching. The teaching of management principles continues to be an integral part of management education. These principles help to develop an organized body of knowledge by management practitioners, thinkers and philosophers.

**Evaluating the behaviour of managers:** Management principles prescribe what one should do to improve things in some ways. These principles attempt to prescribe and evaluate the behaviour of the managers of the organization.

**Attaining social goals:** Management principles have helped to attain the social goals by increasing efficiency and productivity in the use of scarce resources. The supply of quality goods at a reasonable price boosts social welfare.

### **The contribution of Henry Fayol to modern management**

**Fayolism** is one of the first comprehensive statement of a general theory of management, developed by the French management theorist Henri Fayol (1841–1925): one of the most influential contributors to modern concepts of management,

Fayol has proposed that there are five primary functions of management: (1) planning, (2) organizing, (3) commanding, (4) coordinating, and (5) controlling (Fayol, 1949, 1987). Controlling is described in the sense that a manager must receive feedback on a process in order to make necessary adjustments.



Fayol's work has stood the test of time and has been shown to be relevant and appropriate to contemporary management. Many of today's management texts including

Daft (2005) have reduced the five functions to four: (1) planning, (2) organizing, (3) leading, and (4) controlling. Daft's text is organized around Fayol's four functions.

### **The 6 types of Operations**

For Fayol any Organisation can be subdivided into six types of Operations. Each Operation being fulfilled by its corresponding Essential Function:

- **Technical** Operations (production, manufacturing, transformation)
- **Commercial** Operations (purchases, sales, exchanges)
- **Financial** Operations (seek for capital and finance management)
- **Security** Operations (protection of goods and people)
- **Accounting** Operations (balance, P&L, cost control, statistics, etc)
- **Administrative' Operations** (Management)(see below The 5 Elements of Administration)

In 1925 six months before Henri Fayol's death Verney helped Fayol redefine The function of administration (Administration Industrielle et Generale).

The old definition went as follows: The activities involved in businesses can all be classified under one of the following six headings: TECHNICAL, COMMERCIAL, FINANCIAL, SECURITY, ACCOUNTING, ADMINISTRATIVE organization, command, coordination and control. Compared with the new definition: The activities involved in businesses can all be classified under one of the following five headings: TECHNICAL, COMMERCIAL, FINANCIAL, SECURITY, ACCOUNTING These activities must be planned, organized, directed, coordinated and controlled, in a word: administered. The removal of the distinction between management and administration and the re-definition of administration, it appears that Fayol had finally synthesized these two concepts. Therefore, the previous difficulties with this distinction no longer exist (Breeze, J., & Miner Jr., F.)

### **The 9 Levels**

Fayol was representing an organisation like a living body (« **corps social** », i.e. "social body") with main organs hierarchically structured as follow:

- Shareholders,
- Board of Administration
- General Direction and its General staff (advisors),
- Regional/local Directions,
- Main Engineers,
- Services Managers,
- Workshops Managers,
- Foremen,
- Workers.



Notes

## The 5 Elements of Administration

Popularized by Fayol with the acronym of POCCC:

- **Planning** (to foresee/anticipate and make plans)
- **Organisation** (to provide the Function with all is needed for its smooth running: Supplies, Tools, Funding, Employees)
- **Commandment** (to lead the people employed by the organisation)
- **Coordination** (to harmonise all actions of an Organisation in order to facilitate its smooth running and success)
- **Control** (to **verify** if everything happens in accordance with defined plans, orders given, and accepted principles)

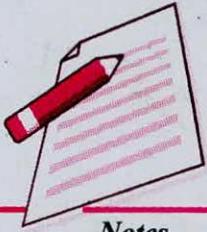
The word Control clearly provoked some misunderstanding by English-readers because its 1st meaning in French is «to check» and its 2nd meaning is «to have a grip over». And it is the other way round in English. So for the French-reader Fayol clearly meant «Check everything!».

For Fayol, “The Art of Commanding relies upon certain personal qualities and upon the knowledge of management general principles. (...) It has, like all other arts, its degrees. (...) The manager in charge of a commandment must:

- have a deep knowledge of his staff;
- cull the incapables;
- well know the conventions binding the organisation and its members;
- give the good example (by his attitude);
- conduct regular inspections of the « corps social »;
- get together his main partners in conferences (meetings) where are prepared the Unity of Direction and the Focus of Efforts;
- not be distracted by details;
- aim to make prevalent among his staff, energy, initiative.

## Fayol's 14 Principles of Management

1. **Division of Work** – When employees are specialized, output can increase because they become increasingly skilled and efficient.
2. **Authority** – Managers must have the authority to give orders, but they must also keep in mind that with authority comes responsibility.
3. **Discipline** – Discipline must be upheld in organizations, but methods for doing so can vary.
4. **Unity of Command** – Employees should have only one direct supervisor.
5. **Unity of Direction** – Teams with the same objective should be working under the direction of one manager, using one plan. This will ensure that action is properly coordinated.



Notes

6. **Subordination of Individual Interests to the General Interest** – The interests of one employee should not be allowed to become more important than those of the group. This includes managers.
7. **Remuneration** – Employee satisfaction depends on fair remuneration for everyone. This includes financial and non-financial compensation.
8. **Centralization** – This principle refers to how close employees are to the decision-making process. It is important to aim for an appropriate balance.
9. **Scalar Chain** – Employees should be aware of where they stand in the organization's hierarchy, or chain of command.
10. **Order** – The workplace facilities must be clean, tidy and safe for employees. Everything should have its place.
11. **Equity** – Managers should be fair to staff at all times, both maintaining discipline as necessary and acting with kindness where appropriate.
12. **Stability of Tenure of Personnel** – Managers should strive to minimize employee turnover. Personnel planning should be a priority.
13. **Initiative** – Employees should be given the necessary level of freedom to create and carry out plans.
14. **Esprit de Corps** – Organizations should strive to promote team spirit and unity.

**14 management principles of Henri Fayol**

|    |   |
|----|---|
| 1  | Division of Work or division of labor                         |
| 2  | Balancing Authority and responsibility                        |
| 3  | Discipline  |
| 4  | Unity of Command  |
| 5  | Unity of Direction  |
| 6  | Subordination of individual interests to the general interest |
| 7  | Remuneration  |
| 8  | Centralization  |
| 9  | Scalar chain  |
| 10 | Order   |
| 11 | Equity  |
| 12 | Stability of tenure of personnel                              |
| 13 | Initiative  |
| 14 | Esprit de corps   |

## 2

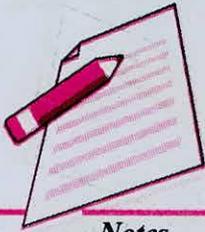
TAYLOR'S SCIENTIFIC  
MANAGEMENT

Notes

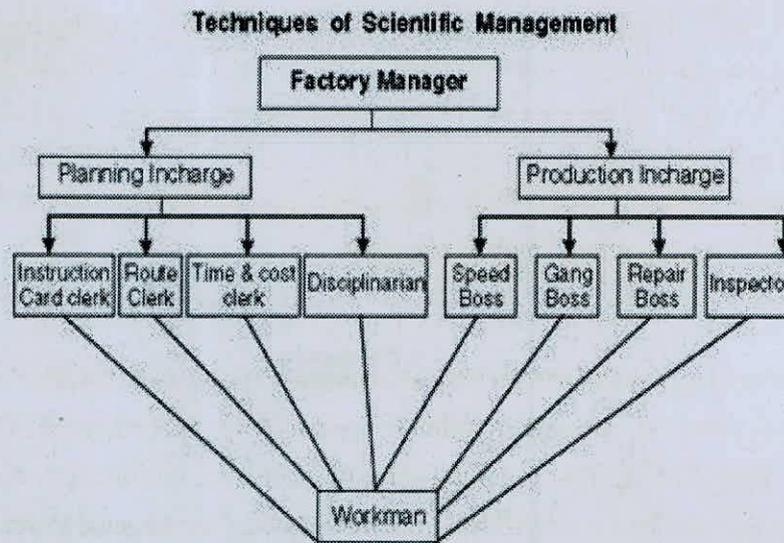
Fredrick Winslow Taylor (1856-1915) was a person who within a very short duration (1878-1884) rose from ranks of an ordinary apprentice to chief engineer in Midvale Steel Company, U.S.A. Taylor conducted a number of experiments and came to conclusion that workers were producing much less than the targeted standard task. Also, both the parties – Management and workers are hostile towards each other. He gave a number of suggestions to solve this problem and correctly propounded the theory of scientific management to emphasize the use of scientific approach in managing an enterprise instead of hit and trial method. For his contributions, he is well known as the “Father of the Scientific Management”. Scientific Management attempts to eliminate wastes to ensure maximum production at minimum cost.

### Principles of Scientific Management

- (1) **Science, not rule of Thumb:** There should be scientific study and analysis of each element of a job in order to replace the old rule of thumb approach or hit and miss method. We should be constantly experimenting to develop new techniques which make the work much simpler, easier and quicker.
- (2) **Harmony, not discord:** It implies that there should be mental revolution on part of managers and workers in order to respect each other's role and eliminate any class conflict to realize organizational objectives.
- (3) **Cooperation not individualism:** It is an extension of the Principle of Harmony not discord whereby constructive suggestions of workers should be adopted and they should not go on strike as both management and workers share responsibility and perform together.
- (4) **Development of each and every person to his or her greatest Efficiency and Prosperity:** It implies development of competencies of all persons of an organization after their scientific selection and assigning work suited to their temperament and abilities. This will increase the productivity by utilizing the skills of the workers to the fullest possible extent.



Notes



1. **Functional Foreman-ship:** Functional foreman-ship is a technique in which planning and execution are separated. There are eight types of specialized, professionals, four each under planning and execution who keep a watch on all workers to extract optimum performance.

#### Planning Incharges:

1. **Route Clerk** to specify the exact sequence and route of production.
2. **Instruction card clerk** is responsible for drafting instructions for the workers.
3. **Time and cost clerk** to prepare time and cost sheet for the job.
4. **Shop Disciplinarian** to ensure discipline and enforcement of rules and regulations among the workers.

#### Production In charges:

1. **Gang boss** is responsible for keeping tools and machines ready for operation.
  2. **Speed boss** is responsible for timely and accurate completion of job.
  3. **Repair boss** to ensure proper working conditions of tools and machines.
  4. **Inspector** to check quality of work.
2. **Standardization and Simplification of work:** Standardization refers to developing standards for every business activity whereas Simplification refers to eliminating superfluous varieties of product or service. It results in savings of cost of labour, machines and tools. It leads to fuller utilization of equipment and increase in turnover.
  3. **Method Study:** The objective of method study is to find out one best way of doing the job to maximize efficiency in the use of materials, machinery, manpower and capital.
- (1) Which technique of scientific management is being violated here?  
(Hint: Functional Foreman ship.)
  - (2) Write one consequence of this violation.



**Notes**

- 4. Motion Study:** It is the science of eliminating wastefulness resulting from using unnecessary, ill-directed and inefficient motions by workers and machines to identify best method of work.
- 5. Time study:** It determines the standard time taken to perform a well-defined job. The objective of time study is to determine the number of workers to be employed, frame suitable incentive schemes & determine labour costs.
- 6. Fatigue study:** Fatigue study seeks to determine time and frequency of rest intervals in completing a task. The rest interval will enable workers to regain their lost stamina thereby avoiding accidents, rejections and industrial sickness.
- 7. Differential piece wage system:** This system links wages and productivity. The standard output per day is established and two-piece rates are used: higher for those who achieve up to and more than standard output i.e. efficient workers and lower for inefficient and slow workers. Thus, efficient workers will be rewarded & inefficient will be motivated to improve their performance.

**For example:** Standard task is 10 units. Rates are: Rs 50 per unit for producing 10 units or

more and Rs 40 per unit for producing less than 10 units

Worker A produces 11 Units; he gets Rs 550 (11 units x 50 per unit)

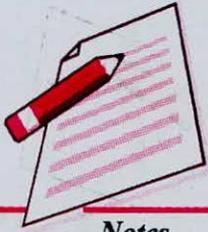
Worker B produces 09 units; he gets Rs 360 (9 units x 40 per unit)

This difference of Rs 190 will motivate B to perform better.

| Basis                 | Fayol  | Taylor  |
|-----------------------|--|---|
| 1. Nature of Research | He developed the theory of Functional management or Management process.  | He developed the concept of Scientific management.  |
| 2. Concern            | His principles are concerned with management efficiency.   | His principle and techniques are concerned with workers efficiency.   |
| 3. Level              | He designed principles for top level of management.  | He designed principles for lower level of management.   |
| 4. Focus              | Improving overall administration by observing certain principles was his main focus.   | For him increasing productivity through work simplification was main focus.                                     |
| 5. Personality        | He developed the personality of a researcher and practioner and was called as 'father of general management.                       | He developed the personality of scientist and was called as 'father of scientific management                    |
| 6. Major contribution | Hid main contribution was to produce a systematic theory of management with the help of fourteen principles of general management. | He provided a basis on accomplishment on production line with the help of scientific techniques and management. |

## CLASS-12

### Business Studies



Notes

|                             |   |   |
|-----------------------------|---|---|
| 7. Human element            | He gave due emphasis to human elements by suggesting principles like equality, initiative, fair remuneration etc. | He ignored the human element and emphasized more on increasing productivity.                              |
| 8. Rigidity and flexibility | His principles were flexible.   | He was rigid in his approach and he felt that there should be no deviation from fixed standards.          |
| 9. Applicability            | His principles are applicable to business as well as non-business organizations i.e. are applicable universally.  | His principles are applicable to production and manufacturing i.e. are applicable to specific situations. |
| 10. Unity of command        | He strictly follows this principle i.e. one boss for one employee.  | He did not follow this principle instead he insisted on minimum eight bosses.                             |

**8. Mental Revolution:** It involves a complete change in mental outlook and attitude of workers and management towards one another from competition to cooperation. The management should create pleasant working conditions & workers should work with devotion and loyalty. Instead of fighting over distribution of profits, they must focus attention on increasing it

### SUMMARY

Henri Fayol was born in Istanbul in 1841. When he was 19, he began working as an engineer at a large mining company in France. He eventually became the director, at a time when the mining company employed more than 1,000 people.

Through the years, Fayol began to develop what he considered to be the 14 most important principles of management. Essentially, these explained how managers should organize and interact with staff.

In 1916, two years before he stepped down as director, he published his “14 Principles of Management” in the book “**Administration Industrielle et Générale.**” Fayol also created a list of the six primary functions of management, which go hand in hand with the Principles.

Fayol’s “14 Principles” was one of the earliest theories of management to be created, and remains one of the most comprehensive. He’s considered to be among the most influential contributors to the modern concept of management, even though people don’t refer to “The 14 Principles” often today.

FW Taylor is considered as the father of scientific management as he opposed rule of thumb and proposed scientific management. He broke up human activity into small parts and found out how it could be done effectively, in less time and increased productivity.

**Scientific management** In words of Taylor, scientific management means knowing exactly what you want men to do and seeing that they do in the best and the cheapest way.



## 1. Principles of Scientific Management

- (i) **Science, not rule of thumb** Decisions should be made on the basis of facts developed by the application of scientific methods.
- (ii) **Harmony, not discord** There should be harmony between the management and the workers. Mental revolution was proposed for attaining harmony.
- (iii) **Cooperation**, not individualism There should be cooperation between workers and management.
- (iv) **Development of each and every person to his/her greater efficiency and prosperity** Industrial efficiency depends on the efficiency of workers.

### Key Words

- Scientific management
- Administrative management

## EXERCISE

### Multiple choice Questions

1. Principles of management are not: -
  - (a) absolute
  - (b) Behavioural
  - (c) universal
  - (d) Flexible
2. Principles of management are significant because of: -
  - (a) Initiative
  - (b) Increase in efficiency
  - (c) Optimum utilization of resources
  - (d) Adaptation to changing technology
3. Henry Fayol was a
  - (a) scientist
  - (b) Accountant
  - (c) Mining Engineer
  - (d) Farmer
4. Which of the following is not a principle by Henry Fayol?
  - (a) Division of work
  - (b) Harmony not discord
  - (c) Discipline
  - (d) Unity of command
5. Management should find the one best way to perform a task. Which technique of management states that: -
  - (a) Time study
  - (b) Motion study
  - (c) Fatigue study
  - (d) Method study
6. \_\_\_\_\_ means every employee should get order from one superior only
  - (a) Unity of command
  - (b) Unity of direction
  - (c) Centralisation
  - (d) Order

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7. Concentration of authority at one level is called: -
- (a) Decentralisation                      (b) Delegation  
(c) Accountability                        (d) Centralisation

**Answer Keys**

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | a | 2 | b | 3 | c | 4 | b | 5 | d | 6 | a | 7 | b |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

**Review Questions**

1. Explain the nature of principles of management?
2. What do you mean by optimum utilization of resources & effective administration?
3. Discuss the following principles briefly: -
  - A. Division of work
  - B. Discipline
  - C. Subordination of individual Interest to general interest
4. Write the difference between unity of command and unity of direction?
5. What does principle of initiative indicate?
6. A manager should replace 'I' with 'We' in all his conversation with workers. Which principle of management states that? Explain it briefly.
7. Briefly discuss science not rule of thumb and Harmony not discord as the principles of scientific management?
8. Why Taylor introduced different rate of wage payment for those who performed above and below standard performance?
9. Explain functional foremanship as a technique of scientific management?
10. Define scalar chain as a principle of management?

## 1

**BUSINESS ENVIRONMENT  
CONCEPT – MEANING,  
DEFINITION, FEATURES AND  
IMPORTANCE**

Notes

Business Environment- concept and importance, Dimensions of Business Environment Economic, Social, Technological, Political and Legal Demonetization - concept and features, Impact of Government policy changes on business with special reference to liberalization, privatization and globalization in India

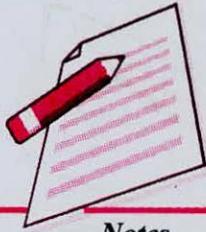
Business Environment- concept and importance, Dimensions of Business Environment Economic, Social, Technological, Political and Legal

**Business Environment Concept – Meaning, Definition, Features and Importance**

All living creatures including human beings live within an environment. Apart from the natural environment, environment of humans includes family, friends' peers and neighbours. It also includes man-made structures such as buildings, furniture, roads and other physical infrastructure. The individuals do not live in a vacuum. They continuously interact with their environment to live their lives.

Just like human beings, business also does not function in an isolated vacuum. Businesses function within a whole gambit of relevant environment and have to negotiate their way through it. The extent to which the business thrives depends on the manner in which it interacts with its environment. A business, which continually remains passive to the relevant changes in the environment, is destined to gradually fade-away in oblivion. To be successful business has not only recognized different elements of the environment but also respect, adapt to or have to manage and influence them. The business must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell extreme threats or open up new opportunities for the firm. A successful business has to identify, appraise, and respond to the various opportunities and threats in its environment.

As stated above, the success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government policies, the business has to make the necessary changes to adapt itself to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced



**Notes**

the typewriters; the colour television has made the black and white television out of fashion. Again, a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So, the business units must have to adapt themselves to these changes in order to survive and succeed in business. Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components.

### **Definitions of Business Environment**

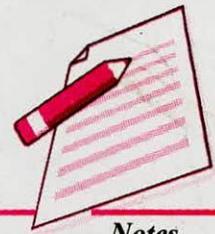
The term 'business environment' connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly. Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business. It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

- Business Environment has been defined by Bayard O. Wheeler as "the total of all things external to firms and industries which affect their organization and operation".
- According to Arthur M. Weimer, business environment encompasses the 'climate' or set of conditions, economic, social, political or institutional in which business operations are conducted.
- According to Glueck and Jauch, "The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government."
- According to Barry M. Richman and Melvyn Copen "Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the 'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country".

From the above definitions we can extract that business environment consists of factors that are internal and external which poses threats to a firm or these provide opportunities for exploitation.

### **Concept of Business Environment**

A business firm is an open system. It gets resources from the environment and supplies its goods and services to the environment. There are different levels of environmental



forces. Some are close and internal forces whereas others are external forces. External forces may be related to national level, regional level or international level. These environmental forces provide opportunities or threats to the business community. Every business organization tries to grasp the available opportunities and face the threats that emerge from the business environment. Business organizations cannot change the external environment but they just react. They change their internal business components (internal environment) to grasp the external opportunities and face the external environmental threats. It is, therefore, very important to analyze business environment to survive and to get success for a business in its industry. It is, therefore, a vital role of managers to analyze business environment so that they could pursue effective business strategy. A business firm gets human resources, capital, technology, information, energy, and raw materials from society. It follows government rules and regulations, social norms and cultural values, regional treaty and global alignment, economic rules and tax policies of the government. Thus, a business organization is a dynamic entity because it operates in a dynamic business environment.

### **Features of Business Environment**

On the basis of the above discussion the features of business environment can be summarized as follows.

- Business environment is the sum total of all factors external to the business firm and that greatly influence their functioning.
- It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.
- The business environment is dynamic in nature, that means, it keeps on changing.
- The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.
- Business Environment differs from place to place, region to region and country to country.

### **Importance of Business Environment**

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

- **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments
- **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

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- **Giving Direction for Growth:** The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.
- **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.
- **Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working.
- **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

### Factors Affecting Business Environment

The **business environment** or the external forces acting on the business consists of a large number of forces. These are;

#### 1. Demographic Factors

Demography is a study of human population with reference to its size, density, distribution and other connected vital statistics. This information is very essential in modern days for planning and development and also for framing laws relating to society and business. The density of population, the extent of their standard of living, the level of their education and the nature of their occupation etc., greatly influence the type of business the entrepreneurs could undertake. The business units require customers for its survival and growth; naturally business can thrive in populace regions, though now-a day's transportation helps a lot in bringing the commodities to the scarcely populated areas.

#### 2. Economic Factors

The business enterprise is affected by various economic forces which cannot be controlled by the business. These economic forces, can be divided into two categories, i.e. Demand Force and Competitive Force. For a business firm to survive and thrive, it should have adequate demand for its products. At the same time, the firm has to complete with the rival firm producing similar products or substitute products.

#### Economic forces affecting demand:

For customers to buy the commodity of the firm, they should have the ability to buy and willingness to buy. The ability to buy a commodity depends on the income of the customer, to be very precise, the disposable income of the customer. Out of the total income, the individual has to pay taxes due to the government and the disposable income will be less if the taxes are high. Secondly, if the individual wants to save more, the amount for spending will be less. Thus, the ability to buy a commodity depends

on the a) Total income earned out of the employment of the individual b) The taxes of the government and c) The savings of the individual.

An increase in tax will reduce the demand for the commodity. The attitude of the individual towards 'Saving' will affect the demand. A change in 'Price' of the commodity will affect the demand. Expectation of a further change in price or change in taxes will also affect the demand.

- **Competitive forces:** The competitive tools are price cutting, advertisement, product differentiation, marketing strategies and consumer service.
- **Price cutting:** Price cutting or price reduction is a method which has to be adopted very cautiously, as it may ultimately lead to price-war between firms competing, resulting in reduction of profits.
- **Advertisement:** Advertisements in modern days have become a very powerful tool in persuading the consumers of a product to a particular brand. In monopolistic competition, a large share of the market is entrenched by firms making effective and aggressive advertisement.
- **Product differentiation:** A firm tries to get competitive strength by differentiating its product from those of its rivals. By having special design, colour, packing and features, the firm tries to get competitive edges.
- **Marketing strategies and Consumer Service:** Modern firm adopt various types of marketing strategies to create market for their products. Instalment system, credit system, hire-purchase, etc., are the prominent ways by which firms try to cut through the poor segments of the society and convert them their customers. Besides customer service like, free door delivery, quick service, after sales service, guarantee from defects up to a certain period are adopted to have more and more demand for their commodities.

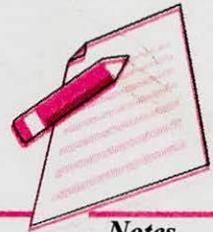
### 3. Geographical and Ecological Environment

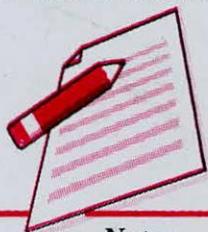
**Geographical** conditions, to a greater extent, influence the type of industries and business in a region. Generally, the people of a particular geographical region will have similar tastes, preferences and requirements. The geographical situation, the physical feature, the climate, rainfall, humidity, the vegetation, etc., decide the type of living in a particular region and only those industries which could cater to the needs of the people, could develop. In other words, geographical conditions exert profound influence on the location of the business.

**Ecological** is a study "dealing with the interaction of living organism with each other and with their non-living environment". It is a science telling about the relationship of all living beings. (i.e., human beings, animals, plants) with non-living beings (air, water, soil represented by atmosphere, rivers, lakes, mountains and land).

### 4. Social and Cultural Environment

Social and Cultural attitudes of a region influence the business organizations of the region influence the business organizations of the region in a variety of ways. The





business practices and the management technique of the organization should cope with the social and cultural attitudes of the people.

The modern business is a social system in itself, but it is also part of a larger social system represented by society in general. Clearly, there should be some reciprocal relationship between business and this larger society. To put it shortly, the business should adopt itself to the social and cultural environment.

It is the class structure of the society. It tells about the social roles and organizations and the development of social institutions. The class-structure depend upon the occupation of the people, their education, income level, social status, their mobility, their attitude towards living, work and social relationship and above all, their attitude towards business.

Every society develops its own 'culture' which means how the members of that society behave and interact with each other in society, as well as outside society. The term culture includes values, norms, customs, ethics, goals and other accepted behaviour patterns.

### **5. Political and Legal Environment**

**Political Environment:** All business firms are directly affected to a greater or lesser degree by the government and its programmes. Political forces will decide the nature of business, programmes and projects to be undertaken for the development of the country. These **political forces** can be classified as **long-term forces, quick changes, cyclical changes and regional factors.**

- **Long term forces** denote the secular trends in business activities due to the political conditions prevailing and the adoption of a particular line of policy in business.
- **Quick Changes** consist of sudden political changes due to army coup or revolt or capturing of the government machinery by the dissident group. The quick change may also be the result of proclamation of 'emergency' or 'Martial Law' due to sudden outbreak of war with a belligerent nation. In all these cases, the business manager has to take quick decisions to adopt his business to the changed environment.
- **Cyclical Changes** denote periodical anticipated changes like 'General Election' which may change the government and consequent change in plans and programmes as well as priorities by the new Government.

Regional Factors the regional consideration may dominate the political scene. Development of agricultural or development of an industrially backward region may draw the attention of politicians and government. Consequently, special legislations or policies will be framed to help the backward regions or sector. In such changes, the business has to adopt itself by studying and estimating the risks and dangers involved in taking decisions.

**Legal Environment:** Business in a country can be started and nurtured to grow into big business only within the legal system of the country. In this connection, all

countries of the world have a separate set of laws for the control and direction of business. The business law of the country is a complex system of regulations and intervention that form the legal environment of the business. All business managers should have the knowledge of business law for taking management decision.

## 6. Technological Environment

Technology means “the systematic knowledge of the industrial arts”. ‘Technique’ denotes the method of performance. These two are increasingly used in modern literature on industrial production. The present age is the age of technology. Technology affects the business in two ways.

- Its impact on the society and
- Its impact on business operation.

## Relevance of Business Environment Concept

In business all the activities are being organized and also carried out by the people to satisfy the needs of the consumers. So, it is an activity carried out by the people for the people which means people occupy a central place around which all the activities revolve. It means business is people and a human is always a dynamic entity who believes in change and it may be right to say that the only certainty today is change. It poses a huge challenge for today’s and especially tomorrow’s businessmen and managers to be aware of specific changes so as to keep themselves abreast with the latest happenings in the field of business to maintain their survival and sustainability in the market. Therefore, the study of business environment is of utmost importance for the managers and practitioners.

## Dimension of Business Environment

Dimensions of or the agents forming the business environment involve economic, social, legal, technological and political circumstances which are contemplated properly for decision-making and enhancing the achievement of the trading concern. In distinction to the precise environment, these aspects manifest the prevailing environment, which often affects many companies at the same time. However, the administration of every business can profit from being informed of these dimensions rather than being unbiased in them. A concise argument of the multiple factors comprising the global environment of the company is provided below:

### (A) Legal Environment

- It includes various laws passed by the government, administrative orders issued by government authorities, court judgments as well as decisions rendered by the central, state or local governments.
- Understanding of legal knowledge is a pre-requisite for the smooth functioning of business and industry.
- Understanding the legal environment by business houses help them not to fall in a legal tangle.





Notes

- The legal environment includes various laws like Companies Act 2013, Consumer Protection Act 1986, Policies relating to licensing & approvals, Policies related to foreign trade etc.

**Example:** Labour laws followed by companies help them to keep away from penalties.

### **(B) Political Environment**

- It means that the actions were taken by the government, which potentially affect the routine activities of any business or company on a domestic or at the global level.
- The success of business and industry depends upon the government's attitude towards the business and industry, Stability of Government, Peace in the country.

**Example:** Political stability and central government's attitudes towards business, industry and employment, has attracted many national and international business entrepreneurs to invest in India.

### **(C) Economic Environment**

- The economic environment consists of an economic system, economic policies and economic conditions prevailing in a country.
- Interest Rates, Taxes, Inflation, Stock Market Indices, Value of Rupee, Personal Disposable Income, Unemployment rate etc. are the factors which affect the economic environment.

**Example:** A rise in the disposable income of people due to a decrease in tax rates in a country creates more demand for products.

### **(D) Social Environment**

- Social Environment consists of social forces like traditions, values, social trends, level of education, the standard of living etc. All these forces have a vast impact on business.
- **Tradition:** It refers to social practices that have lasted for decades, such as Ugadi, Deepavali, Id, Christmas, etc.,
- **Impact:** More demand during festivals provides opportunities for various businesses.
- **Values:** It refers to moral principles prevailing in the society, such as Freedom of choice in the market, Social Justice, Equality of opportunity, Non-discriminatory practices etc.
- **Impact:** The organisations that believe in values maintain a good reputation in society and find ease in selling their products.
- **Social Trends:** It refers to a general change or development in the society, such as health and fitness trend among urban dwellers.
- **Impact:** Health and fitness trend has created demand for gyms, mineral water etc.



**(E) Technological Environment**

- It consists of scientific improvements and innovations which provide new ways of producing goods, rendering services, new methods and techniques to operate a business.
- It is very important for a firm to understand the level of scientific achievements of a particular economy before introducing its products.
- Technological compatibility of products also drives the demand for manufactured products by a company.

**Example:** E-commerce has changed the scenario of doing the business, buying goods and availing services at the click of a mouse or through mobile, Digital India initiative by the government and move towards a paperless society.

**Q. [HOTS]:**

- (I) The Court Passed an Order That All Schools Must Have Water Purifier for the School Children.
- (II) Society, in general, is More Concerned About the Quality of Life.
- (III) Innovative Techniques Are Being Developed to Manufacture Water Purifier at Competitive Rates.
- (IV) Incomes Are Rising and Children at Home Are Also Drinking Purified Water.
- (V) the Government is Also Showing Positive Attitude Towards the Water Purifier Business.

Identify the Different Dimensions of Business Environment by Quoting from the Above Details. (Delhi 2013)

Answer:

| Environment         | Quoted Lines                                       |
|---------------------|--|
| (I) Legal           | Court passed an order...                           |
| (II) Social         | Society, in general, is more concerned             |
| (III) Technological | Innovative Techniques are being developed          |
| (IV) Economic       | Incomes are rising and children ....               |
| (V) Political       | The Government is also showing a positive attitude |

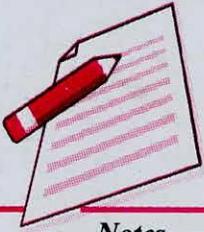
**Q.**

- (I) The Court Passed an Order to Ban Polythene Bags as These Bags Are Creating Many Environmental Problems Which Affect the Life of People in General.
- (II) the Society, in General, is More Concerned About the Quality of Life.
- (III) the Government Decided to Give Subsidy to Jute Industry to Promote This Business.
- (IV) Innovative Techniques Are Being Developed to Manufacture Jute Bags at Low Rates.
- (V) Incomes Are Rising and People Can Afford to Buy These Bags.

Identify the Different Dimensions of Business Environment by Quoting the Lines From the Above Particulars. (Outside Delhi 2013)

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| <b>Answer:</b>     |  |
|--------------------|--|
| Environment        | Quoted Lines                               |
| (I) Legal          | Court passed an order...                   |
| (II) Social        | Society, in general, is more concerned     |
| (III) Political    | The government decided to give subsidy.    |
| (IV) Technological | Innovative techniques are being developed. |
| (V) Economic       | Incomes are rising and people can afford.  |

### 3-4 Marks Questions

Q.1 “demand for ‘sarees’ May Be High in India but Almost Negligible in Europe”. Identify and Explain the Feature and Component of Business Environment is Highlighted Here.

#### Answer:

|                        |  |
|------------------------|--|
| (a) Relativity         | As per this feature of the business environment, conditions, tastes, preferences, customs, rules, regulations, etc. differ from place to place, region to region and country to country.       |
| (b) Social Environment | Social Environment consists of social forces like <b>traditions, values, social trends</b> , level of education, the standard of living, etc. All these forces have a vast impact on business. |

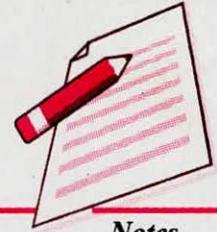
Q.2 Mr. Manmohan owns an electronic shop in a small city. He happened to attend a seminar on impact of globalisation on commerce and trade. He was surprised to see how technology has brought the people so close that has increased the scope of doing business at a large scale. He was excited to apply the technology in his business.

- (a) which dimension of business environment is referred to here? Explain briefly.  
(b) what more should Manmohan do to expand his business? (suggest any two)

#### Answer:

|                           |  |
|---------------------------|--|
| Technological Environment | It consists of scientific improvements and innovations which provide new ways of producing goods, rendering services, new methods and techniques to operate a business.  |
| Measures to Be Adopted    | (1) He may convert his business into a company form to raise further capital to expand his business operations.<br>(2) He should focus on customers' preferences.<br>(3) He should provide after-sales services.<br>(4) He should sell goods at reasonable prices to keep and extend his market share. |

## 2

**DEMONETIZATION - CONCEPT AND FEATURES***Notes*

Demonetization - concept and features

Impact of Government policy changes on business with special reference to liberalization, privatization and globalization in India

**Introduction****What is Demonetization?**

Demonetization is an economic process in which a country's currency unit is no longer legal tender. A currency unit is what we would commonly refer to as physical money, such as banknotes and coins. When demonetization occurs, the country's currency unit is essentially worthless, as it can no longer be used to purchase goods and services.

Demonetization can occur for several reasons, from a change in national currency to the retirement of older forms of money. Over time, several countries have implemented currency demonetization measures, albeit with varying degrees of success.

**The Demonetization Process**

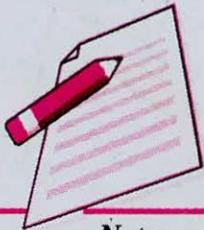
Demonetization is a form of economic intervention, where a country moves to replace one form of currency with another. At the beginning of the demonetization process, the old currency is discontinued and pulled from circulation to be replaced with new forms of money.

During the process, people are given time to exchange their existing banknotes and coins for the new currency before it is officially discontinued. After a currency has been discontinued, it is no longer legal tender and contains no monetary value.

The demonetization process can occur in many different forms – a country can introduce new banknotes or coins or implement a completely new form of currency altogether. However, demonetization is a drastic measure that occurs rarely and can disrupt society if implemented improperly. At times, countries may also decide to reinstate discontinued currency as legal tender through a process known as remonetization.

**Reasons for Demonetization**

Although demonetization is rare, countries around the world have conducted demonetization measures for various reasons.

**Notes**

Governments may choose to undergo demonetization if the currency gets out of control; due to problems like hyperinflation.

Demonetization can also be used to prevent criminal actions, such as counterfeiting, terrorism, or tax evasion.

In other cases, demonetization occurs to implement a new currency standard. For example, in 2002, the European Union introduced the euro, a central currency that would replace the existing currencies of several nations. In adopting the common currency, countries across Europe discontinued their currencies and introduced the euro as the standard across the European Union.

### **Advantages of Demonetization**

Through the demonetization of currency, a country can receive benefits ranging from crime prevention to greater currency standardization.

#### **1. Reduces various criminal activities**

One of the benefits of demonetization is the reduction of various forms of criminal activity. Through the demonetization process, old banknotes and coins are discontinued and taken out of circulation, and effectively become worthless. For groups conducting criminal activities, such as terrorism, their supply of money effectively becomes worthless, as the currency is no longer legal tender.

For those engaged in counterfeiting, the banks will evaluate whether old banknotes are counterfeit before exchanging them, therefore allowing the government to remove counterfeit currency from the system.

#### **2. Prevents tax evasion**

Demonetization of currency can also prevent tax evasion, as those that are evading taxes must exchange their existing currency or risk their money becoming worthless. In the currency exchange process, the government can catch those who have evaded taxes and retroactive tax their unreported earnings.

#### **3. Promotes a cashless economy**

Demonetization can also further the push towards a cashless economy, as the government can slow the circulation of physical currency and move towards more digital options.

### **Disadvantages of Demonetization**

On the other hand, some disadvantages can arise from the demonetization process, including:

#### **1. Incurs costs from printing new banknotes and minting of coins**

One of the initial drawbacks is the costs involved with the printing of new banknotes and the minting of coins, as well as the discontinuation of existing currency.



## 2. May not entirely reduce criminal activity

In addition, demonetization may not reduce criminal activity, as criminals may keep their assets in other forms, such as gold or real estate.

## 3. Can trigger chaos among citizens

Finally, if the demonetization process isn't implemented successfully, it can result in chaos among the population, as people scramble to exchange their currency before discontinuation.

## Real-World Examples

### 1. India (2016)

A recent example of demonetization was India in 2016 when the government announced the discontinuation of all ₹500 and ₹1,000 banknotes. It was done to reduce the presence of counterfeit cash to fund criminal activity.

When the demonetization was announced, there were shortages of cash across the country, as people scrambled to exchange their existing banknotes. It led to disruptions to the economy, reducing India's industrial production and hindering its GDP growth rate.

### 2. Eurozone (2002)

Another example of demonetization was the European transition to the euro in 2002. To facilitate the process, the European Central Bank needed to ensure that there was enough currency to be circulated and began printing banknotes and minting coins as early as 1998.

When the euro was introduced, the central bank ensured that all citizens were able to access to the new currency and began providing banks with the new banknotes and coins several months in advance.

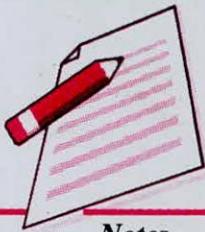
## LPG 1991-Reforms

### Nature of Indian economy in the pre reform era:

Indian economic policy after independence was influenced by the colonial experience, which emphasised on **industrialization under state monitoring, state intervention** in labour and financial markets, a large public sector, **business regulation, and central planning**.

**Indian economy was a closed one. Licence Raj** was prevalent to set up business in India. The **Indian rupee was inconvertible** and high tariffs and import licensing prevented foreign goods reaching the market.

The central pillar of the policy was **import substitution, the belief that India needed to rely on internal markets for development, not international trade**. There



was **restriction of foreign investment and technology** and government-controlled finance and capital markets.

There were high duties and taxes with multiple rates and large dispersion. **PSUs were considered as the engine of growth.** There were **restrictions on Foreign Direct Investment (FDI)** and Multinational corporations (MNCs).

### **Factors which lead to 1991 economic reforms:**

- **Rise in Prices:** The inflation rate increased from 6.7% to 16.7% due to rapid increase in money supply and the country's economic position became worse.
- **Rise in Fiscal Deficit:** Due to **increase in non-development expenditure** fiscal deficit of the government increased. Due to rise in fiscal deficit there was a rise in public debt and interest. **In 1991 interest liability became 36.4% of total government expenditure.**
- **Increase in Adverse Balance of Payments:** In 1980-81 it was Rs. 2214 crore and rose in 1990-91 to Rs. 17,367 crores. To cover this deficit **large amount of foreign loans** had to be obtained and the interest payment got increased.
- **Iraq War:** In 1990-91, war in Iraq broke, which led to a rise in petrol prices. The flow of foreign currency from Gulf countries stopped and this further aggravated the problem.
- **Dismal Performance of PSUs:** These were not performing well due to political interference and became big liability for government.
- **Fall in Foreign Exchange Reserves:** India's foreign exchange reserve fell to low ebb in 1990-91 and it was insufficient to pay for an import bill for 2 weeks.

### **International events associated with Indian reforms:**

- The **Soviet Union was collapsing** at the time, proving that more socialism could not be the solution for India's ills.
- **Deng Xiaoping had revolutionized China with market-friendly reforms.**
- **1990-91 Iraq war** led to the stoppage of flow of foreign currency from Gulf countries.
- To tide over the Balance of Payment (**BoP**) issues, India borrowed huge amount from **International Monetary Fund (IMF).**
- The **Asian financial crisis of 1997-99** laid India low.
- The **dot-com collapse and global recession of 2001**, and the huge global uncertainty created in the run-up to the **invasion of Iraq in 2003.**
- The **global boom of 2003-08 spearheaded by China.**

### **Nature and scope of reforms:**

India's New Economic Policy was **announced on July 24, 1991 known as the LPG** or Liberalisation, Privatisation and Globalisation model.



- **Liberalization-** It refers to the process of making policies less constraining of economic activity and also reduction of tariff or removal of non-tariff barriers.
- **Privatization-** It refers to the transfer of ownership of property or business from a government to a privately owned entity.
- **Globalization-** It refers to the expansion of economic activities across political boundaries of nation states.

The **main objective** was to plunge Indian economy into the arena of “Globalization” and to give it a new thrust on market orientation. The policy was intended to move **towards higher economic growth rate** and to build sufficient foreign exchange reserves.

It wanted to achieve **economic stabilization** and to convert the economy into a **market economy** by removing all kinds of unnecessary restrictions. The policy aimed at increasing the **participation of private players in all sectors** of the economy.

### Salient features of LPG Policy:

- Abolition of Industrial licensing/ Permit Raj
- Public sector role diluted
- MRTP limit goes
- Beginning of privatisation
- Free entry to foreign investment and technology
- Industrial location policy liberalized
- Abolition of phased manufacturing programmes for new projects
- Removal of mandatory convertibility cause
- Reduction in import tariffs
- Deregulation of markets
- Reduction of taxes

### Outcome of the LPG reforms:

#### Positive outcomes:

- **India’s GDP growth rate increased.** During 1990-91 India’s GDP growth rate was only 1.1% but after 1991 reforms GDP growth rate increased year by year and in 2015-16 it was estimated to be 7.5% by IMF.
- Since 1991, India has firmly established itself as a lucrative foreign investment destination and **FDI equity inflows in India** in 2019-20 (till August) stood at US\$ 19.33 billion.
- In 1991 the unemployment rate was high but after India adopted new LPG policy **more employment got generated** as new foreign companies came to India and due to liberalisation, many new entrepreneurs started companies.
- **Per Capita income increased** due to an increase in employment.
- **Exports** have increased and stood at USD 26.38 billion as of October, 2019.

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### Negative outcomes:

- In 1991, agriculture provided employment to 72 percent of the population and contributed 29.02 percent of the GDP. Now the **share of agriculture in the GDP has gone down drastically to 18 percent**. This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness.
- Due to opening up of the Indian economy to foreign competition, **more MNCs are competing local businesses and companies** which are facing problems due to financial constraints, lack of advanced technology and production inefficiencies.
- Globalization has also contributed to the **destruction of the environment** through pollution by emissions from manufacturing plants and clearing of vegetation cover. It further affects the health of people.
- LPG policies have led to **widening income gaps within the country**. The higher growth rate is achieved by an economy at the expense of declining incomes of people who may be rendered redun

### Impact of Government Policy Changes on Business and Industry

1. **Increasing Competition:** De-licensing and entry of foreign firm's Indian market is increased the level of competition for Indian firms.
2. **More Demanding Customers:** Now customers are more aware and they keep maximum information of the market as the result of which now market is customer/buyer oriented, Now, products are produced keeping in mind the demands of the customers.
3. **Rapid Changing Technological Environment:** Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.
4. **Necessity for Change:** After New Industrial. Policy the market forces (demand & supply) are changing at a very fast rate. Change in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.
5. **Need for Developing Human Resources:** The changing market conditions of today requires people with higher competence and greater commitment, hence there is a need for developing human resources which could increase their effectiveness and efficiency.
6. **Market Orientation:** Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, Educational Advertising, after sales services have become more significant.
7. **Reduction in budgetary Support to Public Sector:** The budgetary support given by the government to the public sector is reducing thus the public sector has to survive and grow by utilizing their own resources efficiently.

## SUMMARY

The word 'business environment' indicates the aggregate total of all people, organisations and other forces that are outside the power of industry but that may affect its production. According to an anonymous writer- "Just like the universe, withhold from it the subset that describes the system and the rest is environment". Therefore, the financial, cultural, governmental, technological and different forces which work outside an enterprise are part of its environment. The individual customers or facing enterprises as well as the management, customer groups, opponents, media, courts and other establishments working outside an enterprise comprise its environment.

Just like us, business operations do not survive in confinement. Every enterprise is not an island to itself; it subsists, endures and develops within the circumstances of the part and forces of its situation. While an individual enterprise is able to do minute to change or manage these forces, it has no choice to reacting or modifying according to them. Good knowledge of the environment by business managers allows them not only to recognise and assess but also to respond to the forces outside to their enterprises. Demonetization is an economic process in which a country's currency unit is no longer legal tender.

After a currency has been discontinued, it is no longer legal tender and contains no monetary value.

At times, countries may also decide to reinstate discontinued currency as legal tender through a process known as remonetisation.

### Key Words

- Business
- Political and social Environment
- Environment

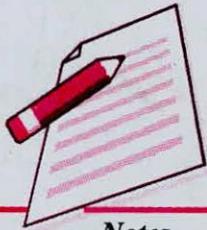
## EXERCISE

### Multiple choice Questions

1. Which of the following is not a feature of Business environment  
(a) Interrelated Elements                      (b) Dynamics  
(c) Complexity                                      (d) Continuous
2. Identification of opportunities to get first more advantage is one of the importance of business environment  
(a) True    (b) False  
(c) Cannot say



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**Notes**

3. Which of the following does not explain the impact of government policy changes on business & industry  
(a) Increasing competition (b) More demanding market customers  
(c) Market orientations (d) Change in agricultural prices
4. \_\_\_\_\_ refers to negative and unfavourable external factors that are likely to create hurdles for a firm: -  
(a) Opportunities (b) Warning  
(c) Threats (d) None of these
5. Which of the following are the dimensions of the business environment: -  
(a) Economic & Social (b) Technological & Economic  
(c) Legal & Social (d) All of the above?
6. Liberalisation means  
(a) Policy of planned disinvestment  
(b) Integrating among economies  
(c) End of license & reduction of government control  
(d) None of these
7. Globalization does not involve: -  
(a) Reduction of barrier  
(b) Free flow of goods & services  
(c) Global mechanism for settlement of economic disputes  
(d) Free flow of capital
8. Which of the following are the impact of govt. policy changes on business & industry?  
(a) Increased competition (b) Need for change  
(c) Demanding customers (d) All of the above

**Answer Keys**

|   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | d | 2 | a | 3 | d | 4 | c | 5 | d | 6 | c | 7 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|

## Review Questions

1. Explain the term 'Business environment' briefly?
2. List any 4 features of business environment?
3. How does understanding of business environment help the management in the following: -
  - A. Identification of threats and warnings.
  - B. Formulation of strategies and policies.
4. Identify the role of political environment in shaping the business?
5. How does change in technology effect the business environment?
6. "Abby electronics Ltd" was operating its business in Australia. The company Started exporting its products to India as soon as the government announces relaxation in import duties on electronic items. The company appointed retailers in India who had direct on-line links with the suppliers to replenish stocks when needed.
7. Identify and explain dimensions of business environment discussed above.
8. Write short notes on: -
  - A. Liberalisation
  - B. Globalisation
  - C. Privatisation
9. Define demonetisation? What was the purpose of demonetisation?
10. Discuss the impact of change in government policy on business and industry?
11. Briefly discuss the threats created by liberalisation and globalisation?





*Notes*

# 1

## **PLANNING CONCEPT, IMPORTANCE AND LIMITATION, PLANNING PROCESS**

Planning Concept, importance and limitation, Planning process, Single use and standing plans. Objectives, Strategy, Policy, Procedure, method Rule, budget and Programme

Planning Concept, importance and limitation, Planning process

### **Objective of the chapter:**

The basic objective of this chapter is to through some light on the initial concepts of planning and its process. Apart from that planning types has also been discussed in this unit.

### **Introduction**

According to koontz and O'donnell," Planning is deciding in advance what to do, how to do it, when to do it, and who is to do it."

### **Meaning of planning: -**

Planning is the important and primary function of management. It sets all other functions into action. It is the beginning of process of management. A manager must plan before coming in action Planning is a fully mental work.

Planning is the conscious process selecting and developing the best course of action to accomplish an objective. It is the process of deciding in advance what is to be done .it also involves the selection of objectives, policies, procedures and programs from among alternatives. It also includes selecting purposes and objectives of the actions to achieve them. Planning requires decision-making that is choosing from among alternative future course of action.

### **Nature of Planning**

- Planning is concerned with future and it helps the management to look ahead.
- It involves thinking about organization's prosperity and helps analysis of information.
- It involves a predetermined course of action.
- It specifies the objectives to be attained in future.
- It is basically a problem of choosing from the alternative courses of action.

- It relates with thinking before doing.
- It involves both decision making and problem solving.
- Its objective is to achieve better results.

## Importance of planning

**Focus on objectives:** - Planning is related to the organizational objectives. All the operations are planned to achieve the organizational objectives. Planning facilitates the achievement of objectives. It requires the clear definition of objectives so that most appropriate alternative courses of action are chosen.

**Reduction of Uncertainties/ change:** - Future is full of uncertainties. A business organization can operate successfully if it is able to predict the uncertainties. Some of the uncertainties can be predicted by undertaking systematic analysis and systematic forecasting. Thus, planning helps in reduction of uncertainties which may be caused by changes in all micro and macro level of environment.

**Economical:** - Planning assists in reducing the cost of performance by the selection of only one course of action amongst the different courses of. It removes hesitancy, avoids crises, eliminates false steps and protects against improper deviations.

**Utilization of Resources:** - Planning makes effective and proper utilization of all available resources and makes optimum use of all these resources (men, money, machine and material)

**Effectiveness:** - Planning promotes organizational effectiveness which ensures that the organization is in a position to achieve its objective due to increased efficiency.

**Co-ordination:** - Plans unify the activities for development of various sub-plans. Various departments work in accordance with the overall plans of the organization. There is harmony in the organization and duplication of efforts are avoided.

**Innovation:** - Planning helps innovative and creative thinking among the managers because many new ideas come to the mind of a manager when he is planning. It creates a forward-looking attitude among the managers.

## Limitations of planning

Following are the limitations of planning; -

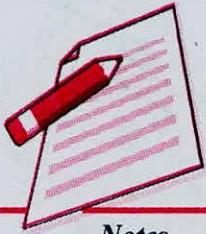
### 1. Corporate planning is not integrated into the total management system-

Usually, the top management fails to identify and associate properly the top management fails to identify and associate properly the formal planning with the central concept of the organization's **financial goal**.

### 2. Lack of understanding of the different steps of the planning process

Management lacks proper knowledge or skill in understanding the different steps in process of planning.





### **3. Planning based on poor information and inadequate inputs**

Since reliable data and information are the backbones of successful planning. Such information may not be available. Poor information may also be due to faulty forecasting or poor judgment

### **4. High expectation and quick implementation**

Due to the excitement and emotional expectations. Expensive **planning strategies** is an expensive process collection of analysis and evaluation of information and fact and formulation of plans requires a good deal. Of time, money and energy.

### **5. Deal in option**

Planning is a time-consuming process. It may delay the actions sometimes it is avoided in order to take quick actions.

### **6. Time-consuming**

Planning is time-consuming and it reduces the practical quality of planned vents. Advance planning might delay immediate action and it may result in loss of profitable opportunities.

### **7. Biased managers bosses**

Every manager does not always behave rationally and objectively. Even planning is affected by the like's dislikes. Preferences, personal interests etc. of the managers or bosses. Hence. Planning cannot serve the organizational purpose effectively and lose their utility.

### **8. Difficulties in implementation**

Sometimes. Difficulties in the implementation of plans. Such difficulties may arise due to the following reasons that are improper action plans, formulation and communication of proper policies, procedures, rules etc and misunderstanding of plans at the implementation level.

### **9. Resistance to change.**

Planning involves a change in goals, expectations working patterns etc. and managers, as well as employees, have a tendency to resist change.

### **10. External forces**

External environmental forces do affect the success and effectiveness of planning ecological social-cultural political-legal economical labours union consumer union etc. are major external forces. These forces have a great impact on the success and failure of the planning.



*Notes*

**11. Emergency**

Managers are required to respond immediately to unexpected emergency situation or events in such situation managers are bound to take action spontaneously hence planning is of no use.

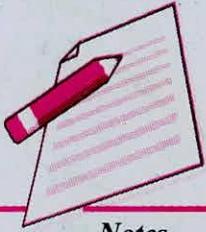
**Process or Steps Involved in Planning**

A plan can help to avoid mistakes and to recognize hidden opportunities. Preparing a satisfactory plan is essential and the management should understand the planning process clearly what they want to achieve, and how and when to do it. Planning involves number of steps; the main steps of planning are as follows.



Figure 2.2 Process of planning

- 1. Aware of business opportunities:** It is necessary to analyse the internal and external environment to know the trends in near future. Business activities are influenced by Government regulations, technological changes, availability of raw material, labour etc. The business men have to look for opportunities by observing the business environment.



Notes

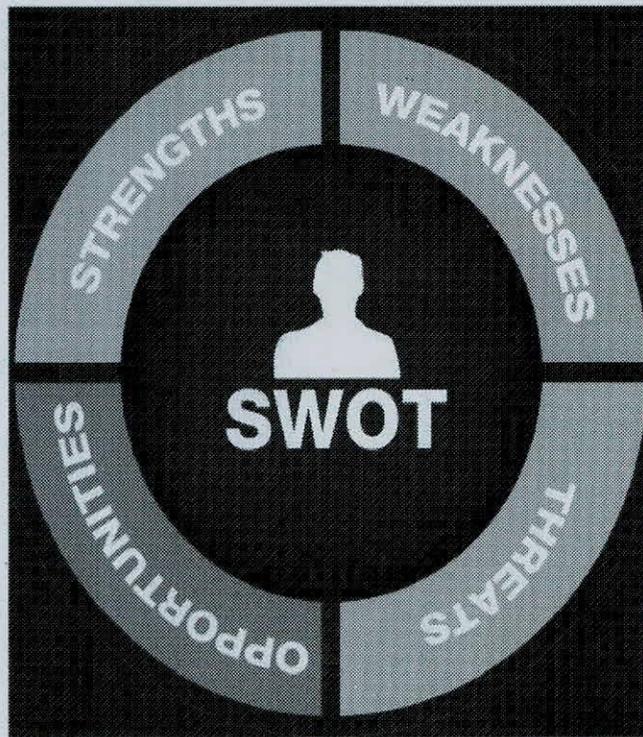


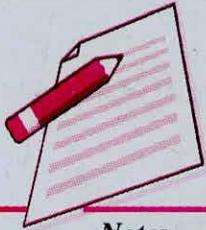
Figure 2.3 Tool to analyse the environment

2. **Setting Objectives:** plans are prepared with a view to achieve certain goals. so establishing the objectives is an important step in planning. The overall objective of the enterprise must be stated along with the specific objectives of individual department and divisions in the organisation. The objectives must be stated in measurable terms i.e., Percentage, Production, Sales, number of units etc.
3. **Considering planning premises:** Planning premises are the anticipated environment in which plans are expected to operate. As planning is for future, certain assumption about the future is uncertain. It is necessary to make assumption about the factors influencing internal environment and external environment. The factors which affect the plan must be identified and evaluated.
4. **Identifying the alternative course of action:** For doing a work there are always certain alternatives. The planners should study the entire alternative, considering the strong and weak points of them and finally identify the most promising one to reach the goal.
5. **Evaluating alternative course of action:** once the alternative course of action are identified, the next step is to evaluate the same. Evaluation means studying the merits and demerits of each alternative. Each alternative should be closely studied to determine its suitability.
6. **Choosing the best alternatives:** once the alternative courses of action have been evaluated the next step is to select the best. The alternative selected should help the organisation in making an optimum use of available resources and help to attain the objective set in the most effective manner.



**Figure 2.4** Choosing the best alternative

- 7. Formulation of supporting plans:** The main plan should be supported by number of supporting plans to attain the goal. Ex: Once the production plan is ready the supportive plans such as purchase of raw materials, tools, equipment's, engaging workers etc, have to be formulated. Without supportive plans it is not possible to carry out the main plan.
- 8. Implementation of plans:** Implementation of plan means putting the plans into action so as to achieve the business objectives. After implementation of plans, it is necessary to ensure that the activities of the enterprises proceed in the right direction.



Notes

# 1 PLANNING CONCEPT, IMPORTANCE AND LIMITATION, PLANNING PROCESS

Single use and standing plans.

Objectives, Strategy, Policy, Procedure, method Rule, budget and Programme

## introduction

Planning consists of several individual plans depending upon nature and scope. it can be classified as follows:

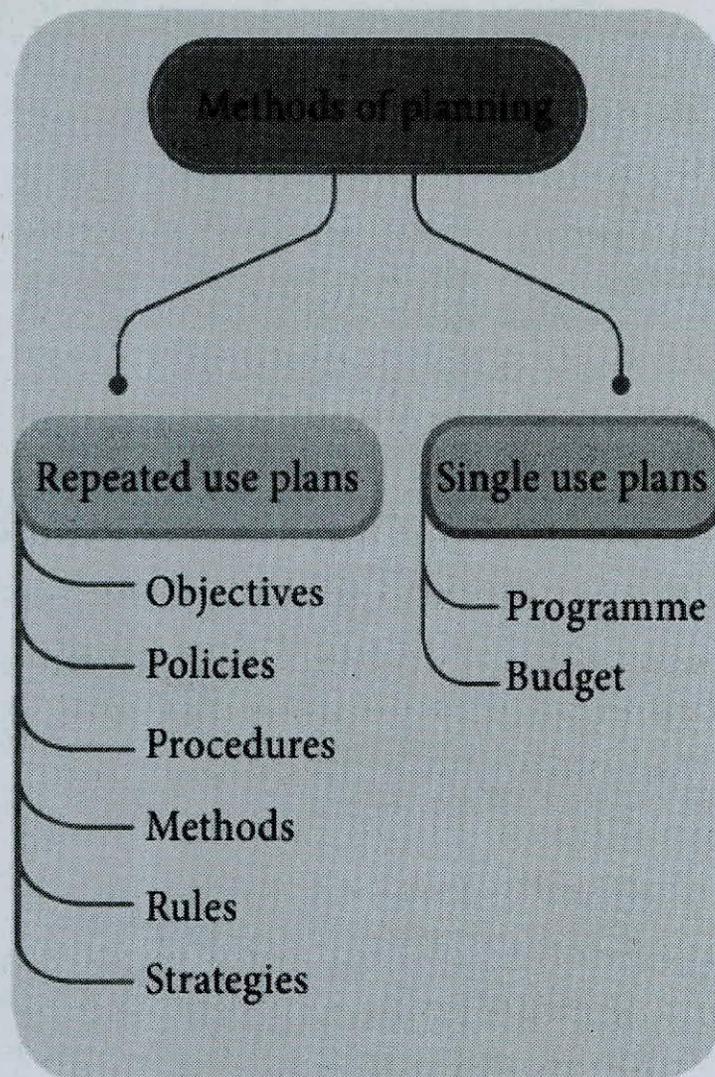
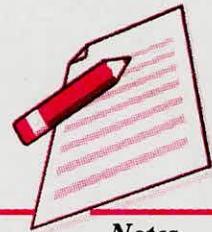


Figure 2.5 Methods of planning

**Notes**

These plans can be used again and again. The elements of standing plans are

### **1. Objectives**

Objectives are the end towards which the activities of an organisation are directed. For planning, objectives are essential. Planning has no meaning if it is not related to objectives. Objectives are useful for all managerial purposes. It is expressed in measurable statement in written form. For example, hire and fully train five new customer service staff members by June 30.

### **2. Policy**

Policies provide the framework within which the decision makers are expected to operate while making the decisions relating to the organisation. They are the guide for thinking and the action of subordinate for attaining the goal. It shows the limit within which the organisational decisions have to be made. For example, an enterprise may follow a policy of selling its products only on cash basis.

### **3. Procedure**

A procedure will lay down the manner in which certain work has to be performed. It prescribes the sequence of operations to be carried out to complete a given task. For example, procedure is laid down in an organisation for purchase of raw material, selection of employees, etc.

### **4. Methods**

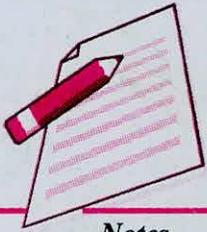
Methods specifies the way in which a particular step is to be performed, procedure tells the various steps to be taken to perform a particular task, but method tells how a particular step in the procedure is to be performed. The definition of a method is a system or a way of doing something. An example of a method is a teacher's way of cracking an egg in a cooking class.

### **5. Rules**

A rule specifies the people to do or not to do certain things. They are always rigidly enforced. For example, no smoking in working place, wear uniform in factory etc.,. There is always a fine or penalty for the violation of rules.

### **6. Strategies**

Strategy is a term which is normally used in battlefield for planning a military movement, handling of troops, etc. In business, strategy means tactics adopted to counter competitor's actions. It is also concerned with meeting the challenges posed by the policies and the actions of the competitors in the market. For example, keeping prices low to attract more customers. Since profit margins are very low, the business must sell a lot of products to make money.



Notes

## Single use plan

Single use plan are used for a specific purpose only. As soon as the purpose is over the plan becomes useless. Programmes and budgets are the examples of single use plan.

### 1. Programme:

Programme specific the date and time by which the activities of the enterprise will be carried out. Programme may be major or minor in nature. For example, to sell 10,000 cycles by the end of the year is the sales programme of the company.

### 2. Budget:

A budget is the financial plan of a business. It is expressed in numerical terms. A budget is a plan you write down to decide how you will spend your money each month. A budget shows you: how much money you make? And how you spend your money?

Before preparing the budget, the past happenings, the present needs and future trends are taken into account. Budget is always prepared for specific period of time i.e., for a month, for half year or whole year. A budget helps you decide: what you must spend your money on? And if you can spend less money on some things and more money on other things. For example, your budget might show that you spend Rs.1000 on clothes every month. You might decide you can spend Rs.500 on clothes. You can use the rest of the money to pay bills or to save for something else.

## SUMMARY

Plans commit individuals, departments, organizations, and the resources of each to specific actions for the future. Effectively designed organizational goals fit into a hierarchy so that the achievement of goals at low levels permits the attainment of high-level goals. This process is called a **means-ends chain** because low-level goals lead to accomplishment of high-level goals.

Three major types of plans can help managers achieve their organization's goals: strategic, tactical, and operational. Operational plans lead to the achievement of tactical plans, which in turn lead to the attainment of strategic plans. In addition to these three types of plans, managers should also develop a contingency plan in case their original plans fail.

### Key Words:

- Planning'
- Objective
- Strategy

## EXERCISE

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### Multiple choice questions

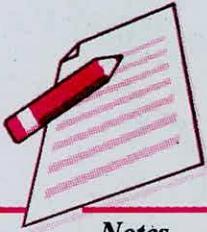
- Which of the following is a feature of planning: -  
(a) Focuses on achieving goals      (b) Pervasive  
(c) Mental exercise                      (d) All of the above
- By comparing \_\_\_\_\_ with standards manager can know whether the goals are achieved or not: -  
(a) Risk    (b) Ideas  
(c) Actual performance                      (d) Costs
- Planning provides direction is a  
(a) Importance of planning                      (b) Limitation of planning  
(c) Characteristics of planning                      (d) Method
- \_\_\_\_\_ guides for decision making: -  
(a) Rule    (b) Policy  
(c) Procedure                                      (d) Method
- \_\_\_\_\_ type of plan is not likely to be repeated in future: -  
(a) Standing plan                                      (b) Programme  
(c) Single use plan                                      (d) Method
- Advertising of a product is a part of \_\_\_\_\_  
(a) Strategy    (b) Rule
- The sub ordinates are given complete freedom in taking decisions is a part of  
(a) Rule    (b) Strategy  
(c) Policy    (d) Procedure
- \_\_\_\_\_ are detailed statements about a project which outlines the objectives, rules, etc.  
(a) Budget    (b) Programme  
(c) Single use plan                                      (d) Policy
- \_\_\_\_\_ forecasts the sales of different products in each area for particular month:-  
(a) Sales budget                                      (b) Sales accounts  
(c) Sales cost    (d) None of the above

### Answer Keys

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | d | 2 | c | 3 | a | 4 | b | 5 | d | 6 | a | 7 | c | 8 | b | 9 | a |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

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### Review Questions

1. Define the term planning?
2. List the features of planning?
3. How does planning leads to-
  - A. Reduction in overlapping & wasteful activities.
  - B. Establishing standards for controlling
4. Briefly discuss the steps involved in planning?
5. Explain the following: -
  - A. Budget
  - B. Strategy
  - C. Programme
6. Distinguish between the following: -
  - A. Rule and policy
  - B. Rule and method
7. Why is planning referred to as a time-consuming process and involves huge costs?



Notes

## 1

## ORGANISING: CONCEPT AND IMPORTANCE

Organising: Concept and importance, Organising Process, Structure of organisation- functional and divisional concept. Formal and informal organisation- concept, Delegation: concept, elements and importance, Decentralization: concept and importance

Organising: Concept and importance,  
Organising Process  
Structure of organisation

### Objective of the chapter:

The basic objective of this chapter is to throw some light on the initial concepts Organising, Organising Process and Structure of organisation.

### Introduction

Organizing is the process of determining the total activities to achieve a given objective, grouping and assigning of activities to individuals, delegating them authority necessary to perform the activities assigned and establishing authority relationship among different positions in the organization

Some important definitions of organization are given below:

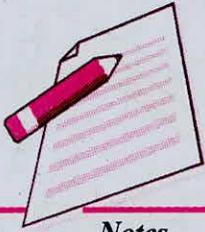
“It is grouping of activities necessary to attain enterprise objectives and the assignment of each grouping to a manager with authority necessary to supervise it”.  
Koontz and O’Donnel

“The process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationship for the purpose of enabling people to work more effectively together in accomplishing objects”. Louis A. Allen

### Steps Involved in the Process of Organizing

#### 1. Identification & Division Of Work: –

The total work to be done should be divided into specific jobs as according to predetermined plans. –



Job = a set of related tasks that can be performed by an individual. It should have specific and definite tasks to be performed. As far as possible, it should define expected results along with the job.

- Division of work → specialization of efforts and skills + avoids duplication of work.
- Management must ensure that all the activities required to achieve organizational objectives are identified.

## 2. Departmentalization:

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

## 3. Assignment Of Duties:

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

## 4. Establishing Reporting Relationships:

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



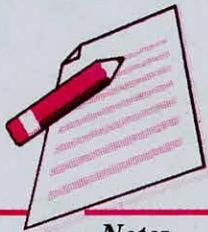
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## Importance of Organizing

- 1. Benefits of specialization:** In organizing every individual is assigned a part of total work and not the whole task. This division of work into smaller units and repetitive performance leads to specialization. Thus organizing promotes specialization which in turn leads to efficient & speedy performance of tasks.
- 2. Clarity in working relationship:** It helps in creating well defined jobs and also clarifying the limits of authority and responsibility of each job. The superior-subordinate relationship is clearly defined in organizing.
- 3. Effective Administration:** It provides a clear description of jobs and related duties which helps to avoid confusion and duplication. Clarity in working relationships enables proper execution of work which results in effective administration.
- 4. Optimum utilization of resources:** The proper assignment of jobs avoids overlapping/duplication of work. This helps in preventing confusion and minimizing the wastage of resources and efforts.
- 5. Adoption to Change:** A properly designed organizational structure is flexible which facilitates adjustment to changes in workload caused by change in external environment related to technology, products, resources and markets.
- 6. Development of Personnel:** Sound organization encourages initiative and creative thinking on part of the employees. When managers delegate their authority, it reduces their workload so they can focus on more important issues related to growth & innovation. This also develops the subordinates' ability and helps him to realize his full potential.
- 7. Expansion and growth:** It helps in growth & diversification of an enterprise by adding more job positions, departments, product lines, new geographical territories etc.

## Sound or Good Organisation

Organisation is not an end in itself but a means to achieve an end. Whether an organisation is good or bad depends on the fact as to how much efficiently and promptly it is in a position to achieve the objectives. An ideal organisation is one which is expected by all. Some people think that an ideal organisation stands in a dream only and actually it does not exist. However, it is a wrong concept. An ideal organisation is a reality which can be achieved through the active cooperation of all the members of an organisation and also by following the principles of organisation is not an exact science as physics and chemistry. Though a sound organisation is mainly based on the active cooperation of all the members of the organisation and on certain principles but also it is based on the capabilities of the individuals available to work along with its simplicity and flexibility. An organisation conceived and developed on the above lines will reward its leaders and well as its members (Personnel). Not only will the objectives be achieved more easily, and conveniently, but the physical operation of the organisation will also be greatly enhanced. Thus, a sound or good or ideal and result-oriented organisation must possess the following characteristics.



**Notes**

**Realization of Objectives:** Organisation is tool of achieving objectives of an enterprise. For this purpose, the organisation should be divided in several department, sub-departments, branches and units etc.

**Harmonious Grouping of Functions etc:** For achieving the organisation objectives there must be harmonious grouping of functions, jobs and sub-jobs in such a way so that there is action, consultation and co-ordination without any delay and difficulty.

**Reasonable Span of Control:** Another characteristic of organisation is that it should have reasonable span of control. Ordinarily, a person (personnel) cannot control more than five or six subordinates.

**Clear-cut allocation of Duties and Responsibilities:** There must be clear-cut allocation of duties and responsibilities in any scheme of sound organisation. Every executive must know his scope of activities, the ideal number is three.

**Promotion of Satisfaction:** The most important element of any human organisation is the promotion of satisfaction of workers. Man works in a group or in an organisation and hence the success or failure of any organisation depends on as to how much the organisation is in a position to provide satisfaction to individuals or group working under him.

**Fullest Utilization of Manpower:** Another important characteristic of an ideal organisation is as to how far it is successful in making fullest and economical utilization of the available manpower.

**Provision and Development and Expansion:** Another important of an ideal organisation is that there exists the necessary provision for development and expansion so that it is possible to expand and develop any organisation according to needs and requirements and necessary changes alternatives may be made.

**Coordination and cooperation:** In order to achieve the objectives of the enterprise, there must be close coordination and cooperation in the activities of everybody working in the organisation. Further, there should also be active coordination and cooperation amongst the various departments and sub-departments. It will also assist in elimination the evil of red tapism.

**Unity of Command:** There must be unity of command. No one in any organisation should report to more than one line supervisor, and everybody must know to whom he reports and who reports to him. No subordinate should get orders from more than one supervisor; otherwise it will lead to confusion, chaos and conflict.

**Effective System of Communication:** An ideal organisation must possess effective system of communication. The inter-communication system should be clear and easier and there should be no ambiguity at and level.

**High Morale:** An ideal organisation is that in which the workers possess high morale. They work with full capacity, energy, enthusiasm, devotion and sincerity.

**Flexibility:** The last but not the least important characteristic of an ideal organisation is that it should be flexible so that necessary changes and modifications in the size of the organisation as well as technology could be easily and conveniently effected.

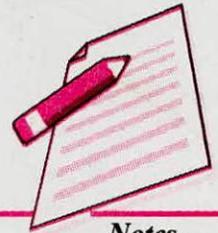
## FORMAL AND INFORMATION ORGANISATION

Formal organization refers to the structure of relationships deliberately built up by the top management to realize the objectives. In this form instruction, responsibility, authority, accountability, lines of command, and positions and authority are clearly defined and declared. Each person is aware of his duties and authority. Every subordinate is expected to obey his supervisor in the formal chain of command. Each individual is fitted in the organization like a cog in the machine. It is designed after careful identification, classification and assignment of business activities. So, it is conscious creation of relationships. Informal organization refers to the network of personal and social relationships which arise spontaneously when people working together interact on personal whims, likes and prejudices. Such relations are not created by the top management and they are not recognized formally. The informal groups sometimes run parallel to the formal ones. Informal relations are not portrayed on organization charts and manuals. An informal organization provides an opportunity to workers to come close to each other, develop a feeling of cooperation and coordination among themselves.

### Difference between Formal and Informal Organizations

The difference between formal and informal organizations can be enumerated briefly as below:

1. **Formation:** Formal organization is deliberately created by management. It is the result of a conscious and deliberate effort involving delegation of authority. On the other hand, informal organization arises spontaneously and no conscious efforts are made to create it. It takes place on the basis of relationships, caste, culture, occupations and on personal interests etc. No delegation of authority is essential in informal organization.
2. **Basis:** A formal organization is based upon rules and procedures, while an informal organization is based upon attitudes and emotions of the people. It depends on informal, social contacts between people working and associating with one another.
3. **Nature:** A formal organization is stable and predictable and it cannot be changed according to the whims or fancies of people. But an informal organization is neither stable nor predictable.
4. **Set up:** A formal organization is a system of well-defined relationships with a definite authority assigned to every individual. It follows predetermined lines of communication. On the contrary, an informal organization has no definite form and there are no definite rules as to who is to report to whom. Even a low-placed employee may have an informal relationship with an officer far above him in the formal hierarchy.
5. **Emphasis:** In a formal organization, the main emphasis is placed on authority and functions. In an informal organization the stress is on people and their relationships.
6. **Authority:** Formal authority is attached to a position and it flows from top to bottom. Informal authority is attached to a person and it flows either downwards or horizontally.



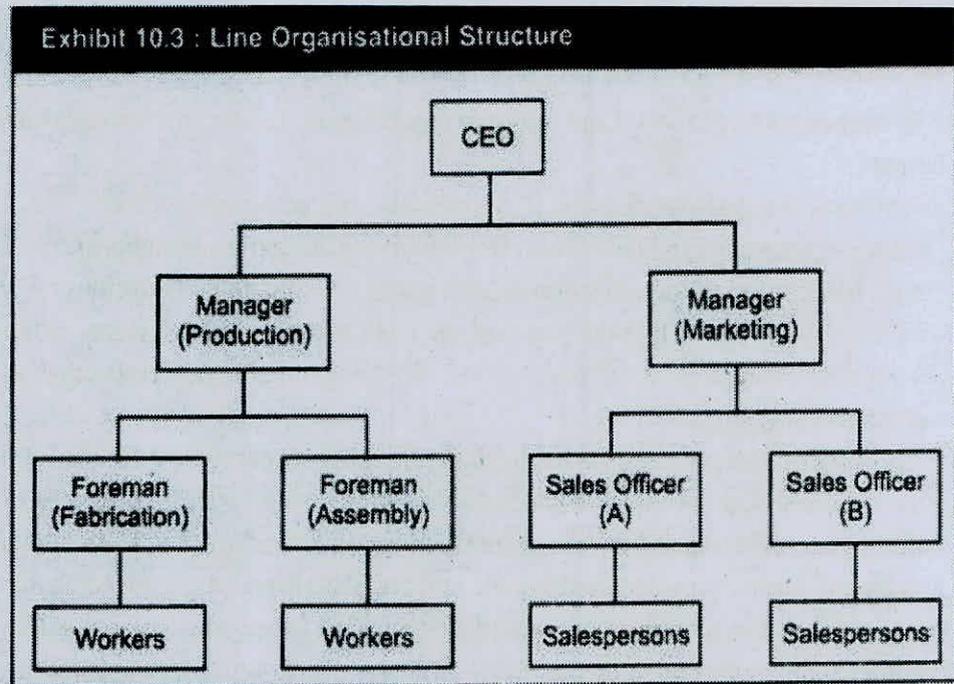


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7. Existence: A formal organizations exists independently of the informal groups that are formed within it. But an informal organization exists within the framework of a formal structure.
8. Rationality: A formal organization operates on logic rather than on sentiments or emotions. All activities follow a predetermined course. As an association between like-minded people, an informal organization has little rationality behind it. In an informal organization, activities are influenced by emotions and sentiments of its members.
9. Depiction: Formal organization can be shown in an organization chart or a manual. But an informal organization cannot be depicted in the chart or manual of the enterprise.

## FORMS OF ORGANISATION STRUCTURE

### LINE ORGANISATION



It is perhaps the oldest and the simple organisational structure. In this kind of structure every manager exercises a direct authority over his subordinate who in turn directly reports to their superiors.

- There is a hierarchical arrangement of authority.
- Each department is self-contained and works independently of other departments.
- Lines of authority are vertical i.e. from top to bottom.
- There are no staff specialists.



## Advantages

- Simple to establish and operate
- Promotes prompt decision making.
- Easy to control as the managers have direct control over their subordinates.
- Communication is fast and easy as there is only vertical flow of communication.

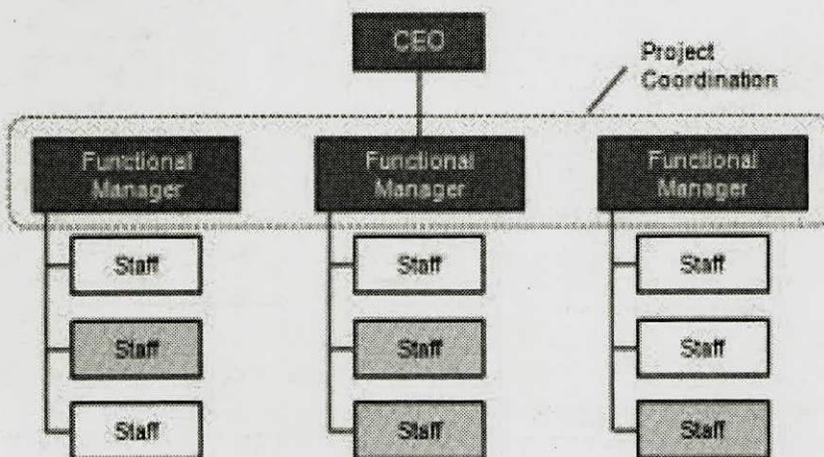
## Disadvantages

- Lack of specialization Managers might get overloaded with too many things to do.
- Failure of one manager to take proper decisions might affect the whole organisation.

## However, line structures are suitable for

- small businesses where there are few subordinates
- organisations where there is largely of routine nature and methods of operations are simple.

## Functional Organization



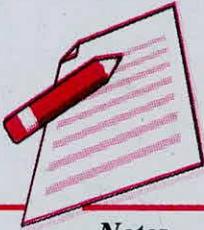
The organisation is divided into a number of functional areas. This organisation has grouping of activities in accordance with the functions of an organisation such as production, marketing, finance, human resource and so on. The specialist in charge of a functional department has the authority over all other employees for his function.

## Advantages

- Is logical and reflection of functions
- Follows principle of occupation specialisation
- Simplifies training
- Better control as the manager in charge of each functional department is usually a specialist.

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Notes

### Disadvantages

- Overspecialization and narrow viewpoints of key personnel can limit the organisation growth.
- Reduced coordination between functions.
- Conflicts between different functions could be detrimental for the organisation as a whole.
- Difficult for general managers to coordinate different departments.

However, it is much suitable for large organisations where there is ample scope for specialisation. Once harmony and proper coordination among different functions is achieved, it could lead to sure success for an organisation.

### Line and Staff Organization

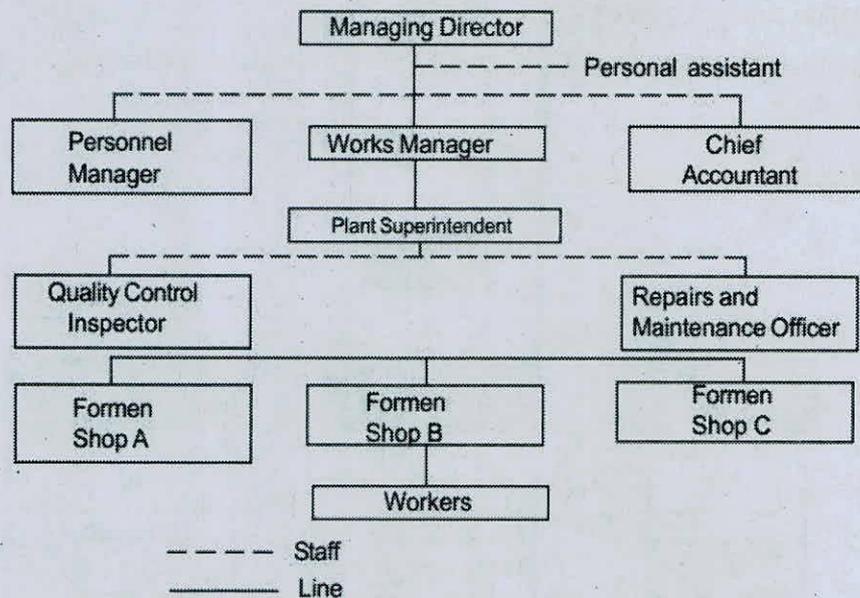


Fig 3.4 LINE AND STAFF ORGANISATION

It is a combination of line and functional structures. In this organisation a structure, the authority flows in a vertical line and get the help of staff specialist who are in advisory. When the line executives need advice, information about any specific area, these staff specialists are consulted.

For example Chief accountant has command authority over accountants and clerks in the accounts departments but he has only advisory relationship with other departments like production or sales.

### Advantages

- Line managers are provided by expert advice by these specialists. Staff managers provide specialist advice which can improve quality of decisions in various departments.



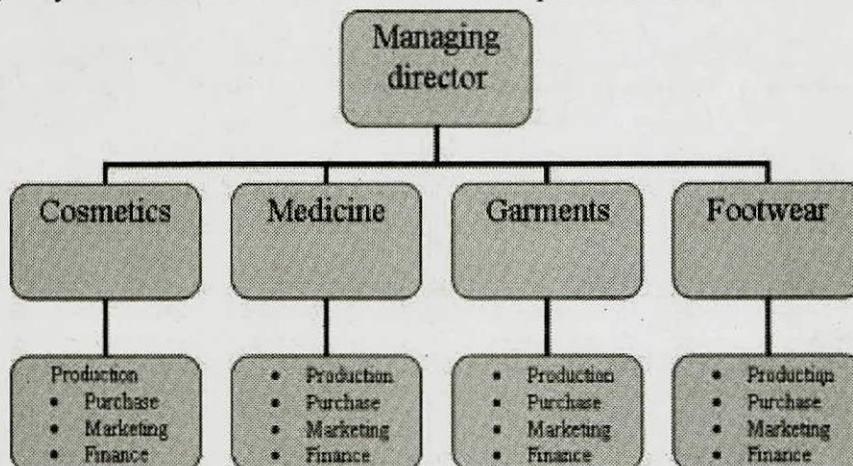
## Disadvantages

- Line managers and staff managers might have conflicts on particular issues. Line and staff managers might not be clear as to what the actual area of operations is and what is expected of them. Co-ordination may be a problem.
- Staff personnel are not accountable for the results and thus may not take tasks seriously. However, Line and staff organisation is very suitable for large organisation.

## Divisional Structure

An organization which is very large in size and is producing more than one product, they need to evolve a design to cope with the complexity. The activities related to one product are grouped under one division. The organizational structure consists of separate divisions, each such division has its own manager. Within each division, functions like production, marketing, finance etc. are performed.

In other words, each division tends to adopt a functional structure. However, functions may vary across divisions in accordance to their product line.

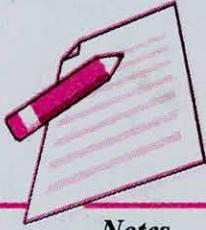


## Advantages

1. Development of personnel: All activities related to one type of product are grouped under one department only. This helps in development of varied skills in the head and prepares him for a higher post.
2. Accountability: In this type of structure, the performance of each department can be easily assessed. It also helps in fixation of responsibility for poor performance so that appropriate remedial action can be taken.
3. Fast decision making: Each division functions independently and so decisions are much faster. This also promotes flexibility and initiative.
4. Expansion and growth: New departments can be easily added without disturbing the existing departments.

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## Disadvantages

1. There may be a conflict among different divisions on allocation of resources. A particular division may seek to maximize profits at the cost of others.
2. Each department requires all the resources to work as an independent unit. These increases cost as there may be duplication of activities across products.
3. The divisional heads focus only on their product. They may fail to identify themselves as a part of the common organization and develop divisional conflicts, ignoring organizational interests.

## Suitability

Divisional structure is suitable where:

- The number of products is more than one.
- Different manufacturing technologies and marketing methods are used.
- The size of the concern is very large or is growing.

## Matrix Organisation

| Functions<br>Projects | Purchase<br>Manager | Production<br>Manager | R & D<br>Manager | Marketing<br>Manager | Finance<br>Manager |
|-----------------------|---------------------|-----------------------|------------------|----------------------|--------------------|
| Project A<br>Manager  |                     |                       |                  |                      |                    |
| Project B<br>Manager  |                     |                       |                  |                      |                    |
| Project C<br>Manager  |                     |                       |                  |                      |                    |
| Project D<br>Manager  |                     |                       |                  |                      |                    |
| Project E<br>Manager  |                     |                       |                  |                      |                    |

MATRIX ORGANISATION

Matrix organisation combines two structures – functional departmentation and project structure.

Functional department is a permanent feature of the matrix structure and retains authority for overall operation of the functional units.

Project teams are created whenever specific projects require a high degree of technical skill and other resources for a temporary period.

Project team forms the horizontal chain and functional departments create a vertical chain of command.

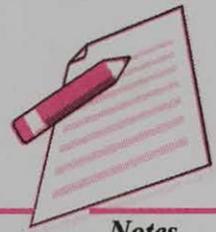
Members of a particular team are drawn from the functional departments and are placed under the direction of a project manager who has the overall responsibility of a particular project.

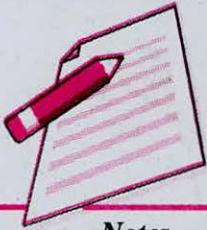
## Advantage

- Is oriented towards end results.
- Professional identification is maintained
- Pinpoints product-profit responsibility

## Disadvantages

- Conflict in organisation authority exists.
- Possibility of disunity of command exists
- Requires manager effective in human relations





Notes

## 2

## AUTHORITY

### Chapter Two

Authority  
Delegation of authority  
Centralization and Decentralization

### Objective of the chapter

The main objective of this chapter is to have a basic understanding of delegation of authority and how delegation is different from decentralisation. The chapter also explain the advantages and disadvantages of centralisation.

### Introduction

An organization stands on three pillars of strength. Responsibility, Authority, Accountability. Unless you are literally a one-man army, you have to rely on others down the line to deliver results. The best organizational heads know the benefits of delegation. They pick the right person for the job and then resist the temptation to micro-manage. Yes, the CEO can possibly do the task better (that's what made him or her the CEO in the first place) but it's important to let the other person do the job. Your job as CEO is to encourage and provide support. Once the person you have delegated the task to knows he or she has that trust and support, a successful outcome can be expected.

### The three pillars of delegation:

#### Responsibility

Responsibility indicates the duty assigned to a person in an organization. It refers to the obligation of a subordinate to perform the duty as required by his superior. It is a continuing obligation.

#### Authority

No organization can survive without authority. The defence forces are an excellent example of how authority can be given and not questioned by subordinates. Authority is the right or power assigned to an executive in order to achieve an organization's objectives. This authority allows for decision-making, enables the person in charge



to give orders and instructions and expect them to be obeyed. It sometimes happens that the person given the authority finds that his wings are being clipped by a superior who undermines his authority. If subordinates realize that the person in charge can be over-ruled, they will not give immediate and unquestioned obedience.

### **Accountability**

In an organization a person given a task is held accountable and is obliged to complete the job assigned to him or her as per expectations. That person is responsible for the actions of the people or group under his or her supervision even if there are several layers down the hierarchy. The person accountable has an obligation to report formally about the work done to his superiors, explain any factors responsible for non-performance and take full responsibility for the actions taken.

These three elements – Responsibility, Authority and Accountability – are inter-related. In the process of delegation, the superior transfers his duties or responsibilities to his subordinate and also gives the necessary authority for performing the required task. It is the ideal way to delegate. You can only hold people responsible when they have been given enough authority to do the job well without any interference from their superiors.

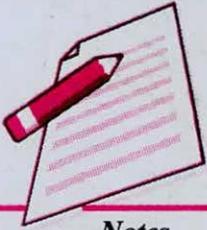
### **Meaning of delegation of authority**

All activities are not performed by one person. Authority should be provided to the subordinates too. Process of transferring authority and creation of responsibility between superior and subordinates to complete a certain task is called delegation of authority. It can take place without decentralization. It can be withdrawn by delegator at any time. It minimizes the burden of managers of unit, departments or plant. Relationships between superior and immediate subordinates are indicated. It is technique of management used to get the things done through others. It is confined to manager and subordinates.

Authority is only delegated, not responsibilities. Very important to management process Control remains in hand of superior who supervise the activities of subordinates. It is an art of management science. When authority is not given to subordinates there is no performance. Delegation is the process of sharing power and work (deliver the power from one to another).

### **Principles of delegation of authority**

1. Principle of parity of authority and responsibility- Parity of authority and responsibility is one of the important principles of delegation of authority. There is equality in assigned task and power to do the work. Authority to the subordinates is given by the superior on the basis of assigned task. So, Authority to the subordinates is given neither more or less than the task otherwise there can be improper utilization of authority and mismanagement of task.



Notes

2. Principle of absoluteness of responsibility- according to it, responsibility can't be delegated. Only authority can be delegated. The person who delegates authority is himself responsible for his seniors.
3. Principle of unity of command- according to it, subordinates must be commanded by one superior; they should take their task from one superior and should be accountable for their responsibility toward the superior level of operation
4. Principle of functional definition of authority and responsibility- as per this principle. Duties and task assigned by the superior and the authority given to fulfill the task should be clearly explained and decided. But this subordinate can know about the limit of one's right, duties and responsibility.
5. The scalar chain- according to it, authority flows from top to bottom. So that scalar chain is the basis of relationship between the superior and subordinates. It emphasizes the relation between superior and subordinates by which delegation will be easier.

### Meaning of Decentralization of Authority

Decentralization means diffusion or distribution of authority. The dispersal of authority of decision-making to the lower level management is termed as decentralization. Decentralization of authority is a elementary phase of delegation and the degree to which authority is not delegated is called centralization.

According to Fayol "Everything that goes to increase the importance of the subordinate's role is called decentralization."

Decentralization in relation to workplace denotes disperse of office services and activities. The necessity of decentralization of office services takes place when official activities are performed at functional departmental level. Thus, decentralization in relation to office may include departmentation of activities. When authority is dispersed or distributed, decentralization is present.

The need for decentralization is felt when the business develops in its size which demands diversification of office activities. Decentralization occurs at the time of decisions of routine nature but if decisions are vital, the authority is not decentralized.

The technological development, political factors, availability of managers also affects the degree of decentralization. Decentralization does not exist in its pure sense. There is a mixture of the two because some activities are centralized and some are decentralized.

### Advantages of Decentralization:

1. Sharing of burden of top executive —Decentralization allows to its executive to share his burden with others at lower levels because here authority is delegated. The top executive is relieved of some burden and concentrates his activities to think for the future of the organization.
2. Improved motivation and morale — the ethics of the employees are increased because of delegation of authority. Decentralization helps to increase employee's morale because it involves delegation. The employees are motivated to work.



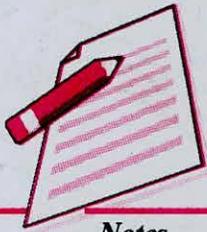
3. Greater efficiency and output—Decentralization gives importance on care, vigilance and enthusiastic approach to the work which in turn results in increased competence and output. This is possible because it involves delegation of authority and responsibility.
4. Diversification of Activities—Decentralization helps in diversification of activities. It creates more employment opportunities because new managers are to be entrusted with new assignments.
5. Enhanced Co-ordination—the various operations and activities are co-ordinate in a decentralized set up.
6. Preservation of Secrecy — Decentralization enables to maintain secrecy without much cost and unnecessary trouble.
7. Facilitate effective control and quick decision—Decentralization enables to measure the work according to standard easily and quickly. This facilitates taking up quick decision.

**Disadvantages of Decentralization: A decentralized organization suffers from the following disadvantages:**

1. More cost—Decentralization is costly because it encourages duplication of functions and equipment's. As it is costly, it cannot be adopted by small organizations.
2. No specialization — Specialization suffers in decentralization because everyone becomes jack-of-all-trades but master of none. So, specialization is affected.
3. Need more specialists — In decentralization more specialists are needed. The services of specialists are not utilized effectively and efficiently, as they are large in numbers.
4. No uniform action — It becomes difficult to maintain uniformity in action because routine and methods differ from organization to organization and department to department.
5. No equitable distribution of work — It becomes difficult to distribute workload equitably among different employees

**Difference between decentralization and delegation of authority**

| <b>Basis</b> | <b>Delegation</b>  | <b>Decentralization</b>  |
|--------------|--|--|
| Meaning      | Managers delegate some of their function and authority to their subordinates.                            | Right to take decisions is shared by top management and other level of management. |
| Scope        | Scope of delegation is limited as superior delegates the powers to the subordinates on individual bases. | Scope is wide as the decision making is shared by the subordinates also.           |



Notes

|                         |   |  |
|-------------------------|---|--|
| Responsibility          | Responsibility remains of the managers and cannot be delegated  | Responsibility is also delegated to subordinates.  |
| Freedom of Work         | Freedom is not given to the subordinates as they have to work as per the instructions of their superiors. | Freedom to work can be maintained by subordinates as they are free to take decision and to implement it.                                 |
| Nature                  | It is a routine function  | It is an important decision of an enterprise.  |
| Need on purpose         | Delegation is important in all concerns whether big or small. No enterprises can work without delegation. | Decentralization becomes more important in large concerns and it depends upon the decision made by the enterprise, it is not compulsory. |
| Grant of Authority      | The authority is granted by one individual to another.  | It is a systematic act which takes place at all levels and at all functions in a concern.  |
| Grant of Responsibility | Responsibility cannot be delegated  | Authority with responsibility is delegated to subordinates.  |
| Degree                  | Degree of delegation varies from concern to concern and department to department.                         | Decentralization is total by nature. It spreads throughout the organization i.e. at all levels and all functions                         |
| Process                 | Delegation is a process which explains superior subordinates' relationship                                | It is an outcome which explains relationship between top management and all other departments.   |
| Essentiality            | Delegation is essential of all kinds of concerns  | Decentralization is a decisions function by nature.  |
| Significance            | Delegation is essential for creating the organization   | Decentralization is an optional policy at the discretion of top management.  |

### Centralization

**Definition:** Centralization refers to that organizational structure where decision-making power is confined to the top management, and the subordinates need to follow the instructions of their seniors. Centralization of authority is essential for the small-scale organizations which lack resources and finance.

**Example:** A person running a departmental store appoints a manager, a cleaning staff, a salesperson and a helper. The owner delegates the work among the staff according to their skills and positions.



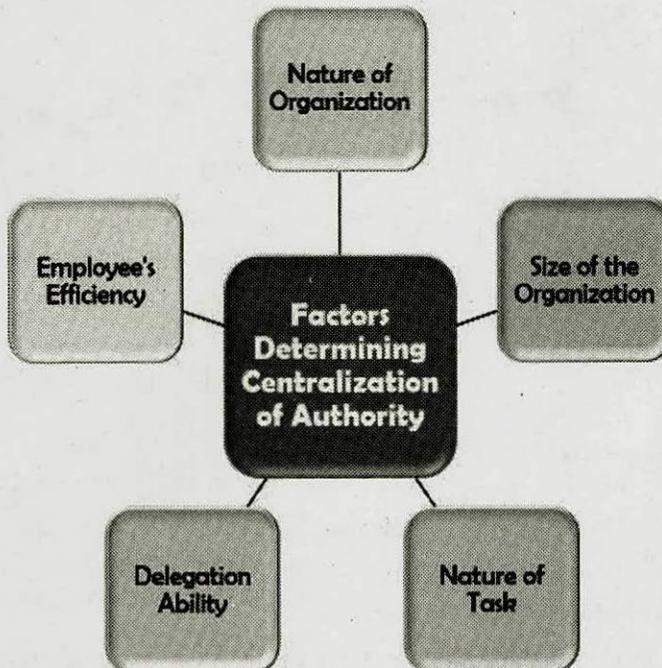
However, he retains the decision-making authority related to display, discounts, offers, stock, orders, workers' salary, leaves and increment with him. He also keeps firm control over the routine activities of the staff and instructs them from time to time.

This type of organization has a decentralized structure where the owner is the decision maker, and the staff has to follow his instructions.

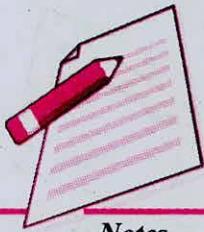
### **Factors Determining Centralization of Authority**

In small organizations, the owner or the top management is responsible for making all the business decision solely, whereas delegation of work among the subordinates take place, therefore centralization persist in these business units.

The following factors result in the centralization of the organization:



- **Nature of Organization:** When the organization is generally a sole proprietorship or partnership entity with less number of employees to be managed, it can have a centralized system.
- **Size of the Organization:** The organization which are small in size and operating on a small scale can be efficiently managed by the top management hence following a centralized system.
- **Nature of Task:** The organizations engaged in business operations which does not require much expertise or specialization can be managed through centralization.
- **Delegation Ability:** The capability of the management to delegate the responsibilities to the subordinates while keeping the charge in their hand is another factor determining the organizational structure.
- **Employee's Efficiency:** If the employees lack skills and efficiency to take up the responsibility and accountability of the work to be performed, the management will go for centralization of the organization.

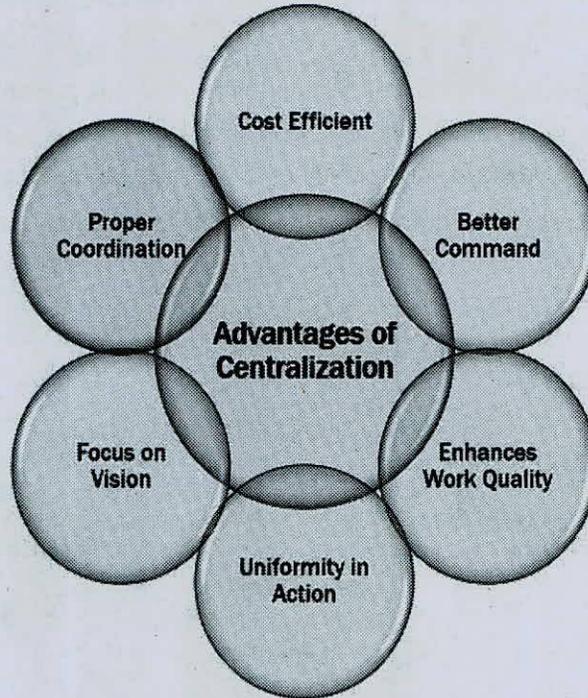


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**Advantages of Centralization**

You must be wondering; What is the need for centralization of authority in an organization? Why can't all the organizations be decentralized?

Yes, centralization and decentralization are equally important in a business. The reasons for which some organizations essentially centralize its structure are as follows:

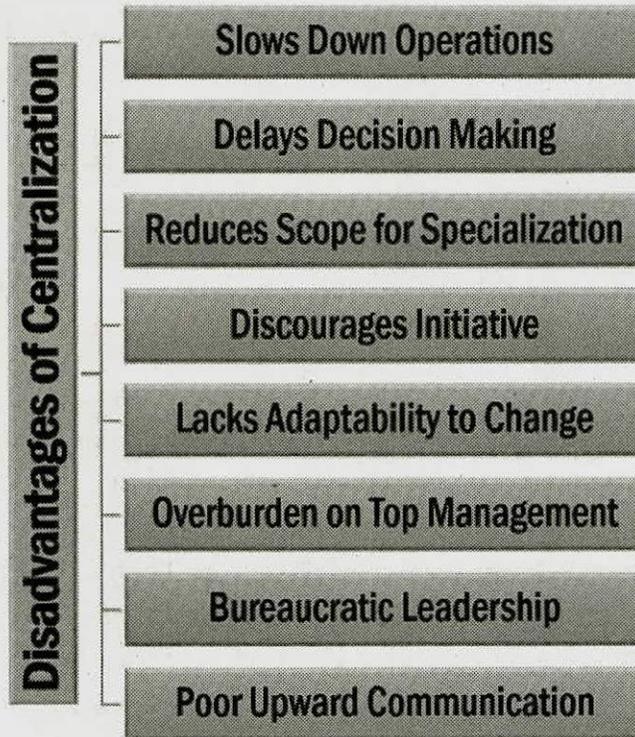


- **Cost Efficient:** The management need not spend much on the office and administrative expenses in a centralized organization. Even the cost of hiring experts and highly experienced personnel at each level is saved due to the centralized decision-making process.
- **Better Command:** The management can hold a better command over the subordinates and the subordinates also clearly know whom to follow. There is proper control over the subordinate actions, and the management is well aware of the strengths and weaknesses of the subordinates.
- **Enhances Work Quality:** The subordinates are answerable directly to the top management, and therefore they continuously aim at improving the work quality. It also leads to standardization of the process and reduces the wastage.
- **Uniformity in Action:** When the control lies in the hands of few, the methods and techniques used are usually the same throughout all the levels and departments, thus encouraging the subordinates to perform uniformly.
- **Focus on Vision:** The top management clearly defines and better understand the organizational vision. Therefore, it aligns all the resources, subordinates, activities and strategies towards the achievement of the vision.
- **Proper Coordination:** The top management frames a uniform policy for subordinates at different levels, integrate their course of action and ensures coordination among all the subordinates.

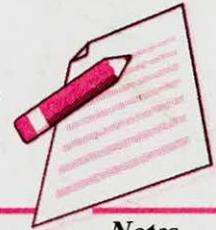
## Disadvantages of Centralization

Centralization is not suitable for all type of business organizations. When we talk about a brand like Nestle, it wouldn't have expanded its business to such a vast extent if it had a centralized organizational structure.

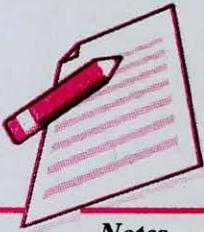
Let us now discuss the various shortcomings of centralization in an organization:



- **Slows Down Operations:** The top management directs the day to day operations, and the subordinates have to report directly to the senior management. At times when the management is not available, the subordinates are unable to take immediate decisions. Thus, resulting in slowing down of business operations.
- **Delays Decision Making:** In centralization, the decision-making process slows down since all the decisions are to be taken by the top management. It is not suitable for handling emergency situations or unexpected circumstances.
- **Reduces Scope for Specialization:** A person cannot specialize in all the activities alone. Therefore, in a centralized structure where all decisions are taken by the top management, the organization lacks specialized supervision and management.
- **Discourages Initiative:** The subordinates are given instructions which they need to follow without questioning the decisions of the top management. In centralization, the subordinates are intimidated from giving their input or suggestions.
- **Lacks Adaptability to Change:** The centralized organization runs in a conventional manner where the top management is somewhat rigid with its policies, methods and techniques. Thus, it creates a barrier to adopting modern and improved practices for organizational growth.



Notes



**Notes**

- **Overburden on Top Management:** All the planning and decision-making work is done at the topmost level of management; they control even the day to day operations. Due to this reason, the management becomes overburdened and is unable to concentrate on business expansion and growth.
- **Bureaucratic Leadership:** Centralization can be seen as dictatorship by some, where the top management plans every course of action and the subordinates follow the instructions. The problem solving becomes quite difficult in such circumstances since the decision maker and the implementer are two different people.
- **Poor Upward Communication:** The subordinates are supposed to follow instructions while least attention is paid towards their suggestions and feedback. All this hinders the upward communication in the organization.

### SUMMARY

Organizing is the process of determining the total activities to achieve a given objective, grouping and assigning of activities to individuals, delegating them authority necessary to perform the activities assigned and establishing authority relationship among different positions in the organization

Organizational design is a step-by-step methodology which identifies dysfunctional aspects of work flow, procedures, structures and systems, realigns them to fit current business realities/goals and then develops plans to implement the new changes

Organizational effectiveness is about each individual doing everything they know how to do and doing it well; in other words organizational efficiency is the capacity of an organization to produce the desired results with a minimum expenditure of energy, time, money, and human and material resources

According to Fayol “Everything that goes to increase the importance of the subordinate’s role is called decentralization.”

Decentralization refers to the assignment of authority along with the responsibility at each level of the organization. Distribution of the power of decision making along with the related responsibilities among the different managerial levels is necessary for better management.

Centralization is taken as a dominating or dictatorial practice nowadays. The reason may be that the current employees do not like to be ruled. Instead, they feel more comfortable in the organizations which treat employees as their associates and value their knowledge, skills and suggestions.

However, from the organizational point of view, centralization is essential to keep a hold over the business activities and operations, especially in the organizations where the employees are not self-disciplined or do possess the required decision-making skills.

## Keywords:

- Organisation,
- Structure of organisation
- organisational effectiveness
- Centralization, Decentralization
- Authority



## EXERCISE

### Multiple choice Questions

1. Organising can be defined as: -
  - (a) Identifying & grouping various activities
  - (b) Establishing productive relations for the achievement of goals
  - (c) Both (a) & (b)
  - (d) None of the above
2. Responsibility flows from: -
  - (a) Superior to subordinate
  - (b) Subordinate to superior
  - (c) None of the above
3. Which of the following is not a process of organising: -
  - (a) Division of work
  - (b) Assignment of duties
  - (c) Grouping jobs
  - (d) Decision making
4. \_\_\_\_\_ clearly defines what tasks & activities shall be carried out at particular job
  - (a) Role clarity
  - (b) Coordination
  - (c) Job design
  - (d) Specialization
5. When managers are made responsible for coordinating a particular number of jobs effectively is called
  - (a) Adaptation
  - (b) Span of control
  - (c) Coordination
  - (d) Job design
6. \_\_\_\_\_ structure is suitable when the size of the organization is large
  - (a) Organisational
  - (b) Divisional
  - (c) Functional

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7. Which of the following is not true about formal organization: -
- (a) Deliberately planned & created by management
  - (b) Stable & predictable
  - (c) Violation of rules may lead to penalties
  - (d) Leaders are chosen
8. Process of entrusting responsibility & authority & creating accountability of person who work has been given:-
- (a) Delegation
  - (b) Centralization
  - (c) Decentralization
  - (d) Informal organization

### Answer Keys

|   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | c | 2 | b | 3 | d | 4 | a | 5 | b | 6 | c | 7 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|

## Review Questions

1. Define the term organizing?
2. Explain the process involved in organizing?
3. Organizing “avoid duplication of work and clearly defines the role of an individual in the company”. Explain the statement.
4. How does organizing leads to coordination and specialization of work?
5. Write the difference between formal and informal organization?
6. “Authority can be delegated but accountability cannot”. Explain the statement.
7. Write the advantages and disadvantages of divisional structure?
8. Explain the term delegation?
9. Explain decentralization with its importance?
10. Write short notes on elements of delegation?

## Case Study

Leo Harris, one of your assistants in a fire insurance company, is in charge of a group of clerical workers who review changed policies, endorsements, and riders, calculate commissions, and maintain records. He is very meticulous, and everything coming out of his group is perfect. He does not delegate authority and responsibility but rechecks in detail all the work turned out by his group. He keeps turning back to them careless and inaccurate work until it is perfect. As a result he is busy from early morning until late at night doing detail work and neglecting his role as supervisor. His workers have figured him out and are taking it easy. They do slap-dash work and correct it as often as he returns it. You are afraid that Harris is overworking and heading for a nervous breakdown. You have told him in general terms to delegate authority and responsibility and to discipline his group. He says that you just can't find people any more who have pride in their work or concern for the company and that if he fires any of his people or they quit the replacements would probably be worse.

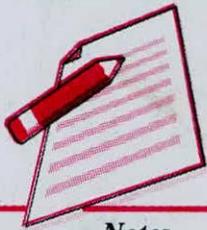
1. What are some of the reasons why people do not delegate authority and responsibility?
2. What are Harris' responsibilities as a supervisor?
3. Which can he delegate?
4. How should he go about delegating them?
5. What are some of the leadership characteristics that Harris lacks?
6. How can you go about developing them in him?

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## 1

## STAFFING: CONCEPT AND IMPORTANCE OF STAFFING

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

Staffing: Concept and importance of staffing,  
Staffing as a part of Human Resource Management concept,  
Staffing process

**Objective of the chapter:**

The basic objective of this chapter is to through some light on the initial concepts of staffing and its process. Apart from that topics like Recruitment process, Selection — process and Training and Development have also been explained in this unit.

**introduction****Concept of Staffing**

It is the fact that organization foundation is based on quality staff. The employees are the assets of any firm. An organization needs to fulfil the right position with the right person. Staffing refers to the managerial function of filling and keeping filled the positions in the organization structure. In simple terms staffing is related to putting people into jobs.

It starts with workforce planning including recruitment, selection, promotion, training, development, and appraisal of the workforce. It is an important part of the management process concerned with obtaining, utilizing and maintaining a satisfied workforce. It is a continuous process.

**Importance of staffing**

- No organization is successful without the right staff.
- It helps in gaining competent personnel for various positions.
- It helps in improving the organization performance by hiring the right person for the right job.
- It involves succession planning for managers hence promotes the continuous growth of the firm.



- It promotes optimum utilization of resources by high labour cost and underutilization of resources.
- It motivates employees and improves job satisfaction.
- It brings higher productivity and quality work.

## **Staffing Process**

Staffing process is the prime function of the management process. It deals with the timely fulfilment of the manpower requirements of the organization.

### **1 Estimating manpower requirement**

Various job positions are created before hiring the staff. Each job position requires to estimate the set of skills like education qualification, experience etc to estimate manpower requirement. Workforce analysis is done to estimate manpower requirement. Workforce analysis includes the number and type of requirement.

### **2 Recruitment**

It is the process of searching for a prospective candidate and stimulate them to apply for the job. it is done to create a pool of respective potential candidate. It is done through the internal and external source of recruitment.

### **3 Selection**

At the time of recruitment, prospective job candidates are chosen for the job position. Selection is done to ensure that the organization chose the best talent. It enhances the self-esteem of the candidate.

### **4 Placement and Orientation**

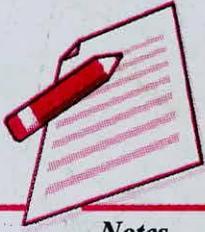
After the selection, placement is done where the employee occupies the job position. After joining the firm, the staff is given the brief introduction about the company and introduced to the co-workers. It is an orientation process which familiarises the candidate with the job position and company.

### **5 Training and Development**

Firm either have their in-house training centres or has forged alliances with training institutions for training and development of the employees.

### **6 Performance Appraisal**

The organization has some predetermined standard on the basis of which employees are evaluated on current or past performance. So performance appraisal includes defining the job, appraising the performance and providing the feedback.

*Notes*

## 7 Promotion and Career Planning

Promotion is an important part of people's career. Firm addresses the career-related issues to promote the employees. Promotion includes more pay, responsibility and job satisfaction.

## 8 Compensation

Compensation refers to all forms of payments to the employee including pay and rewards. It also includes incentives, bonus, commission and indirect payments.

## Staffing as a part of Human Resource Management

Staffing is concerned with filling various positions or jobs in the organization with the suitable personnel. It is a distinct element of Human Resource Management which is the concern of each manager at each level of the organization. If right types of persons are not available, the organization would not be able to accomplish its objectives. It is an inherent part of the job of every manager to procure, develop, and motivate personnel who can work efficiently for the goals of the organization. Human Resource Management deals with the effective procurement and utilization of manpower or resources.

Following features show Staffing as a part of Human Resource Management— Staffing is an integral part of human resource management. It facilitates procurement and placement of the right person on the right jobs.

**Staffing is people centered:** It is concerned with all categories of personnel from top to the bottom of the organization. The classification of personnel may be as follows :

1. Blue collar workers
  2. Managerial and non-managerial personnel
- Professionals such as Chartered Accountant, Lawyer, Company Secretary, etc.

**Staffing requires the use of human skills** – Staffing is concerned with training and development of human resources. Every manager uses human relation skills in providing guidance and training to the subordinates. Performance appraisal, transfer, and promotion of subordinates are also required. If the staffing function is performed properly, the human relations in the organization will be cordial.

**Staffing is a continuous function**– It is important for both new and existing organizations. In an established organization, every manager is engaged in various staffing activities. The manager is to guide and train workers and also evaluate their performance on a continuous basis. A new organization, there has a recruitment, selection, and training of personnel.



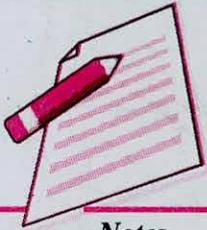
## **Responsibility for Staffing**

Staffing is a basic function of management. Every manager is continuously engaged in performing the staffing function. He is actively associated with recruitment, selection, training, and appraisal of his subordinates. Staffing is a pervasive function of management and is performed by the managers at all levels.

It is the duty of every manager to perform the staffing activities such as selection, training, performance appraisal and counselling of employees. These responsibilities require the services of specialists in human resource management. That is why, in many enterprises, the Human Resource Department is created to perform these activities. Hence, the staffing functions of the manager are slightly limited. The Human Resource Department is established to provide assistance to the managers in performing their staffing duties.

## **Specialized duties and activities of Human Resource Management**

- Job analysis, i.e. collecting information about jobs and qualifications required to perform them to prepare job descriptions and job specifications.
- Employment, i.e. recruitment, selection, and placement of competent and qualified personnel.
- Training & development of employees.
- Developing compensation and incentive plans.
- Maintaining good relations with the employees and their unions.
- Handling the grievances and complaints of employees.
- Social security and the welfare of employees.
- Handling legal complications



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## 2

# RECRUITMENT PROCESS

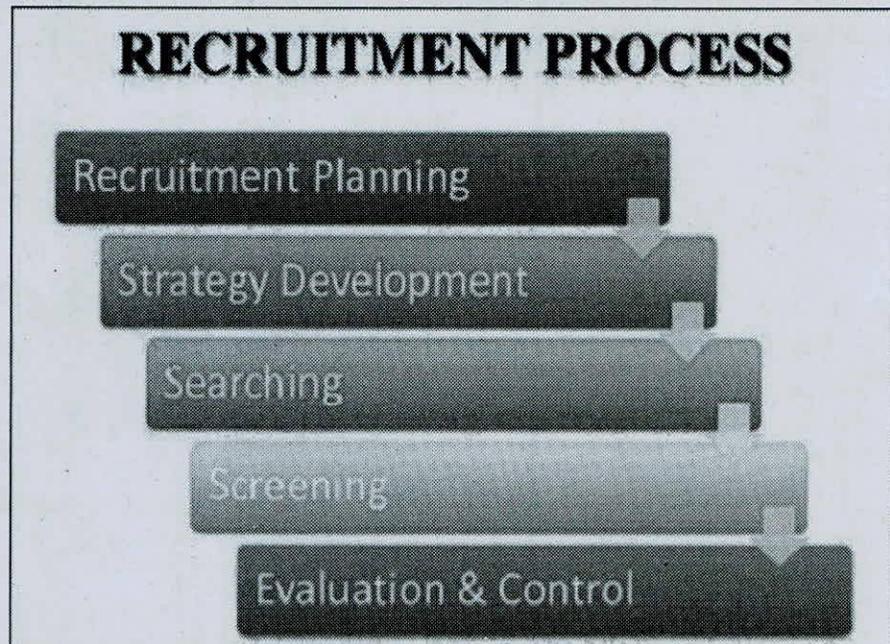
Recruitment process  
Selection – process  
Training and Development

### Introduction

Recruitment is a process of finding and attracting the potential resources for filling up the vacant positions in an organization. It sources the candidates with the abilities and attitude, which are required for achieving the objectives of an organization.

Recruitment process is a process of identifying the jobs vacancy, analysing the job requirements, reviewing applications, screening, shortlisting and selecting the right candidate.

To increase the efficiency of hiring, it is recommended that the HR team of an organization follows the five best practices (as shown in the following image). These five practices ensure successful recruitment without any interruptions. In addition, these practices also ensure consistency and compliance in the recruitment process.



Recruitment process is the first step in creating a powerful resource base. The process undergoes a systematic procedure starting from sourcing the resources to arranging and conducting interviews and finally selecting the right candidates.

## Recruitment Planning

Recruitment planning is the first step of the recruitment process, where the vacant positions are analysed and described. It includes job specifications and its nature, experience, qualifications and skills required for the job, etc.

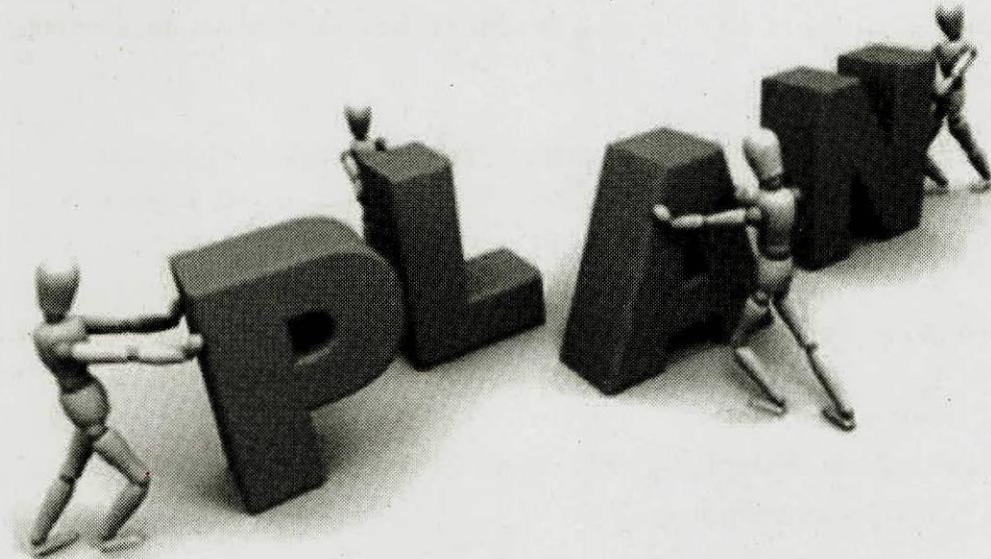
A structured recruitment plan is mandatory to attract potential candidates from a pool of candidates. The potential candidates should be qualified, experienced with a capability to take the responsibilities required to achieve the objectives of the organization.

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## Identifying Vacancy

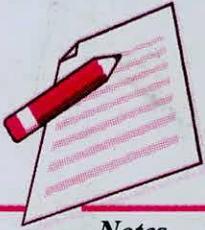
The first and foremost process of recruitment plan is identifying the vacancy. This process begins with receiving the requisition for recruitments from different department of the organization to the HR Department, which contains –

- Number of posts to be filled
- Number of positions
- Duties and responsibilities to be performed
- Qualification and experience required

When a vacancy is identified, it the responsibility of the sourcing manager to ascertain whether the position is required or not, permanent or temporary, full-time or part-time, etc. These parameters should be evaluated before commencing recruitment. Proper identifying, planning and evaluating leads to hiring of the right resource for the team and the organization.

## Job Analysis

Job analysis is a process of identifying, analysing, and determining the duties, responsibilities, skills, abilities, and work environment of a specific job. These factors help in identifying what a job demands and what an employee must possess in performing a job productively.



Job analysis helps in understanding what tasks are important and how to perform them. Its purpose is to establish and document the **job relatedness** of employment procedures such as selection, training, compensation, and performance appraisal.

The following steps are important in analysing a job –

- Recording and collecting job information
- Accuracy in checking the job information
- Generating job description based on the information
- Determining the skills, knowledge and skills, which are required for the job

The immediate products of job analysis are **job descriptions** and **job specifications**.

### **Job Description**

Job description is an important document, which is descriptive in nature and contains the final statement of the job analysis. This description is very important for a successful recruitment process.

Job description provides information about the scope of job roles, responsibilities and the positioning of the job in the organization. And this data gives the employer and the organization a clear idea of what an employee must do to meet the requirement of his job responsibilities.

Job description is generated for fulfilling the following processes –

- Classification and ranking of jobs
- Placing and orientation of new resources
- Promotions and transfers
- Describing the career path
- Future development of work standards

A job description provides information on the following elements –

- Job Title / Job Identification / Organization Position
- Job Location
- Summary of Job
- Job Duties
- Machines, Materials and Equipment
- Process of Supervision
- Working Conditions
- Health Hazards

### **Job Specification**

Job specification focuses on the specifications of the candidate, whom the HR team is going to hire. The first step in job specification is preparing the list of all jobs in the organization and its locations. The second step is to generate the information of each job.

This information about each job in an organization is as follows –

- Physical specifications
- Mental specifications
- Physical features
- Emotional specifications
- Behavioural specifications

A job specification document provides information on the following elements –

- Qualification
- Experiences
- Training and development
- Skills requirements
- Work responsibilities
- Emotional characteristics
- Planning of career

### Job Evaluation

Job evaluation is a comparative process of analysing, assessing, and determining the relative value/worth of a job in relation to the other jobs in an organization.

The main objective of job evaluation is to analyze and determine which job commands how much pay. There are several methods such as **job grading**, **job classifications**, **job ranking**, etc., which are involved in job evaluation. Job evaluation forms the basis for salary and wage negotiations.

### Recruitment Strategy

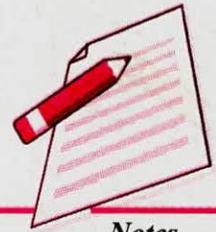
Recruitment strategy is the second step of the recruitment process, where a strategy is prepared for hiring the resources. After completing the preparation of job descriptions and job specifications, the next step is to decide which strategy to adopt for recruiting the potential candidates for the organization.

While preparing a recruitment strategy, the HR team considers the following points –

- Make or buy employees
- Types of recruitment
- Geographical area
- Recruitment sources

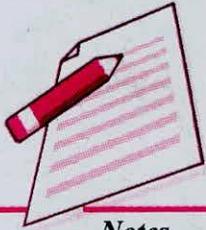
The development of a recruitment strategy is a long process, but having a right strategy is mandatory to attract the right candidates. The steps involved in developing a recruitment strategy include –

- Setting up a board team
- Analysing HR strategy
- Collection of available data
- Analysing the collected data
- Setting the recruitment strategy



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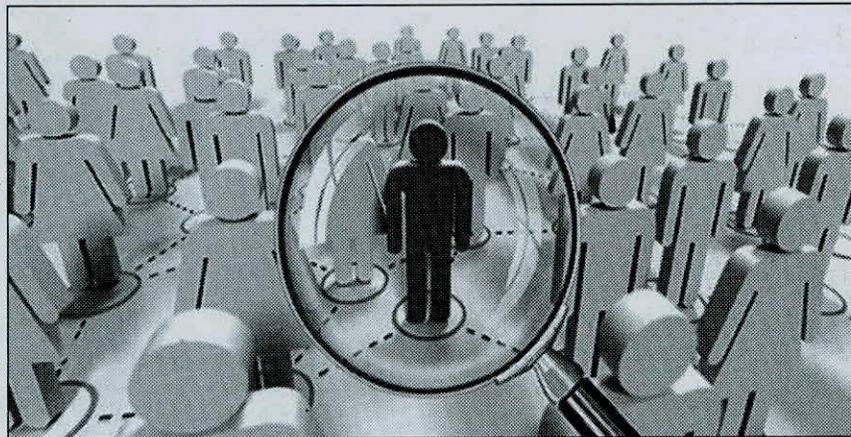
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## Searching the Right Candidates

Searching is the process of recruitment where the resources are sourced depending upon the requirement of the job. After the recruitment strategy is done, the searching of candidates will be initialized. This process consists of two steps –

- **Source activation** – Once the line manager verifies and permits the existence of the vacancy, the search for candidates starts.
- **Selling** – Here, the organization selects the media through which the communication of vacancies reaches the prospective candidates.

Searching involves attracting the job seekers to the vacancies. The sources are broadly divided into two categories: **Internal Sources** and **External Sources**.



### Internal Sources

Internal sources of recruitment refer to hiring employees within the organization through –

- Promotions
- Transfers
- Former Employees
- Internal Advertisements (Job Posting)
- Employee Referrals
- Previous Applicants

### External Sources

External sources of recruitment refer to hiring employees outside the organization through –

- Direct Recruitment
- Employment Exchanges
- Employment Agencies
- Advertisements
- Professional Associations
- Campus Recruitment

*Notes*

## Screening / Shortlisting

Screening starts after completion of the process of sourcing the candidates. Screening is the process of filtering the applications of the candidates for further selection process. Screening is an integral part of recruitment process that helps in removing unqualified or irrelevant candidates, which were received through sourcing. The screening process of recruitment consists of three steps –

### Reviewing of Resumes and Cover Letters

Reviewing is the first step of screening candidates. In this process, the resumes of the candidates are reviewed and checked for the candidates' education, work experience, and overall background matching the requirement of the job

While reviewing the resumes, an HR executive must keep the following points in mind, to ensure better screening of the potential candidates –

- Reason for change of job
- Longevity with each organization
- Long gaps in employment
- Job-hopping
- Lack of career progression

### Conducting Telephonic or Video Interview

Conducting telephonic or video interviews is the second step of screening candidates. In this process, after the resumes are screened, the candidates are contacted through phone or video by the hiring manager. This screening process has two outcomes –

- It helps in verifying the candidates, whether they are active and available.
- It also helps in giving a quick insight about the candidate's attitude, ability to answer interview questions, and communication skills.

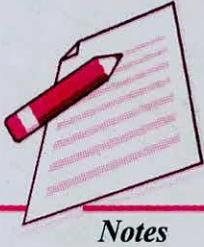
### Identifying the top candidates

Identifying the top candidates is the final step of screening the resumes/candidates. In this process, the cream/top layer of resumes are shortlisted, which makes it easy for the hiring manager to take a decision. This process has the following three outcomes –

- Shortlisting 5 to 10 resumes for review by the hiring managers
- Providing insights and recommendations to the hiring manager
- Helps the hiring managers to take a decision in hiring the right candidate

### Evaluation and Control

Evaluation and control are the last stage in the process of recruitment. In this process, the effectiveness and the validity of the process and methods are assessed. Recruitment is a costly process; hence it is important that the performance of the recruitment process is thoroughly evaluated.



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The costs incurred in the recruitment process are to be evaluated and controlled effectively. These include the following –

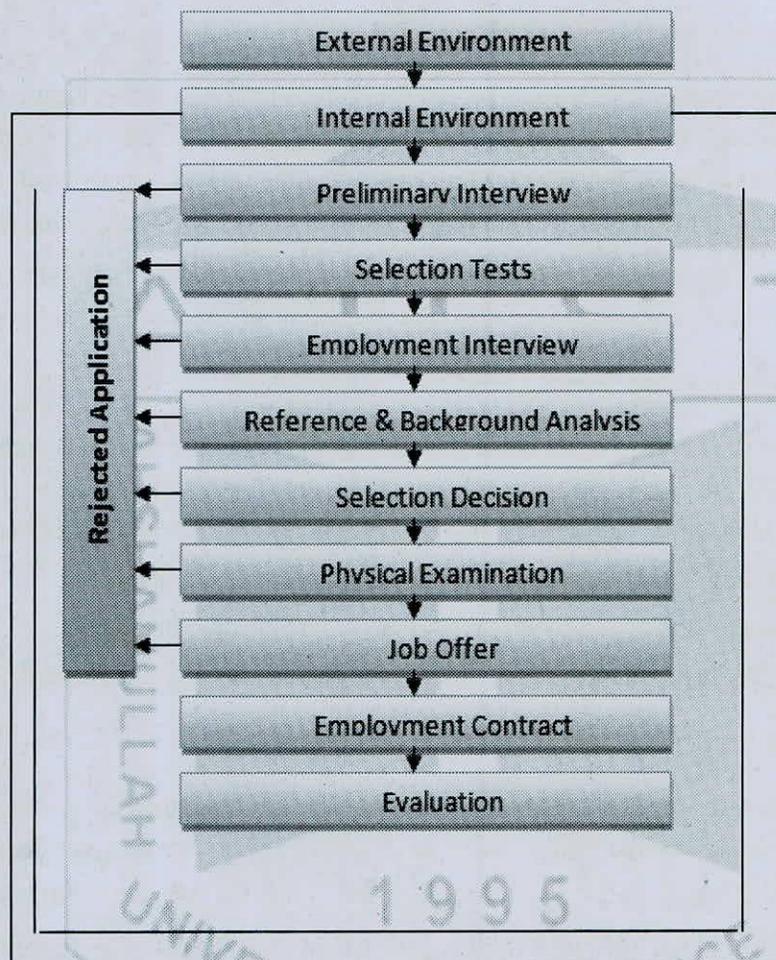
- Salaries to the Recruiters
- Advertisements cost and other costs incurred in recruitment methods, i.e., agency fees.
- Administrative expenses and Recruitment overheads
- Overtime and Outstanding costs, while the vacancies remain unfilled
- Cost incurred in recruiting suitable candidates for the final selection process
- Time spent by the Management and the Professionals in preparing job description, job specifications, and conducting interviews.

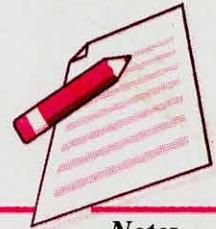
Finally, the question that is to be asked is, whether the recruitment methods used are valid or not? And whether the recruitment process itself is effective or not? Statistical information on the costs incurred for the process of recruitment should be effective.

### Selection Process

Selection is a long process, commencing from the preliminary interview of the applicants and ending with the contract of employment.

**The following chart gives an idea about selection process: –**





## **Step – 1:**

### **Environment factor affecting selection**

Selection is influenced by several factors. More prominent among them are supply and demand of specific skills in the labour market, unemployment rate, labour-market conditions, legal and political considerations, company's image, company's policy, human resources planning and cost of hiring. The last three constitute the internal environment and the remaining form the external environment of selection process.

### **Preliminary Interview**

The applicants received from job seekers would be subject to scrutiny so as to eliminate unqualified applicants. This is usually followed by a preliminary interview the purpose of which is more or less the same as scrutiny of application, that is, eliminate of unqualified applicants. Scrutiny enables the HR specialists to eliminate unqualified jobseekers based on the information supplied in their application forms. Preliminary interview, on the other hand, helps reject misfits for reason, which did not appear in the application forms. Besides, preliminary interview, often called 'courtesy interview', is a good public relation exercise.

## **STEP – 2**

### **Selection Test**

Job seekers who pass the screening and the preliminary interview are called for tests. Different types of tests may be administered, depending on the job and the company. Generally, tests are used to determine the applicant's ability, aptitude and personality.

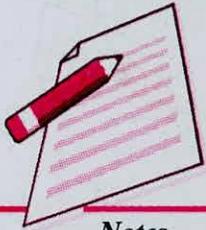
### **The following are the type of tests taken:**

#### **Ability tests**

Assist in determining how well an individual can perform tasks related to the job. An excellent illustration of this is the typing tests given to a prospective employer for secretarial job which also called as 'ACHIEVEMENT TESTS'. It is concerned with what one has accomplished. When applicant claims to know something, an achievement test is taken to measure how well they know it. Trade tests are the most common type of achievement test given. Questions have been prepared and tested for such trades as asbestos worker, punch-press operators, electricians and machinists. There are, of course, many standardized achievement tests given in industries, such as typing or dictation tests for an applicant for a stenographic position.

#### **Aptitude test**

Aptitude tests measure whether an individual has the capacity or latent ability to learn a given job if given adequate training. The use of aptitude test is advisable when an



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applicant has had little or no experience along the line of the job opening. Aptitudes tests help determine a person's potential to learn in a given area. An example of such test is the general management aptitude tests (GMAT), which many business students take prior to gaining admission to a graduate business school program.

Aptitude test indicates the ability or fitness of an individual to engage successfully in any number of specialized activities. They cover such areas clerical aptitude, numerical aptitude, mechanical aptitude, motor co-ordination, finger dexterity and manual dexterity. These tests help to detect positive negative points in a person's sensory or intellectual ability. They focus attention on a particular type of talent such as learning or reasoning in respect of a particular field of work.

### Choosing tests

The test must be chosen in the criteria of reliability, validity, objectivity and standardization. They are: –

#### 1. Reliability

It refers to standardization of the procedure of administering and scoring the test results. A person who takes tests one day and makes a certain score should be able to take the same test the next day or the next week and make more or less the same score. An individual's intelligence, for example, is generally a stable characteristic. So if we administer an intelligence test, a person who scores 110 in March would score close to 110 if tested in July. Tests, which produce wide variations in results, serve little purpose in selection.

#### 0. Validity

It is a test, which helps predict whether a person will be successful in a given job. A test that has been validated can be helpful in differentiating between prospective employees who will be able to perform the job well and those who will not. Naturally, no test will be 100% accurate in predicting job success. A validated test increases possibility of success.

**There are three ways of validating a test. They are as follows: –**

- **Concurrent Validity:** This involves determining the factors that are characteristics of successful employees and then using these factors as the yardsticks.
- **Predictive Validity:** It involves using a selection test during the selection process and then identifying the successful candidates. The characteristics of both successful and less successful candidates are then identified.
- **Synthetic Validity:** It involves taking parts of several similar jobs rather than one complete job to validate the selection test.

#### Objectivity

When two or more people can interpret the result of the same test and derive the same conclusion(s), the test is said to be objective. Otherwise, the test evaluators' subjective opinions may render the test useless.



## **Standardization**

A test that is standardized is administered under standard condition to a large group of persons who are representatives of the individuals for whom it is intended. The purpose of standardization is to obtain norms or standard, so that a specific test score can be meaningful when compared to another score in the group.

### **STEP 3: –**

## **Interview**

The next step in the selection process is an interview. Interview is formal, in-depth conversation conducted to evaluate the applicant's acceptability. It is considered to be excellent selection device. It is face-to-face exchange of view, ideas and opinion between the candidates and interviewers. Basically, interview is nothing but an oral examination of candidates. Interview can be adapted to unskilled, skilled, managerial and profession employees.

### **Objectives of interview:**

Interview has at least three objectives and they are as follows: –

1. Helps obtain additional information from the applicants
2. Facilitates giving general information to the applicants such as company policies, job, products manufactured and the like
3. Helps build the company's image among the applicants.

### **STEP 4:**

## **Reference Check**

Many employers request names, addresses, and telephone numbers of references for the purpose of verifying information and perhaps, gaining additional background information on an applicant. Although listed on the application form, references are not usually checked until an applicant has successfully reached the fourth stage of a sequential selection process. When the labour market is very tight, organizations sometimes hire applicants before checking references.

Previous employers, known as public figures, university professors, neighbours or friends can act as references. Previous employers are preferable because they are already aware of the applicant's performance. But, the problem with this reference is the tendency on the part of the previous employers to over-rate the applicant's performance just to get rid of the person.

Organizations normally seek letters of reference or telephone references. The latter is advantageous because of its accuracy and low cost. The telephone reference also has the advantage of soliciting immediate, relatively candid comments and attitude can sometimes be inferred from hesitations and inflections in speech.



Notes

It may be stated that the information gathered through references hardly influence selection decisions. The reasons are obvious:

The candidate approaches only those persons who would speak well about him or her.

People may write favourably about the candidate in order to get rid of him or her.

People may not like to divulge the truth about a candidate, lest it might damage or ruin his/her career.

### **STEP 5:**

#### **Selection Decision**

After obtaining information through the preceding steps, selection decision- the most critical of all the steps- must be made. The other stages in the selection process have been used to narrow the number of the candidates. The final decision has to be made the pool of individuals who pass the tests, interviews and reference checks.

The view of the line manager will be generally considered in the final selection because it is he/she who is responsible for the performance of the new employee. The HR manager plays a crucial role in the final selection.

### **STEP 6:**

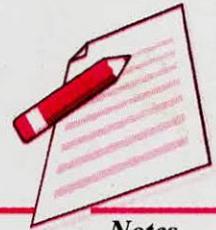
#### **Physical Examination**

After the selection decision and before the job offer is made, the candidate is required to undergo a physical fitness test. A job offer is, often, contingent upon the candidate being declared fit after the physical examination. The results of the medical fitness test are recorded in a statement and are preserved in the personnel records. There are several objectives behind a physical test. Obviously, one reason for a physical test is to detect if the individual carries any infectious disease. Secondly, the test assists in determining whether an applicant is physically fit to perform the work. Thirdly, the physical examination information can be used to determine if there are certain physical capabilities, which differentiate successful and less successful employees. Fourth, medical check-up protects applicants with health defects from undertaking work that could be detrimental to them or might otherwise endanger the employer's property. Finally, such an examination will protect the employer from workers compensation claims that are not valid because the injuries or illness were present when the employee was hired.

### **STEP 7:**

#### **Job Offer**

The next step in the selection process is job offer to those applicants who have crossed all the previous hurdles. Job offer is made through a letter of appointment. Such a letter



generally contains a date by which the appointee must report on duty. The appointee must be given reasonable time for reporting. This is particularly necessary when he or she is already in employment, in which case the appointee is required to obtain a relieving certificate from the previous employer. Again, a new job may require movement to another city, which means considerable preparation, and movement of property.

The company may also want the individual to delay the date of reporting on duty. If the new employee's first job upon joining the company is to go on company until perhaps a week before such training begins. Naturally, this practice cannot be abused, especially if the individual is unemployed and does not have sufficient finances.

Decency demands that the rejected applicants be informed about their non-selection. Their applicants may be preserved for future use, if any. It needs no emphasis that the applications of selected candidates must also be preserved for the future references.

### **STEP 8: –**

### **Contract of Employment**

After the job offer has been made and candidates accept the offer, certain documents need to be executed by the employer and the candidate. One such document is the attestation form. This form contains vital details about the candidate, which are authenticated and attested by him/her. Attestation form will be a valid record for the future reference.

There is also a need for preparing a contract of employment. The basic information that should be included in a written contract of employment will vary according to the level of the job, but the following checklist sets out the typical headings:

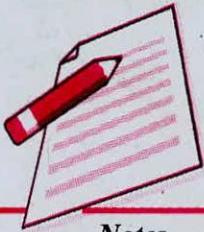
1. Job title
2. Duties, including a phrase such as "The employee will perform such duties and will be responsible to such a person, as the company may from time to time direct".
3. Date when continuous employment starts and the basis for calculating service.
4. Rate of pay, allowance, overtime and shift rates, method of payments.
5. Hours of work including lunch break and overtime and shift arrangements.

### **Holiday arrangements:**

- Paid holidays per year.
- Calculation of holiday pay.
- Qualifying period.
- Accrual of holidays and holiday pay.
- Details of holiday year.
- Dates when holidays can be taken.
- Maximum holiday that can be taken at any one time.

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- Carryover of holiday entitlement.
- Public holidays.

Alternatively called employment agreements or simply bonds, contracts of employment serve many useful purposes. Such contracts seek to restrain job-hoppers, to protect knowledge and information that might be vital to a company's healthy bottom line and to prevent competitors from poaching highly valued employees.

Most employers insist on agreements being signed by newly hired employees. But high turnover sectors such as software, advertising and media are more prone to use contracts.

The drawback with the contracts is that it is almost to enforce them. A determined employee is bound to leave the organization, contract or no contract. The employee is prepared to pay the penalty for breaching the agreement or the new employer will provide compensations. It is the reason that several companies have scrapped the contracts altogether.

#### STEP 9: –

#### Concluding the Selection Process

Contrary to popular perception, the selection process will not end with executing the employment contract. There is another step – amore sensitive one reassuring those candidates who have not selected, not because of any serious deficiencies in their personality, but because their profile did not match the requirement of the organization. They must be told that those who were selected were done purely on relative merit.

#### STEP 10: –

#### Evaluation of Selection Program

The broad test of the effectiveness of the selection process is the quality of the personnel hired. An organization must have competent and committed personnel. The selection process, if properly done, will ensure availability of such employees. How to evaluate the effectiveness of a selection program? A periodic audit is the answer. People who work independent of HR department must conduct audit. The table below contains an outline that highlights the areas and questions to be covered in a systematic evaluation

#### Training and Development

Training and Development is a subsystem of an organization which emphasize on the improvement of the performance of individuals and groups. Training is an educational process which involves the sharpening of skills, concepts, changing of attitude and gaining more knowledge to enhance the performance of the employees. Good & efficient training of employees helps in their skills & knowledge development, which eventually helps a company improve.



Notes

Training is about knowing where you are in the present and after some time where will you reach with your abilities. By training, people can learn new information, new methodology and refresh their existing knowledge and skills. Due to this there is much improvement and adds up the effectiveness at work. The motive behind giving the training is to create an impact that lasts beyond the end time of the training itself and employee gets updated with the new phenomenon. Training can be offered as skill development for individuals and groups.

Organizational Development is a process that “strives to build the capacity to achieve and sustain a new desired state that benefits the organization or community and the world around them.” (From the Organizational Development Network website).



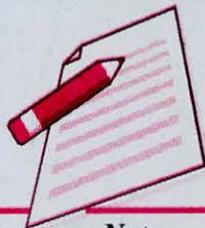
### Relation between Training and Development

There is a relation between training and development, and there is clear difference between the two based on goals to be achieved. Development is made to answer the **training problems**:

| <i>TRAINING</i>                                    | <i>DEVELOPMENT</i>                                |
|--|---|
| Training is meant for operatives                   | Development is meant for executives               |
| It is reactive process                             | It is pro- active process                         |
| AIM: To develop additional skills                  | AIM: To develop the total personality             |
| It is short term process                           | It is continuous process                          |
| OBJECTIVE: To meet the present need of an employee | OBJECTIVE: To meet the future need of an employee |
| Initiative is taken by the management              | Initiative is taken by an individual.             |

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## Importance of Training and Development

For companies to keep improving, it is important for organizations to have continuous training and development programs for their employees. Competition and the business environment keeps changing, and hence it is critical to keep learning and pick-up new skills. The importance of training and development is as follows:

- Optimum utilization of Human resources
- Development of skills like time management, leadership, team management etc
- To increase the productivity and enhance employee motivation
- To provide the zeal of team spirit
- For improvement of organization culture
- To improve quality, safety
- To increase profitability
- Improve the morale and corporate image

## Need for Training and Development

Training and development of employees is a costly activity as it requires a lot quality inputs from trainers as well as employees. But it is essential that the company revises its goals and efficiencies with the changing environment. Here are a few critical reasons why the company endorses training and development sessions.

- When management thinks that there is a need to improve the performances of employees
- To set up the benchmark of improvement so far in the performance improvement effort
- To train about the specific job responsibility and skills like communication management, team management etc
- To test the new methodology for increasing the productivity

## Advantages of training and development

Training and development has a cost attached to it. However, since it is beneficial for companies in the long run, they ensure employees are trained regularly. Some advantages are:

1. Helps employees develop new skills and increases their knowledge.
2. Improves efficiency and productivity of the individuals as well as the teams.
3. Proper training and development can remove bottle-necks in operations.
4. New & improved job positions can be created to make the organization leaner.
5. Keeps employees motivated and refreshes their goals, ambitions and contribution levels.



## Disadvantages of training and development

Even though there are several advantages, some drawbacks of training and development are mentioned below:

1. It is an expensive process which includes arranging the correct trainers and engaging employees for non-revenue activities.
2. There is a risk that after the training and development session, the employee can quit the job.

## Training and Development Process

Training and development is a continuous process as the skills, knowledge and quality of work needs constant improvement. Since businesses are changing rapidly, it is critical that companies focus on training their employees after constantly monitoring them & developing their overall personality.

Steps for training and development processes are:

1. Determine the need of training and development for individuals or teams
2. Establish specific objectives & goals which need to be achieved
3. Select the methods of training
4. Conduct and implement the programs for employees
5. Evaluate the output and performance post the training and development sessions.
6. Keep monitoring and evaluating the performances and again see if more training is required.

## Training methods

1. On the Job Training
2. Off the Job Training

### 1. On the Job Method:

On the job method refers to training given to personnel inside the company. There are different methods of on the job training.

#### A. Job Rotation:

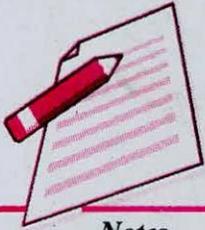
This method enables the company to train managerial personnel in departmental work. They are taught everything about the department. Starting from the lowest level job in the department to the highest-level job. This helps when the person takes over as a manager and is required to check whether his juniors are doing the job properly or not. Every minute detail is studied.

#### B. Planned Progression:

In this method juniors are assigned a certain job of their senior in addition to their own job. The method allows the employee to slowly learn the job of his senior so that

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when he is promoted to his senior job it becomes very easy for him to adjust to the new situation. It also provides a chance to learn higher level jobs.

#### C. Coaching and Counselling:

Coaching refers to actually teaching a job to a junior. The senior person who is the coach actually teaches his junior regarding how the work must be handled and how decisions must be taken, the different techniques that can be used on the job, how to handle pressure. There is active participation from the senior.

Counselling refers to advising the junior employee as and when he faces problems. The counsellor superior plays an advisory role and does not actively teach employees.

#### D. Under Study:

In this method of training a junior is deputed to work under a senior. He takes orders from the senior, observes the senior, attends meetings with him, learns about decision making and handling of day to day problems. The method is used when the senior is on the verge of retirement and the job will be taken over by the junior.

#### E. Junior Board:

In this method a group of junior level managers are identified and they work together in a group called junior board. They function just like the board of directors. They identify certain problem; they have to study the problem and provide suggestions. This method improves team work and decision-making ability. It gives an idea about the intensity of problem faced by the company. Only promising and capable junior level managers are selected for this method.

### 2. Off the Job Training Method:

Off the job training refers to method of training given outside the company. The different methods adopted here are

#### A. Classroom Method:

The classroom method is used when a group of managers have to be trained in theoretical aspects. The training involves using lectures, audio visuals, case study, role play method, group discussions etc. The method is interactive and provides very good results.

#### B. Simulation:

Simulation involves creating atmosphere which is very similar to the original work environment. The method helps to train manager handling stress, taking immediate decisions, handling pressure on the jobs etc. An actual feel of the real job environment is given here.



### **C. Business Games:**

This method involves providing a market situation to the trainee manager and asking him to provide solutions. If there are many people to be trained they can be divided into groups and each group becomes a separate team and play against each other.

### **D. Committee:**

A committee refers to a group of people who are officially appointed to look into a problem and provide solution. Trainee managers are put in the committee to identify how they study a problem and what they learn from it.

### **E. Conference:**

Conferences are conducted by various companies to have elaborate discussions on specific topics. The company which organizes the conference invites trainee manager and calls for experts in different fields to give presentation or lecture. The trainee manager can ask their doubts to these experts and understand how problems can be solved on the job.

### **F. Readings:**

This method involves encouraging the trainee manager to increase his reading related to his subject and then ask him to make a presentation on what he has learned. Information can be collected by trainee manager from books, magazines and internet etc.

### **G. In Basket Training:**

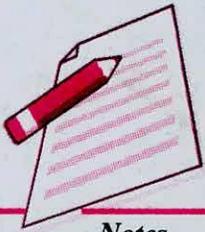
In this method the training is given to the manager to handle files coming in and to finish his work and take decisions within a specified time limit. The trainee manager is taught how to prioritize his work, the activities which are important for his job and how to take decisions within limited time limit.

### **Summary of the unit**

Human resource management (HRM), or staffing, is the management function devoted to acquiring, training, appraising, and compensating employees. In effect, all managers are human resource managers, although human resource specialists may perform some of these activities in large organizations. Solid HRM practices can mold a company's workforce into a motivated and committed team capable of managing change effectively and achieving the organizational objectives

The major differences between training and development are as under:

1. Training is a learning process for new employees in which they get to know about the key skills required for the job. Development is the training process for the existing employees for their all-round development.
2. Training is a short-term process i.e. 3 to 6 months, but development is a continuous process, and so it is for the long term.

**Notes**

3. Training focuses on developing skill and knowledge for the current job. Unlike, the development which focuses on the building knowledge, understanding and competencies for overcoming with future challenges.
4. Training has a limited scope; it is specific job oriented. On the other hand, development is career oriented and hence its scope is comparatively wider than training.
5. In training, the trainees get a trainer who instructs them at the time of training. In contrast to development, in which the manager self-directs himself for the future assignments.
6. Many individuals collectively attend the training program. Development is a self-assessment procedure, and hence, one person himself is responsible for one's development.

**Key Words**

- Staffing
- Training
- Development

**EXERCISE****MULTIPLE CHOICE QUESTIONS**

1. Which of the following is not concerned with staffing?  
(a) Recruitment (b) Selection  
(c) Training (d) Publicity
2. \_\_\_\_\_ involves planning, acquisition & development of resources necessary for organizational success.  
(a) Human Resource management (b) Human emphasis  
(c) Specialization (d) Compensation
3. Which of the following is not a process of selection?  
(a) Manpower planning (b) Placement & orientation  
(c) Separation (d) Initiate action
4. \_\_\_\_\_ refers to careful study of each of each job to determine tasks & responsibility involved in a job.  
(a) Multiplier effect (b) Human emphasis  
(c) Job analysis (d) Job satisfaction



*Notes*

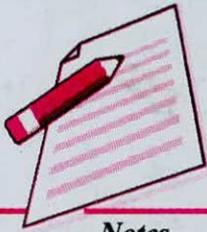
5. Process of attracting qualified person to apply for the jobs that are open is referred to as  
(a) Training (b) Recruitment  
(c) Human resource management (d) Transfer
6. Which of the following is not a process of selection?  
(a) Testing (b) Checking references  
(c) Attitude formation (d) Medical examination
7. \_\_\_\_\_ is the learning experience that seeks relatively permanent change in an individual that will improve his ability to perform on job.  
(a) Training (b) Development  
(c) Attitude formation (d) Job analysis
8. Under this method employees learn their job on the equipment they will be using but training is done away from actual work place  
(a) Apprenticeship programme (b) Vestibule training  
(c) Job rotation (d) Job analysis

**Answer Keys**

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | d | 2 | a | 3 | d | 4 | c | 5 | b | 6 | c | 7 | a | 8 | b |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

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### Review Questions

1. Define staffing?
2. Write any 4 importance of staffing?
3. Why do we say “staffing” as part of Human resource management?
4. Explain the following as a process of staffing:
  - A. Job Analysis
  - B. Placement & Orientation
  - C. Performance appraisal
  - D. Promotion & Career Counselling
5. Why is Recruitment regarded as a positive process and selection as a negative process?
6. What do you mean by selection? Explain the steps involved in the process of selection?
7. Write the difference between Training & Development?
8. What are the different types of training methods?
9. Distinguish between Time Rate and Wage Rate system?
10. Define non- monetary incentives in detail?

## 1

## UNDERSTAND THE CONCEPT OF MANAGEMENT



Notes

Directing: Concept and importance, Motivation - concept, Maslow's hierarchy of needs, Financial and non-financial incentives, Leadership - concept, styles - authoritative, democratic and laissez faire, Communication - concept, formal and informal communication; barriers to effective communication, how to overcome the barriers

Understand the concept of management.  
 Explain the meaning of 'Effectiveness and Efficiency.'  
 Discuss the objectives of management.  
 Describe the importance of management

**Objective of the chapter:**

The main aim of this chapter is to explain the crucial role of direction if an organisation as without proper direction resources has no significance. Various principles of directing have also been discussed in this chapter.

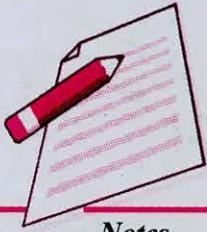
**Introduction**

While managing an enterprise, managers have to get things done through people. In order to be able to do so, they have to undertake many activities, like guide the people who work under them, inspire and lead them to achieve common objectives. An office manager, for instance, has to supervise the activities of his subordinates, i.e., typists, office assistants, dispatchers, accounts clerks, etc. He has to issue instructions to them and describe and illustrate the work and related activities. He has to tell them what to do, and how to do it. The office manager can plan, organise and appoint people, but he cannot get things done, unless he assigns specific duties to his subordinates and motivates them to perform well. All these activities of a manager constitute the directing function. Thus, directing is concerned with instructing, guiding, supervising and inspiring people in the organization to achieve its objectives. It is the process of telling people what to do and seeing that they do it in the best possible manner. The directing function thus, involves:

- Telling people what is to be done and explaining to them how to do it;
- Issuing instructions and orders to subordinates to carry out their assignments as scheduled;

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- Supervising their activities;
- Inspiring them to meet the managers expectation and contribute towards the achievement of organizational objectives; and
- Providing leadership.

Managers plan and take decisions. They organise to define the work and create suitable positions in the enterprise. People are employed to perform the jobs, but the actual work of getting the job done comes under the directing function. Thus, directing is 'management in action'. It is through the exercise of this function that managers get things done through people.

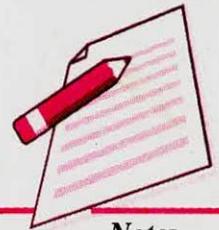
#### Direction has got following characteristics:

1. **Pervasive Function** - Directing is required at all levels of organization. Every manager provides guidance and inspiration to his subordinates.
2. **Continuous Activity** - Direction is a continuous activity as it continuous throughout the life of organization.
3. **Human Factor** - Directing function is related to subordinates and therefore it is related to human factor. Since human factor is complex and behaviour is unpredictable, direction function becomes important.
4. **Creative Activity** - Direction function helps in converting plans into performance. Without this function, people become inactive and physical resources are meaningless.
5. **Executive Function** - Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise; a subordinate receives instructions from his superior only.
6. **Delegate Function** - Direction is supposed to be a function dealing with human beings. Human behaviour is unpredictable by nature and conditioning the people's behaviour towards the goals of the enterprise is what the executive does in this function. Therefore, it is termed as having delicacy in it to tackle human behaviour.

#### Importance of Directing in Management

Directing or Direction function is said to be the heart of management of process and therefore, is the central point around which accomplishment of goals take place. A few philosophers call Direction as "Life spark of an enterprise". It is also called as an actuating function of management because it is through direction that the operation of an enterprise actually starts. Being the central character of enterprise, it provides many benefits to a concern which are as follows: -

**It Initiates Actions** - Directions is the function which is the starting point of the work performance of subordinates. It is from this function the action takes place, subordinates understand their jobs and do according to the instructions laid. Whatever are plans laid, can be implemented only once the actual work starts. It is there that direction becomes beneficial.



**It Ingrates Efforts** - Through direction, the superiors are able to guide, inspire and instruct the subordinates to work. For this, efforts of every individual towards accomplishment of goals are required. It is through direction the efforts of every department can be related and integrated with others. This can be done through persuasive leadership and effective communication. Integration of efforts bring effectiveness and stability in a concern.

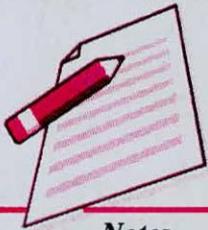
**Means of Motivation** - Direction function helps in achievement of goals. A manager makes use of the element of motivation here to improve the performances of subordinates. This can be done by providing incentives or compensation, whether monetary or non - monetary, which serves as a “Morale booster” to the subordinates. Motivation is also helpful for the subordinates to give the best of their abilities which ultimately helps in growth.

**It Provides Stability** - Stability and balance in concern becomes very important for long term survival in the market. This can be brought upon by the managers with the help of four tools or elements of direction function - judicious blend of persuasive leadership, effective communication, strict supervision and efficient motivation. Stability is very important since that is an index of growth of an enterprise. Therefore, a manager can use of all the four traits in him so that performance standards can be maintained.

**Coping up with the changes** - It is a human behavior that human beings show resistance to change. Adaptability with changing environment helps in sustaining planned growth and becoming a market leader. It is directing function which is of use to meet with changes in environment, both internal as external. Effective communication helps in coping up with the changes. It is the role of manager here to communicate the nature and contents of changes very clearly to the subordinates. This helps in clarifications, easy adoptions and smooth running of an enterprise. For example, if a concern shifts from handlooms to power looms, an important change in technique of production takes place. The resulting factors are less of manpower and more of machinery. This can be resisted by the subordinates. The manager here can explain that the change was in the benefit of the subordinates. Through more mechanization, production increases and thereby the profits. Indirectly, the subordinates are benefited out of that in form of higher remuneration.

**Efficient Utilization of Resources** - Direction finance helps in clarifying the role of every subordinate towards his work. The resources can be utilized properly only when less of wastages, duplication of efforts, overlapping of performances, etc. doesn't take place. Through direction, the role of subordinates become clear as manager makes use of his supervisory, the guidance, the instructions and motivation skill to inspire the subordinates. This helps in maximum possible utilization of resources of men, machine, materials and money which helps in reducing costs and increasing profits.

From the above discussion, one can justify that direction, surely, is the heart of management process. Heart plays an important role in a human body as it serves the function pumping blood to all parts of body which makes the parts function. In the similar manner, direction helps the subordinates to perform in best of their abilities



and that too in a healthy environment. The manager makes use of the four elements of direction here so that work can be accomplished in a proper and right manner.

According to Earnest Dale, "Directing is what has to be done and in what manner through dictating the procedures and policies for accomplishing performance standards". Therefore, it is rightly said that direction is essence of management process.

### **Principles of Directing**

Direction is always a complicated task as it involves dealing with employees of different kind. A manager can become successful in the skill of efficient direction by learning and practicing the basics of direction. Nevertheless, observing the following principles is important for managers to guide his sub-ordinates;

**Direct supervision:** Building a direct personal relationship between a manager and his employees enhances their self-esteem and dedication and makes direction much more efficient.

**Good managerial communications:** Building a good rapport between the manager and his employees enhances their relationship by enabling them to know each other better.

**Comprehension:** Managers must be able to efficiently convey their instructions to employees in order to evade pointless doubts and clarifications.

**Efficient leadership skills:** Managers must be able to effectively lead and advice their subordinates in their personal and official problems in order to gain their confidence and loyalty.

**Principle of follow-up:** Direction is an ongoing process that requires the manager to adjust his commands according to the problems faced by his employees while working for the organization.

**Management of personal and organizational objectives:** Employees are expected to accomplish the goals of an organization even though they join it to fulfill their physiological and psychological requirements. Consequently, management must merge both personal and organizational goals of employees successfully.

**Unison in accountability:** Every subordinate must be accountable to one manager only. There will be chaos and disorderliness in the organization if he has to report to more than one manager or superior.

**Suitable techniques:** The right methods used by managers for direction will guarantee its effectiveness and also its appropriateness to the situation, subordinates and the seniors.

**Utmost input of individuals:** Every individual's input towards the growth of the organization is vital for it to attain all the goals. Therefore, it becomes imperative for managers to bring out the best contribution of each employee.

**Tactical use of informal groups:** Informal groups must be used by the management to build formal or official associations as this helps to enrich direction.

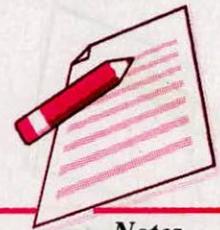
## Techniques of Directing

There are three techniques of direction followed by the management. They are briefly explained below:

**Consultative direction:** The supervisor or superior has consultation with his subordinates before issuing a direction. The consultation is made to find out the feasibility, enforceability and nature of problem. It does not mean that superior is not capable of acting independently. Ultimately, the superior has right to take any decision and give direction. The co-operation of subordinates is necessary for successful implementation of any direction. Better motivation is available to the subordinates under this direction technique. The supervisor could instill high morale into subordinates.

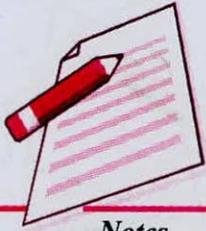
**Free-Rein direction:** The subordinate is encouraged to solve the problem independently under this direction technique. The superior assigns the task generally. The subordinates should take initiative to solve the problem. Only highly educated, efficient and sincere subordinates are required to apply these direction techniques.

**Autocratic direction:** This direction is just opposite to free-rein direction technique. Here, the supervisor commands his subordinates and has close supervision. The supervisor gives clear and precise orders to his subordinates and acts accordingly. There is no way left to the subordinates to show their initiatives.



## CLASS-12

### Business Studies



#### Notes

Herzberg classified these job factors into two categories-

- a. **Hygiene factors-** Hygiene factors are those job factors which are essential for existence of motivation at workplace. These do not lead to positive satisfaction for long-term. But if these factors are absent / if these factors are non-existent at workplace, then they lead to dissatisfaction. In other words, hygiene factors are those factors which when adequate/reasonable in a job, pacify the employees and do not make them dissatisfied. These factors are extrinsic to work. Hygiene factors are also called as **dissatisfiers or maintenance factors** as they are required to avoid dissatisfaction. These factors describe the job environment/scenario. The hygiene factors symbolized the physiological needs which the individuals wanted and expected to be fulfilled. Hygiene factors include:

Hygiene Factors (leading to dissatisfaction):

- Company Policy
- Supervision
- Relationship with Boss
- Work Conditions
- Salary
- Relationship with Peers

- b. **Motivational factors-** According to Herzberg, the hygiene factors cannot be regarded as motivators. The motivational factors yield positive satisfaction. These factors are inherent to work. These factors motivate the employees for a superior performance. These factors are called satisfiers. These are factors involved in performing the job. Employees find these factors intrinsically rewarding. The motivators symbolized the psychological needs that were perceived as an additional benefit. Motivational factors include:

Motivators (leading to satisfaction):

- Achievement
- Recognition
- The work itself
- Responsibility
- Advancement
- Growth

### Limitations of Two-Factor Theory

The two-factor theory is not free from limitations:

1. The two-factor theory overlooks situational variables.
2. Herzberg assumed a correlation between satisfaction and productivity. But the research conducted by Herzberg stressed upon satisfaction and ignored productivity.
3. The theory's reliability is uncertain. Analysis has to be made by the raters. The raters may spoil the findings by analysing same response in different manner.
4. No comprehensive measure of satisfaction was used. An employee may find his job acceptable despite the fact that he may hate/object part of his job.

## 3

## LEADERSHIP: FUNCTIONS



Notes

Leadership: Functions  
Qualities and  
Theories.

**Objective of the chapter:**

The role of leader is very crucial for survival and growth of any organisation. In this chapter the concept of leader has been explained in detailed manner also the various theories of leadership have also been discussed.

**Introduction**

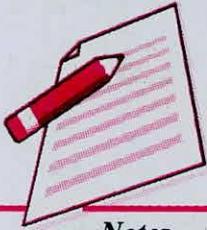
Leadership is a process by which an executive can direct, guide and influence the behaviour and work of others towards accomplishment of specific goals in a given situation. Leadership is the ability of a manager to induce the subordinates to work with confidence and zeal.

Leadership is the potential to influence behaviour of others. It is also defined as the capacity to influence a group towards the realization of a goal. Leaders are required to develop future visions, and to motivate the organizational members to want to achieve the visions.

According to Keith Davis, "Leadership is the ability to persuade others to seek defined objectives enthusiastically. It is the human factor which binds a group together and motivates it towards goals."

**Characteristics of Leadership**

1. It is an inter-personal process in which a manager is into influencing and guiding workers towards attainment of goals.
2. It denotes a few qualities to be present in a person which includes intelligence, maturity and personality.
3. It is a group process. It involves two or more people interacting with each other.
4. A leader is involved in shaping and moulding the behaviour of the group towards accomplishment of organizational goals.
5. Leadership is situation bound. There is no best style of leadership. It all depends upon tackling with the situations.



Notes

## Importance of Leadership

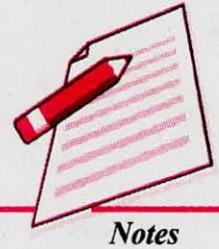
Leadership is an important function of management which helps to maximize efficiency and to achieve organizational goals. The following points justify the importance of leadership in a concern.

1. **Initiates action-** Leader is a person who starts the work by communicating the policies and plans to the subordinates from where the work actually starts.
2. **Motivation-** A leader proves to be playing an incentive role in the concern's working. He motivates the employees with economic and non-economic rewards and thereby gets the work from the subordinates.
3. **Providing guidance-** A leader has to not only supervise but also play a guiding role for the subordinates. Guidance here means instructing the subordinates the way they have to perform their work effectively and efficiently.
4. **Creating confidence-** Confidence is an important factor which can be achieved through expressing the work efforts to the subordinates, explaining them clearly their role and giving them guidelines to achieve the goals effectively. It is also important to hear the employees with regards to their complaints and problems.
5. **Building morale-** Morale denotes willing co-operation of the employees towards their work and getting them into confidence and winning their trust. A leader can be a morale booster by achieving full co-operation so that they perform with best of their abilities as they work to achieve goals.
6. **Builds work environment-** Management is getting things done from people. An efficient work environment helps in sound and stable growth. Therefore, human relations should be kept into mind by a leader. He should have personal contacts with employees and should listen to their problems and solve them. He should treat employees on humanitarian terms.
7. **Co-ordination-** Co-ordination can be achieved through reconciling personal interests with organizational goals. This synchronization can be achieved through proper and effective co-ordination which should be primary motive of a leader.

## Qualities

A leader has got multidimensional traits in him which makes him appealing and effective in behaviour. The following are the requisites to be present in a good leader:

1. **Physical appearance-** A leader must have a pleasing appearance. Physique and health are very important for a good leader.
2. **Vision and foresight-** A leader cannot maintain influence unless he exhibits that he is forward looking. He has to visualize situations and thereby has to frame logical programmes.
3. **Intelligence-** A leader should be intelligent enough to examine problems and difficult situations. He should be analytical who weighs pros and cons and then summarizes the situation. Therefore, a positive bent of mind and mature outlook is very important.



*Notes*

4. **Communicative skills-** A leader must be able to communicate the policies and procedures clearly, precisely and effectively. This can be helpful in persuasion and stimulation.
5. **Objective-** A leader has to be having a fair outlook which is free from bias and which does not reflect his willingness towards a particular individual. He should develop his own opinion and should base his judgement on facts and logic.
6. **Knowledge of work-** A leader should be very precisely knowing the nature of work of his subordinates because it is then he can win the trust and confidence of his subordinates.
7. **Sense of responsibility-** Responsibility and accountability towards an individual's work is very important to bring a sense of influence. A leader must have a sense of responsibility towards organizational goals because only then he can get maximum of capabilities exploited in a real sense. For this, he has to motivate himself and arouse and urge to give best of his abilities. Only then he can motivate the subordinates to the best.
8. **Self-confidence and will-power-** Confidence in himself is important to earn the confidence of the subordinates. He should be trustworthy and should handle the situations with full will power. (You can read more about Self-Confidence at : Self Confidence - Tips to be Confident and Eliminate Your Apprehensions).
9. **Humanist-** This trait to be present in a leader is essential because he deals with human beings and is in personal contact with them. He has to handle the personal problems of his subordinates with great care and attention. Therefore, treating the human beings on humanitarian grounds is essential for building a congenial environment.
10. **Empathy-** It is an old adage "Stepping into the shoes of others". This is very important because fair judgement and objectivity comes only then. A leader should understand the problems and complaints of employees and should also have a complete view of the needs and aspirations of the employees. This helps in improving human relations and personal contacts with the employees.

From the above qualities present in a leader, one can understand the scope of leadership and its importance for scope of business. A leader cannot have all traits at one time. But a few of them helps in achieving effective results.

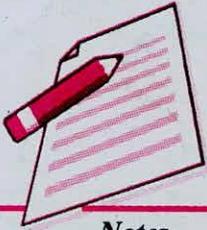
### **Kinds of Leadership Styles**

A Leadership style denotes a specific behaviour a person exhibits in order to influence people and achieve organisational objectives.

### **Kinds of Leadership Styles**

A Leadership style denotes a specific behaviour a person exhibits in order to influence people and achieve organisational objectives. Each style has a peculiar feature.

They are

**Autocratic or Authoritarian Leadership:**

**Autocratic or Authoritarian Leadership:** An autocratic leader exercises complete control over the subordinates. He centralises power in himself and takes all decisions without consulting the subordinates. He dominates and drives his group through pressure or force. The leader gives orders and expects the subordinates to follow them without questioning. He uses rewards and holds threat of penalties to direct the subordinates. Autocratic leadership style may be appropriate when subordinates are uneducated, unskilled and submissive.

**Advantages**

- Autocratic leadership style permits quick decision making
- It gives strong motivation and satisfaction to the leader who dictates terms.
- Less competent subordinates are needed at lower level.
- This style may yield positive results in prompt situation.



Figure 7.4 Adolph Hitler Autocratic Leader

**Disadvantages**

- Autocratic style leads to frustration, low morale and conflict among subordinates.
- Full potential of subordinates and their creative ideas are not utilized.
- Organisational continuity is threatened in the absence of the leader because a subordinate gets no opportunity for development.

**Democratic or Participative Leadership**

A consultative or democratic takes decision in consultation and participate with the subordinates. He decentralises authority and allows the subordinates to share his power. The leader does what the group wants and follows the majority opinion. He keeps the followers informed about matters affecting them. A democratic leader provides freedom of thinking and expression. He listens the suggestion, grievances and opinions of the subordinates.

**Advantages**

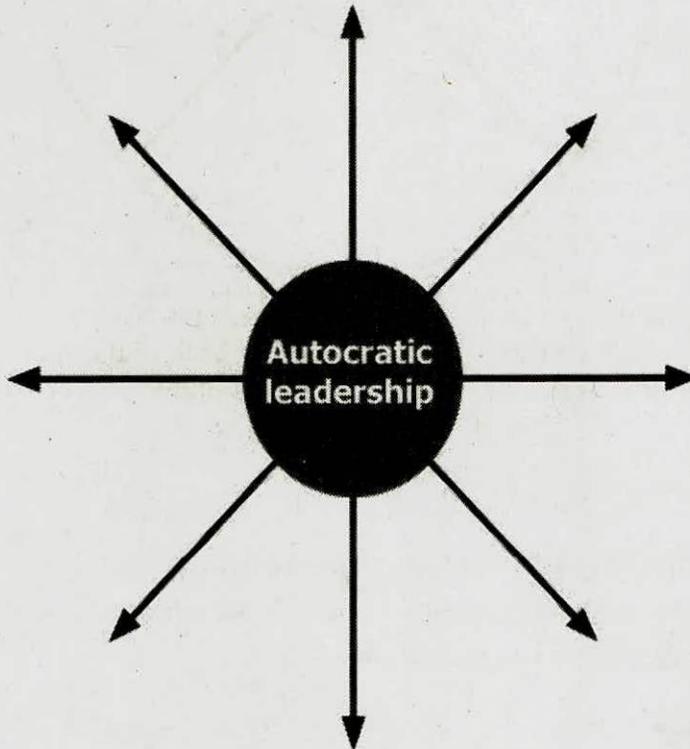
- Consultative leadership improves the job satisfaction and morale of subordinates.
- It cultivates the decision-making ability of subordinates.



- The leader multiplies his ability through the contribution of his followers.
- It develops positive attitude of the leader and reduces resistance to change.
- The quality of decisions is improved.
- Labour absenteeism and Labour turnover is reduced.

### **Disadvantages**

- Democratic style is time-consuming and may result in delays in decision-making.
- It may not yield positive results when subordinates prefer minimum interaction with the leader.

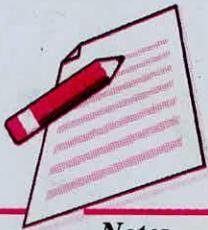


**Figure 7.5** Autocratic leader the communication will be flown from the leader in one direction to subordinates.

- Over a period of time subordinates may develop the habit of expecting to be consulted.

### **Free-Rein or Laissez Fair Leadership**

Free –rein leadership involves complete delegation of authority so that subordinates themselves, can take decisions. A free rein leader avoids power and relinquishes the leadership position. He serves only as a contact/medium to bring the information and resources needed by the subordinates. Free rein style may be appropriate when the subordinates are well trained, highly knowledgeable; self-motivated and ready to assume responsibility.



*Notes*

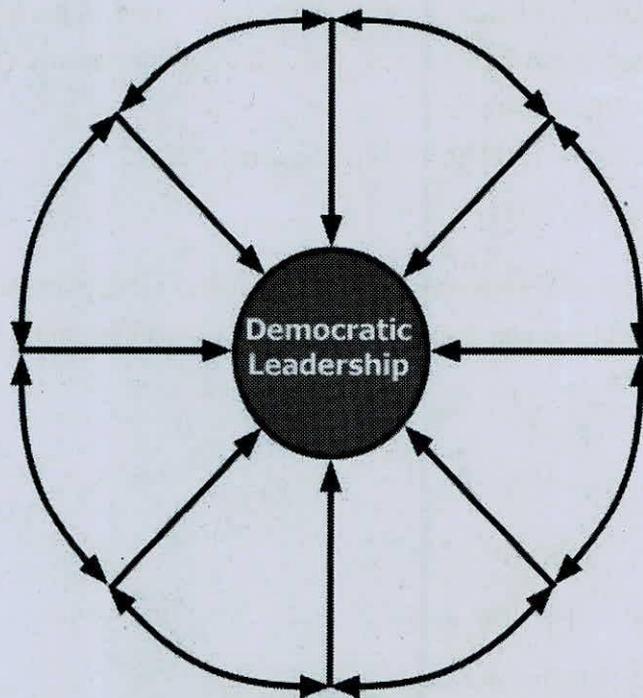


Figure 7.6 Democratic Leadership communication is flown in all direction by which leader informs, directs and also hear subordinate feedback.

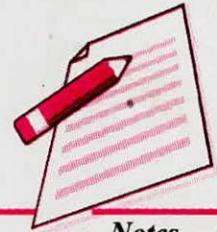
### **Advantages**

- Positive effect on job satisfaction and morale of subordinates
- Maximum possible scope for development of subordinates
- Full utilization of the potential of subordinates

### **Disadvantage**

- Subordinates do not get the guidance and support of the leader.
- Subordinates may in different directions and may work at cross purposes which may degenerate in to chaos.

# 4 COMMUNICATION



Notes

Communication

Types of communication

Communication Barriers

## Objective of the chapter

After reading this chapter, you should be able to do the following:

- Understand the communication process.
- Compare and contrast different types of communication.
- Compare and contrast different communication channels.
- Understand and learn to overcome barriers to effective communication.

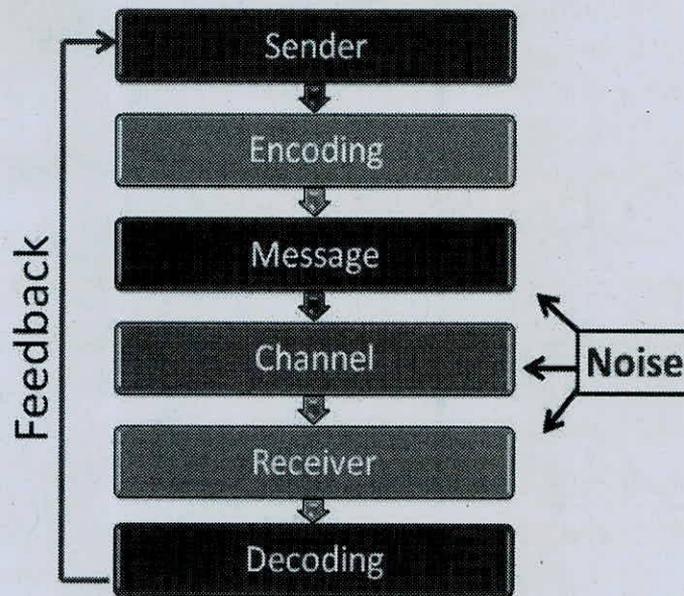
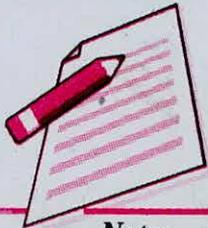
## Introduction

**Definition:** The **Communication** is a two-way process wherein the message in the form of ideas, thoughts, feelings, opinions is transmitted between two or more persons with the intent of creating a **shared understanding**.

Simply, an act of conveying intended information and understanding from one person to another is called as communication. The term communication is derived from the Latin word "**Communis**" which means to share. Effective communication is when the message conveyed by the sender is understood by the receiver in exactly the same way as it was intended.

## Communication Process

The communication is a dynamic process that begins with the conceptualizing of ideas by the sender who then transmits the message through a channel to the receiver, who in turn gives the feedback in the form of some message or signal within the given time frame. Thus, there are Seven major elements of communication process:



- 1. Sender:** The sender or the communicator is the person who initiates the conversation and has conceptualized the idea that he intends to convey it to others.
- 2. Encoding:** The sender begins with the encoding process wherein he uses certain words or non-verbal methods such as symbols, signs, body gestures, etc. to translate the information into a message. The sender's knowledge, skills, perception, background, competencies, etc. has a great impact on the success of the message.
- 3. Message:** Once the encoding is finished, the sender gets the message that he intends to convey. The message can be written, oral, symbolic or non-verbal such as body gestures, silence, sighs, sounds, etc. or any other signal that triggers the response of a receiver.
- 4. Communication Channel:** The Sender chooses the medium through which he wants to convey his message to the recipient. It must be selected carefully in order to make the message effective and correctly interpreted by the recipient. The choice of medium depends on the interpersonal relationships between the sender and the receiver and also on the urgency of the message being sent. Oral, virtual, written, sound, gesture, etc. are some of the commonly used communication mediums.
- 5. Receiver:** The receiver is the person for whom the message is intended or targeted. He tries to comprehend it in the best possible manner such that the communication objective is attained. The degree to which the receiver decodes the message depends on his knowledge of the subject matter, experience, trust and relationship with the sender.
- 6. Decoding:** Here, the receiver interprets the sender's message and tries to understand it in the best possible manner. An effective communication occurs only if the receiver understands the message in exactly the same way as it was intended by the sender.

## CLASS-12

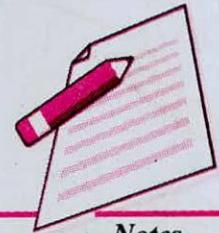
### Business Studies



Notes

### Review Questions

1. Briefly explain the concept of financial market?
2. Discuss the functions of financial market?
3. What are the various methods of issuing securities in primary market?
4. What is the difference between a treasury bill and a trade bill?
5. Distinguish between capital market and money market on the basis of following:-
  - Participants
  - Instruments
  - Duration
  - Liquidity
  - Safety
6. Name any 2 instruments of money market?
7. What are the functions of stock exchange?
8. Discuss the protective functions of SEBI?
9. Discuss the role of primary & secondary market in mobilization of savings of households in our economy?
10. Explain dematerialization and depositories?



*Notes*

2. Which of the following is the function of financial market?
  - (a) Mobilization of savings
  - (b) Price fixation
  - (c) Provide liquidity to financial assets
  - (d) All of the above
3. \_\_\_\_\_ is the organisations, institutions that provide long term funds.
  - (a) Capital market
  - (b) Money market
  - (c) Primary market
  - (d) Secondary market
4. When securities are allotted to institutional investors & some selected individuals is referred to as \_\_\_\_\_.
  - (a) Initial public offer
  - (b) Offer through prospectus
  - (c) Private placement
  - (d) Offer for sale
5. Stock exchange is known as \_\_\_\_\_ market for securities.
  - (a) Primary market
  - (b) Secondary market
  - (c) Capital market
  - (d) None of the above
6. \_\_\_\_\_ is a market for lending & borrowing of short-term funds.
  - (a) Money market
  - (b) Primary market
  - (c) Capital market
  - (d) All of the above
7. \_\_\_\_\_ is also called zero coupon bond.
  - (a) Trade bills
  - (b) Call money
  - (c) Treasury bills
  - (d) Commercial papers
8. Which of the following are the instruments of money market?
  - (a) Call money
  - (b) Certificate of deposits
  - (c) Trade bills
  - (d) All of the above

**Answer Keys**

|   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | b | 2 | d | 3 | a | 4 | c | 5 | b | 6 | a | 7 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|



Notes

When it comes to the treatment of companies, it has the power to get companies listed and de-listed from any stock exchange in the country.

It has the power to completely regulate all aspects of insider trading and announce penalties and expulsions if a company is caught doing something unethical.

It can also make companies list their shares in more than one stock exchange if they see that it will be beneficial to investors.

Coming to investor protection, SEBI has the power to draft legal rules to ensure the protection of the general public.

It also has the power to regulate the registration of brokers and other middlemen who will deal with investors in the market.

## SUMMARY

The actors in Indian Financial Market include Regulators, Stock Exchanges, Commodities Exchanges and the Depositories.

### The regulators include:

- 1) **Securities and exchange board of India (SEBI)** that governs the Equity markets and Depositories.
- 2) **Forward Market Commission (FMC)** that governs Commodities markets.
- 3) **Reserve Bank of India (RBI)** that governs Banks and Fixed Income Money Markets.

The three regulatory bodies don't interfere in one another's area, though the regulatory frame work of SEBI and RBI overlap to some extent.

The two stock exchanges in India, governed SEBI, **National Stock Exchange (NSE)** and **Bombay Stock Exchange (BSE)**, contribute almost 99.9% turnover in the market. Other exchanges like Delhi Stock Exchange don't have significant turnover and are almost dead.

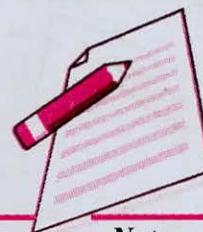
### Key words

- Money market
- Stock market
- Capital market

## EXERCISE

### MCQ

1. \_\_\_\_\_ is a link between savers & borrowers, helps to establish a link between savers & investors  
(a) Marketing (b) Financial market  
(c) Money market (d) None of these



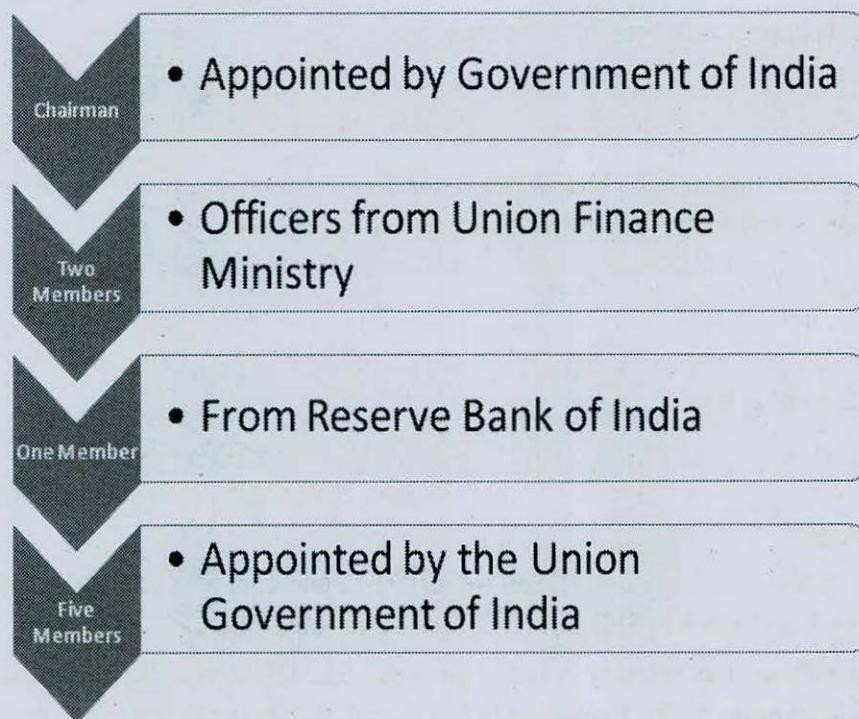
## 2. Prevention of malpractices

This was the reason why SEBI was formed. Among the main objectives, preventing malpractices is one of them.

## 3. Fair and proper functioning

SEBI is responsible for the orderly functioning of the capital markets and keeps a close check over the activities of the financial intermediaries such as brokers, sub-brokers, etc.

### Organizational Structure of SEBI:



The SEBI Board consist of nine members-

1. One Chairman appointed by the Government of India
2. Two members who are officers from Union Finance Ministry
3. One member from Reserve Bank of India
4. Five members appointed by the Union Government of India

### Powers of SEBI:

When it comes to stock exchanges, SEBI has the power to regulate and approve any laws related to functions in the stock exchanges.

It has the powers to access the books of records and accounts for all the stock exchanges and it can arrange for periodical checks and returns into the workings of the stock exchanges.

It can also conduct hearings and pass judgments if there are any malpractices detected on the stock exchanges.

## CLASS-12

### Business Studies



Notes

### Protective Functions

As the name suggests, these functions are performed by SEBI to protect the interest of investors and other financial participants.

It includes-

- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

### Regulatory Functions

These functions are basically performed to keep a check on the functioning of the business in the financial markets.

These functions include-

- Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers etc.
- Levying of fees
- Performing and exercising powers
- Register and regulate credit rating agency

### Development Functions

SEBI performs certain development functions also that include but they are not limited to-

- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations
- Buy-sell mutual funds directly from AMC through a broker

### Objectives of SEBI:

SEBI has following objectives-

#### 1. Protection to the investors

The primary objective of SEBI is to protect the interest of people in the stock market and provide a healthy environment for them.

*Notes*

## Why was SEBI formed?

At the end of the 1970s and during 1980s, capital markets were emerging as the new sensation among the individuals of India. Many malpractices started taking place such as unofficial self-styled merchant bankers, unofficial private placements, rigging of prices, non-adherence of provisions of the Companies Act, violation of rules and regulations of stock exchanges, delay in delivery of shares, price rigging, etc.

Due to these malpractices, people started losing confidence in the stock market. The government felt a sudden need to set up an authority to regulate the working and reduce these malpractices. As a result, the Government came up with the establishment of SEBI.

## Role of SEBI

SEBI acts as a watchdog for all the capital market participants and its main purpose is to provide such an environment for the financial market enthusiasts that facilitate efficient and smooth working of the securities market.

To make this happen, it ensures that the three main participants of the financial market are taken care of, i.e. issuers of securities, investor, and financial intermediaries.

## Issuers of securities

These are entities in the corporate field that raise funds from various sources in the market. SEBI makes sure that they get a healthy and transparent environment for their needs.

## Investor

Investors are the ones who keep the markets active. SEBI is responsible for maintaining an environment that is free from malpractices to restore the confidence of general public who invest their hard-earned money in the markets.

## Financial Intermediaries

These are the people who act as middlemen between the issuers and investors. They make the financial transactions smooth and safe.

## Functions of SEBI:

SEBI primarily has three functions-

1. Protective Function
2. Regulatory Function
3. Development Function

## CLASS-12

### Business Studies



Notes

### Rolling settlement rules in BSE:

1. In the Bombay Stock Exchange (BSE), securities in the equity segment are all settled in T+2 days.
2. Government securities and fixed income securities for retail investors are also settled in T+2 days.
3. Pay-in and pay-out of monies and securities need to be completed on the same day.
4. The delivery of securities and payment by the client has to be done within one working day after the BSE completes the pay-out of the funds and securities.

### Settlement cycle on the NSE:

The cycle for rolling settlements on the National Stock Exchange (NSE) is given below:

| Activity  | Working Days |
|---|--------------|
| Rolling Settlement Trading  | T            |
| Clearing Including Custodial Confirmation And Delivery Generation | T+1          |
| Settlement Through Securities And Funds Pay-In And Pay-Out        | T+2          |
| Post Settlement Auction   | T+2          |
| Auction Settlement  | T+3          |
| Reporting For Bad Deliveries                                      | T+4          |
| Pay-In-Pay-Out Of Rectified Bad Deliveries                        | T+6          |
| Re-Reporting Of Bad Deliveries                                    | T+8          |
| Closing Of Re-Bad Deliveries                                      | T+9          |

### What is pay-in and pay-out:

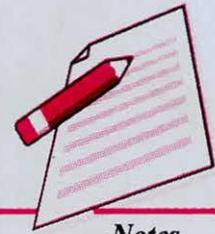
Pay-in is the day when the buyer sends the funds to the stock exchange, and the seller sends the securities. Pay-out is the day when the stock exchange delivers the funds to the seller, and the shares purchased to the buyer.

### What is a bad delivery?

A bad delivery is when shares transfer is not completed because of the lack of compliance with the norms of the exchange.

### SEBI: Role, Objective, Structure and Functions of SEBI

The Securities and Exchange Board of India (SEBI) was officially appointed as the authority for regulating the financial markets in India on 12th April 1988. It was initially established as a non-statutory body, i.e. it had no control over anything but later in 1992, it was declared an autonomous body with statutory powers. SEBI plays an important role in regulating the securities market of India. Thereby it is important to know the purpose and objective of SEBI.



Notes

## Trading procedure

The trading and settlement process in a secondary market begins with the selection of a broker or sub-broker and ends with settlement of shares. For secondary-market trading, you need first to open a dematerialised (DEMAT) account with a broking house or bank. Once your account is active, you can buy or sell securities. Once your order is executed, and you get a contract note, that's when your trade is settled

## What is trade settlement?

Trade settlement is a two-way process which comes in the final stage of the transaction. Once the buyer receives the securities and the seller gets the payment for the same, the trade is said to be settled. While the official deal happens on the transaction date, the settlement date is when the final ownership is transferred. The transaction date never changes and is represented with the letter 'T'. The final settlement does not necessarily occur on the same day. The settlement day is generally T+2.

Earlier, when securities were held in physical format, it took five days to settle a trade after the actual transaction. Investors made payment in cheques after receiving the securities which came in the form of certificates and were delivered by post. The delay caused differences in prices, posed risks and incurred a high cost. To control transaction delay, market regulators decided to set a date within which the transaction had to be completed. Due to paperwork, earlier the settlement date used to be T+5, which has now been reduced to T+2 post computerisation.

## Types of settlements in the stock market:

Trade settlements in the stock market have been broadly categorised into two:

1. Spot settlement – This is when the settlement is done immediately following the rolling settlement principle of T+2.
2. Forward settlement – This happens when you agree to settle the trade at a future date which could be T+5 or T+7.

## What is rolling settlement?

A rolling settlement is one in which the settlement is made in the successive days of the trade. In a rolling settlement, trades are settled in T+2 days, which means deals are settled by the second working day. This excludes Saturday and Sunday, bank holidays and exchange holidays. So, if a trade is conducted on a Wednesday, it will be settled by Friday. Similarly, if you buy a stock on Friday, the broker immediately deducts the total cost of investment from your account the same day, but you receive the shares on Tuesday. The settlement day is also the day you become the shareholder of record. The settlement day is essential for those investors who are looking to earn dividends. If the buyer wishes to receive a dividend from the company, then he must settle the trade before the record date for a profit.



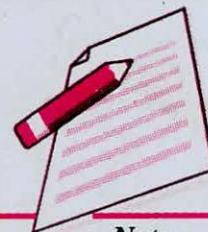
Notes

**Operates as per rules**—All the security dealings at the stock exchange are controlled by exchange rules and regulations and SEBI guidelines

### Functions of Stock Exchange

Following are some of the most important functions that are performed by stock exchange:

- 1. Role of an Economic Barometer:** Stock exchange serves as an economic barometer that is indicative of the state of the economy. It records all the major and minor changes in the share prices. It is rightly said to be the pulse of the economy which reflects the state of the economy.
- 2. Valuation of Securities:** Stock market helps in the valuation of securities based on the factors of supply and demand. The securities offered by companies that are profitable and growth-oriented tend to be valued higher. Valuation of securities helps creditors, investors and government in performing their respective functions.
- 3. Transactional Safety:** Transactional safety is ensured as the securities that are traded in the stock exchange are listed, and the listing of securities is done after verifying the company's position. All companies listed have to adhere to the rules and regulations as laid out by the governing body.
- 4. Contributor to Economic Growth:** Stock exchange offers a platform for trading of securities of the various companies. This process of trading involves continuous disinvestment and reinvestment, which offers opportunities for capital formation and subsequently, growth of the economy.
- 5. Making the public aware of equity investment:** Stock exchange helps in providing information about investing in equity markets and by rolling out new issues to encourage people to invest in securities.
- 6. Offers scope for speculation:** By permitting healthy speculation of the traded securities, the stock exchange ensures demand and supply of securities and liquidity.
- 7. Facilitates liquidity:** The most important role of the stock exchange is in ensuring a ready platform for the sale and purchase of securities. This gives investors the confidence that the existing investments can be converted into cash, or in other words, stock exchange offers liquidity in terms of investment.
- 8. Better Capital Allocation:** Profit-making companies will have their shares traded actively, and so such companies are able to raise fresh capital from the equity market. Stock market helps in better allocation of capital for the investors so that maximum profit can be earned.
- 9. Encourages investment and savings:** Stock market serves as an important source of investment in various securities which offer greater returns. Investing in the stock market makes for a better investment option than gold and silver.



Notes

## 2 STOCK EXCHANGE

Stock Exchange - Functions and trading procedure  
Securities and Exchange Board of India (SEBI) - objectives and functions

### introduction

#### Meaning of Stock Exchange

A stock exchange is an important factor in the capital market. It is a secure place where trading is done in a systematic way. Here, the securities are bought and sold as per well-structured rules and regulations. Securities mentioned here includes debenture and share issued by a public company that is correctly listed at the stock exchange, debenture and bonds issued by the government bodies, municipal and public bodies. Typically, bonds are traded Over-the-Counter (OTC), but few corporate bonds are sold in a stock exchange. It can enforce rules and regulation on the brokers and firms that are enrolled with them. In other words, a stock exchange is a forum where securities like bonds and stocks are purchased and traded. This can be both an online trading platform and offline (physical location).

#### Features of Stock Exchange:

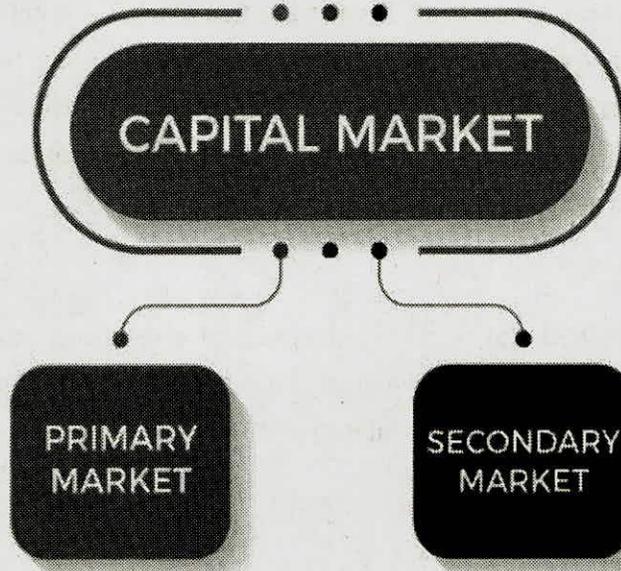
- **A market for securities-** It is a wholesome market where securities of government, corporate companies, semi-government companies are bought and sold.
- **Second-hand securities-** It associates with bonds, shares that have already been announced by the company once previously.
- **Regulate trade in securities-** The exchange does not sell and buy bonds and shares on its own account. The broker or exchange members do the trade on the company's behalf.
- **Dealings only in registered securities-** Only listed securities recorded in the exchange office can be traded.
- **Transaction-** Only through authorised brokers and members the transaction for securities can be made.
- **Recognition-** It requires to be recognised by the central government.
- **Measuring device-** It develops and indicates the growth and security of a business in the index of a stock exchange.



Notes

## Types of Capital Market

Classification of capital market



- **Primary Market:**

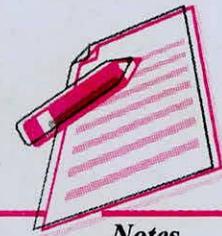
The primary market is a new issue market; it solely deals with the issues of new securities. A place where trading of securities is done for the first time. The main objective is capital formation for government, institutions, companies, etc. also known as Initial Public Offer (IPO). Now, let us have a look at the functions of primary market:

1. **Origination:** Origination is referred to as examine, evaluate, and process new project proposals in the primary market. It begins prior to an issue is present in the market. It is done with the help of commercial bankers.
2. **Underwriting:** For ensuring the success of new issue there is a need for underwriting firms. These are the ones who guarantee minimum subscription. In case, the issue remains unsold the underwriters have to buy. But if the issues are completely subscribed then there will be no liability left for them.
3. **Distribution:** For the success of issue, brokers and dealers are given job distribution who directly contact with investors.

- **Secondary Market:**

The secondary market is a place where trading takes place for existing securities. It is known as stock exchange or stock market. Here the securities are bought and sold by the investors. Now, let us have a look at the functions of secondary market:

1. Regular information about the value of security
2. Offers liquidity to the investors for their assets
3. Continuous and active trading
4. Provide a Market Place



## **Banker's Acceptance (BA)**

Banker's Acceptance or BA is basically a document promising future payment which is guaranteed by a commercial bank. Similar to a treasury bill, Banker's Acceptance is often used in money market funds and specifies the details of the repayment like the amount to be repaid, date of repayment and the details of the individual to which the repayment is due. Banker's Acceptance features maturity periods ranging between 30 days up to 180 days.

## **Capital Market and Its Types**

Capital market is referred to as a place where saving and investments are done between capital suppliers and those who are in need of capital. It is, therefore, a place where various entities trade different financial instruments.

### **There are two types of capital market:**

- Primary Market
- Secondary Market

Capital market is where both equity and debt instrument like equity shares, preference shares, debentures, bonds, etc. are bought and sold.

### **Functions of Capital Market:**

- It acts in linking investors and savers
- Facilitates the movement of capital to be used more profitably and productively to boost the national income
- Boosts economic growth
- Mobilization of savings to finance long term investment
- Facilitates trading of securities
- Minimization of transaction and information cost
- Encourages a massive range of ownership of productive assets
- Quick valuations of financial instruments
- Through derivative trading, it offers insurance against market or price threats
- Facilitates transaction settlement
- Improvement in the effectiveness of capital allocation
- Continuous availability of funds

The capital market is the best source of finance for companies. It offers a spectrum of investment avenues to all investors which encourage capital creation.



Notes

by the Central government at a lesser price than their face value. The interest earned by the buyer will be the difference of the maturity value of the instrument and the buying price of the bill, which is decided with the help of bidding done via auctions. Currently, there are 3 types of treasury bills issued by the Government of India via auctions, which are 91-day, 182-day and 364-day treasury bills.

### **Certificate of Deposits (CDs)**

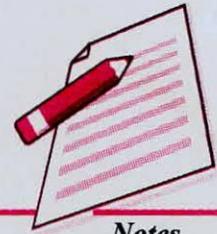
A Certificate of Deposit or CD, functions as a deposit receipt for money which is deposited with a financial organization or bank. However, a Certificate of Deposit is different from a Fixed Deposit Receipt in two aspects. The first aspect of difference is that a CD is only issued for a larger sum of money. Secondly, a Certificate of Deposit is freely negotiable. First announced in 1989 by RBI, Certificate of Deposits have become a preferred investment choice for organizations in terms of short-term surplus investment as they carry low risk while providing interest rates which are higher than those provided by Treasury bills and term deposits. Certificate of Deposits are also relatively liquid, which is an added advantage, especially for issuing banks. Like treasury bills, CDs are also issued at a discounted price and their tenor ranges between a span of 7 days up to 1 year. However, banks issue Certificates of Deposits for durations ranging from 3 months, 6 months and 12 months. They can be issued to individuals (except minors), trusts, companies, corporations, associations, funds, non-resident Indians, etc.

### **Commercial Papers (CPs)**

Commercial Papers can be compared to an unsecured short-term promissory note which is issued by highly rated companies with the purpose of raising capital to meet requirements directly from the market. CPs usually feature a fixed maturity period which can range anywhere from 1 day up to 270 days. Highly popular in countries like Japan, UK, USA, Australia and many others, Commercial Papers promise higher returns as compared to treasury bills and are automatically not as secure in comparison. Commercial papers are actively traded in secondary market.

### **Repurchase Agreements (Repo)**

Repurchase Agreements, also known as Reverse Repo or simply as Repo, loans of a short duration which are agreed upon by buyers and sellers for the purpose of selling and repurchasing. These transactions can only be carried out between RBI approved parties. Repo / Reverse Repo transactions can be done only between the parties approved by RBI. Transactions are only permitted between securities approved by the RBI like treasury bills, central or state government securities, corporate bonds and PSU bonds.



## Objectives of Money Market

The money market serves several objectives in the overall economy. Listed below are some important objectives:

- The money market doesn't only help in the storage of short-term surplus funds but also helps in lowering short term deficits.
- They help the central bank in regulating liquidity in the economy.
- Money markets help short-term fund users to fulfil their needs at reasonable costs.
- The money market helps in the development of the capital market, trade and industry.
- To help design effective monetary policies.
- To facilitate streamlined functioning of commercial banks.

## What Are Money Market Instruments?

As the name suggests, Money Market Instruments are simply the instruments or tools which can help one operate in the money market. These instruments serve a dual purpose of not only allowing borrowers meet their short-term requirements but also provide easy liquidity to lenders. Some of the common money market instruments include Banker's Acceptance, Treasury Bills, Repurchase Agreements, Certificate of Deposits and Commercial Papers.

## Characteristics of Money Market Instruments

Money market instruments allow governments, financial organizations and businesses to finance their short-term cash requirements. Some of the notable characteristics of money market instruments are as follows.

- **Liquidity** – Money market instruments are highly liquid because they are fixed-income securities which carry short maturity periods of a year or less.
- **Safety** – Issuers of money market instruments have strong credit ratings, which automatically means that the money instruments issued by them will also be safe.
- **Discount Pricing** – Another important characteristic feature of money market instrument is that they are issued at a discount on their face value.

## Types of Money Market Instruments

### Treasury Bills (T-Bills)

Issued by the Central Government, Treasury Bills are known to be one of the safest money market instruments available. However, treasury bills carry zero risk. I.e. are zero risk instruments. Therefore, the returns one gets on them are not attractive. Treasury bills come with different maturity periods like 3-month, 6-month and 1 year and are circulated by primary and secondary markets. Treasury bills are issued



- **Primary Market:** A financial market, wherein the company listed on an exchange, for the first time, issues new security or already listed company brings the fresh issue.
- **Secondary Market:** Alternately known as the Stock market, a secondary market is an organised marketplace, wherein already issued securities are traded between investors, such as individuals, merchant bankers, stockbrokers and mutual funds.

## 2. By Timing of Delivery

- o **Cash Market:** The market where the transaction between buyers and sellers are settled in real-time.
- o **Futures Market:** Futures market is one where the delivery or settlement of commodities takes place at a future specified date.

## 3. By Organizational Structure

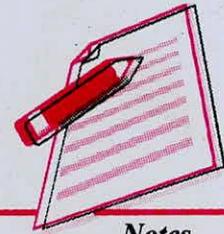
- o **Exchange-Traded Market:** A financial market, which has a centralised organisation with the standardised procedure.
- o **Over-the-Counter Market:** An OTC is characterised by a decentralised organisation, having customised procedures.

Since last few years, the role of the financial market has taken a drastic change, due to a number of factors such as low cost of transactions, high liquidity, investor protection, transparency in pricing information, adequate legal procedures for settling disputes, etc.

## Money Market

The term 'Money Market', according to the Reserve Bank of India, is used to define a market where short-term financial assets are traded. These assets are a near substitute for money and they aid in the money exchange carried out in the primary and secondary market. So, essentially, the money market is an apparatus which facilitates the lending and borrowing of short-term funds, which are usually for a duration of under a year. Short maturity period and high liquidity are two characteristic features of the instruments which are traded in the money market. Institutions like commercial banks, non-banking finance corporations (NBFCs) and acceptance houses are the components which make up the money market.

The money market is a part of the larger financial market and consists of numerous smaller sub-markets like bill market, acceptance market, call money market, etc. Money market deals are not carried out in money / cash, but other instruments like trade bills, government papers, promissory notes, etc. Also, money market transactions cannot be done via brokers but have to be carried out via mediums like formal documentation, oral or written communication.

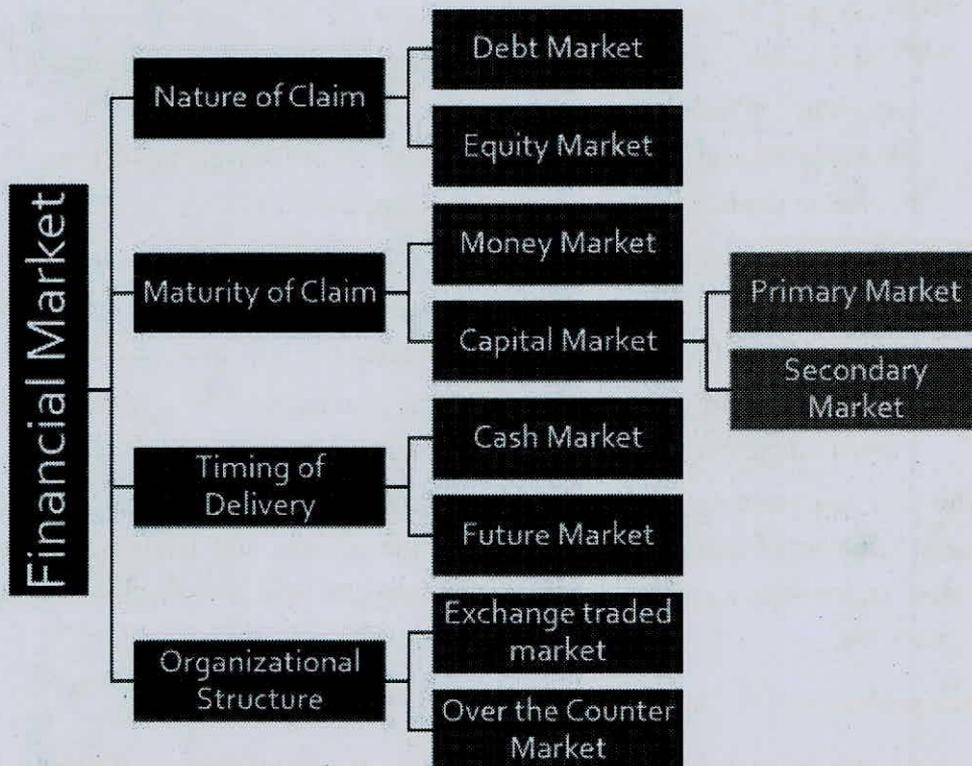


Notes

- It saves the time, money and efforts of the parties, as they don't have to waste resources to find probable buyers or sellers of securities. Further, it reduces cost by providing valuable information, regarding the securities traded in the financial market.

The financial market may or may not have a physical location, i.e. the exchange of asset between the parties can also take place over the internet or phone also.

### Classification of Financial Market



#### 1. By Nature of Claim

- Debt Market:** The market where fixed claims or debt instruments, such as debentures or bonds are bought and sold between investors.
- Equity Market:** Equity market is a market wherein the investors deal in equity instruments. It is the market for residual claims.

#### 2. By Maturity of Claim

- Money Market:** The market where monetary assets such as commercial paper, certificate of deposits, treasury bills, etc. which mature within a year, are traded is called money market. It is the market for short-term funds. No such market exist physically; the transactions are performed over a virtual network, i.e. fax, internet or phone.
- Capital Market:** The market where medium- and long-term financial assets are traded in the capital market. It is divided into two types:



Notes

## 1

## FINANCIAL MARKETS

Financial Markets: Financial Markets: Concept, Functions and types, Money market and its instruments, Capital market and its types (primary and secondary), methods of floatation in the primary market, Stock Exchange - Functions and trading procedure, Securities and Exchange Board of India (SEBI) - objectives and functions

Financial Markets: Concept, Functions and types  
 Money market and its instruments,  
 Capital market and its types

**Objective of the chapter:**

The basic objective of this chapter is to through some light on the initial concept's financial markets and its types such as money and capital markets including their instruments.

**Introduction****Financial Market**

**Definition:** Financial Market refers to a marketplace, where **creation and trading of financial assets**, such as shares, debentures, bonds, derivatives, currencies, etc. take place. It plays a crucial role in allocating limited resources, in the country's economy. It acts as an **intermediary between the savers and investors** by mobilising funds between them.

The financial market provides a platform to the buyers and sellers, to meet, for trading assets at a price determined by the demand and supply forces.

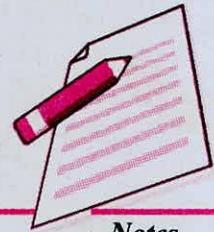
**Functions of Financial Market**

The functions of the financial market are explained with the help of points below:

- It facilitates **mobilisation of savings** and puts it to the most productive uses.
- It helps in **determining the price of the securities**. The frequent interaction between investors helps in fixing the price of securities, on the basis of their demand and supply in the market.
- It provides **liquidity to tradable assets**, by facilitating the exchange, as the investors can readily sell their securities and convert assets into cash.

## Review Questions

1. Explain the term financial management?
2. List any 5 factors determining the capital structure?
3. Distinguish between over – capitalisation and under capitalisation?
4. “One of the effects of under – capitalisation is that the market value of shares goes up. But still under capitalisation is not considered good for the company”. Do you agree with this statement? Give reasons in support of your answer.
5. You are the finance manager of a newly established company. The directors have asked you to determine the amount of working capital requirements for the company. State any 5 factors that you would take into consideration while determining the amount of working capital requirements of the company.
6. What are the functions performed by the financial manager?
7. State the factors affecting the dividend policy of a company?
8. What is financial risk?
9. Write the difference between fixed and working capital?



## CLASS-12

### Business Studies



Notes

### Key words:

- Financial management
- Dividend
- Capital budgeting
- Working capital

### Multiple choice Questions

1. Financial management is concerned with managerial activities relating to
  - (a) Planning
  - (b) Procurement and administration of funds
  - (c) Optimum utilization of funds
  - (d) All of the above
2. Which of the following factors affect financial decision?
  - (a) Cost
  - (b) Risk
  - (c) Cash flow position
  - (d) All of the above
3. \_\_\_\_\_ refers to planning regarding financial needs of the enterprise various sources of raising funds and their optimum utilization.
  - (a) Financial planning
  - (b) Capital structure
  - (c) Financial management
4. Which of the following is not a feature of a financial plan?
  - (a) Simplicity
  - (b) Cost
  - (c) Flexibility
  - (d) Foresight
5. \_\_\_\_\_ is the decision related to composition of capital structure & also depends upon ability of the business to generate cash.
  - (a) Market condition
  - (b) Flexibility
  - (c) Cash flow ability
  - (d) Control
6. Rate of return on capital is exceptionally high in
  - (a) Under – capitalization
  - (b) Over – capitalization
  - (c) Working capital
  - (d) Fixed capital
7. Which of the factors affect dividend decisions?
  - (a) Preference of shareholders
  - (b) Earning
  - (c) Stability of dividend
  - (d) All of the above
8. \_\_\_\_\_ refers to the structure of total capital funds raised by the company.
  - (a) Fixed capital
  - (b) Capital structure
  - (c) Capital requirements
  - (d) Under capitalization

### Answer Keys

|   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | d | 2 | d | 3 | a | 4 | b | 5 | c | 6 | a |
|---|---|---|---|---|---|---|---|---|---|---|---|



### 8. Price level changes

Rising prices would necessitate the organization to have more funds for maintaining the same level of activities. Raising the prices in material, labour and expenses without proportionate changes in selling price will require more working capital. When a company raises its selling prices proportionally there will be no serious problem in the working capital.

### 9. Operating efficiency

Though the company cannot control the rising price in material, labour and expenses, it can make use of the assets at a maximum utilisation with reduced wastage and better coordination so that the requirement of working capital is minimised.

### 10. Other factors

**Level of taxes:** In this respect the management has no option. If the government increases the tax liability very often, taxes have to be paid in advance on the basis of the profit on the current year and this will need more working capital.

**Dividend policy:** Availability of working capital will decrease if it has a high dividend pay-out ratio. Conversely, if the firm retains all the profits without dividend, the availability of working capital will increase. In practice, although many firms earn profit, they do not declare dividend to augment the working capital.

## SUMMARY

Financial management deals with the ways in which an organization can raise funds for the various projects, allocation of those funds in the most productive and efficient way, how to exercise control over those funds, and how to distribute the returns of those funds to the various stakeholders.

It generally deals with planning, controlling, organizing, and directing the financial activities of a firm.

Financial Management ensures that the organization meets its primary objectives such as maximizing the shareholders' wealth, cutting down the finance cost, and other non-financial objectives which are to other stakeholders such as the government, employees, and suppliers.

The main goal of any firm is maximizing the wellbeing of owners or the shareholders. This is indicated using the following parameters

1. Profit maximization which means maximizing the income of a firm either by increasing sales volume or increasing the price in return the business maximizes profit which leads to an increase in the dividends paid to shareholders
2. The capital gain or wealth maximization. Capital gain is represented by the market value of shares where wealth is said to be maximized when there is an increase in the value of those market shares.

## CLASS-12

### Business Studies



Notes

$$O = (R+W+F+D) - C$$

Where

O = Duration of operating cycle

R = Raw material average storage period

W = Average period of work-in-progress

F = Finished goods average storage period

D = Debtors Collection period

C = Creditors payment period

### Production policy

The requirements of working capital are also determined by production policy. When the demand for the product is seasonal, inventory must be accumulated during the off-season period and this leads to more cost and risks. These firms, which manufacture variety of goods, will have advantages of keeping low working capital by adjusting the production according to season.

### 5. Turnover of Working capital

The speed of working capital is also influenced by the requirements of working capital. If the turnover is high, the requirement of working capital is low and vice versa.

$$\text{Working Capital Turnover} = \frac{\text{Cost of goods sold}}{\text{Working capital}}$$

### 6. Credit Terms

The level of working capital is also determined by credit terms, which is granted to customers as well as available from its creditors. More credit period allowed to debtors will result in high book debts, which leads to high working capital and more bad debts. On the other hand liberal credit terms available from creditors will lead to less working capital.

### 7. Growth and Expansion

As a company grows and expands logically, it requires a larger amount of working capital. Other things remaining same, growing industries need more working capital than those that are static.

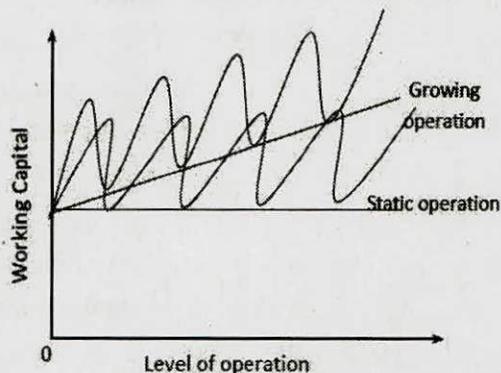
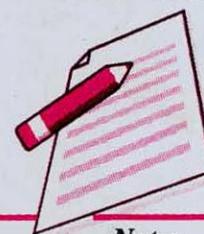


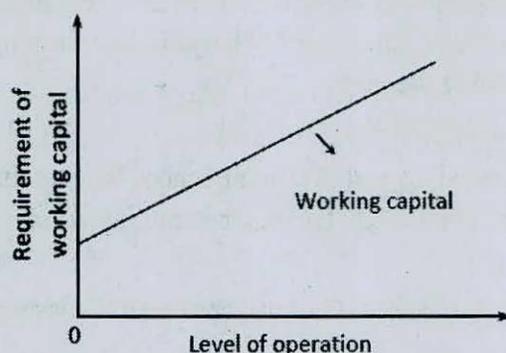
Fig 1.5: Level of working capital for different operations



The working capital requirements of an organization are basically influenced by the nature of its business. The trading and financial institutions require more working capital rather than fixed assets because these firms usually keep more varieties of stock to satisfy the varied demands of their customers. The public utility service organisations require more fixed assets rather than working capital because they have cash sales only and they supply only services and not products. Thus, the amounts tied up with stock and debtors are almost zero. Generally, manufacturing business needs, more fixed assets rather than working capital. Further, the working capital requirements also depend on the seasonal products.

**2. Size of the business**

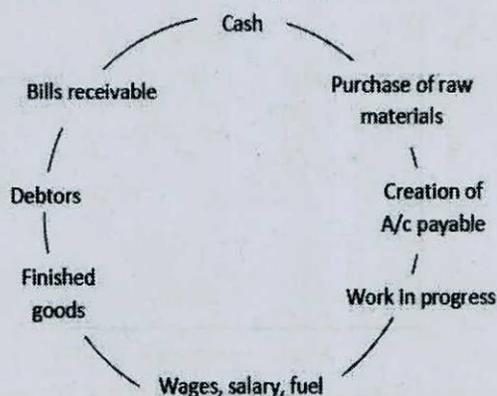
Another important factor is the size of the business. Size of the business means scale of operation. If the operation is on a large scale, it will need more working capital than a firm that has a small-scale operation.



**Fig 1.3: Increasing operation**

**3. Operating cycle**

The term “production cycle” or “manufacturing cycle” refers to the time involvement from cash to purchase of raw materials and completion of finished goods and receipt of cash from sales. If the operating cycle requires a longer time span between cash to cash, the requirement of working capital will be more because of larger tie up of funds in all the processes. If there is any delay in a particular process of sales or collection there will be further increase in the working capital requirements. A distillery is to make a relatively heavy investment in working capital. A bakery will have a low working capital.

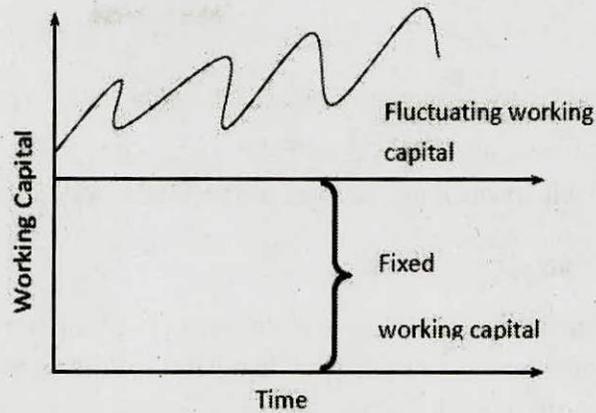


**Fig 1.4: Operating cycle**



*Notes*

**Temporary Working Capital**



*Working capital fluctuating over time*

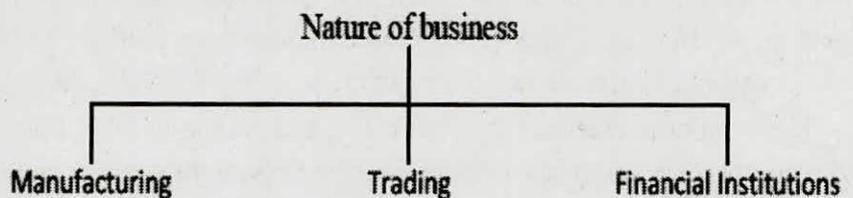
**Fig 1.2**

Depending upon the production and sales, the need for working capital over and above permanent working capital will change. The changing working capital may also vary on account of seasonal changes or price level changes or unanticipated conditions. For example, raising the prices of materials, labour rate and other expenses may lead to an increase in the amount of funds invested in the stock of raw materials, work-in-progress as well as in finished goods. Sometimes additional working capital may be required to face the cut-throat competition in the market. Sometimes when the company is planning for special advertisement campaigns organised for promotional activities or increasing the sales, additional working capital may have to be financed. All these extra capitals needed to support the changing business activities are called temporary, fluctuating or variable working capital.

**Determination of working capital requirements**

There are no uniform rules or formulae to determine the working capital requirements in a firm. A firm should not plan its working capital neither too much nor too low. If it is too high it will affect profits. On the other hand, if it is too low, it will have liquidity problems. The total working capital requirements is determined by a wide variety of factors. They also vary from time to time. Among the various factors, the following are necessary.

**1. Nature of business**





Notes

**Net Working Capital = Current Assets – Current Liabilities**

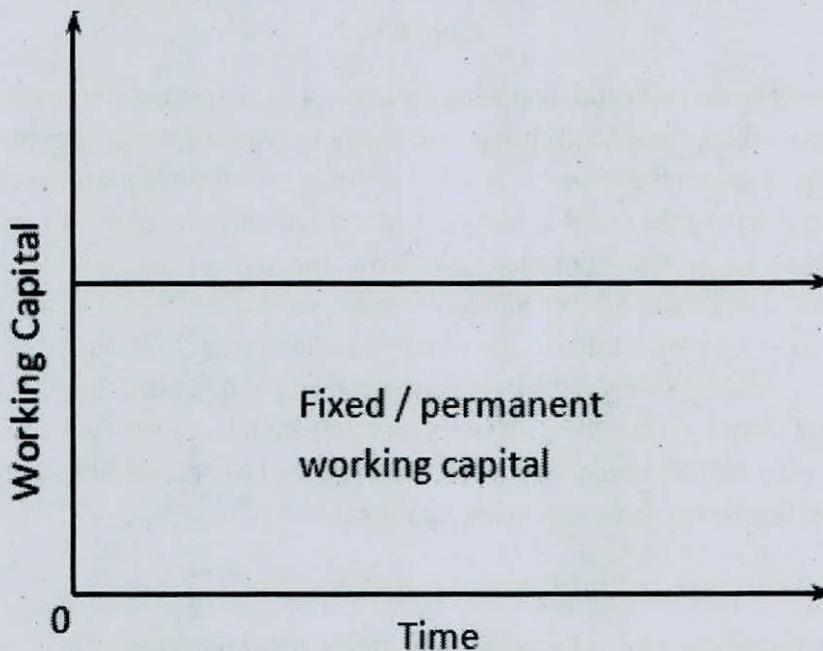
### Types of working capital

Working capital can be divided into two categories on the basis of time:

1. Permanent, fixed or regular working capital,
2. Temporary, variable, fluctuating, seasonal or specified working capital.

### Permanent working capital

This refers to minimum amount of investment required in all current assets at all times to carryout minimum level of activity. In other words, it represents the current assets required over the entire life of the business. Tandon committee has referred to this type of working capital as 'Core current assets' or 'Hard-core working capital'.



*Fig 1.1: Fixed working capital*

*remaining constant over time*

The need for investment in current assets may increase or decrease over a period of time according to the level of production. Some amount of permanent working capital remains in the business in one form or another. This is particularly important from the point of view of financing. Tandon Committee has pointed out that this type of core current assets should be financed through long-term sources like capital, reserves and surplus, preference share capital, term loans, debentures, etc.

Leader in two-wheelers Hero Honda Ltd. and in four-wheelers Maruthi Udyog Ltd. keeping their model in each type in their showrooms are typical examples of permanent working capital.

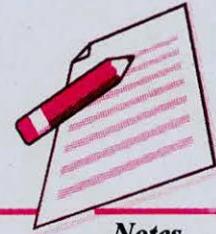
**Notes**

representatives of equity shareholders. These members have got maximum voting rights in a concern as compared to the preference shareholders and debenture holders. Preference shareholders have reasonably less voting rights while debenture holders have no voting rights. If the company's management policies are such that they want to retain their voting rights in their hands, the capital structure consists of debenture holders and loans rather than equity shares.

- 3. Flexibility of financial plan-**In an enterprise, the capital structure should be such that there is both contractions as well as relaxation in plans. Debentures and loans can be refunded back as the time requires. While equity capital cannot be refunded at any point which provides rigidity to plans. Therefore, in order to make the capital structure possible, the company should go for issue of debentures and other loans.
- 4. Choice of investors-**The company's policy generally is to have different categories of investors for securities. Therefore, a capital structure should give enough choice to all kind of investors to invest. Bold and adventurous investors generally go for equity shares and loans and debentures are generally raised keeping into mind conscious investors.
- 5. Capital market condition-**In the lifetime of the company, the market price of the shares has got an important influence. During the depression period, the company's capital structure generally consists of debentures and loans. While in period of boons and inflation, the company's capital should consist of share capital generally equity shares.
- 6. Period of financing-**When company wants to raise finance for short period, it goes for loans from banks and other institutions; while for long period it goes for issue of shares and debentures.
- 7. Cost of financing-**In a capital structure, the company has to look to the factor of cost when securities are raised. It is seen that debentures at the time of profit earning of company prove to be a cheaper source of finance as compared to equity shares where equity shareholders demand an extra share in profits.
- 8. Stability of sales-**An established business which has a growing market and high sales turnover, the company is in position to meet fixed commitments. Interest on debentures has to be paid regardless of profit. Therefore, when sales are high, thereby the profits are high and company is in better position to meet such fixed commitments like interest on debentures and dividends on preference shares. If company is having unstable sales, then the company is not in position to meet fixed obligations. So, equity capital proves to be safe in such cases.

### **Working Capital**

It is that part of total capital which is required for holding current assets. It may also be defined as excess of current assets over current liabilities.



*Notes*

5. **Decision Making:** -it is necessary for a firm to take appropriate and timely decisions to achieve its objectives. Financial planning prepares itself for attainment of these objectives. Any scheme, how so ever effective, cannot go through unless budgetary provision is made in the financial planning.
6. **Integration:** -Financial planning gives a fairly good idea to the firm about its available resources. Financial planning is to be completed in full consultation and coordination of other departments. This promotes team spirit among all executives.
7. **Futuristic:** -Financial planning is effective when it foresees events. It must take into account not only present but also future developments. This futuristic element of financial plan helps for advance programming.

### **Meaning of Capital Structure**

Capital Structure is referred to as the ratio of different kinds of securities raised by a firm as long-term finance. The capital structure involves two decisions-

- a. Type of securities to be issued are equity shares, preference shares and long-term borrowings (Debentures).
- b. Relative ratio of securities can be determined by process of capital gearing. On this basis, the companies are divided into two-
  - i. Highly geared companies - Those companies whose proportion of equity capitalization is small.
  - ii. Low geared companies - Those companies whose equity capital dominates total capitalization.

For instance - There are two companies A and B. Total capitalization amounts to be USD 200,000 in each case. The ratio of equity capital to total capitalization in company A is USD 50,000, while in company B, ratio of equity capital is USD 150,000 to total capitalization, i.e., in Company A, proportion is 25% and in company B, proportion is 75%. In such cases, company A is considered to be a highly geared company and company B is low geared company.

### **Factors Determining Capital Structure**

1. **Trading on Equity-** The word "equity" denotes the ownership of the company. Trading on equity means taking advantage of equity share capital to borrowed funds on reasonable basis. It refers to additional profits that equity shareholders earn because of issuance of debentures and preference shares. It is based on the thought that if the rate of dividend on preference capital and the rate of interest on borrowed capital is lower than the general rate of company's earnings, equity shareholders are at advantage which means a company should go for a judicious blend of preference shares, equity shares as well as debentures. Trading on equity becomes more important when expectations of shareholders are high.
2. **Degree of control-** In a company, it is the directors who are so called elected



Notes

## 2

## FINANCIAL PLANNING

Financial Planning - concept and importance

Capital Structure – concept and factors affecting capital structure.

Fixed and Working Capital - Concept and factors affecting their requirements

### Introduction

**Meaning:** - Financial Planning is an important function of financial management. It is a continuous process in day-to-day administration of business. It is not possible for finance manager to go ahead unless he prepares 'financial plan'. Financial planning is not only required for profit making but even for survival of a firm. The term financial planning refers to assessment of financial requirements and arranging the sources of capital.

**Definition:** - "The financial plan of a corporation has two-fold aspects, it refers not only to capital structure of the corporation but also to the financial policies which corporation has adopted or intends to adopt."

### Importance of Financial Planning:

- 1. Elimination of Waste:** -Due to financial planning, it is possible to eliminate the wasteful expenditure. There are several factors such as change in government policy on taxes, fluctuating interest rates. Etc. which can be anticipated and tackled with the help of financial planning.
- 2. Coordination:** -Co-ordination is the most vital part of management. Finance holds the key to all activities of organization such as production, distribution, marketing and personnel. These activities hamper if not supported by proper financial planning.
- 3. Dynamism:** -Financial planning is demanding exercise, which requires dynamism on the part of finance manager. It means finance manager must take initiative and faces various changing financial situations as and when they arise. Accurate forecast of future trends are required for effective planning.
- 4. Communication:** -communication is an effective tool for management. Financial planning enables the finance manager to communicate various aspects of financial plan to the executives of other departments. Effective financial planning helps to finance manager to communicate easily with others in the organisation.

decisions, financing or capital structure decisions / dividend decisions all these decisions are interdependent. All these decisions are inter-related. All are intended to maximize the wealth of the shareholders. An efficient financial manager has to ensure optimal decision by evaluating each of the decision involved in relation to its effect on shareholders wealth.

### **Factors Influencing Financial Decisions**

There are innumerable factors that influence the financial decision. They are classified as external factors and internal factors.

#### **External factors**

1. Capital structure
2. Capital market and money market
3. State of economy
4. Requirements of investors
5. Government policy
6. Taxation policy
7. Financial institutions / banks' lending policy

#### **Internal factors**

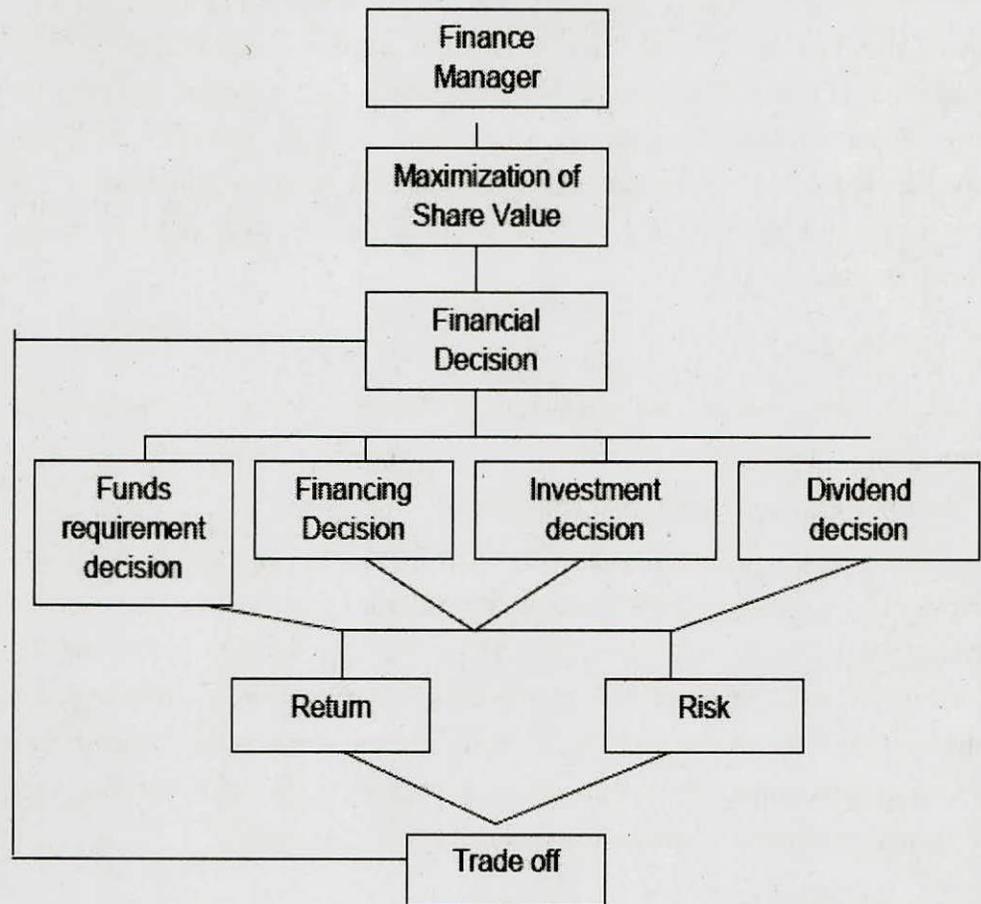
1. Nature of business
2. Age of the firm
3. Size of the business
4. Extent and trend of earnings
5. Liquidity position
6. Working capital requirements





Notes

## Interrelationship between market value, financial decisions and risk-return trade off



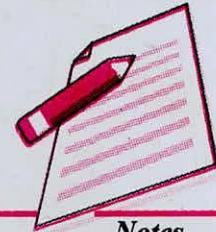
### Value of Firm – Risk Return

The finance manager tries to achieve the proper balance between, the basic considerations of 'risk and return' associated with various financial management decisions to maximise the market, value, of the firm.

It is well known that "higher the return other things being equal, higher the market value; higher the risk, other things being equal, lower the market value". In fact, risk and return go together. It is quite evident from the aforesaid discussion that financial decisions have a great impact on all other business activities. The modern finance manager has to facilitate making these decisions in the most rational way. The decisions have to be made in such a way that the funds of the firms / organizations are used optimally. The financial reporting system must be designed to provide timely and accurate picture of the firm's activities.

### Relationship of Financial Decisions

The financial manager is concerned with the optimum utilization of funds and their procurement in a manner that the risk, cost and control considerations are properly balanced in a given situation. Irrespective of nature of decisions, i.e. investment



profits of a company which is distributed by it among its shareholders. It is the reward of shareholders for investments made by them in the share capital of the company.

The dividend decision is concerned with the quantum of profits to be distributed among shareholders. A decision has to be taken whether all the profits are to be distributed, to retain all the profits in business or to keep a part of profits in the business and distribute others among shareholders. The higher rate of dividend may raise the market price of shares and thus, maximise the wealth of shareholders. The firm should also consider the question of dividend stability, stock dividend (bonus shares) and cash dividend.

#### **4. Liquidity Decisions**

Liquidity and profitability are closely related. Obviously, liquidity and profitability goals conflict in most of the decisions. The finance manager always perceives / faces the task of balancing liquidity and profitability.

The term liquidity implies the ability of the firm to meet bills and the firm's cash reserves to meet emergencies whereas profitability aims to achieve the goal of higher returns. As said earlier, striking a proper balance between liquidity and profitability is a difficult task. Profitability will be affected when all the bills are to be settled in advance. Similarly, liquidity will be affected if the funds are invested in short term or long-term securities. That is the funds are inadequate to pay-off its creditors. Lack of liquidity in extreme situations can lead to the firm's insolvency.

#### **Risk – Return Trade Off**

Further where the company is desirous of mobilizing funds from outside sources, it is required to pay interest at fixed period. Hence liquidity is reduced. A successful finance manager has to ensure acceleration of cash receipts (cash inflows in to business) and deceleration of cash (cash outflows) from the firm. Thus forecasting cash flows and managing cash flows are one of the important functions a finance manager that will lead to liquidity. The finance manager is required to enhance his professionalism and intelligence to ensure that return is optimized.

#### **Return = Risk-free rate + Risk premium**

Risk free rate is a compensation for time and risk premium for risk. Higher the risk of an action, higher will be the risk premium leading to higher required return on that action. This levelling of return and risk is known as risk return trade off.

At this level, the market value of the company's shares should be the maximum. The diagram given below spells out the interrelationship between market value, financial decisions and risk-return trade off.

## CLASS-12

### Business Studies



#### Notes

funds involve cost and are available in a limited quantity, its proper utilization is very necessary to achieve the goal of wealth maximisation.

The investment decisions can be classified under two broad groups;

- (i) long-term investment decision and
- (ii) Short-term, investment decision. The long-term investment decision is referred to as the capital budgeting and the short-term investment decision as working capital management.

Capital budgeting is the process of making investment decisions in capital expenditure. These are expenditures, the benefits of which are expected to be received over a long period of time exceeding one year. The finance manager has to assess the profitability of various projects before committing the funds. The investment proposals should be evaluated in terms of expected profitability, costs involved and the risks associated with the projects. The investment decision is important not only for the setting up of new units but also for the expansion of present units, replacement of permanent assets, research and development project costs, and reallocation of funds, in case, investments made earlier, do not fetch result as anticipated earlier.

## 2. Financing Decisions / Capital Structure Decisions

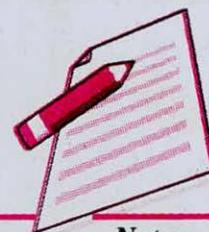
Once the firm has taken the investment decision and committed itself to new investment, it must decide the best means of financing these commitments. Since, firms regularly make new investments; the needs for financing and financial decisions are ongoing, hence, a firm will be continuously planning for new financial needs. The financing decision is not only concerned with how best to finance new asset, but also concerned with the best overall mix of financing for the firm.

A finance manager has to select such sources of funds which will make optimum capital structure. The important thing to be decided here is the proportion of various sources in the overall capital mix of the firm. The debt-equity ratio should be fixed in such a way that it helps in maximising the profitability of the concern.

The raising of more debts will involve fixed interest liability and dependence upon outsiders. It may help in increasing the return on equity but will also enhance the risk. The raising of funds through equity will bring permanent funds to the business but the shareholders will expect higher rates of earnings. The financial manager has to strike a balance between anxious sources so that the overall profitability of the concern improves. If the capital structure is able to minimise the risk and raise the profitability then the market prices of the shares will go up maximising the wealth of shareholders.

## 3. Dividend Decision

The third major financial decision relates to the disbursement of profits back to investors who supplied capital to the firm. The term dividend refers to that part of



in other terms, Financial Management is the application of financial possessions of an enterprise. The management involves general principles of management. It includes the financial possessions of an enterprise.

To ensure efficient functioning of an enterprise, proper management of an organization's finance is a requirement. It provides quality fuel and regular service. Finances have to properly dealt with an organization. If it doesn't happen, organizations will face barriers that may have severe consequences on its growth and development.

## **OBJECTIVES OF FINANCIAL MANAGEMENT**

The financial management is generally relevant with allocation, procurement, and control of financial resources of a concern. The objectives of financial management are discussed below:

1. To make sure regular and sufficient supply of funds to the concern.
2. To make sure sufficient returns to the shareholders, this will depend upon the earning capacity, the market price of the share, expectations of the shareholders.
3. To ensure utilization of funds to an optimum degree. Once the funds are obtained, they should be utilized in a maximum way, spending the least amount of cost.
4. Investment needs to be ensured with safety on, i.e., funds should be invested with safe ventures, so that an adequate rate of return can be ensured.
5. To prepare a sound capital structure, sound and fair distribution of capital have to be ensured. Sound capital will make sure that a balance is maintained between debt and equity capital.

## **Financial Decisions – Types**

Financial decisions refer to decisions concerning financial matters of a business firm. There are many kinds of financial management decisions that the firm makers in pursuit of maximising shareholder's wealth, viz., kind of assets to be acquired, pattern of capitalisation, distribution of firm's income etc. We can classify these decisions into three major groups:

- Investment decisions
- Financing decision
- Dividend decisions.
- Liquidity decisions.

### **1. Investment Decisions / Capital Budgeting Decisions**

Investment Decision relates to the determination of total amount of assets to be held in the firm, the composition of these assets and the business risk complexities of the firm as perceived by the investors. It is the most important financial decision. Since



Notes

# 1

## FINANCIAL MANAGEMENT

### Part B: Business Finance and Marketing

Concept, role and objectives of Financial Management, Financial decisions: investment, financing and dividend- Meaning and factors affecting, Financial Planning - concept and importance, Capital Structure – concept and factors affecting capital structure, Fixed and Working Capital - Concept and factors affecting their requirements

Concept, role and objectives of Financial Management  
Financial decisions: investment, financing and dividend

### Objective of the chapter:

The basic objective of this chapter is to through some light on the initial concepts of financial management and its objectives as well.

Apart from that various kinds of financial decisions have also been discussed in this chapter.

### Introduction

### MEANING OF FINANCIAL MANAGEMENT

Financial Management involves a range of activities. The activities include planning, organizing, directing, and controlling the financial activities. In financial organizations, executive tasks, such as procurement and utilization of funds of the enterprise are part of financial management.

Business executives apply general management principles to financial resources of their enterprise.

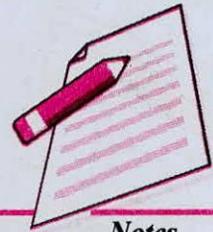
### FINANCIAL MANAGEMENT DEFINITION

Financial Management is tasked with a vital activity for any organization. It involves controlling planning, organizing, and monitoring financial resources. These activities are performed with a view to achieving organizational goals and objectives.

For controlling the financial activities of an organization, it is a perfect practice. The practices involve activities, such as utilization of funds, payments, procurement of funds, accounting, risk assessment, and every other thing related to money.

## Review Questions

1. What do you mean by controlling?
2. How does controlling helps in accomplishing organizational goals and making efficient use of resources?
3. What is the relationship between planning and controlling?
4. Briefly explain the following steps involved in controlling: -
  - A. Setting performance standards
  - B. Comparing Actual performance with standards
  - C. Taking corrective action
5. Explain the following techniques of managerial control:
  - A. Breakeven Analysis
  - B. Budgetary control
  - C. PERT & CPM
  - D. Ratio Analysis
6. 'A vigilant eye is the only feature of a good control system'. Do you agree with this statement?
7. Explain management information system?



## CLASS-12

### Business Studies

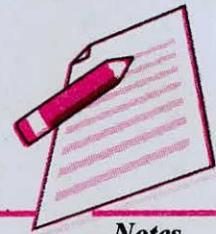


Notes

2. Which of the following is not a limitation of controlling?
  - (a) Little control on external factors
  - (b) Costly affair
  - (c) Ensuring order & discipline
  - (d) Difficulty in setting quantitative standards
3. "Planning is theoretical whereas controlling is practical"
  - (a) True
  - (b) False
  - (c) Cannot say
4. Which of the following is not a process of controlling?
  - (a) Analysing deviations
  - (b) Integrates employee's efforts
  - (c) Taking corrective measures
  - (d) Setting performance standards
5. Which of the following is a traditional technique of managerial control?
  - (a) Personal observation
  - (b) Breakeven analysis
  - (c) Budgetary control
  - (d) All of the above
6. Write the full form of PERT:-
  - (a) Performance evaluation report technique
  - (b) Personnel enquiry retrieving technique
  - (c) Programme evaluation and review technique
7. Remedial actions taken to prevent deviation in future is called
  - (a) Measurement of actual performance
  - (b) Taking corrective actions
  - (c) Analysing deviations
  - (d) Setting performance standards
8. Assembling of facilities and personnel for collecting, processing, information that is required by managers is called
  - (a) PERT
  - (b) CPM
  - (c) Ratio analysis
  - (d) Management information Technique

### Answer Keys

|   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | a | 2 | c | 3 | a | 4 | b | 5 | d | 6 | c | 7 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|



2. Control sustains planning: Controlling directs the course of planning. Controlling spots, the areas where planning is required.
3. Controlling provides information for planning: In controlling, the performance is compared with standards and deviations, if any, are to be recorded. The information collected during any type of control, is used for planning also.
4. Planning and control are inter-related: Planning is the initial step and controlling is in the process and required at every step. For the same both are dependent upon each other and inter-related.
5. Both are forward looking: Planning is always for the future and control is forward looking. No one has the control on past, it is only the future, which can be controlled.

Planning and Controlling are concerned with the achievement of business goals. Their combined efforts are to achieve maximum output with minimum cost effect. Both, systematic planning and organized controlling are essential to achieve the organizational goals.

### SUMMARY

Controlling is the process of ensuring that actual activities conform to planned activities. The importance of managerial control lies in the fact that it helps in accomplishing organisational goals. Controlling also helps in judging accuracy of standards, ensuring efficient utilization of resources, boosting employee morale, creating an atmosphere of order and discipline in the organisation and coordinating different activities so that they all work together in one direction to meet targets. Controlling suffers from certain limitations also. An organisation has no control over external factors. The control system of an organisation may face resistance from its employees. Sometimes controlling turns out to be a costly affair, especially in case of small organisations. Moreover, it is not always possible for the management to set quantitative standards of performance in the absence of which controlling exercise loses some of its effectiveness. The process of control involves setting performance standards, measurement of actual performance, comparison of actual performance with standards, analysis of deviations and taking corrective action. Planning and controlling are inseparable twins of management. Planning initiates the process of management and controlling completes the process.

**Keywords:** Controlling, Performance Standards

### EXERCISE

#### MCQ

1. Controlling function finds out how far \_\_\_\_\_ deviates from standards.  
(a) Actual performance                      (b) Improvement  
(c) Corrective actions                        (d) Cost



Notes

### Requirements of Effective Controls:

- **Tailoring controls to plans and positions:**

Control techniques should reflect the plans they follow, and reflect the place in the organization where responsibility for action lies. This enables managers to take action when controls differ from their plans.

- **Tailoring controls to individual managers:**

When controls are tailored to individual managers, individual managers carry out their functions of control more effectively. The system of control shouldn't be too ambiguous to people who will utilize it.

- **Making sure the control point up expectations at critical points:**

Controls that point out exceptions help managers detect areas that require attention. It is best to look for exceptions at critical points, and the exception principle should be accompanied by principle of critical point control.

- **Seeking objectivity of controls:**

An objective, accuracy, and suitable standards are required for effective control technique.

- **Ensuring flexibility of controls:**

Controls should remain in place despite unexpected plans, unforeseen circumstances, or outright failures.

- **Fitting the control system to the organizational culture:**

Systems that fit within the organizational culture are deemed to do best.

- **Achieving economy of controls:**

Control techniques are most effective when they achieve maximum output at minimum cost.

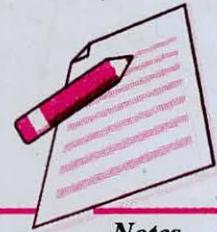
- **Establishing controls that lead to corrective action:**

Controls are useful only if they can correct plans through better planning, organization, staffing and leadership.

### RELATIONSHIP BETWEEN PLANNING AND CONTROLLING

Planning and Controlling are inter-related within any organization. Planning sets the goals for the organization and controlling ensures its accomplishment. Planning decides the control process and controlling provides sound basis for planning. In simple words, planning and controlling are basically dependent on each other. The relationship between them is explained as under:

1. **Planning Originates Controlling:** In planning process, the objectives or targets are to be set, and to achieve those goals, control process is required. So we can say that Planning precedes control.



expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Performance of a manager cannot be measured in quantities. It can be measured only by:

- Attitude of the workers,
- Their morale to work,
- The development in the attitudes regarding the physical environment, and
- Their communication with the superiors.

**3. Comparison results against standards** Comparison of actual performance with the planned targets are very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. Once the deviation is identified, a manager has to think about various causes which have led to a deviation. The causes can be:

- Erroneous planning,
- Co-ordination loosens,
- Implementation of plans is defective, and
- Supervision and communication is ineffective, etc.

**4. Communicate Results:** Once the results have been determined, all stakeholder needs to be notified and keep up to date

**5. If needed, take corrective action** Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here:

- Taking corrective measures for deviations which have occurred; and
- After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.

### Types and Examples of Control

| Control Proactively  | Behavioural control                              | Outcome control  |
|----------------------|--|--|
| Feed forward control | Organizational culture                           | Market demand or economic forecasts                    |
| Concurrent control   | Hands-on management supervision during a project | The real-time speed of a production line               |
| Feedback control     | Qualitative measures of customer satisfaction    | Financial measures such as profitability, sales growth |



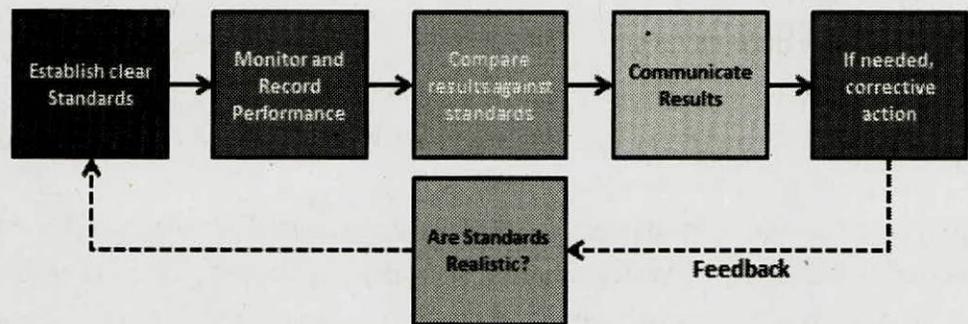
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**Features of Controlling Function**

Following are the characteristics of controlling function of management-

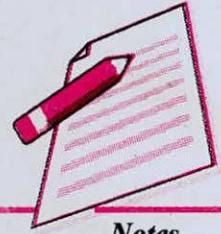
1. Controlling is an end function- A function which comes once the performances are made in conformities with plans.
2. Controlling is a pervasive function- which means it is performed by managers at all levels and in all type of concerns.
3. Controlling is forward looking- because effective control is not possible without past being controlled. Controlling always look to future so that follow-up can be made whenever required.
4. Controlling is a dynamic process- since controlling requires taking review methods; changes have to be made wherever possible.
5. Controlling is related with planning- Planning and Controlling are two inseparable functions of management. Without planning, controlling is a meaningless exercise and without controlling, planning is useless. Planning presupposes controlling and controlling succeeds planning

**Controlling Process**



1. **Establish clear standards:** Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two:
  - Measurable or tangible: Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
  - Non-measurable or intangible: There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.
  - Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.
2. **Monitor and record performance:** The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be

# 1 CONTROLLING



Notes

Controlling - Concept and importance, Relationship between planning and controlling, Steps in process of control.

Controlling  
Relationship between planning and controlling  
Steps in process of control.

## Objective of the chapter:

After reading this chapter, you should be able to do the following:

- Understand the role of controlling in determining employee performance.
- The process of controlling
- Relationship between planning and controlling

## Introduction

According to Brech, “Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs.”

According to Donnell, “Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course.”

Controlling consists of verifying whether everything occurs in conformities with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals. Controlling measures, the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

## Controlling has got two basic purposes

1. It facilitates co-ordination
2. It helps in planning

## CLASS-12

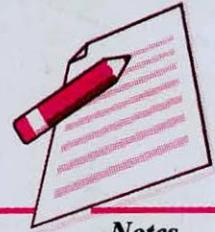
### Business Studies



Notes

## Review Questions

1. What do you mean by directing?
2. How does directing initiates action and also called continuous process?
3. Explain the following principle of directing: -
  - Maximum individual contribution
  - Leadership
  - Follow up
  - Managerial communication
4. Supervision means guiding the efforts of employees and other resources to accomplish the desired objective. Explain the statement.
2. “The post of supervisor should be abolished in the hierarchy of managers”. Comment.
3. What do you mean by motivation? Describe the importance of motivation.
4. Explain Maslow’s need hierarchy theory of motivation?
5. A good leader should have some qualities to lead the team. State some qualities of a good leader.
6. Explain semantic barriers to communication?
7. Describe financial incentives briefly?



3. \_\_\_\_\_ is the process of guiding the efforts of employees to accomplish the desired goal.
- (a) Supervision (b) Directing  
(c) Controlling (d) Motivating
4. Which of the following is not a non-financial incentive?
- (a) Status (b) Job enrichment  
(c) Bonus (d) Employee progress
5. Which of the following is not a feature of motivation?
- (a) It is an integral feeling (b) Reduces absenteeism  
(c) Complex process (d) Can be positive or negative
6. \_\_\_\_\_ is an example of esteem needs:-
- (a) Status (b) Self-fulfilment  
(c) Hunger (d) Pension
7. \_\_\_\_\_ is the process of influencing the behaviour of people making them strive voluntarily towards achievement of goals
- (a) Motivation (b) Communication  
(c) Leadership (d) Directing
8. Informal communication is also called:-
- (a) Wheel communication (b) Grapevine  
(c) Verbal (d) Visual

**Answer Keys**

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | d | 2 | d | 3 | a | 4 | c | 5 | b | 6 | a | 7 | c | 8 | b |
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*Notes*

- **Keep your Anger in Control:** Do not be aggressive or show your anger if you do not agree with any point of view or anything that is going against your ideology. State your thoughts politely with facts if you have and reflect positivity in your talk and nature.

## SUMMARY

Directing function of management refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. It is one of the key managerial functions performed by every manager. The process of directing involves guiding, coaching, instructing, motivating, leading the people in an organisation to achieve organisational objectives.

**Keywords:** Supervision, Motivation, Leadership, Communication

Communication is vital to organizations. Poor communication is prevalent between senders and receivers. Communication fulfils three functions within organizations, including coordination, the transmission of information, and sharing emotions and feelings. Noise can disrupt or distort communication.

**Keywords:**

Communication, vertical communication, barriers of communication

Leadership may be defined in terms of totality of functions performed by executives as individuals and as a group.

According to Davis: "Leadership is the ability to persuade others to seek defined objectives enthusiastically. It is the human factor which binds a group to gather and motivates it towards goals".

According to Koontz and Donnell, "Leadership is the ability of a manager to induce subordinates to work with confidence and zeal".

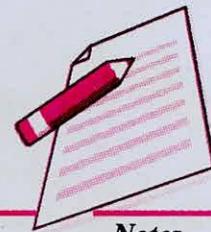
## EXERCISE

### MCQ

1. Which of the following is not a characteristic of directing?
 

|                               |                                 |
|-------------------------------|---------------------------------|
| (a) Directing initiate action | (b) It is a continuous process  |
| (c) Flows from top to bottom  | (d) Ensuring order & discipline |
  
2. Which of the following is the elements of directing?
 

|                 |                      |
|-----------------|----------------------|
| (a) Supervision | (b) Motivation       |
| (c) Leadership  | (d) All of the above |



- **Take adequate care of your Tone, Language and way you are speaking:** Messages should be framed in a simple and polite tone which attracts the listeners. Care should be taken to keep the sentences short and simple. Technical words should be used only where they are required the most. The most important of all the interest of the receiver should be kept in mind and the things that conveyed should attract the users else you might find your audience or listening yawning while you are speaking.
- **Have a Feedback from the receiver:** Avoid asking listener, “Have you understood,” ask them instead their views about what you have said and the aspects they had grasped from your message. This is a most polite and best way to have your listener involve in a conversation. This would help you to have a better understanding of their aptitude and the interest he or she is showing towards the subject.
- **Retain Consistency about the Message:** The message conveyed should conjure with the organizational goals and policies. Whenever you are replacing any old message instead of the new one, you should clearly mention about it and clear all the doubts.
- **Keep a Routine check on the communication system:** You should analyze the weaknesses in the communication system. All the efforts should be made to know whether you should focus on the formal or informal way to communicate. The situation needs to be analysed to decide on the appropriate way of communication and whether audience loves to talk informally or in a formal way.
- **Make use of the body language:** During the process of communication make sure you make the most appropriate use of your body language, Avoid showing too much of emotions as the receiver might misapprehend the message. Try to always keep a smiling face while talking and make eye to eye contact with the listener but make sure not to keep your eyes gazed at the person for more than five seconds and avoid too much of fluttering of eyes which indicate you are not confident. Sit in an upright position and feel relaxed.
- **Avoid overloading too much of information:** People would get bored if they are bombarded with the unnecessary and too much of information. So try to deliver the parts which are useful and informative and of value to the listener in a most simple and straight forward way. There should not be any confusion left in the mind of the listener.
- **Reduce the level of noise as far as possible:** Always make sure to speak and interact with someone where there is no noise and least disturbance. Find the source of noise, remove it and then start conversing.
- **Communication chain should be short:** You should avoid using the mediocre or send the message through the third person unless it is very urgent. Try to directly communicate with the person concerned. The risk of distortion of the facts gets more if message is passed through the third party and just imagine if there are more people in between the sender and receiver the chances of filtering of the messages is doubled.

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- g) **Information overload:** The effectiveness of communication is likely to hamper when managers allow themselves to be inundated with bundles of data.
- h) **Emotions:** How the receiver feels at the time of receipt of information influences effectively on how he interprets the information.
- i) **Time pressure:** Managers are often subjected to time pressure; because decisions must be made within a specified deadline. Such time pressure can create communication problems.

### Structural Barriers

- a) **Hierarchy:** When an organization grows, its structure expands, creating many communication problems. Messages have to pass through several hierarchical processes. It may happen that something may be lost or added by transmission at each stage of process, and messages are likely to be delayed and distorted.
- b) **Status:** Open and free flow of communication is also affected by status relationship in the organization.
- c) **Specialization:** Too much fragmentation of work causes people to be more loyal to their particular departments than to their organization as a whole. It tends to separate people even when they work side by side.

These barriers can be thought of as filters, that is, the message leaves the sender, goes through the above filters, and is then heard by the receiver. These filters muffle the message. And the way to overcome filters is through active listening and feedback.

### Methods to Remove Barriers of Communication

- **Have Clarity In Your Thoughts:** You should be very clear about your objective and what you want to convey. Arrange your thoughts in a proper order and then communicate accordingly. Systematic communication and clarity in thought get adequately received and appreciated. Aimless talks can be misleading so you should always try to show that there is an aim or motive behind your talk.
- **Understand the needs of your audience:** You should be emotional and sensitive towards the needs of your receiver. Understand his behaviour, nature, culture, and religion, however, it does not mean you cannot express your feelings or thought, but it simply means that you are showing respect to his religious beliefs or thoughts and then stating your point of view. Most importantly the message should also be structured as per his level or ability. If you are conveying the message to a layman then avoid using technical words and if you are addressing corporate elite, the language should have professional sophistication and maturity.
- **Seek the Advice of others before Communicating:** If you are going for a high prolific meeting, seek the advice from your seniors and colleagues on the level and kind of talk that should be given. The main advantage of this practice is simple, you can get many ideas which can build your motivation and knowledge and you can then use the same to meet your purpose.

## Barriers to communication

Several factors may disrupt the communication process or come in the way of effective communication. This can be listed thus

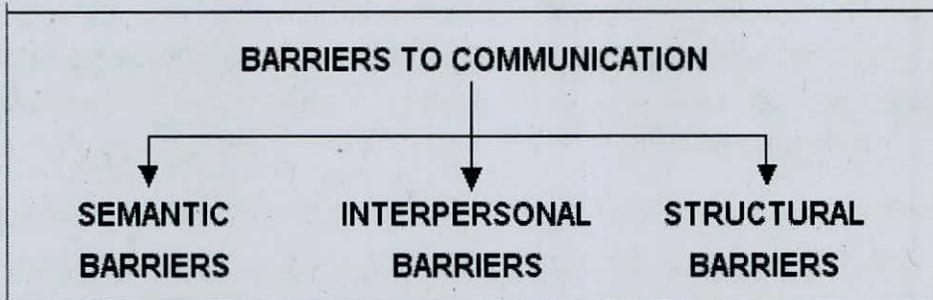


Fig: 3.3  
Barriers of communication

Anything that prevents understanding of the message is a barrier to communication. Many physical and psychological barriers exist:

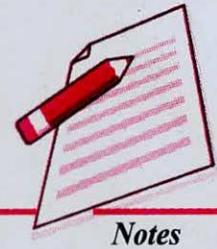
There are certain barriers to communication, which reduce fidelity of communication. This loss of fidelity may result in misunderstanding of the message, in turn lead to the negative responses. The following are the barriers of communication:

### Semantic Barriers

Many of our communication problems are semantic in nature, as the same word may convey a different meaning to different people. For example the word 'productivity', may mean effective usage of resource for manager but for workers it may mean doing more work to get the same amount of salary. For e.g. we often get confused with the pronunciation of word of pairs like: 'fifty-fifteen', 'sixty-sixteen', etc. and word groups like; 'excess, access etc.

### Interpersonal Barriers

- a) **Can't express effectively:** Some people cannot communicate effectively because they cannot use their words and personality effectively.
- b) **Filtering:** Any attempt to alter and colour information to present a more favourable impression is called filtering.
- c) **Credibility:** Credibility is based on a person's competence in the subject area being communicated, and is based on the degree of confidence in the person.
- d) **Inattention:** We often hear, but do not listen.
- e) **Perceptual differences:** Perceptual differences –differences in past experiences, educational back ground, emotions, values, and beliefs also affect each person's perception of a message that is important to them.
- f) **Jealousy:** It plays an important role in reducing the effectiveness of communications. Competent individuals are viewed as a threat to the security of peers and subordinates.

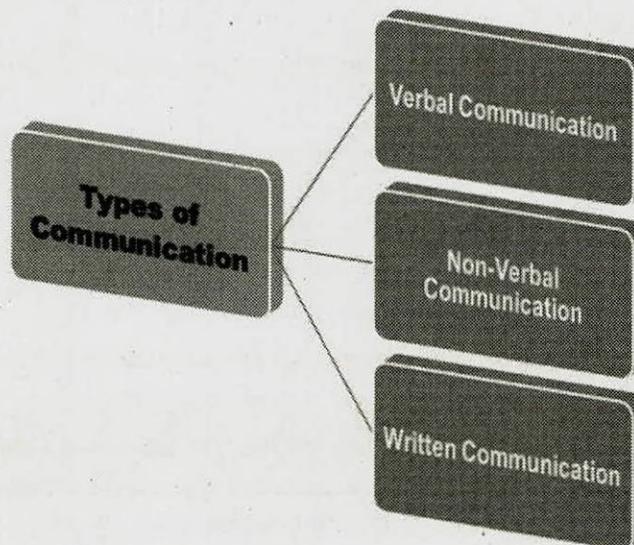




Notes

| Basis for Comparison | Formal Communication              | Informal Communication                   |
|----------------------|-----------------------------------|--|
| Secrecy              | Full secrecy is maintained.       | It is difficult to maintain the secrecy. |
| Flow of Information  | Only through predefined channels. | Can move freely.                         |

Further, there are several forms of communication that the individuals use to give some pattern or expression to their messages such that it is easily understood by all. The most common types of communication are:



- 1. Verbal Communication**, wherein you speak your subject matter, and others listen to it carefully and try to associate meaning with it.
- 2. Nonverbal Communication**, wherein the others observe you and try to confer a meaning to it.
- 3. Written Communication** wherein you write your message and others read it to derive meaning out of it.

Deciding on the types of communication to be used in the business context is quite tedious. The organization must consider the following set of questions before finalizing the communication:

- Who are the intended recipients?
- What message is to be communicated?
- What is the time constraint?
- How much budget is sanctioned for such activity?
- What messages are often communicated? And what was their impact on the audience?

Hence, which form of communication shall be selected depends on the type of message to be transmitted and the personal preferences of the parties involved in the communication.

that are not based on the official designation of the employees do not adhere to the organization's hierarchy. The best-known type of informal communication is known as the 'grapevine' (or the rumour mill).

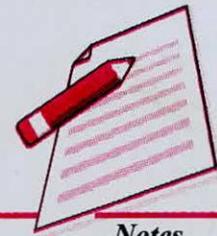
### Communication Networks

Following are the types of communication networks:

- a) Wheel: In this, all communication flows through one person who generally happens to be the group leader.
- b) Y-Pattern: The y pattern is slightly less centralized –two persons are closer to the centre of the network.
- c) Chain: The chain gives a flow of information among members, although the people are at the end of the chain.
- d) Circle: Here, each person can communicate with two others located on both of his sides.
- e) All Channel (Star): This pattern is more decentralized and, allows a free flow of information among all group members.

### Formal Communication Vs Informal Communication

| Basis for Comparison | Formal Communication  | Informal Communication  |
|----------------------|---|---|
| Meaning              | A type of verbal communication in which the interchange of information is done through the pre-defined channels is known as formal communication. | A type of verbal communication in which the interchange of information does not follow any channels i.e. the communication stretches in all directions. |
| Another Name         | Official Communication  | Grapevine communication   |
| Reliability          | More  | Comparatively less  |
| Speed                | Slow  | Very Fast   |
| Evidence             | As the communication is generally written, documentary evidence is present.   | No documentary evidence.  |
| Time Consuming       | Yes   | No  |
| Advantage            | Effective due to timely and systematic flow of information.   | Efficient because employees can discuss work related problems, this saves time and cost of the organization.  |
| Disadvantage         | Distortion due to long chain of communication.  | Spread of rumours   |



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## Types of Communication

**Definition:** The **Communication** is a two-way process wherein the information, ideas, opinions, thoughts, feelings, etc. are transmitted between the individuals through the use of mutually understood symbols and semiotic rules (signs and symbols)

The communication is the important factor for the commercial success of any business. The organizational Hierarchy also decides the type of channel through which the communication passes.

On the basis of the status of individuals involved in the communication process and the urgency of the message to be sent, the communication channels can be categorized as:

### 1. Formal Communication

### 2. Informal Communication

#### 1. Formal communication:

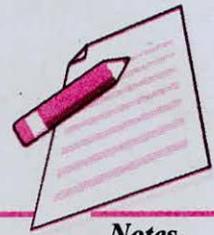
Formal communication is used for the business and managerial functions of planning, decision-making coordinating, controlling etc. The formal communication channel respects the 'unity of command' principle and prescribes in a rigid way, a specified route for the flow of information between various positions in the organization. For example, a welder cannot indent for welding rods directly from the purchase officer; the indent has to be routed through the proper channel beginning with the foreman and section head. Thus, formal communication is systematic, orderly in nature and supports the authority of superiors.

There are three ways in which formal communication can go:

- a) **Downward communication:** It is way of communication, which passes from the encoder who occupies a higher position in an organizational hierarchy to the decoder holding lower position, e.g. The Board of Directors to general manager through company secretary or section head.
- b) **Upward communication:** When the information moves upward from subordinates (the encoder) who hold positions, which are lower than those of the decoders in the organizational hierarchy. Usually work progress report; grievances, etc are the forms of upward communication.
- c) **Horizontal communication:** Horizontal communication takes place between employees who are at the same level in the organizational hierarchy.

#### 2. Informal communication:

Informal communication is the confidential conversation, which is not based on the status and the position of the encoders and decoders in the organizational hierarchy. For e.g. conversation at any official parties or celebrations organized by the organization for its employees at which the managing director may talk about the health and achievement of the children of a mechanic. Communication channels



- 7. Feedback:** The Feedback is the final step of the process that ensures the receiver has received the message and interpreted it correctly as it was intended by the sender. It increases the effectiveness of the communication as it permits the sender to know the efficacy of his message. The response of the receiver can be verbal or non-verbal.

### **7 C's of Communication**

**Definition: The 7 C's of Communication** is a checklist that helps to improve the professional communication skills and increases the chance that the message will be understood in exactly the same way as it was intended.

**To have effective communication, one should keep the following 7 C's of communication in mind:**

- 1. Clear:** The message should be clear and easily understandable to the recipient. The purpose of the communication should be clear to sender then only the receiver will be sure about it. The message should emphasize on a single goal at a time and shall not cover several ideas in a single sentence.
- 2. Correct:** The message should be correct, i.e. a correct language should be used, and the sender must ensure that there is no grammatical and spelling mistakes. Also, the message should be exact and well-timed. The correct messages have a greater impact on the receiver and at the same time, the morale of the sender increases with the accurate message.
- 3. Complete:** The message should be complete, i.e. it must include all the relevant information as required by the intended audience. The complete information gives answers to all the questions of the receivers and helps in better decision-making by the recipient.
- 4. Concrete:** The communication should be concrete, which means the message should be clear and particularly such that no room for misinterpretation is left. All the facts and figures should be clearly mentioned in a message so as to substantiate to whatever the sender is saying.
- 5. Concise:** The message should be precise and to the point. The sender should avoid the lengthy sentences and try to convey the subject matter in the least possible words. The short and brief message is more comprehensive and helps in retaining the receiver's attention.
- 6. Consideration:** The sender must take into consideration the receiver's opinions, knowledge, mindset, background, etc. in order to have an effective communication. In order to communicate, the sender must relate to the target recipient and be involved.
- 7. Courteous:** It implies that the sender must take into consideration both the feelings and viewpoints of the receiver such that the message is positive and focused at the audience. The message should not be biased and must include the terms that show respect for the recipient.

# 1 MARKETING



Notes

Marketing: Marketing – Concept, functions and philosophies, Marketing Mix – Concept and elements, Product - branding, labelling and packaging – Concept, Price - Concept, Factors determining price, Physical Distribution – concept, components and channels of distribution, Promotion – Concept and elements; Advertising, Personal Selling, Sales Promotion and Public Relations

Marketing – Concept, functions and philosophies  
Marketing Mix – Concept and elements

## Objective of the chapter:

The basic objective of this chapter is to through some light on the initial concepts of marketing management so that the fundamentals of marketing management can be learned.

## Definition of Marketing

“Marketing is the performance of business activity that directs the flow of goods and services from the producer to consumer.” -The American Marketing Association

“Marketing is the creation and delivery of standard of living to society.” -Paul Mazur

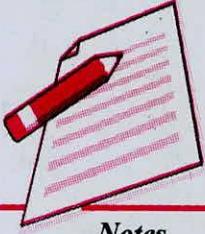
## Major Functions of Marketing Management

We need to understand the major functions of marketing management in order to understand and groom our organization. The following are some of the major functions of marketing management –

- Selling
- Buying and Assembling
- Transportation
- Storage
- Standardization and Grading
- Financing
- Risk Taking
- Market Information

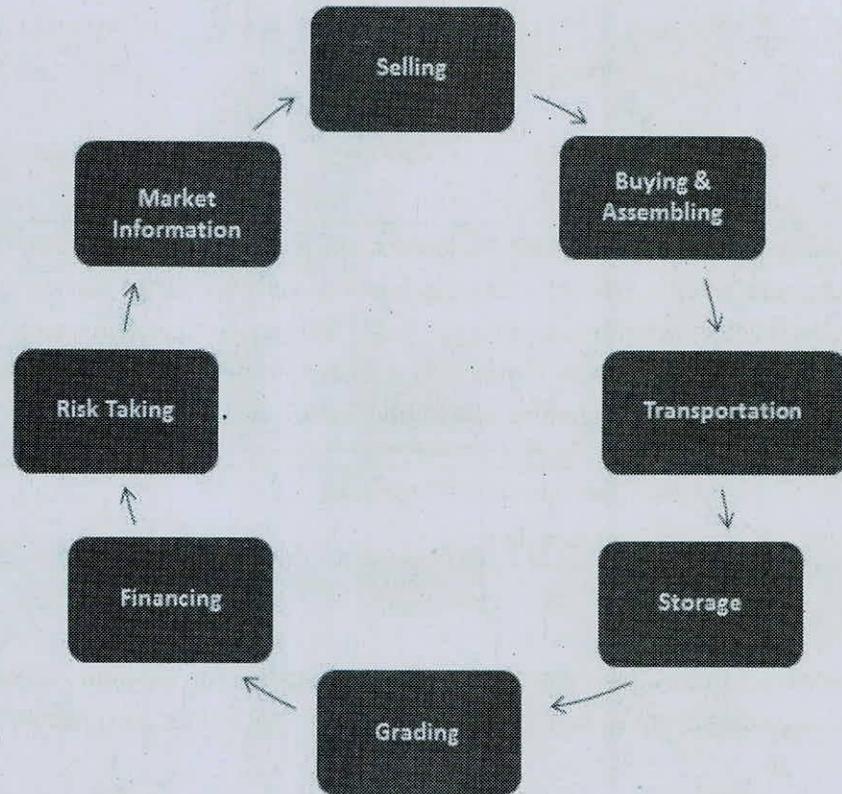
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The marketing process performs certain activities as the products and services move from the producer to consumer. All these activities or jobs are not performed by every company.



Nonetheless, it is recommended that they be carried out by any company that wants its marketing systems to function successfully.

### Selling

Selling is the crux of marketing. It involves convincing the prospective buyers to actually complete the purchase of an article. It includes transfer of ownership of products to the buyer.

Selling plays a very vital part in realizing the ultimate aim of earning profit. Selling is groomed by means of personal selling, advertising, publicity and sales promotion. Effectiveness and efficiency in selling determines the volume of the firm's profits and profitability.

### Buying and Assembling

It deals with what to buy, of what quality, how much from whom, when and at what price. People in business purchase to increase sales or to decrease costs. Purchasing agents are much tempted by quality, service and price. The products that the retailers buy for resale are selected as per the requirements and preferences of their customers. Assembling means buying necessary component parts and to fit them together to make a product. 'Assembly line' marks a production line made up of purely assembly



functions. The assembly operation includes the arrival of individual component parts at the work place and issuing of these parts for assembling.

Assembly line is an arrangement of employees and machines in which each individual has a particular job and the work is passed directly from one employee to the next until the product is complete.

### **Transportation**

Transportation is the physical means through which products are moved from the places where they are produced to those places where they are needed for consumption. It creates locational utility.

Transportation is very important from the procurement of raw material to the delivery of finished products to the customer's places. Transportation depends mainly on railroads, trucks, waterways, pipelines and airways.

### **Storage**

It includes holding of products in proper, i.e., usable or saleable, condition from the time they are produced until they are required by customers in case of finished products or by the production department in case of raw materials and stores.

Storing protects the products from deterioration and helps in carrying over surplus for future consumption or usage in production.

### **Standardization and Grading**

Standardization means setting up of certain standards or specifications for products based on the intrinsic physical qualities of any item. This may include quantity like weight and size or quality like colour, shape, appearance, material, taste, sweetness etc. A standard gives rise to uniformity of products.

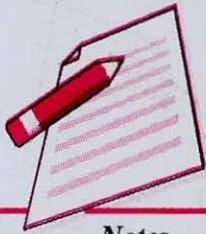
Grading means classification of standardized items into certain well-defined classes or groups. It includes the division of products into classes made of units possessing similar features of size and quality.

Grading is very essential for raw materials; agricultural products like fruits and cereals; mining products like coal, iron and manganese and forest products like timber.

### **Financing**

Financing involves the application of the capital to meet the financial requirements of agencies dealing with various activities of marketing. The services to ensure the credit and money needed and the costs of getting merchandise into the hands of the final user are mostly referred to as the finance function in marketing.

Financing is required for the working capital and fixed capital, which may be secured from three sources — owned capital, bank loans and advance & trade credit. In other words, different kinds of finances are short-term, medium-term, and long-term finance.



Notes

## **Risk Taking**

Risk means loss due to some unforeseen situations. Risk bearing in marketing means the financial risk invested in the ownership of goods held for an anticipated demand, including the possible losses because of fall in prices and the losses from spoilage, depreciation, obsolescence, fire and floods or any other loss that may occur with the passage of time.

They may also be due to decay, deterioration and accidents or due to fluctuation in the prices induced by changes in supply and demand. The different risks are usually termed as place risk, time risk, physical risk, etc.

## **Market Information**

The importance of this facilitating function of marketing has been recently marked. The only sound foundation on which marketing decisions depend is timely and correct market information.

The importance of this facilitating function of marketing has been recently marked. The only sound foundation on which marketing decisions depend is timely and correct market information.

## **Marketing Management Philosophies**

There are five marketing concepts. A company should choose the right one according to their and their customers' needs.

1. Production Concept
2. Product Concept
3. Selling Concept
4. Marketing Concept
5. Social Marketing Concept

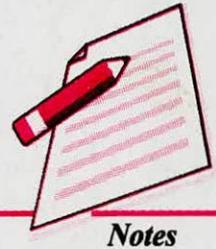
## **Production Concept**

This concept works on an assumption that consumers prefer a product which is inexpensive and widely available. This viewpoint was encapsulated in Says Law which states 'Supply creates its own demand'. Hence companies focus on producing more of the product and making sure that it is available to the customer everywhere easily.

Increase in the production of the product makes the companies get the advantage of economies of scale. This decreased production cost makes the product inexpensive and more attractive to the customer.

A low price may attract new customers, but the focus is just on production and not on product quality. This may result in a decrease in sales if the product is not up to the standards.

This philosophy only works when the demand is more than the supply. Moreover, a customer not always prefers an inexpensive product over others. There are many other factors which influence his purchase decision.



### **Examples of Production Concept Of Marketing Management Philosophies**

- Companies whose product market is spread all over the world may use this approach.
- Companies having an advantage of monopoly.
- Any other company whose product's demand is more than its supply.

### **Product Concept**

This concept works on the assumption that customers prefer products of 'greater quality' and 'price and availability' doesn't influence their purchase decision. Hence the company devotes most of its time in developing a product of greater quality which usually turns out to be expensive

Since the main focus of the marketers is the product quality, they often lose or fail to appeal to customers whose demands are driven by other factors like price, availability, usability, etc.



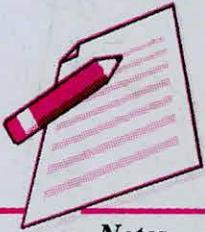
### **Product Concept**

### **Examples of Product Concept Of Marketing Management Philosophies**

- Companies in the technology industry.
- Companies having an advantage of monopoly.

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Notes

## Selling Concept

Production and product concept both focus on production but selling concept focuses on making an actual sale of the product. Selling Concept focuses on making every possible sale of the product, regardless of the quality of the product or the need of the customer. The main focus is to make money. This philosophy doesn't include building relations with customers. Hence repeated sales are very less. Companies following this concept may even try to deceive the customers to make them buy their product. Companies which follow this philosophy have a short-sighted approach as they 'try to sell what they make rather than what market wants.



## Selling Concept

### Examples Of Selling Concept Of Marketing Management Philosophies

- Companies with short-sighted profit goals. This often leads to marketing myopia.
- Fraudulent companies.

## Marketing Concept

Selling Concept cannot let a company last long in the market. It's a consumer's market after all. To succeed in the 21st century, one has to produce a product to fulfil the needs of their customers. Hence, emerged the marketing concept. This concept works on an assumption that consumers buy products which fulfil their needs. Businesses following the marketing concept conduct researches to know about customers' needs and wants and come out with products to fulfil the same better than the competitors. By doing so, the business establishes a relationship with the customer and generate profits in the long run.

However, this isn't the only philosophy that should be followed by all the businesses. Many businesses still follow other concepts and make profits. It totally depends on the demand and supply and the needs of the parties involved.



## Marketing Concept

### Examples Of Marketing Concept Of Marketing Management Philosophies

- Companies in perfect competition.
- Companies who want to stay in the market for a long time.

### Societal Marketing Concept

Adding to the marketing concept, this philosophy focuses on society's well-being as well. The business focuses on how to fulfil the needs of the customer without affecting the environment, natural resources and focusing on society's well-being. This philosophy believes that the business is a part of the society and hence should take part in social services like the elimination of poverty, illiteracy, and controlling explosive population growth etc.



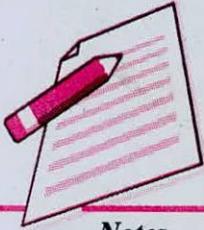
### Societal Marketing Concept

Many of the big companies have included **corporate social responsibility** as a part of their marketing activities.

### Holistic Marketing Concept

Holistic marketing is a new addition to the business marketing management philosophies which considers business and all its parts as one single entity and gives a shared purpose to every activity and person related to that business. A business, like a human body, has different parts, but it's only able to function properly when all those parts work together towards the same objective. Holistic marketing concept enforces this interrelatedness and believes that a broad and integrated perspective is essential to attain the best results.





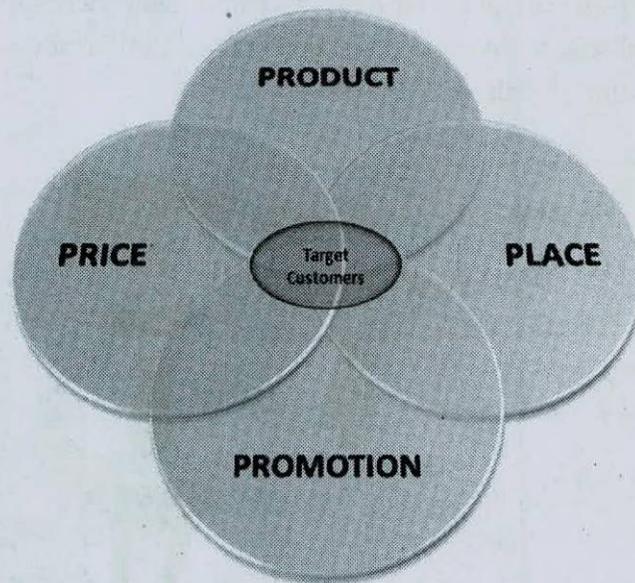
Notes

## Marketing Mix

**Marketing Mix** is a combination of marketing tools that a company uses to satisfy their target customers and achieving organizational goals. McCarthy classified all these **marketing tools** under four broad categories:

- Product
- Price
- Place
- Promotion

These four elements are the **basic components of a marketing plan** and are collectively called **4 P's of marketing**. 4 P's pertain more to physical products than services. Below is an illustration for **marketing mix**.



The important thing to note is that all these **four P's (variable) are controllable**, subject to internal and external constraints of marketing environment. Marketers, using different blends of these variables, can target different group of customers having different needs. So, a **customer may call marketing mix "the offering"**.

### Product

**Product is the actual offering** by the company to its targeted customers which also includes value added stuff. Product may be tangible (goods) or intangible (services).

While formulating the marketing strategy, **product decisions** include:

- What to offer?
- Brand name
- Packaging
- Quality
- Appearance

- Functionality
- Accessories
- Installation
- After sale services
- Warranty

## Price

**Price includes the pricing strategy** of the company for its products. How much customer should pay for a product? Pricing strategy not only related to the profit margins but also helps in finding target customers. Pricing decision also influence the choice of marketing channels. **Price decisions** include:

- Pricing Strategy (Penetration, Skim, etc)
- List Price
- payment period
- Discounts
- Financing
- Credit terms

Using price as a weapon for rivals is as old as mankind. but it's risky too. Consumers are often sensitive for price, discounts and additional offers. Another aspect of pricing is that expensive products are considered of good quality.

## Place (Placement)

It not only includes the place **where the product is placed**, all those activities performed by the company to ensure the availability of the product to the targeted customers. Availability of the product at the right place, at the right time and in the right quantity is crucial in placement decisions.

### Placement decisions include:

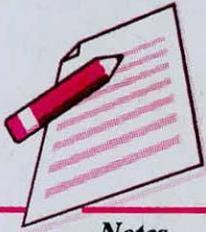
- Placement
- Distribution channels
- Logistics
- Inventory
- Order processing
- Market coverage
- selection of channel members

## Promotion

**Promotion** includes all communication and selling activities to persuade future prospects to buy the product. Promotion decisions include:



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**Notes**

- Advertising
- Media Types
- Message
- Budgets
- Sales promotion
- Personal selling
- Public relations
- Direct marketing

As these costs are huge as compared to product price, So it's good to perform a break-even analysis before allocating the budget. It helps in determining whether the new customers are worth of promotion cost or not.

It often takes time and requires market research to develop a successful marketing mix. You should not depend on one mix always try new mixes. While designing the mix, make changes to all mixes in such a way that all conveys the same message. Don't confuse your customers by just changing one variable and keeping the rest same.

**Limitation of Marketing Mix**

**Marketing mix (4 P's)** was more useful in early 19's when production concept was in and physical products were in larger proportion. Today, with latest **marketing concepts**, marketing environment has become more integrated. So, in order to extend the usefulness of marketing mix, some authors introduced a fifth P and then **seven P's** (People, Packaging, Process). But the foundation of **Marketing Mix** still stands on the basic 4P's.

## 2

**PRODUCT - BRANDING,  
LABELLING AND  
PACKAGING***Notes*

Product - branding, labelling and packaging

Product - branding, labelling and packaging

**Introduction****Packaging**

Earlier, packaging was considered a major expense in marketing. For some toiletries, packaging costs actually exceeded the costs of contents. Today, it is however, fully recognized that packaging helps in branding and promoting brand loyalty. It also enables the buyers to handle and carry their products with ease. Moreover, packaging may cut marketing costs thus adding to profit.

**Qualities of Good Packaging**

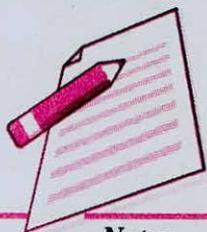
1. Attractive appearance
2. Convenient for storage and display
3. Shield against damage or spoiling
4. Product description shown on the package

**Function of Packaging Especially For Consumer Goods**

1. Protection and presentation are the basic functions of a packaging
2. Modern marketing methods demand that; package be convenient to handle transport requirements.
3. A package must be made to consistent and rigid quality standards. The consumer demands uniformity each time he purchases a product.
4. Transport economics
5. Every package must be recognizable and
6. Every package must have eye appeal

***Packing to be satisfactory should satisfy the following conditions:***

1. It should be capable of withstanding the hazards of handling and transport. The cargo may be handled manually and mechanically. The handling methods may differ between places. When manually handled, it may be tilted, draped, thrown,



**Notes**

- pulled, pushed, rolled etc. further it may also be subject to compression due to stacking. The packing should, therefore, be capable of withstanding such hazards of handling and transportation.
2. It should be easy to handle. To facilitate easy handling, bulk packs may be provided with handling facilities like books, handles, gripper's etc. in case of products which shall not be turned upside down, the position should be clearly indicated like marking 'this side up'. In case of fragile articles, which shall not be subject to rough handling, the size, shape and weight of the pack should be amendable for smooth handling. Further, it should also be indicated on the pack.
  3. It should be amendable to quick examination of contents. It may be remembered that the customs authorities of the exporting and importing countries may want to examine the contents.
  4. It should be easy to identify
  5. It should be adequately marked.
  6. Unless it is necessary, the contents shall not be disclosed.
  7. It should be easy to dispose of.
  8. Packing must conform to the buyer's specifications. If any and the regulations in the exporting and importing countries, guidelines and regulation by the shipping company, etc. care should be taken to observe the established has prescribed packing standards for certain goods. The British standard packing code, published by the British standards institution and Exporters Encyclopaedia, USA, give detailed packing instruction. Shipping companies also given certain packing instructions especially for highly dangerous products. According to the products he intends to export, the exporter has to choose the right type of packing 1 to send the goods in good condition to the destination. A right package always guarantees the right quality of the product at the time of delivery.

### Labelling

Labelling is regarded as part of marketing because packaging decision making involves the consideration of the labelling requirements. In international trade, many countries insist that labelling should be done in the absence of such a statutory requirement. Statutory obligations are important aspects of labelling. Many countries have laid down labelling requirements in respect of a number for commodities.

According to the regulations labelling of food items should disclose information about a number of aspects like date of manufacturing, expiry date or optimum storage period for good which do not have an indefinite storage period, composition, storage conditions, necessary method of use, if necessary, etc. Many types of symbols for package labelling are nationally and internationally standardized.

For consumer packaging, symbols exist for product certifications, trademarks, proof of purchase, etc. Some requirements and symbols exist to communicate aspects of consumer use and safety. Recycling directions, Resin identification code (below), and package environmental claims have special codes and symbols.

Labels may be categorized into the following

1. Descriptive- giving description of weight, volume, composition or ingredients, information about manufacturer, production and packaging dates, date of expiry etc.
2. Informative – giving product information as well as information about usage of the product.
3. Grade indicative- showing the quality certification like ISI mark, Ag mark etc.

### **Role of Packaging**

It helps increase sales: Good graphics and attractive colour will make product appealing.

1. It adds to the use of a product.
2. It helps promote a product
3. It contributes to the safety of a product
4. It helps in storage
5. It helps in product differentiation

### **Packaging Decisions**

#### **Packaging Design**

It is not easy to design a package for various items.

For example, all shaving creams come in tubes, but different brands of shaving cream have different packaging. Because of the high cost of packaging some companies have resorted to refill packs.

#### **Colour**

Colour is an important factor for determining customer acceptance or rejection of a product. The use of bright colours in packaging may help marketers reap huge advantage. Packaging colour should be attractive so that it may help promote sales. Coco cola is identified with red colour and Pepsi with blue colour.

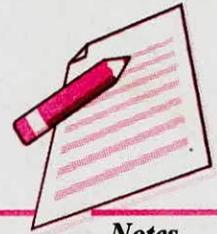
#### **Convenience**

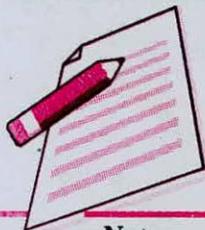
Packaging should improve convenience in handling the product. To make it easy to carry milk and soft drinks are packed in tetra

packs, to make it easy to store, Threptin biscuits are packed in tins, to make it easy to use air fresheners are packed in spray bottles.

#### **Packaging the Product Line**

A company must decide whether to develop a family resemblance in the packaging of its several products. Families packaging involves the use of identical packages for all products or the use of packages with some common feature.





**Notes**

**Pricing:**

Pricing is a process of fixing the value that a manufacturer will receive in the exchange of services and goods. Pricing method is exercised to adjust the cost of the producer's offerings suitable to both the manufacturer and the customer. The pricing depends on the company's average prices, and the buyer's perceived value of an item, as compared to the perceived value of competitors product.

Every businessperson starts a business with a motive and intention of earning profits. This ambition can be acquired by the pricing method of a firm. While fixing the cost of a product and services the following point should be considered:

- The identity of the goods and services
- The cost of similar goods and services in the market
- The target audience for whom the goods and services are produces
- The total cost of production (raw material, labour cost, machinery cost, transit, inventory cost etc).
- External elements like government rules and regulations, policies, economy, etc.,

**Objectives of Pricing:**

- **Survival-** The objective of pricing for any company is to fix a price that is reasonable for the consumers and also for the producer to survive in the market. Every company is in danger of getting ruled out from the market because of rigorous competition, change in customer's preferences and taste. Therefore, while determining the cost of a product all the variables and fixed cost should be taken into consideration. Once the survival phase is over the company can strive for extra profits.
- **Expansion of current profits-**Most of the company tries to enlarge their profit margin by evaluating the demand and supply of services and goods in the market. So the pricing is fixed according to the product's demand and the substitute for that product. If the demand is high, the price will also be high.
- **Ruling the market-** Firm's impose low figure for the goods and services to get hold of large market size. The technique helps to increase the sale by increasing the demand and leading to low production cost.
- **A market for an innovative idea-** Here, the company charge a high price for their product and services that are highly innovative and use cutting-edge technology. The price is high because of high production cost. Mobile phone, electronic gadgets are a few examples.

**Factors Affecting Price Decisions**

All profit organizations and many non-profit organizations must set prices on their products or services. Although the role of nonprice factors in the modern marketing process is increasing, the price remains an important element in the marketing mix.

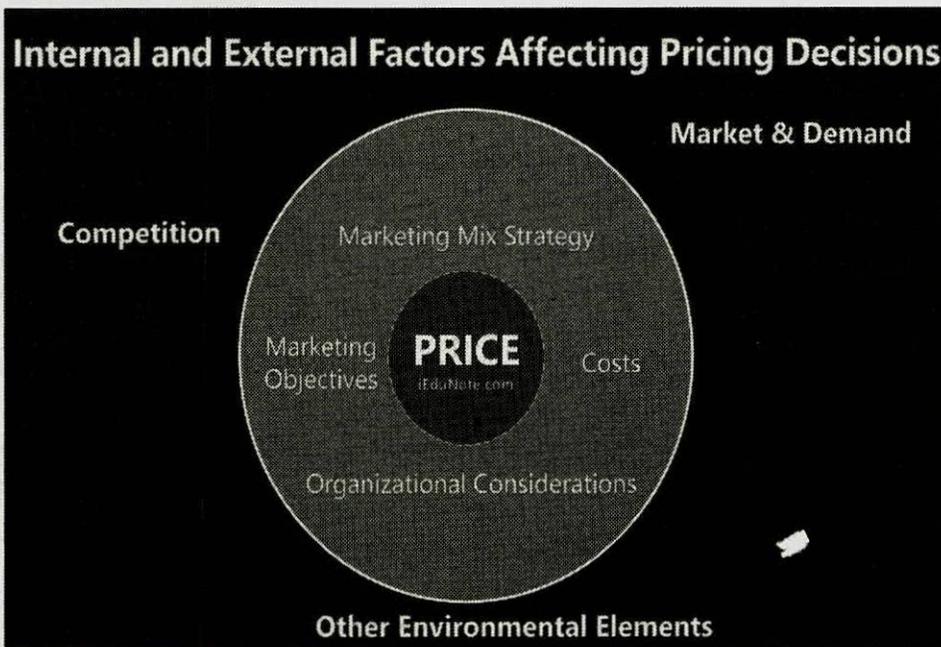


In a popular sense, price is the amount of money charged for a product or service. Price is the sum of all the values expressed in monetary terms that consumers part with for the benefits of having or using the product or service. The price goes by many names; rent for houses, the fee to a physician, airfare, interest charged by banks, and so on.

All profit organizations and many non-profit organizations must set prices on their products or services. Price is the only element in the marketing mix that fetches revenue; all other elements represent costs.

### **What are the Factors Affecting Price Decisions in Marketing?**

A company's pricing decisions are influenced both by internal company factors and external environmental factors.



1. Internal Factors Affecting Pricing Decisions
  - i. Company's Marketing Objectives.
  - ii. Marketing Mix Strategy.
  - iii. Costs.
  - iv. Organizational Considerations.
2. External Factors Affecting Pricing Decisions
  - i. Market and Demand.
  - ii. Competition.
  - iii. Other Environmental Elements.

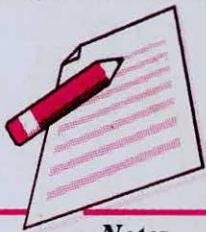
### **Types of Pricing Method:**

The pricing method is divided into two parts:

**Cost Oriented Pricing Method**– It is the base for evaluating the price of the finished goods, and most of the company apply this method to calculate the cost of the product. This method is divided further into the following ways.

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### Business Studies



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- **Cost-Plus Pricing**
- **Mark-up Pricing**
- **Target-Returning Pricing**

**Market-Oriented Pricing Method-** Under this category, the is determined on the base of market research

- **Perceived-Value Pricing-**
- **Value pricing**
- **Going-Rate Pricing.**
- **Auction Type Pricing.**
- **Differential Pricing**

### **Physical Distribution:**

Physical distribution is concerned with the physical movement of the goods from the producer to the consumer. It is an important part of marketing activity and a major component of marketing mix. It includes all those activities which help in efficient movement of goods from producer to consumer, such as transportation, warehousing, material handling, inventory control, order processing, market forecasting, packaging, plant and warehouse location and customer service.

Philip Kotler has defined physical distribution as, “Physical distribution involves planning, implementing and controlling the physical flow of materials and final goods from the point of origin of use to meet consumer needs at a profit.”

According to William J. Stanton, “Physical distribution involves the management of physical flow of products and establishment and operation of flow systems.”

Physical distribution is thus, management of the physical flow of products and management and operation of the flow system. It is a process of managing the movement of the goods.

### **Objectives of Physical Distribution:**

Physical distribution has two broad objectives viz. consumer satisfaction and profit maximisation. Apart from these, there are other objectives too. A satisfied consumer is the biggest asset that a company has. A firm can provide satisfaction to consumers by making available right quantity of right goods at right place and time, at lowest costs. Prompt and dependable distribution enhances consumer satisfaction.

At the same time, by offering better service at lower price of the product, the firm can attract additional consumers and make more profits. This can be done by improving the efficiency and effectiveness of physical distribution activities, firm can bring in economy which will have an effect on profit margin i.e. by lowering the physical distribution costs, profit position can be improved.



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**Apart from these two broad objectives, physical distribution has other objectives as follows:**

- i. To make available the right goods in right quantity at right time and right place at least cost.
- ii. To achieve minimum inventory level and speedier transportation.
- iii. To establish price of products by effective management of physical distribution activities.
- iv. To gain competitive advantage over rivals by performing customer service more effectively.

**Importance of Physical Distribution System:**

Physical distribution activities have an important role to play in success of business.

**Its importance can be judged from following points:**

**1. Creating Time and Place Utility:**

Physical distribution activities help in creating time and place utility. This is done through transportation and warehousing. Transportation system creates place utility as it makes available the goods at the right place where they are required. Warehousing creates time utility by storing the goods and releasing them when they are required.

**2. Helps in Reducing Distribution Cost:**

Physical distribution cost account for a major part of the price of the product. If these costs are handled systematically, decrease in costs of product can be there. Proper and systematic planning of transportation schedules and routes, warehousing location and operation, material handling, order processing, etc. can easily bring in cost economies.

**3. Helps in Stabilisation of Price**

Physical distribution helps in maintaining stable prices. Even customers expect price stability over a period of time. Proper use of transportation and warehousing facilities can help in matching demand with supply and thus ensure stabilisation of price.

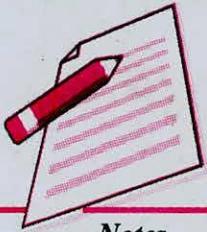
**4. Improved Consumer Services:**

Consumer service in physical distribution means making products in right quantity available at right time and right place i.e. place where customer needs.

**Components of Physical Distribution:**

**(1) Order Processing:**

Order processing is the starting point of any distribution activity. Order processing includes activities like receiving the order, handling the order, granting credit,



invoicing, dispatching, collecting bills, etc. Each customer expects that the order placed by him is implemented without delay, and as per the specifications of the order.

Thus, order processing becomes very important. Marketer should make effort to maintain the order cycle time i.e. the time period between the time of placement of an order by the customer to the time of arrival of goods at his destination. Standard procedure should be laid down for processing of order.

### **(2) Storage and Warehousing:**

Storage means making proper arrangements for retaining the goods in proper condition till they are demanded by customers. There are many products which are seasonally produced but are used throughout the year, they can be stored and later released.

Similarly, there are products which are produced throughout the year but are seasonally used like umbrella, fans, heaters, etc. Here also storing plays an important role. Storage reduces the need for instant transportation which is difficult and costly.

Warehousing provides the storage function. Places where the goods are stored are known as warehouse. Goods are stored in warehouses to be released in time of demand. Apart from storing function, warehouses also perform other functions like, marketing and assembling the goods.

Two types of warehouses are there- Storage Warehouses and Distribution Warehouses. Storage warehouse helps in storing the good for long and medium period of time to ensure matching of supply and demand. Distribution warehouses facilitate assembling the product and redistributing it within a short period of time. They can also be centralised (when located near factory) or decentralised (when located near market).

### **(3) Inventory Control:**

Inventory control refers to efficient control of goods stored in warehouses. Maintaining adequate level of inventory is very essential for smooth flow of business. Inventory acts as a bridge between the orders of customers and production. They are the reservoir of the goods held in anticipation of sales. Therefore, it needs to be properly managed and controlled. Neither too small nor too large inventory should be maintained.

Former would result in stock out, resulting in lost sales and latter involves heavy investments. Thus, a balance has to be maintained. As Prof. W. J. Stanton states, “the goal of inventory control is to minimise both the investment and the fluctuation in inventories, while at the same time filling customer order properly and accurately.”

Correct anticipation of the product demand is necessary for maintaining the correct level of inventory. Properly estimated demand helps the business firms in terms of cost of inventory, supplying to customer in time and maintaining the production schedule.

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#### **(4) Material Handling:**

Material handling includes all those activities which are associated in moving products when it leaves the manufacturing plant but before it is loaded on the transport. This activity has been in existence since very long period of time, and now it has developed as a system.

It involves moving the goods from plant to warehouses and from warehouses to place of loading in transport modes. Proper management of material handling helps in avoiding unnecessary movement of goods, avoiding damage to the goods, facilitate order processing and efficient movement of goods.

Material handling is the sub part of the total physical distribution system and helps in reduction in cost and better service to consumers. Effective management of material handling system leads to effectiveness of total physical distribution system and thereby makes it economical.

#### **(5) Transportation:**

Transportation as a component of physical distribution is concerned with the movement of goods from the warehouse to customer destination. It includes loading and unloading of goods and their movement from one place to another. In doing so it provides time and place utility. Transport accounts for a major portion of the distribution cost and of the total price of the product.

Being a major cost element, marketers must take keen interest in transportation decision as it will help in reducing cost and increasing customer satisfaction. Correct form of transportation mode is very essential as it directly affect the price of the product. Proper choice facilitates smooth movement of goods on time and in good condition. The transportation mode therefore needs to be adequate, regular and dependable.

Different modes of transportation are there like Road transport, railways, Airways, Water transport and pipeline from which a choice has to be made. Each has its own share of merits and demerits. Normally a combination of different mode is chosen and integrated in a sequential order to move the product economically and faster.

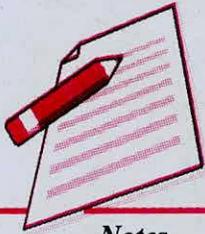
Choice of a particular mode of transportation depends upon various factors like cost of the transport, availability of the mode of transport, speed, reliability, frequency, safety and suitability of the mode to move the product.

##### **i. Road Transport:**

This is an ancient form of transport and plays an important role in marketing. Road transport may be through different means like transport by animals (like bullock, camel), transport by human beings (like coolies or porters), transport by automobiles (like scooters, auto rickshaws, cars, truck buses etc.). Road transport is flexible and economical. However, it is unsuitable for long distances.

##### **ii. Railways:**

It is suitable for transporting bulk goods over long distances. It is an economical mode because large volume of traffic is handled over large network of railways. However, it is inflexible as it is unfit to transport goods to rural areas. Further, it involves huge maintenance expenditure.



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**iii. Water Transport:**

Water way is an important mode of transport for heavy and bulky goods in large quantities. It consists of inland water transport and ocean transport. Inland water transport is used for transporting goods within country and ocean transport is used to transport goods to other countries. Water transport is a cheapest form of transport, having great carrying capacity and is highly suitable for heavy and bulky goods, but it has low speed and higher degree of risk due to seasonal difficulties.

**iv. Air Transport:**

Of late air transport has assumed significant importance as a mode of transport. Although it accounts for a small percentage of transportation, it is useful for perishable items, overnight packages, emergency supplies etc. The main disadvantage of air transport is that it has high freight charges, low carrying capacity and too much dependence on climatic conditions.

**v. Pipelines:**

These are specialized carriers design to transport the crude and refined petroleum and natural gas from wells to refineries and further to distribution centre. It is an economical mode as it involves less handling and labour cost, but it is the slowest mode of transportation and very limited in number.

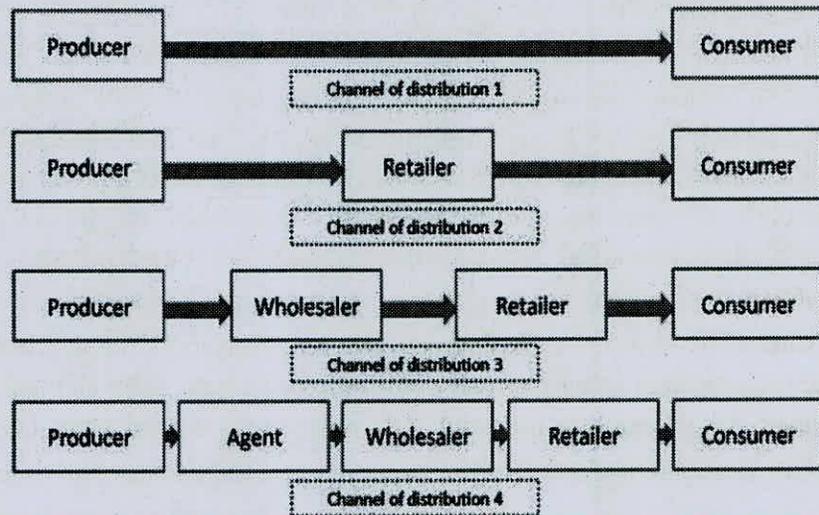
**Distribution channel**

is a distribution network through which products move from producer or manufacturers to ultimate consumers or users. The channel comprises of producers, consumers or users and the other middlemen like wholesalers, selling agents and retailers(dealers) who mediate between the manufacturers and consumers.

The channel network usually has three types of flow

- Flow of goods in downward direction from producers to end consumers
- Flow of cash payments in upward direction for goods from consumers to producers through intermediaries
- Marketing information flow in both downward and upward direction i.e. from producer to consumer & vice versa

The channels of distribution can be broadly classified into following 4 types:





## Promotion Mix

The Marketing Communications Mix or the Promotion Mix is a set of various marketing tools that a company or marketer utilizes to achieve its marketing and promotional objectives. An optimized promotion mix helps target the right audience efficiently and effectively. Marketers can decide upon the right mix of tools to be utilized based upon their marketing objectives and audience size. Prior to developing the promotion mix, the marketer needs to study his audience and accumulate the required data and set clear marketing objectives required for developing the promotion mix. Developing the promotion mix also requires setting a budget as well as selecting the channels that will help the company achieve its marketing objectives with the highest efficiency.

There are some questions that the marketers must address to develop an effective promotion mix.

- Who is my target audience?
- What is our budget and how much to allocate to each channel?
- Which marketing channels and methods will be most effective at reaching my audience?
- What is the objective of the promotions or what is the company specifically trying to achieve through it?

In Kotler's words,

A company's total marketing communications mix, or promotion mix, consists of the specific blend of advertising, personal selling, sales promotion, and public relations tools that the company uses to pursue its advertising and marketing objectives.

Philip Kotler. Principles of Marketing.

## The five main elements of a promotion mix

### Promotion Mix

#### Advertising:

It is one of the most commonly used tools of promotion and worldwide companies in all industries use it to grow their customers' interest in their products, to inform customers about new products or price changes and so on. Companies can use advertising to achieve various purposes including growing awareness.

#### According to Kotler, advertising is

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

Every day we come across several ads, many of which catch and sustain our interest and several are easily forgotten. It depends on the kind of content, message and the media used by the advertiser to convey his message to the market. Leading



companies like Coca Cola, Pepsi, Walmart, etc have large advertising budgets and spend billions on promotions of their products. With time the efficiency of market channels has grown supported by growth in technology. Now, advertisers can reach millions of customers through social media and by running a promotional campaign on any of these social media channels including Facebook, Twitter, Instagram, and YouTube.

### **Personal selling:**

Personal selling involves the use of sales personnel to grow outreach and sales of products in the market by reaching out directly to the customers through the company's salesforce. When the company's salesforce personally reaches out to the audience to sell or promote a product or idea and to build stronger customer relationships it is called personal selling.

### **According to Kotler, Personal Selling is**

Personal presentation by the firm's sales force to make sales and build customer relationships.

While digital technology and social media have changed the way brands market and promote their products and brand, a large number of companies still utilize personal selling to grow their customer base and promote new products. While on the one hand, it helps strengthen customer relationships, on the other it also helps grow the level of trust among customers. Face to face interaction with the target audience is still considered highly effective at growing relationships with customers and hacking into new target markets. Car dealerships and banks frequently utilize this method to inform customers and build relationships. However, apart from the banking and automobile industry, personal selling is considered an effective method of promotion in many more industries.

### **Sales Promotion:**

Sales promotion mainly includes short term incentives offered by companies and marketers to drive higher sales by growing demand for specific products and services. This method is used by marketers and companies to build urgency and drive customers to the stores through time-sensitive offers and limited-time promotions. Brands frequently use such limited time promotions during the offseason or to clear the remaining unsold inventory. While several companies use such offers during the offseason or when demand is falling or if a new competitor has entered the market, many companies use it throughout the year or as a core element in their marketing strategy.

### **According to Kotler, Sales promotion is**

Short-term incentives to encourage the purchase or sale of a product or service.



Discounts and year-end sales are frequently used by companies to grow sales. At the Walmart stores, you can have products at discounted prices all year round. However, fashion brands and food brands also offer discount sales on various occasions. While sometimes the objective is just to drive sales higher, at other times, the objective may be to limit the prospects for a new brand entering the market.

### **Public Relations:**

Public relations utilize audience connections to generate favourable publicity and strengthen brand image. Companies build interesting stories and promote a favourable image before the public utilizing various media channels. In this way, they try to gain the support of all associated stakeholders including customers, government, the general public, investors and other stakeholders. Frequently, companies bring to light their CSR activities to gain publicity and to form a positive public opinion of themselves. Media publicity activities and events are also a part of the PR strategy.

### **According to Kotler, Public Relations is**

Building good relations with the company's publics by obtaining favourable publicity, building up a good "corporate image," and handling or heading off unfavourable rumours, stories, and events.

A company does not always gain favourable word of mouth. Sometimes unwanted rumours can also hurt a company's image. In such a situation, a good PR strategy helps at heading off the crisis and regaining the lost reputation. Large Corporations like HP or P&G often partner with NGOs in CSR and to strengthen their reputation by investing in community welfare. What do they gain from such activities if not favourable publicity and positive word of mouth?

### **Direct marketing:**

Direct marketing involves the use of direct communication channels to reach specific individuals to obtain a direct or immediate response. Companies use several such channels or tools like telephone, email, fax or other nonpersonal tools to reach targeted individuals directly and obtain a response. Email marketing and SMS marketing have been highly popular in this regard. E-commerce companies like Amazon and Flipkart use email and SMS to reach customers. Apart from informing them of new products or discounts, these companies also use email and SMS marketing to gain feedback from the customers directly. Banks also use email and SMS marketing extensively.

### **In the words of Kotler, Direct Marketing is**

Direct communications with carefully targeted individual consumers to obtain an immediate response—the use of mail, telephone, fax, e-mail, and other non-personal tools to communicate directly with specific consumers or to solicit a direct response.



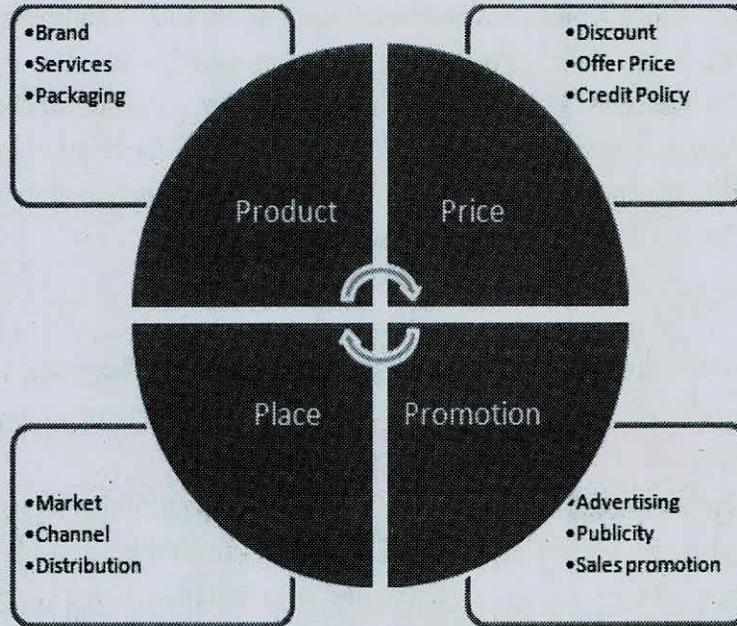
**Notes**

**SUMMARY**

The 4 Ps of marketing is a famous concept that summarizes the 4 basic pillars of any marketing strategy: product, price, place, and promotion.

It sounds simple and it really is (the harder part is implementing it, which we will get into later).

The idea behind the theory is that if you implement them, you will generate more sales. But sadly nothing is that easy. :



The origin of the concept, also known as marketing mix, goes back to 1960 when McCarthy introduced it in his book Basic Marketing: A Managerial Approach.

**Key Words**

- Product
- Price
- place
- Promotion

**EXERCISE**

**Multiple choice Questions**

1. \_\_\_\_\_ Where deal is accomplished between buyers & sellers through a medium of phone, letter or through medium of internet.

- (a) Market
- (b) Marketing
- (c) Selling
- (d) Planning



**Notes**

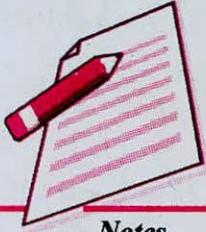
2. Which of the following is the feature of the marketing?
  - (a) Needs and wants
  - (b) Creating a market offering
  - (c) Customer value
  - (d) All of the above
  
3. \_\_\_\_\_ concept is based on those companies who believe in this philosophy that quality of goods or services of good standard can easily attract customers.
  - (a) Marketing concept
  - (b) Production concept
  - (c) Product concept
  - (d) Selling concept
  
4. Which of the statement is not true for selling?
  - (a) Focuses on the need of seller
  - (b) Aims at maximizing sales
  - (c) Involves fragmented approach to sell
  - (d) Selling is limited to exchange of goods and services
  
5. \_\_\_\_\_ is the process of classification of products into different groups on the basis of some of its important characteristics.
  - (a) Grading
  - (b) Packaging
  - (c) Standardization
  - (d) Branding
  
6. Packaging is important not only for protection of the product but also serves as \_\_\_\_\_.
  - (a) Quality product
  - (b) Complex graphics
  - (c) Promotional tool
  - (d) Promotion budget
  
7. Identify the elements of marketing mix: -
  - (a) Product
  - (b) Price
  - (c) Promotion
  - (d) All of the above
  
8. Which of the following is not the function of packaging?
  - (a) Product protection
  - (b) Pricing objectives
  - (c) Promotion
  - (d) Product identification

**Answer Keys**

|   |   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | a | 2 | d | 3 | c | 4 | b | 5 | a | 6 | c | 7 |
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## CLASS-12

### Business Studies



Notes

### Review Questions

1. Why marketing is called social process and also discuss its features?
2. Briefly discuss the different concepts of marketing?
3. Name the marketing function which is concerned with the cost and the location of the target market?
4. We should keep some characteristics in mind while choosing a brand name. Explain some of the characteristics briefly.
5. Explain any 5 factors that affect the determination of price of product?
6. Explain the following functions of marketing: -
  - A. Customer value
  - B. Exchange mechanism
  - C. Creating a marketing offering
7. Advertising is one of the frequent medium used by the company for promoting the products, but advertising comes with some objections. Discuss any 3 objections?
8. Write advantages of branding of product?
9. What are the different components of physical distribution?
10. What is marketing management? Discuss its features.

## 1

CONSUMER  
PROTECTION

Notes

Consumer Protection: Concept and importance of consumer protection, Consumer Protection Act 1986: Meaning of consumer Rights and responsibilities of consumers Who can file a complaint? Redressal machinery Remedies available, Consumer awareness - Role of consumer organizations and Non-Governmental Organizations (NGOs)

Consumer Protection: Concept and importance of consumer protection  
Meaning of consumer Rights and responsibilities of consumers  
Role of consumer organizations and Non-Governmental Organizations (NGOs)

**Objective of the chapter:**

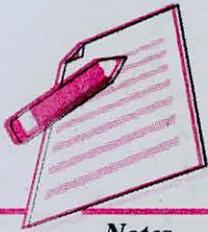
The basic objective of this chapter is to through some light on the initial concepts of consumer protection act and its main provisions.

**Introduction**

The World Economic Forum has declared that by 2030 with the GDP growth rate of 7.6% India tends to become the 3rd largest Consumer Market. Various aspects are to be taken into consideration while calculating these ranks and one of them is satisfaction of the consumers, which depends upon the existence of the laws supporting them. In India, we have many consumer laws and one such law is the Consumer Protection Act of 1986 (COPRA).

**Objectives & Importance of the Act**

The Consumer Protection Act was implemented in order to provide better protection to the rights of the consumers. Prior to the implementation of this Act, there was no special act for protecting the consumers and the only remedy available to the consumers was under the Law of Torts i.e. filing a civil suit for damages against the shopkeeper or the service provider. This act is based on the *doctrine of Caveat Emptor* which means that it is the *responsibility of the buyer to identify the defects in the good*.



*Notes*

**There are various objectives which are sought to be protected under the Consumer Protection Act such as-**

1. To promote and protect all the six rights of the consumers which will be discussed later.
2. To provide simple and speedy disposal to the cases by providing quasi-judicial machinery for the redressal of consumer disputes.
3. The act also aims to provide inexpensive redressal to the issues of the consumer.
4. A consumer dispute redressal forum called state commission has been set up in order to settle the disputes of each and every consumer in all the states of the country.

**Who is a consumer?**

According to Sec-2(1)(d) of the Act, a consumer is a person who purchases any goods or services or hires or avails the services of some person for his own personal use and not for manufacturing or resale of that good. For instance, a person purchasing wheat flour for his own personal use is a consumer but a person purchasing wheat flour for baking bread which he is going to sell in his bakery shop is not a consumer.

**Rights and Duties of a Consumer**

**The Consumer Protection Act has recognised six rights of a consumer which are :**

1. Right to Safety
2. Right to Information
3. Right to Choose
4. Right to be heard
5. Right to Redressal
6. Right to Consumer Education

**Right to Safety**

This right refers to as the right to be protected against the marketing of goods and services which are hazardous to life and property of the consumers. This right has a very wide scope of application, for instance, this right is available in the areas of electrical appliances, healthcare, automobile, pharmaceuticals, housing, travel etc. Nowadays, each and every field has an office for researchers who research and experiment and launch new products and appliances accordingly. Most of these products are not tested by the producers which prove to be harmful to the consumer. Therefore, after the implementation of this act, there is a mandate for each and every field to get all their products which are a danger to the life to be carefully tested and validated before launching it to the market.

*Notes*

### **Right to Information**

It refers to the right of a consumer to be informed of the quality, quantity, potency, purity, standard and price of the goods and services being sold by the shopkeeper. This right is given to the consumer in order to protect them from the various unfair trade practices conducted by the seller in order to earn more profits. Therefore, it is an obligation on the seller to provide the consumer with all the relevant information of the product he wishes to purchase.

### **Right to Choose**

It is defined in the act as the right to be assured, wherever possible, to have access to a variety of goods and services at competitive prices. It is very common to find one product being sold at different possible prices by different sellers. This reflects the age of market competition which is found in almost all the countries. Therefore, it is the right of all the consumers to purchase any product at any price which according to him is the best. A consumer cannot be forced to purchase a product of some particular brand or quality.

### **Right to be heard**

It is referred to as the right to be heard and to be assured that consumers' interests will receive due consideration at appropriate forums. This right was introduced for a consumer in order to ensure that all the complaints and issues of the consumers are heard duly under the appropriate authority. This is because of this right that almost all the big selling companies have a separate department known as the customer service to help the consumers in case of any dispute or any complaint regarding the quality or quantity of the product.

### **Right to seek Redressal**

If any consumer has been exploited by the seller or faced any unfair trade practices, he can seek redressal i.e. compensation or damages under this right. This right ensures that all the issues of the consumers are dealt with and justice is done to him. A proper redressal mechanism has been set up by the government of India such as the consumer courts and forums at district and national level which is discussed later in this article.

### **Right to Consumer Education**

It is the right of each and every person who is a citizen of India to have knowledge about all the laws and policies relating to the consumer. Therefore, it is made sure the material regarding the consumer-related laws is easily available all over India but there is still a major part of the population who is not aware of his laws and rights. This is the reason many awareness programmes have been organized by the government of India such as 'jago grahak jago' and the camps organized by various lawyers in the remote areas of the country.



Notes

### Duties of a consumer

Every consumer right comes with the opposite duty. Right of one consumer is the duty of the others. **Accordingly, there are various duties such as:-**

- On purchasing of goods or hiring of any services, it is the duty of the consumer to pay for the same.
- While purchasing something it is his duty to check weights, balances, prices etc. and also to give a careful reading to the labels.
- It is the duty of the consumer to update himself about the various consumer protection schemes.
- Duty to be careful while purchasing and not to fall in the trap of misleading information and advertisements.
- It is the duty of the consumer to not purchase anything from the black markets.
- It is the duty of the consumer to be aware of his rights and duties and also spreading the awareness of the same among others.
- It is the consumers' duty to file a complaint if the goods which he purchased are defective.
- Each and every consumer should secure the bills of the goods purchased or the services availed so that if in the future he finds the goods or services to be defective he can easily file a complaint against the same and can prove it.

### Major definitions

- **Complaint**– According to Sec-2(1)(c) any allegation made by the consumer regarding any restrictive or unfair trade practice which the traders have adopted such as goods bought by a consumer are defective, services hired or availed by him suffer some deficiency, trader has charged an excessive price of the goods mentioned in the complaint, goods or services which are hazardous to the life and property of the consumer has been offered for sale to the public by the trader or the service provider.
- **Consumer Dispute**– according to Sec-2(1)(e) of the act it is a situation when a person denies the allegations filed against him in a complaint.
- **Person**– according to Sec-2(1)(m) of the act the word person includes a registered or unregistered firm, a Hindu undivided family, co-operative society and any other association which is registered as a person under the Societies Registration Act of 1860.
- **Service**– according to Sec-2(1)(o) service means any description or any facility which is provided to the potential users and is not rendered free of charge or under a contract of personal service.

### Redressal Mechanism

The Consumer Protection Act proposes three-tier redressal mechanism: quasi-judicial machinery at the National, state and district level. The jurisdiction of each consumer redressal forum has been described under this act.



### District Consumer Disputes Redressal Forum

Each and every district has a District Consumer Disputes Redressal Forum. According to Sec-11 of this act, this forum has the jurisdiction to entertain complaints and disputes only where the value of the goods or services and the value of the compensation claimed does not exceed Rs 20 Lakhs.

#### The District Forum shall have the same powers as that of a civil court in the following matters:

- In the summoning and enforcing of attendance of any defendant or witness
- In examining the witness on an oath
- In receiving the evidence on affidavit
- In any other matter which may be prescribed
- Demanding of the report of concerned analysis or test from the appropriate laboratory or from any other authorized relevant source.
- In discovering and producing any document or other material objects which are producible as evidence in the forum.

The District forum shall consist of a President i.e. the head of the commission who is or has been or is qualified to be a district judge and two other members possessing a bachelor's degree from a recognized university and one of them shall be a woman.

The members of a commission shall be the persons of ability, integrity and standing and have adequate knowledge and experience regarding the field of a consumer. Each and every member of the district forum shall either hold the office for a term of 5 years or up to the age of 65 years, whichever is earlier.

### State Consumer Disputes Redressal Commission

Each and every State has a State Commission. According to Sec-17 of the act, the pecuniary jurisdiction of a State Commission for entertaining complaints or issues where the value of goods or services and the value of the compensation claimed exceeds Rs. 20 Lakhs but is less than Rs. 1 crore.

The State Commission shall consist of a President and the other two members. The President shall be a person who is or has been qualified to be a Judge of High Court and the other two members shall be possessing a bachelor's degree from a recognized university. Out of two members, one shall be a woman.

The members of a commission shall be the persons of ability, integrity and standing and have adequate knowledge and experience regarding the field of a consumer. Each and every member of the district forum shall either hold the office for a term of 5 years or up to the age of 67 years, whichever is earlier.

### National Consumer Disputes Redressal Commission

The National Commission was instituted in 1988. It is headed by a sitting or retired Judge of the Supreme Court of India. The present President of the commission

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### Business Studies



#### Notes

### For the National Commission

A standard amount of Rs 5,000

The Forum under which the complaint has been filed by the aggrieved party is under a mandate to provide the resolution to the parties within a period of 30 days. If it fails to adhere with the same the party can move to the next commission.

The limitation period for filing a Complaint or Appeal to higher commission

- **Filing of a complaint**– the complainant can file a case against the trader or the service provider only within two years from the date on which the cause of action arose. The forum may entertain the case in case of delay only if the complainant gives sufficient cause.
- **Appeal to the State Commission**– according to sec-15 of the act an appeal can be filed to the State Commission by any person who is aggrieved by an order passed by the District Forum within a period of thirty days from the date of an order, in a form and manner prescribed under the act. If an appeal is filed after the expiry of the period of limitation the State Commission has the discretion to entertain that appeal if the complainant shows sufficient cause for not filing an appeal within the limitation period.
- **Appeal to the National Commission**– according to sec-19 of the act an appeal can be filed to the National Commission by a person aggrieved by the order passed by the State Commission within 30 days from the date of receipt of order. The appeal to be accompanied by a copy of an affidavit.
- **Appeal to the Supreme Court of India**– according to sec-23 of the act an appeal may be referred to the Supreme Court of India by the party aggrieved by the order passed by the National Commission within a period of 30 days from the date of order passed.
- **Revision Petition to the National Commission**– sec-21(b) of the act vests the power in the National Consumer Disputes Redressal Commission to call for the records and pass appropriate orders in any consumer dispute which is either pending or has been decided by the State Commission. The National Commission can exercise its revisional jurisdiction only if it appears to the commission that the State Commission has acted illegally or with irregularity or outside its jurisdiction. Such a Revision Petition can be filed within a period of 90 days from the date of the order passed by the aggrieved party.

### Remedies available under the Act

The Consumer Protection Act provides consumers with various remedies.

#### Following are the remedies available under the act:

- **Removal of Defects**– if the consumer after conducting a proper test by using the product finds the product to be defective then the authority can pass an order of removing the defects in the product.



Notes

- Replacement of goods
- Refund of the price paid by the consumer while purchasing the product.
- **Award of Consumption**– a consumer can demand compensation from the trader or service provider if because of his negligence the consumer has suffered some physical or any other loss.
- **Removal of Deficiency in Service**– the authority can pass orders for removal of the deficiency if there is any deficiency in delivery of the service, for instance, if the consumer has applied for a loan and has fulfilled all the formalities but the bank is making unnecessary delay in sanctioning the loan, then the court can pass orders to sanction the loan.
- **Discontinuance of Unfair/ Restrictive Trade Practice**– if a complaint is filed by the consumer against any unfair trade practice in the market, the authority can order an immediate withdrawal of such practice and can also pass an order for banning such trade practice.
- Stopping of sale of hazardous goods
- Withdrawal of hazardous goods from the market.
- Payment of the adequate cost

### Consumer Protection Amendment Bill of 2018

The Consumer Protection Act of 1986 has been amended thrice but the act is still not sufficient to deal with challenges such as online transactions, multi-level and digital marketing. The Bill has proposed to make various changes in the ancient act in order to provide better protection to the rights and interests of the consumer. Following are the changes which the Bill proposes:

- **Central Protection Councils(CPCs)**– in the act of 1986 CPCs just has the authority to promote and protect the rights of consumers but as proposed in the Bill CPCs will be advisory bodies for promotion and protection of consumer rights.
- **The ambit of law**– the 2018 Bill includes all goods and services, telecom and housing construction and all modes of transactions for consideration while excludes free and personal services.
- **Unfair trade practice**– this Bill proposes the addition of three more types to the list of unfair trade practices as given in the act of 1986 i.e.
  1. Failure to issue a bill or receipt
  2. Refusal to accept a good returned within 30 days
  3. Disclosure of personal information given in confidence, unless required by law or in public interest.
- **Product liability**– earlier there was no provision of product liability in the act of 1986 but now this Bill proposes that claim for product liability can be made against the manufacturer, service provider and seller. Moreover, compensation can be obtained by just proving one of the various conditions mentioned in the Bill.



Notes

- **The pecuniary jurisdiction of the Commissions**—this Bill proposes to change the pecuniary jurisdiction of the commissions to Rs 1 crore for District Forum; between Rs 1 crore and 10 crores for State Commission; and above Rs 10 crores for National Commission.
- **Alternate dispute redressal mechanism**—there was no such provision in the original act but now the Bill proposes to attach Meditation cells to the District, State and National Commissions.
- **E-commerce**—the Bill mentions and defines direct selling, e-commerce and electronic service provider which were not there in the act of 1986. Moreover, The central government may prescribe rules for preventing unfair trade practices in e-commerce and direct selling.
- **Penalties**—the Bill proposes a change in the penalty i.e. imprisonment up to three years or fine not less than Rs 25,000 which can be extended to Rs one lakh or both.

### **Role of consumer organizations and Non-Governmental Organizations (NGOs)**

Consumer organisations and NGOs play an important role in protecting and promoting consumers' interests. Some of the important NGOs and consumer organisations include Consumer Coordination Council, Common Cause, Consumer Protection Council, Consumers' Association, Mumbai Grahak Panchayat, etc.

The following are the functions performed by these organisations in regard of safeguarding the interest of the consumers.

- (i) Consumer Education:** The NGOs and consumer organisations educate the consumer about their rights through various training programmes and workshops.
- (ii) Publishing Journals:** They publish journals and periodicals to spread knowledge and awareness about various consumer problems, legal remedies available and other such matters.
- (iii) Legal Assistance:** They also provide legal assistance to the consumers and help them in seeking suitable redressal.
- (iv) Encouraging Protest against Exploitation:** They encourage the consumers to protest against any form of exploitation and unfair trade practices.
- (v) Assistance in Filing Complaints:** They encourage the consumers to file complaints in appropriate forums and also file complaints on their behalf.
- (vi) Taking Initiatives:** They not only encourage the consumers to register complaints but also take initiatives themselves in filing cases in the general interest of the public.
- (vii) Testing Quality of the Products:** They carry out the quality tests for various products in laboratories and publish the results.

## SUMMARY

The Consumer Protection Act has proved to be a helping hand to the consumers and protected them from being exploited in the hands of huge companies and famous traders. The traders and the firms are still working on how to make huge profits and one of the ways is by exploiting the consumer. Corresponding to this the Legislature and the Judiciary are making amendments in the act from time to time but the consumer himself needs to be careful and aware of the people in the market.

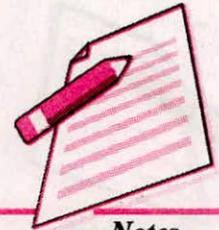
## EXERCISE

### Multiple choice Questions

- Rights of consumer are protected under \_\_\_\_\_  
(a) Consumer protection 1986      (b) Consumer protection 1990  
(c) Consumer protection 1982      (d) Consumer protection 1991
- The consumer has the right to get compensation against unfair trade practices under right to  
(a) Right to choose      (b) Right to seek redressal  
(c) Right to safety      (d) Right to safety
- Which of the following are the ways and means of consumer protection?  
(a) Self-regulation by the business      (b) Business associations  
(c) Government      (d) All of the above
- \_\_\_\_\_ is the standardized mark on jewellery  
(a) ISI      (b) FPO  
(c) Hallmark      (d) CERC
- \_\_\_\_\_ are made to hear complaints of the value less than 5 lakhs.  
(a) Consumer forum at district level  
(b) State commission  
(c) National commission  
(d) None of the above
- Which of the following is not an organization working for consumer protection?  
(a) Consumer VOICE  
(b) Consumer forum  
(c) The bureau of Indian standard  
(d) Consumer utility & trust society

### Answer Keys

|   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | a | 2 | b | 3 | d | 4 | c | 5 | a | 6 | b |
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