UNIT 1

NATURE AND SIGNIFICANCE OF MANAGEMENT

Management is an art of getting things done with and through others. Management can be defined as, the process of getting things done with the aim of achieving organizational goals effectively and efficiently.

Efficiency and effectiveness

Efficiency means doing the task correctly at minimum cost through optimum utilization of resources while effectiveness is concerned with end result means completing the task correctly within stipulated time. Although efficiency and effectiveness are different yet they are inter related. It is important for management to maintain a balance between the two.

Example : A business produces targeted 1000 units but at a higher cost is effective but not efficient. Therefore if the business has to be effective and efficient then it has to produce targeted 1000 units within cost.

Characteristics of Management

1. **Goal oriented Process** : It is a goal oriented process, which is undertaken to achieve already specified and desired objectives by proper utilization of available resources.

2. **Pervasive** : Management is universal in nature. It is used in all types of organisations whether economic, social or political irrespective of its size, nature and location and at every level.

3. **Multidimensional** : It is multidimensional as it involves management of work, people and operations.

4. **Continuous** : It consists of a series of function and its functions are being performed by all managers simultaneously. The process of management continues till an organization exists for attaining its objectives.
5. **Group Activity**: It is a group activity since it involves managing and coordinating activities of different people as a team to attain the desired objectives.

6. **Dynamic function**: It is a dynamic function since it has to adapt according to need, time and situation of the changing environment. For example, McDonalds made major changes in its ‘Menu’ to survive in the Indian market.

7. **Intangible Force**: It is intangible force as it can't be seen but its effects can be felt in the form of results like whether the objectives are met and whether people are motivated or not and there is orderliness and coordination in the work environment.

**Objectives of management**

(A) **Organizational objectives of Survival** (Earning enough revenues to cover cost); **profit** (To cover cost and risk); & **Growth** (To improve its future prospects).

(B) **Social objectives of giving benefits to society** like using environmental friendly practices and giving employment to disadvantaged sections of society etc. Example :- TISCO, ITC, and Asian Paints.

(C) **Personal Objectives** because diverse personal objectives of people working in the organization have to be reconciled with organizational objectives.
Importance of Management

1. **Achieving Group Goals**: Management creates team work and coordination in the group. Managers give common direction to the individual efforts in achieving the overall goals of the organization.

2. **Increases Efficiency**: Management increases efficiency by using resources in the best possible manner to reduce cost and increase productivity.

3. **Creates Dynamic organization**: Management helps the employees to overcome their resistance to change and adapt as per changing situation to ensure its survival and growth.

4. **Achieving personal objectives**: Management helps the individuals to achieve their personal goals while working towards organizational objectives.

5. **Development of Society**: Management helps in the development of society by producing good quality products, creating employment opportunities and adopting new technology.

Management as an Art

Art refers to skillful and personal application of existing knowledge to achieve desired results. It can be acquired through study, observation and experience. The features of art as follows:

1. **Existence of theoretical knowledge**: In every art systematic and organized study material should be available compulsorily to acquire theoretical knowledge.

2. **Personalised application**: The use of basic knowledge differs from person to person and thus, art is a very personalised concept.

3. **Based on practice and creativity**: Art involves the creative practice of existing theoretical knowledge.

In management also a huge volume of literature and books are available on different aspects of management. Every manager has his own unique style of managing things and people. He uses his creativity in applying management techniques and his skills improve with regular application. Since all the features of art are present in management so it can be called an art.
Management as a Science

Science is a systematised body of knowledge that is based on general truths which can be tested anywhere, anytime. The features of Science are as follows:

1. **Systematized body of knowledge**: Science has a systematized body of knowledge based on principles and experiments.

2. **Principles based on experiments and observation**: Scientific principles are developed through experiments and observation.

3. **Universal validity**: Scientific principles have universal validity and application.

Management has systematic body of knowledge and its principles are developed over a period of time based on repeated experiments & observations, which are universally applicable.

As the principles of management are not as exact as the principles of pure science, so it may be called an inexact science. The prominence of human factor in the management on process makes it a Social Science.

Management as Profession:

Profession means an occupation for which specialized knowledge and skills are required and entry is restricted. The main features of profession are as follows:

1. **Well defined body of knowledge**: All the professions are based on well defined body of knowledge.

2. **Restricted entry**: The entry in every profession is restricted through examination or through some minimum educational qualification.

3. **Professional Associations**: All professions are affiliated to a professional association which regulates entry and frames code of conduct relating to the profession.

4. **Ethical code of conduct**: All professions are bound by a code of conduct which guides the behaviours of its members.

5. **Service Motive**: The main aim of a profession is to serve its clients.
Management does not fulfill all the features of a profession and thus it is not a full fledged profession because anybody can proclaim to be a manager as no prescribed compulsory educational degree or license is required. Besides there are not formal ethical codes which are required to be observed.

Levels of Management: Top, Middle and Operational levels.

“Levels of management” means different categories of managers, from the lowest to the highest on the basis of their relative responsibilities, authority and status.

**Top Level**

Consists of Chairperson, Chief Executive Officer, Chief Operating Officer or equivalent and their team.

Chief task is to integrate and to coordinate the various activities of the business, framing policies, formulating organisational goals & strategies.
Middle Level

Consist of Divisional or Departmental heads, Plant Superintendents and Operation Managers etc.

Main tasks are to interpret the policies of the top management to ensure the availability of resources to implement policies, to coordinate all activities, ensure availability of necessary personnel & assign duties and responsibilities to them.

Lower Level / Supervisory Level

Consists of Foremen and supervisor etc.

Main task is to ensure actual implementation of the policies as per directions, bring workers’ grievances before the management & maintain discipline among the workers.

Functions of Management : Planning, Organising, Staffing, Directing and Controlling are the main functions of management.

Planning is deciding in advance what to do in future and how to do it.

Organising is to assign duties, grouping tasks, establishing authority and allocating resources required to carry out a specific plan.

Staffing is finding the right people for the right job.

Directing is leading, influencing and motivating employees to perform the tasks assigned to them.

Controlling is monitoring the organizational performance towards the attainment of the organizational goals.

Coordination : (The essence of Management) : Coordination is the force which synchronizes all the functions of management and activities of different departments. Lack of coordination results in overlapping, duplication, delays and chaos.

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Features of Coordination:

1. Coordination integrates group efforts: It integrates diverse business activities into purposeful group activity ensuring that all people work in one direction to achieve organizational goals.

2. Coordination ensures unity of action: It directs the activities of different departments and employees towards achievement of common goals and brings unity in individual efforts.

3. Coordination is a continuous process: It is not a specific activity rather it is required at all levels, in all departments till the organization continues its operations.

4. Coordination is all pervasive function: It is universal in nature. It synchronizes the activities of all levels and departments as they are interdependent to maintain organizational balance.

5. **Coordination is the responsibility of all managers**: It is equally important at all the three-top, middle and lower levels of management. Thus it is the responsibility of all managers that they make efforts to establish coordination.

6. Coordination is a deliberate function: Coordination is never established by itself rather it is a conscious effort on the part of every manager. Cooperation is voluntary effort of employees to help one another. Effective coordination can not be achieved without cooperation of group members.
Important Questions :

1 Mark Questions (To be answered in one word or one sentence)

1. In order to be successful an organization must change its goals according to the needs to the environment. Which characteristic of management is highlighted in the statement? (Answer: It is a dynamic function).

2. To meet the objectives of the firm the management of Angora Limited offers employment to physically challenged persons. Identify the organizational objective it is trying to achieve (Answer: Social Objective.)

3. Management of any organization strives to attain different objectives. Enumerate any two such objectives.

4. Give any two characteristics of management.

5. Management is multidimensional. Enumerate any two dimensions of management.

6. Managerial activities are performed in all types of organization in all departments at all levels. Which management characteristic is highlighted here? (Answer: It is all pervasive)

7. Your grandfather has retired where he was responsible for implementing the plans developed by the top management. At which level of management was he working? State one more function of this level of management. (Answer: Middle level management)

8. List any two social objectives of management.

9. Your grandfather has retired as a Director of manufacturing company. At which level of management was he working? Different functions are performed at this level. State any one such function. (Answer: Top level of management)

10. What is meant by 'Management'? 

11. Pizza Hut keeps introducing new varieties of pizza in its menu. Which characteristic of management is highlighted in this?

12. Which ‘function’ of management binds the all other functions?
13. “In an organization, the employees are happy and satisfied, there is no chaos and the effect of management is noticeable.” Which characteristic of management is highlighted by this statement?

3/4 Marks Questions (To be answered in about 50 to 70 words)

1. Explain how Management is an art.

2. Identify and explain the nature of management when it is said to be a systematised body of knowledge that explains certain general truths.

3. 'Coordination is the essence of management.' Explain

5/6 marks Questions (To be answered in about 150 words)

1. Management is a Profession like Accounting, Medicine and Law as it also has a well defined body of knowledge. Yet management does not qualify to be a full fledged profession. Why? (Hint: No formal qualification is prescribed to enter management, no code of conduct is prescribed).

2. Success of an organization largely depends upon its management. Explain any five reasons to justify the statement. (Hint: Give five points of Importance of management).
UNIT 2

PRINCIPLES OF MANAGEMENT

Concept of Principles of Management:

Principles of Management are the broad and general guidelines for managerial decision making. They are different from principles of science as they deal with human behaviour. They are different from techniques of management as techniques are methods whereas principles are guidelines to action and decision making. Principles of management are different from values which are formed as generally accepted behaviour in society and are having moral coordination whereas principles are formed through research having technical nature.

The management principles are derived from observation, analysis, experimental studies and personal experiences of the managers.

Nature of Principles of Management

The nature of principles of management can be described in the following points:

1. **Universal applicability** i.e. they can be applied in all types of organizations, business as well as non-business, small as well as large enterprises.

2. **General Guidelines**: They are general guidelines to action and decision making however they do not provide readymade solutions as the business environment is ever changing or dynamic.

3. **Formed by practice and experimentation**: They are developed after thorough research work on the basis of experiences of managers.

4. **Flexible**: Which can be adapted and modified by the practicing managers as per the demands of the situations.

5. **Mainly Behavioural**: Since the principles aim at influencing complex human behaviour they are behavioural in nature.

6. **Cause and Effect relationship**: They intend to establish relationship between cause & effect so that they can be used in similar situations.

7. **Contingent**: Their applicability depends upon the prevailing situation.
at a particular point of time. According to Terry, "Management principles are 'capsules' of selected management wisdom to be used carefully and discretely".

**Significance of the Principles of Management**

The significance of principles of management can be derived from their utility which can be understood from the following points:

1. **Providing managers with useful insights into reality:**
   
   Management principles guide managers to take right decision at right time by improving their knowledge, ability and understanding of various managerial situations and circumstances.

2. **Optimum utilization of resources and effective administration:**
   
   Management principles facilitate optimum use of resources by coordinating the physical, financial and human resources. They also help in better administration by discouraging personal prejudices and adopting an objective approach.

3. **Scientific decisions:** Decisions based on management principles tend to be more realistic, balanced and free from personal bias.

4. **Meeting the changing environmental requirements:** Management principles provide an effective and dynamic leadership and help the organizations to implement the changes.

5. **Fulfilling social responsibility:** Principles of management not only help in achieving organizational goals but also guide managers in performing social responsibilities. Example: “Equity” and “Fair” remuneration.

6. **Management training, education and research:** Management principles are helpful in identifying the areas in which existing and future managers should be trained. They also provide the basis for future research.
Fayol’s Principles of Management

About Henry Fayol:

Henry Fayol (1841-1925) got degree in Mining Engineering and joined French Mining Company in 1860 as an Engineer. He rose to the position of Managing Director in 1888. When the company was on the verge of bankruptcy, he accepted the challenge and by using rich and broad administrative experience, he turned the fortune of the company. For his contributions, he is well known as the “Father of General Management”.

Principles of Management developed by Fayol

1. **Division of work**: Work is divided into small tasks/job and each work is done by a trained specialist which leads to greater efficiency, specialisation, increased productivity and reduction of unnecessary wastage and movements.

2. **Authority and Responsibility**: Authority means power to take decisions and responsibility means obligation to complete the job assigned on time. Authority and responsibility should go hand in hand. Mere responsibility without authority makes an executive less interested in discharging his duties. Similarly, giving authority without assigning responsibility makes him arrogant and there is fear of misuse of power.

3. **Discipline**: It is the obedience to organizational rules by the subordinates. Discipline requires good supervisors at all levels, clear and fair agreements and judicious application of penalties.

4. **Unity of Command**: It implies that every worker should receive orders and instructions from one superior only, otherwise it will create confusion, conflict, disturbance and overlapping of activities.

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**Diagram**

- **Unity of Command**
- **Multiplicity of Command**
5. Unity of Direction: Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination.

Presence of Unity of Direction         Lack of Unity of Direction

6. Subordination of Individual Interest to General Interest: The interest of an organization should take priority over the interest of any one individual employee.

7. Remuneration of Employees: The overall pay and compensation should be fair to both employees and the organization. The wages should encourage the workers to work more and better.

8. Centralisation and Decentralisation: Centralisation means concentration of decisions making authority in few hands at top level. Decentralisation means evenly distribution of power at every level of management. Both should be balanced as no organization can be completely centralised or completely decentralised.

9. Scalar Chain: The formal lines of authority between superiors and subordinates from the highest to the lowest ranks is known as scalar chain. This chain should not be violated but in emergency employees at same level can contact through Gang Plank by informing their immediate superiors.
10. **Order**: A place for everything and everyone and everything and everyone should be in its designated place. People & material must be in suitable places at appropriate time for maximum efficiency.

11. **Equity**: The working environment of any organization should be free from all forms of discrimination (religion, language, caste, sex, belief or nationality) and principles of justice and fair play should be followed. No worker should be unduly favoured or punished.

12. **Stability of Personnel**: After being selected and appointed after due and rigorous procedure, the selected person should be kept at the post for a minimum period decided to show results.

13. **Initiative**: Workers should be encouraged to develop and carry out their plan for improvements. Initiative means taking the first step with self motivation. It is thinking out and executing the plan.

14. **Espirit De Corps**: Management should promote team spirit, unity and harmony among employees. Management should promote a team work.

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**Taylor’s Scientific Management**:  
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.

**Techniques of Scientific Management**

1. **Functional Foremanship**: Functional foremanship is a technique in which planning and execution are separated. There are eight types of specialized and 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 Incharges:
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) **Standardisation 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 maximise efficiency in the use of materials, machinery, manpower and capital.

(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.

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.
Fayol versus Taylor:

While the work of Taylor concerned shop floor, the work of Fayol concerned General Principles applicable to all types of situations. So, their principles are mutually complementary to each other.

Important Questions

1 Mark questions (to be answered in one word or one sentence)

1. Why is that management principles are universal?
2. How are management principles derived?
3. Which principles of Fayol is violated in Taylor's Functional Foremanship?
4. A manager should replace 'I' with 'We' in all his conversations to encourage team spirit. Identify the principle of management emphasized here.
5. Give one consequence of violating principle of remuneration.
6. Which technique of Taylor insists on paying higher wages to efficient workers?
7. Name the device which permits direct communication between employees working at same level.
8. Which technique of Taylor insists on using the most optimum way of doing a job.
9. What is meant by 'Principles of Management'?
10. Which principle of Taylor suggests that the job performed should be based on scientific enquiry and not on intuition?

3/4 marks questions:

1. Explain the following principles of management:-
   a) Equity
   b) Remuneration of Employees.
2. In your school, you observe that books are kept in office, chalks in the library and office records in the staffroom. How will this affect the achievement of school objectives? Which aspect of management is lacking and why? As a manager, what steps will you take to rectify the shortcomings?

5/6 Marks Question (to be answered in about 150 words)

1. Explain any two techniques of Taylor's Scientific Management.

2. Explain the following principles of Fayol with example.
   a) Unity of Command
   b) Unity of Direction
   c) Order
UNIT 3

BUSINESS ENVIRONMENT

Business environment can be defined as those forces, individuals and institutions who have the ability to influence the working of an organisation.

Features of Business Environment:

(1) **Totality of external forces**: Business environment is the sum total of all the forces/factors external to a business firm.

(2) **Specific and General forces**: Business environment includes both specific and general forces. Specific forces include investors, competitors, customers etc who influence business firm directly while general forces include social, political, economic, legal and technological conditions which affect a business firm indirectly.

(3) **Inter-relatedness**: All the forces/factors of a business environment are closely interrelated. For example, increased awareness of health care has raised the demand for organic food and roasted snacks.

(4) **Dynamic**: Business environment is dynamic in nature which keeps on changing with the change in technology, consumer's fashion and tastes etc.

(5) **Uncertainty**: Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.

(6) **Complexity**: Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.

(7) **Relativity**: Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example, a shift of preference from soft drinks to juices will be welcomed as an opportunity by juice making companies while a threat to soft drink manufacturers.

IMPORTANCE OF BUSINESS ENVIRONMENT

1. Identification of opportunities to get first mover advantage.
Understanding of business environment helps an organisation in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.

2. Identification of threats: Correct knowledge of business environment helps an organisation to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other companies entered the auto industry.

3. Tapping useful resources: Business environment makes available various resources such as capital, labour, machines, raw material etc to a business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.

4. Coping with Rapid changes: Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively.

5. Assistance in planning and policy formulation: Understanding and analysis of business environment helps an organisation in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.


Components of Business Environment

- **Internal / Specific Environment**
  - Customers
  - Owners and investors
  - Suppliers
  - Creditors
  - Employees and trade union
  - Competitors

- **External/General Environment**
  - Economic Environment
  - Social Environment
  - Political Environment
  - Technological Environment
  - Legal Environment
DIMENSIONS / COMPONENTS OF BUSINESS ENVIRONMENT

1. **Economic Environment**: It has immediate and direct economic impact on a business. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms. Economic environment may offers opportunities to a firm or it may put constraints.

2. **Social Environment**: It includes various social forces such as customs, beliefs, literacy rate, educational levels, lifestyle, values etc. Changes in social environment affect an organisation in the long run. Example: Now a days people are paying more attention towards their health as a result of which demand for mineral water, diet coke etc has increased while demand of tobacco, fatty food products has decreased.

3. **Technological Environment**: It provides new and advance ways/techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product. For Example, Digital watches in place of traditional watches, artificial fabrics in place of traditional cotton and silk fabrics, booking of railway tickets on internet etc.

4. **Political Environment**: Changes in political situation also affect business organisations. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government-single party or coalition government affects the business. Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.

5. **Legal Environment**: It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Businessmen have to act according to various legislations and their knowledge is very necessary. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

**Economic Environment in India**:

As a part of economic reforms, the Government of India announced
New Economic Policy in July 1991 for taking out the country out of economic difficulty and speeding up the development of the country.

Main features of NEP, 1991 are as follows:

1. Only six industries were kept under licencing scheme.
2. The role of public sector was limited only to four industries.
3. Disinvestment was carried out in many public sector enterprises.
4. Foreign capital/investment policy was liberalised and in many sectors 100% direct foreign investment was allowed.
5. Automatic permission was given for signing technology agreements with foreign companies.
6. Foreign investment promotion board (FIPB) was setup to promote & bring foreign investment in India.
7. Various benefits were offered to small scale industries.

The Main objective of New Industrial Policy was to promote Liberalization, Privatization and Globalization.

1. **Liberalisation**: It means freeing of Indian Industry from all unnecessary government controls and restrictions. Abolishing licensing requirements; Freedom in deciding the scale of business; removals of restriction on movements of goods and service; reduction in tax rates; freedom in fixing prices; simplifying procedures; making it easier to attract foreign investment.

2. **Privatization**: Giving greater role to private sector in the nation building process and reduced role of public sector; Disinvestment in many Public Sector undertaking etc; Setting up of BIFR to revive sick units in public sector enterprises suffering losses. It aimed at improving efficiency and performance of government undertakings, reducing budgetary deficit & better utilization of national resources.

3. **Globalization**: It means integration of various economies of the world leading to the emergence of cohesive global economy. The measures taken by the Government include trade liberalization which includes import liberalization; Export Promotion through rationalization of tariff structure; Foreign exchange liberalization; increased interaction among global economies under the aegis (protection/support) of World Trade
Organization. It resulted in addition of Export duty, reduction of import.

**IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY**

1. **Increasing Competition**: Delicencing and entry of foreign firms in 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 require 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 and thus the public sector has to survive and grow by utilising their own resources efficiently.
IMPORTANT QUESTIONS

1 Mark Questions (To be answered in 1 word or 1 sentence)

1. Govt. of India is seriously thinking to allow oil marketing public sector undertaking to fix their own price for diesel. Which economic reform is the reason of this change in Governments' Policy (Answer: Liberalization)

2. Just after declaration of Lok Sabha Elections 2009 results, the Bombay stock exchange's price index (Sensex) rose by 2100 points in a day. Identify the environmental factor which led to this rise. (Answer : Political Environment)

3. State any two impacts of change of Governments policy on business and industry.

4. The understanding of business environment helps the managers to identify threats. What is meant by threats here? (Answer: Threats refer to the external environment trends and changes that will hinder a firm's performance)

5. Business environment includes both specific and general forces. List any four specific forces. (Answer : Suppliers, investors, customers and competitions).

6. The understanding of business environment helps the managers to identify Opportunities. What is meant by Opportunities here? (Answer- Opportunities refer to positive changes and trends that will help the business to improve its performance.)

7. Business Environment includes both specific and general forces. List any four general forces. (Answer: Social, Economic, Political, Legal and Technological).

3/4 Marks Questions (To be answered in about 50 to 75 words)

1. Explain any three features of Business Environment.

2. What changes have been made in Industrial policy in recent past?

5 Marks Questions (To be answered about 150 words)

1. Identify the type of dimension of environment to which the following are related:
   
i) Banks reducing interest rate on housing loans.
   
ii) An increasing number of working women.
   
iii) Booking of air tickets through internet.
   
iv) Alcohol beverages are prohibited to be advertised on Door Darshan.
   
v) A stable government has built up confidence among the firms to invest in big project.

   Answer:
   
i) Economic Environment,
   
ii) Social Environment
   
iii) Technological Environment
   
iv) Legal Environment
   
v) Political Environment

2. Explain the various dimensions of business environment with examples.

3. Explain by giving any five reasons, why understanding of business environment is important for managers.
UNIT 4

PLANNING

Concept-

Planning is deciding in advance what to do, how to do when to do, and who is to do it. Planning bridges the gap from where we are to where we want to go. It is one of the basic managerial functions. Planning involves setting objectives and developing appropriate courses of action to achieve these objectives. Thus, it is closely connected with creativity and innovation.

Importance of Planning :-

1. **Planning provides directions** : By stating in advance how work is to be done, planning provides direction for action. If there was no planning, employees would be working in different directions and the organisation would not be able to achieve its goals efficiently.

2. **Planning reduces the risk of uncertainty** :- Planning is an activity which enables a manager to look ahead, anticipate change, consider the impact of change and develop appropriate responses.

3. **Planning reduces wasteful activities** :- Planning serves as the basis of coordinating the activities and efforts of different departments and individuals whereby useless and redundant activities are minimised.

4. **Planning promotes innovative ideas** : Planning is the first function of management. Managers get the opportunity to develop new ideas and new ideas can take the shape of concrete plans.

5. **Planning facilitates decision making** : Under planning targets are laid down. The manager has to evaluate each alternative and select the most viable option.

6. **Planning establishes standards for controlling** :- Planning provides the standards against which the actual performance can be measured and evaluated. Control is blind without planning. Thus planning provides the basis for control.
Limitations of Planning -

1. **Planning leads to rigidity**: Planning discourages individual initiative & creativity. The managers do not make changes according to changing business environment. They stop taking or giving suggestions and new ideas. Thus detailed planning may create a rigid framework in the organisation.

2. **Planning may not work in dynamic environment**: Planning is based on anticipation of future happenings and since future is uncertain and dynamic therefore, the future anticipations are not always true.

4. **Planning involves huge costs**: When plans are drawn up, huge cost is involved in their formulation.

5. **Planning is time consuming**: Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.

6. **Planning does not guarantee success**: The success of an enterprise is possible only when plans are properly drawn and implemented. Sometimes managers depend on previously tried successful plans, but it is not always true that a plan which has worked before will work effectively again.

Planning Process -

1. **Setting Objectives**: The first and foremost step is setting objectives. Objectives may be set for the entire organisation and each department.

2. **Developing premises**: Planning premises are the assumptions about the likely shape of events in future. It forecasts the obstacles, problems or limitations in the path of the effective planning because of which the plans may deviate. Planning premises supply relevant facts & information relating to future.

3. **Identifying alternative courses of action**: Once objectives are set and premises are developed. Then the next step would be to act upon them. All the alternative courses of action should be identified.

4. **Evaluating alternative Courses**: The next step is to be weigh pros and cons of each alternative. Each course will have many variables which have to be weighed against each other.

5. **Selecting an alternative**: After comparison and evaluation, the best alternative is chosen for reaching organisation objectives. On the basis
of merits, demerits, resources and consequences, the best plan has to be adopted, which must be the most feasible, profitable and with least negative consequences.

6. **Implementing the plan** : Once the plans are developed they are put into action. Successful implementation of the plan ensures understanding and whole-hearted cooperation of all the employees.

7. **Follow up action** : To see whether plans are being implemented, activities are performed according to schedule. In case of any deviations, changes are made in the plans.

**Types of Plan : -**

**Plan**

A Plan is a specific action proposed to help the organization achieve its objectives. It is a document that outlines how goals are going to be met. The importance of developing plans is evident from the fact that there may be more than one means of reaching a particular goal. So with the help of logical plans, objectives of an organization could be achieved easily.

**SINGLE USE PLAN**

A Single use plan in a business refers to plan developed for a one-time project or event that has one specific objective. It applies to activities that do not recur or repeat. It is specifically designed to achieve a particular goal. Such plan is developed to meet the needs of a unique situation. The length of a single-use plan differs greatly depending on the project in question, as a single event plan may only last one day while a single project may last one week or months. For example, an outline for an advertising campaign. After the campaign runs its course, the short term plan will lose its relevance except as a guide for creating future plans.

**Types of Single Use Plan : -**

1) **Program** : - A program is a single use plan containing detailed statements about a project outlining the objectives, policies, procedures, rules, tasks, physical & human resources required to implement any course of action.

2. **Budget** : - A budget is a statement of expected result expressed in numerical terms for a definite period of time in the future.
STANDING PLANS

Standing plans are used over and over again because they focus on organizational situations that occur repeatedly. They are usually made once and retain their value over a period of years while undergoing revisions and updates. That is why they are also called repeated use plans. For example, Businessman plans to establish a new business. Entrepreneur drafts business plan before opening the doors to their business, and they can use their plan to guide their efforts for years into the future.

Types of Standing Plans:

1. **Objective**: Objectives can be said to be the desired future position that the management would like to reach.

2. **Strategy**: A strategy refers to a future decision defining the organizations' direction and scope in the long run.

3. **Policy**: Policies are general statements that guide thinking or channelize energies towards a particular direction. "We don't sell on Credit" is the example of sales policy.

4. **Procedure**: Procedures are routine steps on how to carry out activities.

5. **Rules**: Rules are specific statement that tell what is to be done and what not to be done. For example 'No Smoking' is a rule.

6. **Methods**: Methods are standardized ways or manner in which a task has to be performed considering the objectives.
DIFFERENCE BETWEEN SINGLE USE AND STANDING PLANS

<table>
<thead>
<tr>
<th>BASIS OF DIFFERENCE</th>
<th>SINGLE USE PLANS</th>
<th>STANDING PLANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>A single-use plan in a business refers to plans developed for a one-time project or event that has one specific objective.</td>
<td>A standing plan in a business refers to plans developed for using over and over again because they focus on organizational situations that occur repeatedly.</td>
</tr>
<tr>
<td>2. Objective</td>
<td>Single use plan is developed to carry out a course of action that is not likely to be repeated in future time.</td>
<td>Standing plan however is developed for activities that occur regularly over a period of time.</td>
</tr>
<tr>
<td>3. Scope</td>
<td>Single use plans generally encompass a narrow scope targeting a specific project or event.</td>
<td>Standing plans generally encompass a wider scope involving more than one department or business function.</td>
</tr>
<tr>
<td>4. Stability</td>
<td>Single use plans are discarded when the situation, project or event is over.</td>
<td>Standing plans are relatively stable and used over and over again with necessary modifications or updations.</td>
</tr>
<tr>
<td>5. Example</td>
<td>Budget for Annual General Meeting of shareholders.</td>
<td>Recruitment and selection procedure for a particular post in the company.</td>
</tr>
</tbody>
</table>

1 Mark Questions

1. Define planning.
2. Explain Procedures.
3. Define Rules.
4. Write the meaning of Budgets.
5. Write one difference between Policies & Procedure.
6. One of the function of management is considered as base for all other functions. Name that function;
7. Name the types of plan in which the movement of competitors is considered.
8. “No Smoking in the Workshop”. This statement is related to which type of plan.
9. “We do not sell on credit”. This statement is related to which type of plan.

10. Write the meaning of strategies.

11. What do you understand single use plan?

12. What do you understand by standing plans?

3 and 4 Marks Questions

1. ‘Planning is the heart of management’. How?

2. 'Control is blind without planning’. How?

3. How planning provides base to controlling?

4. Write the difference between rules and policies.

5. Write the difference between Policies & Procedures.

6. XYZ Limited follows a standard procedure for recruiting Production Manager for its company. Which type of plan is it? Justify your answer.


5 - 6 Marks Questions :-

1. Explain any four types of plans.

2. “Inspite of best efforts of managers sometimes Planning fails to achieve desired result due to its limitation”. Explain.

3. “Planning keeps the organisation on the right path.” In this reference explain the importance of planning.

4. Differentiate between Single use plans and Standing plans.

5. Explain the process of planning.
Meaning of Organising :-

After laying down the plans and objectives the next function to be performed by the managers is organising. It determines what activities and resources are required and decides who will do a particular task, where it will be done and when it will be done.

Thus organising means establishing relationship between various factors of production and it is concerned with establishing relationship amongst jobs, sections, departments & positions.

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

Steps Involved in the Process of Organising :-

1. **Identification and Division of Work :-** It involves identification and division of total work to be done into specific activities (called jobs) in accordance with previously determined plans. By dividing the work, the burden of work can be shared among the employees. It facilitates specialisation of work & skills. Duplication of work can be avoided by dividing the work into manageable activities.

2. **Departmentalisation :-** The second step in organising is to combine or group similar or related jobs into larger units called departments, divisions or sections. They can be grouped on the basis of functions, products, customers and territories etc.

   Departmentalisation is done to achieve coordination & to facilitate unity of efforts.

3. **Assignment of duties :-** Once departments have been formed each of them is placed under the charge of an individual called departmental head (eg., production manager, finance manager etc.) Jobs are then allocated to the members of each department according to their skills and qualifications.
4. **Establishing Reporting Relationships** :- Merely allocating work is not enough. Each individual should also know from whom he has to take orders and to whom he is accountable. It helps in coordination amongst various departments.

**Importance of Organising :-**

1. **Benefits of specialisation** : - In organising 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 specialisation. Thus organising promotes specialisation which in turn leads to efficient & speedy performance of tasks.

2. **Clarity in working relationships** :- 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 organising.

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 utilisation of resources** : The proper assignment of jobs avoids overlapping/duplication of work. This helps in preventing confusion and minimising 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 relative 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 and enterprise by adding more job positions, departments, products lines, new geographical territories etc.

**Meaning of Organisational Structure :-**

It seeks to establish relations among all the persons working in the
organisation. Under the organisational structure various posts are created to perform different activities for the attainment of the objectives of the enterprise. Relations among persons working on different posts are determined. The structure provides a basis or framework for managers and other employees for performing their functions.

The organisation structure can be defined as the frame work within which managerial and operating tasks are performed.

**Relation between Span of Management and Organisation structure:**
Span of management refers to the number of subordinates that can be effectively managed by a superior. The Span of management to a large extent gives shape to the organisation structure. This determines the levels of management in the structure. Narrow span of management results in tall structure whereas wider span of management results in flat structure.

Types of Organisation Structures

- Functional Structure
- Divisional Structure

I. Functional Structure: In functional structure activities are grouped and departments are created on the basis of specific functions to be performed. For example all the jobs related to production are grouped under production department, Sales to sales department etc.

Managing Director

- Personnel
- Marketing
- Research & Development
- Purchasing

**Suitability:**

1. Large organisations producing one line of product.
2. Organisations which require high degree of functional specialisation with diversified activities.

**Advantages:**

1. **Specialisation** - Better division of labour takes place which results in specialisation of functions and its consequent benefits.
2. **Coordination is established** :- All the persons working within a department are specialists of their respective jobs. It makes the coordination easier at department level.

3. **Helps in increasing managerial efficiency** : Managers of one department are performing same type of function again and again which makes them specialised and improves their efficiency.

4. **Minimises cost** - It leads to minimum duplication of effort which results in economies of scale and thus lowers cost.

**Disadvantages:-**

1. **Ignorance of organisational objectives** - Each departmental head works according to his own wishes. They always give more weight to their departmental objectives. Hence overall organisational objectives suffer.

2. **Difficulty in Inter-departmental Coordination** - All departmental heads work as per their own wishes which leads to coordination within the department easier but it makes inter-departmental coordination difficult.

3. **Hurdle in complete development** - because each employee specialises only in a small part of the whole job.

**II. DIVISIONAL ORGANISATION STRUCTURE** :

Dividing the whole enterprise according to the major products to be manufactured (like metal, plastic, cosmetics etc) is known as divisional organisation structure.

This structure is suitable in organisations producing multi product or different lines of product requiring product specialisation. Also growing companies which intend to add more lines of products in future adopt this structure.**Advantages:-**

1. **Quick decision making** - Divisional manager can take any decision regarding his division independently which makes decisions quick and effective.

2. **Divisional results can be assessed** - Divisional results (profit / loss) can be assessed easily. On this basis any unprofitable division can be closed.
3. Growth and Expansion - It facilitates growth and expansion as new divisions can be added without disturbing existing departments.

Disadvantages :-

1. **Conflicts** among different divisions on allocation of resources.

2. **Duplicity of Functions** : Entire set of functions is required for all divisions. It gives rise to duplicity of efforts among divisions & increases cost.

3. **Selfish Attitude** :- Every division tries to display better performance and sometimes even at the cost of other divisions. This shows their selfish attitude.

**FORMAL ORGANISATION**

This structure is designed by the management to achieve organisational goals in which the responsibilities, authority and mutual relationships among all the employees working in an enterprise are clearly defined. It can be functional or divisional.

**Features :-**

1. It is deliberately created by the top management.

2. It is based on rules and procedures which are in written form.

3. It is impersonal i.e does not takes into consideration emotional aspect.

4. It clearly defines the authority and responsibility of every individual.

5. It is created to achieve organisational objectives.

**Advantages :-**

1. Easier to fix responsibility since mutual relationships are clearly defined.

2. No overlapping of work - because things move according to a definite plan.

3. Unity of command through an established chain of command.

4. Easy to achieve objectives - because of coordination and optimum use of human and material resources.
5. Stability in the organisation - because behaviour of employees can be fairly predicted since there are specific rules to guide them.

Disadvantages:

1. The Work is based on rules which causes unnecessary delays.
2. Lack of initiative - The employees have to do what they are told to do and they have no opportunity of thinking.
3. Limited in scope - It is difficult to understand all human relationships in an enterprise as it places more emphasis on structure and work.

Informal Organisation:

An informal organisation is that organisation which is not established deliberately but comes into existence because of common interests, taste and religious and communal relations. The main purpose of this organisation is to get psychological satisfaction. For example, employees with similar interest in sports, films, religion etc may form their own informal groups.

Features:

1. It originates from within the formal organisation as a result of personal interaction among employees.
2. It has no written rules and procedures.
3. It does not have fixed lines of communication.
4. It is not deliberately created by the management.
5. It is personal - means the feelings of individuals are kept in mind.

Advantages:

1. Speed: Prescribed lines of communication are not followed which leads to faster spread of information.
2. Fulfillment of social needs - enhances job satisfaction which gives them a sense of belongingness in the organisation.
3. Quick solution of the problems - because the subordinates can speak without hesitation before the officers, it helps the officers to understand the problems of their subordinates.
Disadvantages :-

1. **It creates rumours**: All the persons in an informal organisation talk carelessly and sometimes a wrong thing is conveyed to the other persons.

2. It resists change and lays stress on adopting the old techniques.

3. **Priority to group interests** - Pressurises members to confirm to group expectations.

### Difference between Formal and Informal organisation

<table>
<thead>
<tr>
<th>Basis</th>
<th>Formal organisation</th>
<th>Informal organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>If refers to the structure of well defined authority and responsibility.</td>
<td>It refers to the network of social relationships which develops automatically.</td>
</tr>
<tr>
<td>2. Nature</td>
<td>Rigid &amp; Stable</td>
<td>Flexible and unstable</td>
</tr>
<tr>
<td>3. Authority</td>
<td>Arises by virtue of positions in management.</td>
<td>Arises out of personal qualities.</td>
</tr>
<tr>
<td>4. Adherence to rules</td>
<td>Violation of rules may lead to penalties and punishments.</td>
<td>No such punishments.</td>
</tr>
<tr>
<td>5. Flow of communication</td>
<td>Takes place through the scalar chain.</td>
<td>Not through a planned route. It can take place in any direction.</td>
</tr>
<tr>
<td>6. Purpose</td>
<td>To achieve planned organisational objectives.</td>
<td>To satisfy social and cultural needs and fulfil common interests.</td>
</tr>
<tr>
<td>7. Formation/origin</td>
<td>Deliberately planned and created by management.</td>
<td>Emerges spontaneously as a result of social interaction among employees.</td>
</tr>
<tr>
<td>8. Structure</td>
<td>Well-defined structure of tasks &amp; relationships.</td>
<td>No clear-cut structure because of complex network of relationships.</td>
</tr>
<tr>
<td>9. Flow of authority</td>
<td>Authority flows from top to bottom i.e downwards.</td>
<td>Authority flows vertically as well as horizontally.</td>
</tr>
<tr>
<td>10. Interdependence</td>
<td>Independent.</td>
<td>Depends on formal structure.</td>
</tr>
</tbody>
</table>
Delegation of Authority

Meaning - It means the granting of authority to subordinates to operate within the prescribed limits. The manager who delegates authority holds his subordinates responsible for proper performance of the assigned tasks. To make sure that his subordinates perform all the work effectively and efficiently in expected manner the manager creates accountability.

Process / Elements of Delegation :-

1. Authority - The power of taking decisions in order to guide the activities of others. Authority is that power which influences the conduct of others.

2. Responsibility : It is the obligation of a subordinate to properly perform the assigned duty. When a superior issues orders it becomes the responsibility of the subordinate to carry it out.

3. Accountability - When a superior assigns some work to a subordinate, he is answerable to his superior for its success or failure.

Principle of Absoluteness of Accountability - Authority can be delegated but responsibility / accountability cannot be delegated by a manager. The authority granted to a subordinate can be taken back and re-delegated to another person. The manager cannot escape from the responsibility for any default or mistake on the part of his subordinates. For example, If the chief executive asks marketing manager to achieve a sales target of sale of 100 units/ day. The marketing manager delegates this task to deputy sales manager, who fails to achieve the target. Then marketing manager will be answerable for the work performance of his subordinates. Thus, accountability is always of the person who delegates authority.
Assigning Responsibility → Granting Authority → Fixing Accountability

Process of Delegation of Authority

Difference between Authority, Responsibility and Accountability

<table>
<thead>
<tr>
<th>Basis</th>
<th>Authority</th>
<th>Responsibility</th>
<th>Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>Right to command</td>
<td>Obligation to perform an assigned task</td>
<td>Answerability for outcome of the assigned task.</td>
</tr>
<tr>
<td>2. Origin</td>
<td>Arises from formal position</td>
<td>Arises from delegated authority</td>
<td>Arises from responsibility</td>
</tr>
<tr>
<td>3. Flow</td>
<td>Downward - from Superior to Subordinate</td>
<td>Upward - from Subordinate to Superior</td>
<td>Upward - from Subordinate to Superior</td>
</tr>
<tr>
<td>4. Withdrawl</td>
<td>Can be withdrawn anytime by giving notice.</td>
<td>Cannot be withdrawn once created.</td>
<td>Cannot be withdrawn once created.</td>
</tr>
</tbody>
</table>

Importance of Delegation of Authority

1. **Reduction of Executives work load** - It reduces the work load of officers. They can thus utilise their time in more important and creative works instead of works of daily routine.

2. **Employee development** - Employees get more opportunities to utilise their talent which allows them to develop those skills which will enable them to perform complex tasks.

3. **Quick and better decision are possible** - The subordinate are granted sufficient authority so they need not to go to their superiors for taking decisions concerning the routine matters.

4. **High Morale of subordinates** - Because of delegation of authority to the subordinates they get an opportunity to display their efficiency and capacity.

5. **Better coordination** - The elements of delegation - authority, responsibility and accountability help to define the powers, duties and answerability related to various job positions which results in developing
and maintaining effective co-ordination.

**Decentralisation :-**

It is defined as even and systematic distribution of authority at every level of management. Under this, the authority is transferred to the level where it is to be exercised, so the numbers of centres for taking decisions increases. It should be noted that 'Decentralisation' is an extension of delegation.

**Centralisation and Decentralisation** - represents the pattern of authority among managers at different levels. Centralisation of authority means concentration of power of decision making in a few hands. In such an organisation very little authority is delegated to managers at middle and lower levels. No organisation can be completely centralised or decentralised. They exist together and there is a need for a balance between the two. As the organisation grows in size, there is tendency to move towards decentralisation. Thus, every organisation is characterised by both.

**Importance of Decentralisation :-**

1. **Develops initiative amongst subordinates** - It helps to promote confidence because the subordinates are given freedom to take their own decisions.

2. **Quick and better decisions** - The burden of managerial decisions does not lie in the hands of few individuals but gets divided among various persons which helps them to take better and quick decisions.

3. **Relieves the top executives from excess workload** - The daily managerial works are assigned to the subordinates which leaves enough time with the superiors which they can utilise in developing new strategies.

4. **Managerial Development** - It means giving authority to the subordinates upto the lower level to take decisions regarding their work. In this way the opportunity to take decisions helps in the development of the organisation.

5. **Better Control** - It makes it possible to evaluate performance at each level which results in complete control over all the activities.
Difference between - Delegation & Decentralisation

<table>
<thead>
<tr>
<th>Basis</th>
<th>Delegation</th>
<th>Decenralisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nature</td>
<td>It is a compulsory act.</td>
<td>It is an optional policy.</td>
</tr>
<tr>
<td>2. Freedom of action</td>
<td>Less freedom to take decisions due to more control by the superiors.</td>
<td>More freedom of action due to less control by the top management.</td>
</tr>
<tr>
<td>3. Status</td>
<td>It is a process of sharing tasks and authority.</td>
<td>It is the result of policy decisions taken by top management.</td>
</tr>
<tr>
<td>4. Scope</td>
<td>Narrow - as it is confined to a superior and his immediate subordinate.</td>
<td>Wide - It includes extension of delegation to the levels of management.</td>
</tr>
<tr>
<td>5. Purpose</td>
<td>To reduce the burden of manager.</td>
<td>To increase the role and the autonomy of lower level of management.</td>
</tr>
</tbody>
</table>

QUESTIONS

1 marks questions

1. How effective administration is possible through organising?

2. Name the function of management which coordinates the physical, financial and human resources and establishes productive relations among them for achievement of specific goals.

3. Name the organisation which is directed by group norms.

4. What is meant by organisational structure?

5. Difficulty in inter-departmental coordination is one of the limitations of which organisational structure.

6. What is meant by Authority?

7. What is the basis of delegation of authority?

8. How effective management is possible through delegation of authority?
3 marks questions
1. What is functional organisational structure? Write two advantages of this structure.
2. How is accountability related to authority? Explain.
3. Why is it necessary to delegate authority? Give three reasons.
4. State three steps in the process of organising.

4/5 marks questions
1. Explain briefly any four features of formal organisation.
2. The employees of Sachin Ltd, a software company, have formed a Dramatic group for their recreation. Name the type of organisation and state its three features.
3. Distinguish between Formal and Informal organisation (any four points)
4. A manager is of the view that he is not responsible for the quality of work that he has delegated to his subordinates. Do you agree?
5. 'Delegation of authority provides the means whereby a manager multiples himself.' Comment.

6 marks questions
1. Explain the importance of organising as a function of management.
2. 'Formal organisation is considered better than informal organisation'. Do you agree with this statement? Give reasons.
3. What is meant by Divisional structure of an organisation? Explain any two advantages and two limitations of it.
4. 'Decentralisation is an optional policy'. Explain why an organisation would choose to be decentralised.
5. Explain the meaning and process of delegation of authority.
Meaning

Staffing means putting people to jobs. It begins with human resource planning and includes different other functions like recruitment, selection, training, development, promotion and performance appraisal of work force.

Need and Importance of Staffing :-

1. **Obtaining Competent Personnel** : Proper staffing helps in discovering and obtaining competent personnel for various jobs.

2. **High Performance** : Proper staffing ensures higher performance by putting right person on the right job.

3. **Continuous growth** : Proper staffing ensures continuous survival and growth of the enterprise.

4. **Optimum utilization of human resources** : It prevents under-utilization of personnel and high labour cost.

5. **Improves job satisfaction** : It improves job satisfaction and morale of employee.

Human Resource Management: (HRM)

The function of Human Resource Management is to provide skilled human elements to the enterprises. Therefore big enterprises create a separate department called HRD. This department works under H.R. Managers.

Definition : Human Resource management is the recruitment, selection, development, utilization, compensation and motivation of human resources of the organization.

Staffing as a part of Human Resource Management : The scope of Human Resource Management is wider than staffing. It involves staffing, reaping personnel records, providing expert service and other works.

It facilitates procurement and placement of right people on the right jobs. The nature of staffing as a part of HRM is discussed in following points :-
1. Staffing is people centred and is relevant in all types of organization and with all categories of personnel from top to bottom.

2. It is duty of every manager to perform the staffing activities. In many enterprises, Personnel Department is established to provide assistance to managers in performing their staffing function.

3. Staffing function is concerned with training, development and performance appraisal of human resources.

**PROCESS OF STAFFING**:

1. **Estimating Manpower Requirement**: It involves the following:
   
   (a) Making inventory of current human resources in terms of qualification, training & skills.
   
   (b) Assessing future human resource needs of all departments.
   
   (c) Developing a programme to provide the human resources.

   Job Analysis is an intensive way of finding details related to all jobs.

2. **Recruitment**: It refers to identification of the sources of manpower availability and making efforts to secure applicants for the various job positions in an organization.
3. **Selection**: It is the process of choosing and appointing the right candidates for various jobs in an organization through various exams, tests & interviews.

4. **Placement and Orientation**: When a new employee reports for duty, he is to be placed on the job for which he is best suited. Placement is very important process as it can ensure “Right person for right job”.

Orientation / Induction is concerned with the process of introducing a new employee to the organization. The new employees are familiarized with their units, supervisors and fellow employees. They are also to be informed about working hours, procedure for availing leave, medical facilities, history and geography of organization and rules / regulations relating to their wages etc.

5. **Training and Development** - Systematic training helps in increasing the skills and knowledge of employees in doing their jobs through various methods.

Development involves growth of an employee in all respects. It is the process by which the employees acquire skills and competence to do their present jobs and increase their capabilities for higher jobs in future.

6. **Performance Appraisal** - It is concerned with rating or evaluating the performance of employees. Transfers and promotions of the staff are based on performance appraisal.

**RECRUITMENT**:

(A) **Recruitment**: Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.

**Sources of Recruitment** :-

(A) Internal Sources   (B) External Sources

**Internal Sources of Recruitment** :- Internal sources refer to inviting candidates from within the organisation. Following are important sources of internal recruitment:-

1. **Transfers** :- It involves the shifting of an employee from one job to another, from one department to another or from one shift to another shift.
2. **Promotions** :- It refers to shifting an employee to a higher position carrying higher responsibilities, prestige, facilities and pay.

3. **Lay off** :- To recall the temporary worker for work is called Lay-off, who were temporarily separated from organisation due to lack of work.

**Advantages of Internal Sources Recruitment :-**

(1) Employees are motivated to improve their performance.

(2) Internal recruitment also simplifies the process of selection & placement.

(3) No wastage of time on the employee training and development.

(4) Filling of jobs internally is cheaper.

**Limitation of Internal Sources :-**

(1) The scope for induction of fresh talent is reduced.

(2) The employee may become lethargic.

(3) The spirit of competition among the employees may be hampered.

(4) Frequent transfers of employees may often reduce the productivity of the organisation.

**External Sources of Recruitment :-**

When the candidates from out side the organisation are invited to fill the vacant job position then it is known as external recruitment.

The common methods of external sources of recruitments are:

1. **Direct Recruitment** :- Under the direct recruitment, a notice is placed on the notice board of the enterprise specifying the details of the jobs available.

2. **Casual callers** : Many reputed business organisations keep a data base of unsolicited applicants in their office. This list can be used for Recruitment.

3. **Advertisement** : - Advertisement in media is generally used when a wider choice is required. Example- Newspapers, Internet, Radio, Television etc.
4. Employment Exchange: Employment exchange is regarded as a good source of recruitment for unskilled and skilled operative jobs.

5. Campus recruitment and labour contractors can be used for the purpose.

Merits of External Sources:

1. Qualified Personnel: By using external source of recruitment the management can attract qualified and trained people to apply for the vacant jobs in the organisation.

2. Wider Choice: The management has a wider choice in selecting the people for employment.

3. Fresh Talent: It provides wider choice and brings new blood in the organisation.

4. Competitive Spirit: If a company taps external sources, the staff will have to compete with the outsiders.

Limitations of External Sources of Recruitment:

1. Dissatisfaction among existing employees: Recruitment from outside may cause dissatisfaction among the employees. They may feel that their chances of promotion are reduced.

2. Costly process: A lot of money has to be spent on advertisement therefore this is costly process.

3. Lengthy Process: It takes more time than internal sources of recruitment

Selection:

Selection is the process of choosing from among the candidates from within the organisation or from outside, the most suitable person for the current position or for the future position.

**PROCESS OF SELECTION**

- Preliminary Screening
- Selection Test
- Employment Interview
- Reference Check
- Selection Decision
- Medical Exam
- Job Offer
- Contract of Employment
The successive stages in selection process are :-

1. **Preliminary Screening**: After applications have been received, they are properly checked as regarding qualification etc. by screening committee. A list of candidates to be called for employment test is made and unsuitable candidates are rejected altogether.

2. **Selection Tests**: These tests include:

   (a) Psychological tests which are based on assumption that human behaviour at work can be predicted by giving various tests like aptitude, personality test etc.

   (b) Employment test for judging the applicant's suitability for the job.

3. **Employment Interviews**: The main purpose of interview is

   (a) to find out suitability of the candidates.

   (b) to seek more information about the candidate.

   (c) to give the candidate an accurate picture of job with details of terms and conditions.

4. **Reference Checks** - Prior to final selection, the prospective employer makes an investigation of the references supplied by the applicant. He undertakes a thorough search into candidates' family background, past employment, education, police records etc.

5. **Selection Decisions**: A list of candidate who clear the employment tests, interviews and reference checks is prepared and then the selected candidates are listed in order of merit.

6. **Medical / Physical Examination**: A qualified medical expert appointed by organization should certify whether the candidate is physically fit to the requirements of a specific job. A proper physical exam will ensure higher standard of health & physical fitness of employees thereby reducing absenteeism.

7. **Job Offer**: After a candidate has cleared all hurdles in the selection procedure, he is formally appointed by issuing him an Appointment Letter. The broad terms and conditions, pay scale are integral part of Appointment Letter.

8. **Contract of Employment**: After getting the job offer, the candidate has to
Training: Training is the act of increasing the knowledge and technical skills of an employee for doing a particular job efficiently for existing employees and new employees to get acquainted with their jobs and increasing job related skills.

Benefits to the Organisation:

1. It enhances employee's productivity and quality.
2. Training increases employee's morale.
3. Employees get new technical knowledge.
4. Efficient use of machines.

Benefits to the Employee:

1. Improved skills and knowledge of employee.
2. Increased performance by the individual help him to earn more.
3. Less accidents.
4. Training increases the satisfaction and morale of the employee.

Training Methods

(A) On the Job Method: It refers to the methods that are applied at the workplace, while the employee is actually working. It means learning while doing.

The following are the methods of On-the job training:

1. Apprenticeship Training: Under this, the trainee is placed under supervision of an experienced person (master worker) who imparts him necessary skills and regulates his performance. The trainee is given stipend while learning so he/she can enjoy “earn while you learn” scheme.

2. Internship Training: Under this method an educational institute enters into agreement with industrial enterprises for providing practical knowledge to its students by sending them to business organizations for
gaining practical experience.

3. **Coaching**: Under this, the supervisor imparts job knowledge and skill to his subordinates with an emphasis on “learning by doing”.

4. **Job Rotation**: The trainee or employee is systematically transferred from one job to another so that he may get the experience of different jobs. This will broaden his horizon and capacity to do a variety of jobs.

5. **Induction training** is a type of training given to help a new employee in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business. The duration of such type of training may be from a few hours to a few days. The induction provides a good opportunity to socialize and brief the newcomer with the company's overall strategy, performance standards etc. If carefully done, it saves time and cost (in terms of effectiveness or efficiency etc.)

(B) **Off the job Method**: These methods are used away from the work place. It means 'learning before doing.'

1. **Class room lectures**: The lecture approach is well adapted to convey specific information. The use of audio-visuals can often make a formal classroom.

2. **Films**: They can provide information to the employee by showing them films based on their work.

3. **Case study**: Trainee studies the cases to determine problems & analyses causes. It is a means of simulating experience in the classroom. Under this, the trainees are given a problem or a case which is more or less related to principles already taught. They analyze the problem and suggest solutions with the help of an instructor.

4. **Computer Modelling**: Under this, a computer is programmed to show some real problems of jobs and steps to overcome such problems.

5. **Conferences and Seminars**: It is a group meeting conducted according to an organised plan in which the members seek to develop knowledge and understanding of a topic by oral participation. It is an effective training device in which a person can learn from others by sharing his opinions with them.
Training and Development

Training is concerned with imparting technical knowledge in doing a particular job. But development is a wider process concerned with growth of an individual in all respects. However both are related processes; training helps the employees in learning job skills whereas development shapes attitude of the employees.

### Comparison of Training and Development

<table>
<thead>
<tr>
<th>Basis</th>
<th>Training</th>
<th>Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Definition</td>
<td>It means imparting skills and knowledge for doing a particular Job.</td>
<td>It means growth of an employee in all respects.</td>
</tr>
<tr>
<td>2. Purpose</td>
<td>It is concerned with maintaining and improving current job performance.</td>
<td>It seeks to develop competence and skills for future performance.</td>
</tr>
<tr>
<td>3. Methods</td>
<td>It is imparted through on the job method.</td>
<td>It is imparted through off the job method.</td>
</tr>
<tr>
<td>4. Initiative</td>
<td>The boss takes the initiative for imparting training to his subordinates.</td>
<td>The individual takes the initiative for self growth and development.</td>
</tr>
<tr>
<td>5. Duration</td>
<td>Training programmes are organised for short term.</td>
<td>Development takes place over a larger period of time.</td>
</tr>
</tbody>
</table>

**1 Mark Questions:-**

1. Explain the meaning of Staffing.
2. Define Placement.
3. Why is selection considered to be a negative process?
4. Give one advantage of Job Rotation training.
5. State one objective of Preliminary screening.
6. What is an interview?
7. What do you mean by on the job Training?
8. What do you mean by Recruitment?
10. Give the last step of staffing process.
11. Give the first step of selection process.
12. Define Induction training.
13. What is the main objective of Induction training.

3 - 4 Marks Questions:-
1. Explain any three types of selection Tests.
2. Explain the meaning of selection and training.
3. 'Internal sources of Recruitment are better than external sources of Recruitment Do you agree ? Give reasons in support of your answer. Do you agree?
4. How does Induction training help in reducing cost and saves time?
5. Write a short note on Induction training.
6. “Staffing is an important function of management”. Why ? Explain any four reasons.
7. “Some learning opportunities are designed and delivered to improve skills and abilities of employees whereas some others are designed to help in the growth of individual in all respects” Identify and explain two concepts referred above.
UNIT 7

DIRECTING

Meaning

Directing as a function of management, refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. It does not mean only instructions but also includes supervising the employees when they are performing the job, motivating them to perform more efficiently and leading them towards the achievement of organisational goal.

Features:

1. **Directing initiates action**: The other functions of management prepare a setting for action, but directing initiates action in the organisation.

2. **Directing takes place at every level of Management**: Every manager from top executive to supervisor performs the function of directing.

3. **Directing is a continuous process** of supervision, communication, leadership and motivation. It takes place throughout the life of the organisation.

4. **Directing flows from top to bottom**: It is initiated at the top level and flows to the bottom through organisational hierarchy.

Importance:

1. **Initiates Action**: It helps to initiate action by the people in the organisation towards attainment of desired objectives. The employees start working only when they get instructions and directions from their superiors. It is the directing function which starts actual work to convert plans into results.

2. **Integrates Employee's Efforts**: All the activities of the organisation are interrelated so it is necessary to coordinate all the activities. It integrates the activities of subordinates by supervision, guidance and counselling.

3. **Means of motivation**: It motivates the subordinates to work efficiently and to contribute their maximum efforts towards the achievement of organisational goals.

4. **Facilities change**: Employees often resist changes due to fear of adverse effects on their employment and promotion. Directing facilitates
adjustment in the organisation to cope with changes in the environment.

5. **Stability and balance in the organisation**: Managers while performing directing function instruct, guide, supervise and inspire their subordinates in a manner that they are able to strike a balance between individual and organisational interests.

**Elements of Direction**

- **Supervision**
  - It means observing the subordinates at work to see that they are working in accordance with plans and to help them in solving their problems. The important thing in supervision is that it involves face to face contact between superiors and subordinates. Supervisor's position is immediately above the worker.

- **Motivation**
  - It is systematic process of generating enthusiasm among employees to dedicate their best of efforts to the enterprise.

- **Leadership**
  - It is the quality of behaviour by which an individual guides and directs the activities of his subordinates. He leads, guides and directs the activities of his subordinates. He leads the group efforts towards attaining the objectives of the business.

- **Communication**
  - It is the process of exchange of information between two or more persons to reach common understanding.

**Importance of Supervision / Role of a Supervisor / Functions**

1. **Link between workers and management** because the supervisor explains management policies to worker and brings workers problems to the notice of the management.

2. **Ensures issuing Instructions**: To make sure that the instructions are communicated to each and every employee.

3. **Facilities Control**: Control means match between actual and planned output. It ensures checking on the methods in use and progress of work according to planned schedule.
4. **Maintenance of discipline**: The strict supervision and guidance of supervisor encourages the employees and workers to be more disciplined in the activities.

Under the guidance of superior the workers follow a fixed or strict time table and execute the plans in right directions.

5. **Feedback**: The supervisors are directly dealing with the subordinates. As a result, feedback in the form of suggestions, grievances keep coming to the management. It improves quality management decisions and revision of plans & policies.

6. **Improved Motivation**: A supervisor with good leadership qualities can build up high morale among workers.

The relationship with the supervisor is a very good incentive to improve the motivation level of the employees while guiding the employees, the supervisors encourage the subordinates to perform to their best capacities.

7. **Optimum utilisation of resources**: All the activities are under the observation of supervisor so less wastage and optimum utilisation of resources is possible.

II. **Motivation** :-

**Meaning**: It is the process of stimulating people to act to their best ability to accomplish desired goals.

Motivation means inspiring the employees to work with greater enthusiasm and more efficiency for the accomplishment of the objectives of the enterprise. It involves arousing needs and desires in people as to initiate and direct their behaviour in a purposive manner.

**Features**

1. **Psychological Phenomenon**: Motivation is an internal feeling which means it can not be forced on employees. The internal feeling such as need, desire, aspiration etc. influence human behaviour to behave in a particular manner.

2. **Goal Directed Behaviour**: It induces people to behave in such a manner so that they can achieve their goals. A motivated person works towards the achievement of desired goals.
3. **Motivation can be either positive or Negative**: Positive motivation means inspiring people to work better and appreciating a work that is well done. E.g. pay increase promotion recognition. Negative motivation means forcing people to work by threatening or punishing them. E.g., issue of memo, demotion, stopping increments etc.

4. **Complex Process**: It is a complex and difficult process. Individuals differ in their needs and wants and moreover human needs change from time to time.

5. **Continuous Process**: Human needs are unlimited and so they keep changing continuously, satisfaction of one need gives rise to another. As soon as one need is satisfied another need arises. So managers have to continuously perform the function of motivation.

**Maslow's Need Hierarchy-The Theory of Motivation**: Maslow's Theory focuses on the needs as the basis for motivation. It classified human needs into the following five categories.

Maslow's Theory helps managers to realise that need level of employees should be identified to provide motivation to them. It is based on the following assumptions:

(i) People's behaviour is based on their needs
(ii) People's needs are in hierarchical order.
(iii) A satisfied need can no longer motivate a person.
(iv) A person moves to the next higher level of hierarchy only when the lower need is satisfied.

<table>
<thead>
<tr>
<th>Example from the point of view of Individual</th>
<th>Example from the point of view of organisation</th>
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</thead>
<tbody>
<tr>
<td>Self fulfilments</td>
<td>Achievement of goals</td>
</tr>
<tr>
<td>Status</td>
<td>Jobtitle</td>
</tr>
<tr>
<td>Friendship</td>
<td>Cordial relation with colleagues</td>
</tr>
<tr>
<td>Stability of Income</td>
<td>Pension Plan</td>
</tr>
<tr>
<td>Hunger</td>
<td>Basic Salary</td>
</tr>
</tbody>
</table>
Financial and Non-Financial Incentives - Incentive means all measures which are used to motivate people to improve performance.

<table>
<thead>
<tr>
<th>Financial</th>
<th>Non-Financial</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Which can be calculated in terms of money of money</td>
<td>- Which can not be calculated in terms of money of money</td>
</tr>
<tr>
<td>- Profit sharing</td>
<td>- Status</td>
</tr>
<tr>
<td>- Pay and Allowances</td>
<td>- Career Advancement</td>
</tr>
<tr>
<td>- Bonus</td>
<td>- Opportunity</td>
</tr>
<tr>
<td>- Retirement Benefits</td>
<td>- Job enrichment</td>
</tr>
<tr>
<td>- Perquisites</td>
<td>- Employee Recognition Programmer</td>
</tr>
<tr>
<td>- Productivity linked wages</td>
<td>- Employees participation</td>
</tr>
<tr>
<td>- Co-partnership / stock option</td>
<td>- Job security</td>
</tr>
<tr>
<td></td>
<td>- Employees empowerment</td>
</tr>
</tbody>
</table>

Needs of the highest order generally found in persons whose first four needs have already been fulfilled.

KINDS OF INCENTIVES
III. Leadership -
Leadership is the activity of influencing people to strive willingly for mutual objectives. Managers at all levels are expected to be the leaders of their subordinates.

Leadership indicates the ability of an individual to maintain good interpersonal relations with followers and motivate them to contribute for achieving organisational objectives. It is a process of interaction between the leader and his followers. It helps in persuading employees to work cooperatively and enthusiastically towards common goals.

Styles of Leadership

Leadership styles refer to a leader’s behaviour. Behavioural pattern which the leader reflects in his role as a leader is often described as the style of leadership.

A Leadership style is the result of the leader’s philosophy, personality, experience and value system. It also depends upon the type of followers and the atmosphere prevailing in the organization.

Different types of leadership style are:

1. Autocratic leadership
2. Participative leadership - Democratic
3. Free rein leadership - Laissez Faire

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

1. Autocratic or Authoritarian Leader

An autocratic leader gives orders and insists that they are obeyed. He determines the policies for the group without consulting them.

He does not give information about future plans but simply tells the group what immediate steps they must take.

Under this style, all decision making power is centralized in the leader. He does not give the subordinates any freedom to influence his decisions.
It is like "bossing people around." This style should normally be used on rare occasion.

When should authoritarian leadership be applied?

- It is best applied to situations where there is little time for group decision making.
- or where the leader is the most knowledgeable member of the group.

2. Democratic or Participative Leader

A democratic leader gives order only after consulting the group and works out the policies with the acceptance of the group.

He never asks people to do things without working out the long term plans on which they are working. He favours decision making by the group as shown in the diagram. This improves the attitude of the employees towards their jobs and the organization thereby increasing their morale.

Using this style is of mutual benefit - it allows them (subordinates) to become part of the team and helps leaders (seniors) to make better decisions.
When should Participative / democratic leadership be applied?

- It works best in situations where group members are skilled and eager to share their knowledge.

- It is also important to have plenty of time to allow people to contribute, develop a plan and then vote on the best course of action.

This style should NOT be used when:

In situations where roles are unclear or time is of the essence, democratic leadership can lead to communication failures and incompleted projects.

3. Laissez Faire or Free Rein Leader

A free rein leader gives complete freedom to the subordinates. Such a leader avoids use of power. He depends largely upon the group to establish its own goals and work out its own problems. Group members work themselves as per their own choice and competence. The leader exists as a contact man with the outsiders to bring information and the resources which the group requires for accomplishing the job.

NOTE: This is also known as laissez faire which means no interference in the affairs of others. [French laissez means to let/ allow fair means to do].

A is the leader

(Leadership is Subordinate - Centered - Leadership)
When should laissez faire/free rein leadership be applied

This is an effective style to use when:

• Followers are highly skilled, experienced and educated.
• Followers have pride in their work and the drive to do it successfully on their own.
• Outside experts, such as staff specialists or consultants are being used.
• Followers are trustworthy and experienced.

This style should NOT be used when:

• Followers feel insecure at the non-availability of a leader.
• The leader cannot or will not provide regular feedback to his followers.

Example: Mr. Ulhas, CEO of 'I Create India,' distributes the work for the month. He delegates the work to his staff Ms. Ranju, Ms. Anjana, Ms. Geeta and Mr. Dinesh as per his discretion. (Mr. Ulhas is behaving as an autocratic leader) Mr. Ulhas has realized that due to absence of Ms. Geeta, the work will not get over as scheduled. He discusses with his staff members to meet the deadline. Everybody decides to do over time and plans to stay back accordingly. (Mr. Ulhas is behaving as a democratic leader)

Mr. Ulhas wants to give a party to all staff members for timely completion of the task.

Mr. Ulhas asks the other members of staff to fix the venue and the menu for the occasion. (Mr. Ulhas is behaving as a free rein leader)

IV Communication - It is transfer of information from the sender to the receiver with the information being understood by the receiver.

Communication plays key role in the success of a manager. Directing abilities of manager mainly depend upon his communication skills. That is why organization always emphasizes on improving communication skills of managers as well as employees. Communication is important for the directing function because all other elements of directing become possible only when there is adequate communication.
Elements of Communication Process -

1. **Sender** - Who conveys his thoughts or ideas.

2. **Message** - Ideas, feelings, suggestions, order etc.

3. **Encoding** - Converting the message into communication symbols such as words / pictures etc.

4. **Media** - Path/ Channel through which encoded message is transmitted to receiver e.g., face to face, phone call, internet etc.

5. **Decoding** - Converting encoded symbols of the sender.


7. **Feedback** - All those actions of receiver indicating that he has received and understood the message of the sender.

8. **Noise** - Some obstruction or hindrance to communication like poor telephone connection, inattentive receiver.

Importance of Communication

1. **Facilitates Coordination** - between interrelated departments and sections thus creating a unity of purpose and action.

2. **Provides data necessary for decision makings** - When information is effectively and efficiently communicated to management.

3. **Increases managerial efficiency** - Every individual in the organisation is assigned a job or task. The employee must know clearly who has to report to whom, what part of total job they are expected to perform and what are their decisions. The clarity comes only with smooth flow of communication which keeps the organisation at work with efficiency.

4. **Promotes cooperation and Industrial Peace** - The two way communication promotes cooperation and mutual understanding between the management and workers and brings peace in the organisation.

5. **Establishes effective leadership** - Effective communication helps to influence subordinates - while influencing, a leader should possess good communication skills.

If there is two way information flow between the superior and subordinates then there will be positive reaction of employees.
Communication taking place within an organisation may be broadly classified into two categories.

I. **Formal Communication** - refers to official communication which takes place following the chain of command. Classification of formal communication -

1. **Vertical communication** - Flows vertically i.e., upwards or downwards through formal channels
   
i) **Downward Communication** - Higher to lower level like plans, policies, rules etc.
   
ii) **Upward Communication** - Subordinate to superior like suggestions, grievances, reports etc.

2. **Horizontal / lateral Communication** - between persons holding positions at the same level of the organisation e.g., production manager may contact marketing manager about product design, quality etc.

**Communication networks of a Formal Communication.**

- **Single Chain**: It flows from every superior to his subordinate through single chain.
- **Wheel**: It flows through one central person (Superior).
- **Circular**: It moves in a circle each person can communicate with his adjoining two person.
- **Free Flow**: In this network a subordinate is allowed to communicate with his immediate superior as well as his superior’s superior.
- **Inverted V**: In this network each person can communicate with others freely.
II. Informal Communication: Communication that takes place without following the formal lines of communication is said to be informal communication. There is no fixed direction or path for the flow of information.

Grapevine or Informal Communication Networks:-

1. Single Strand - Each person communicates with the other in a sequence.

2. Gossip - Each person communicates with all on non-selective basis. A person shares the information with many other people in his social group.

3. Probability - The individual communicates randomly with other individuals.

4. Cluster - The individual communicates with only those people whom he trusts.

<table>
<thead>
<tr>
<th>Single Strand</th>
<th>Gossip</th>
<th>Probability</th>
<th>Cluster</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<table>
<thead>
<tr>
<th>Basis</th>
<th>Formal Communication</th>
<th>Informal Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>Within the official chain of command</td>
<td>Between individuals and groups which are not officially recognised.</td>
</tr>
<tr>
<td>2. Channel</td>
<td>Through a definite path</td>
<td>No definite path.</td>
</tr>
<tr>
<td>3. Speed</td>
<td>Slow - because all information has to pass through an established chain of command.</td>
<td>Very fast - Cuts across all the official channels.</td>
</tr>
<tr>
<td>4. Nature</td>
<td>More rigid and cannot be modified.</td>
<td>Flexible and varies from individual to individual.</td>
</tr>
<tr>
<td>5. Expression</td>
<td>It is mostly expressed in written form.</td>
<td>It mostly tends to be oral.</td>
</tr>
</tbody>
</table>
Barriers to Effective Communication -

**Semantic Barriers** - Concerned with problems and obstructions in the process of encoding or decoding of message into words or impressions. Semantic barriers are as follows:-

1. Badly expressed message. Sometimes intended meaning may not be conveyed.
2. Words with different meanings confuses the receiver.
3. Faulty translations may transfer wrong messages.
4. Unclarified assumption subject to different interpretations may result in confusion.
5. Technical Jargon - Technical words may not be understood by the workers.

**Psychological/Emotional barriers**

1. Premature evaluation - judgement before listening leads to misunderstanding.
2. Lack of attention/poor listening may disappoint the employees.
3. Loss by transmission and poor retention - When oral communication passes through various levels it destroys the structure of the message or leads to transmission of inaccurate message.
4. Distrust - If the parties do not believe each other. They can not understand each other's message in its original sense.

**Organisational barriers**

Factors related to organisation structure:-

1. If organizational policy does not support free flow of information it creates a problem.
2. Rules and regulations: rigid rules and regulations may lead to red tapism and delay of action.
3. Status conscious managers may not allow subordinates to express their
feelings freely.

4. Complexity in organization structure results in delay and distortion.

**Personal Barriers** - of superiors and subordinates.

1. Fear of challenge to authority may withhold or suppress a particular communication.

2. Lack of confidence of superior on his subordinates.

3. Unwillingness to communicate. e.g. fear of punishment/demotion.

4. Lack of proper incentives stops the subordinates to offer useful suggestions.

**Improving communication effectiveness.**

1. Clarify the ideas before communication.

2. Communicate according to the needs of receiver.

3. Consult others before communicating.

4. Be aware of language, tone and content of message.

5. Ensure proper feedback. Feedback provides opportunity for suggestions and criticism.

6. Follow up communication helps to remove hurdles, misunderstanding of information given by managers to subordination.

7. Be a good listener

**QUESTIONS**

1 Mark questions

1. Which function of management is known as Management-in-action?

2. How supervision is helpful in maintaining discipline?

3. What is Economic Safety?

4. What is meant by Job Enrichment as a type of non-monetary incentives?

5. What is meant by Leadership?

6. What is meant by NOISE in communication process?
7. What is meant by feedback in communication process?
8. What is meant by Grapenive?
9. Define autocratic style of leadership.

3 Marks Questions
11. Direction is the least important function of management. Do you agree with this statement? Give any two reasons in support of your answer.
12. The post of supervisor should be abolished in the hierarchy of Managers. Do you agree? Give any three reasons in support of your answer.
13. Explain how supervision facilitates control?
14. Motivation can be either positive or negative. How?
15. Motivation helps to reduce absenteeism in the organisation. Clarify.

4/5 Marks Questions
16. State any four characteristics of motivation.
17. Clarify Job Enrichment and job security as non-financial motivators.
18. Explain the importance of leadership as the directing function of management.
19. Explain any four factors which are likely to disrupt effective communication.
20. Why do leaders use different styles of leadership in different situations. Explain with the help of examples.

6 Marks Questions
21. 'Supervision is an important element of directing function.' Explain any four reasons in support of the above statement.
22. Explain differences financial and non-financial incentives used to motivate employees of a company.
23. Explain the meaning and importance of communication process.
24. Differentiate between autocratic, democratic and laissez faire style of leadership.

25. Mr. A, B and C are discussing the 3 different leadership styles. Mr. A advocates that autocratic style of leadership is the best in an organisation while Mr. B thinks that democratic style provides better results in the performance of employees. Mr. C emphasizes on laissez faire style of leadership. What according to you is the best style of leadership and why?
CONTROLLING

Meaning & Definition

Controlling means ensuring that activities in an organisation are performed as per the plans. Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of predetermined goals.

It can be defined as comparison of actual performance with the planned performance.

The controlling functions finds out how far actual performance deviates from standards, analyses the causes of such deviations and attempts to take corrective actions based on the same.

Importance of Controlling :-

1. **Controlling helps in achieving organisational goals :-** The controlling function measures progress towards the organisational goals and brings to light/indicates corrective action.

2. **For Evaluating/Judging accuracy of standards :-** A good control system enables management to verify whether the standards set are accurate or not by careful check on the changes taking place in the organisational environment.

3. **Making efficient use of resources :-** By the process of control, a manager seeks to reduce wastage of resources.

4. **Improves employees motivation :-** A good control system ensures that employees know well in advance what they are expected to do & also the standard of performance. It thus motivates & helps them to give better performance.

5. **Facilitating Coordination in action :-** In controlling each department and employee is governed by predetermined standards which are well coordinated with one another. Control provides unity of direction.

6. **Ensuring order and discipline :-** Controlling creates an atmosphere of order and discipline in the organisation by keeping a close check on the activities of its employees.
Nature of Controlling

1. **Controlling is a goal oriented function.**
   Controlling as a function of management ensures that the overall directions of individuals and groups are consistent with short and long range plans of the organization. So it is completely a goal oriented function.

2. **Controlling is an all pervasive function.**
   Controlling is a function which is applicable to all types of organizations and at all levels. For example the top managers are concerned with administrative control, which is exercised through broad policies, plans and other directives. The middle level managers are concerned with the executive control for the purpose of getting the plans, policies, and programmes executed. At the lower level, supervisors exercise operational control to ensure successful performing of actual operations.

3. **Controlling is a continuous function**
   Control is not a one time activity. Rather, it is a dynamic process that involves constant analysis of actual and planned performance. The resultant deviations, if any, are corrected as per the need of the situation. For example if a firm X Ltd., a ready made garment manufacturing unit sets a target of manufacturing 10,000 premium shirts in a month and is only able to manufacture 8,000 shirts than the controlling mechanism will help in finding the deviation and causes associated with it. This process will carry on every month for the organization in this case.

4. **Controlling is both a backward looking as well as forward looking function:** Effective control is not possible without analyzing our past mistakes so from this point of view we can call it backward looking. But the business environment is ever changing and controlling helps bring in changes in the organization in a conducive manner. So we cannot ignore the forward looking aspect of it as well.
5. **Controlling is a dynamic process**- Since controlling requires taking reviewable methods, changes have to be made wherever possible.

6. **Controlling is a positive process**- George Terry says, the function of controlling is positive - it is to make things happen, i.e. to achieve the goal within stated constraints, or by means of the planned activities. Controlling should never be viewed as being negative in character - as a hurdle in getting objectives won. Controlling is a managerial necessity and a help, not an impediment or a hindrance.

**Limitations of Controlling**

1. **Little control on external factors** : Generally no enterprise can control external factors such as government policies, technological changes, competitions etc.

2. **Resistance from employees** : Control is often resisted by employees. They see it as a restriction on their freedom e.g. Employees may resist and go against the use of cameras to observe them minutely.

3. **Costly affair** : Control is a costly affair as it involves a lot of expenditure time and efforts.

4. **Difficulty in setting quantitative standards** : Control system looses some of its effectiveness, when standards cannot be defined in quantitative terms. In the absence of quantitative standards, comparison with standards becomes difficult.

**Relationship between Planning and Controlling**:

Planning and controlling are interrelated and infact reinforce each other in the sense that:-

1. Planning is pre-requisite for controlling. Plans provide the standard for controlling. Thus, without planning, controlling is blind. If the standards are not set in advance managers have nothing to control.

2. Planning is meaningless without controlling. It is fruitful when control is exercised. It discovers deviations and initiates corrective measures.

3. Effectiveness of planning can be measured with the help of controlling.

4. Planning is looking ahead and controlling is looking back:- Planning is a future oriented function as it involves looking in advance and making policies for the maximum utilisation of resources in future that is why it is
considered as forward looking function. In controlling we look back to the performance which is already achieved by the employees and compare it with plans. If there are deviations in actual and standard performance or output then controlling function makes sure that in future actual performance matches with the planned performance. Therefore, controlling is also a forward looking function.

Thus planning & controlling cannot be separated. The two are supplementary functions which support each other for successful execution of both the functions.

Planning makes controlling effective where as controlling improves future planning.

**Controlling Process :**

1. **Setting performance Standards** : Standards are the criteria against which actual performance would be measured. Thus standards become basis for comparison and the manager insists on following of standards.

2. **Measurement of Actual performance** : Performance should be measured in an objective and reliable manner which includes personal observation, sample checking. Performance should be measured in same terms in which standards have been established, this will facilitate comparison.

3. **Comparing Actual performance with standard** : This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired performance. If the performance matches the standards it may be assumed that everything is under control.

4. **Analysing Deviations** - The deviations from the standards are assessed and analysed to identify the causes of deviations.

5. **Taking Corrective Action** :- The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within the acceptable limits. But where significant deviations occur corrective action is taken.

**1 Mark Questions :-**

1. Explain the meaning of controlling.

2. Write the first step of controlling process.
3. What are the two types of deviations.

4. Which feature of controlling does it refer to when it is said that 'Controlling is exercised at all levels of management'?

3-4 Marks Questions

5. Why is controlling called an all pervasive function? Explain.

6. Why is controlling called a positive process?

7. How is controlling both forward looking as well as backward looking?

8. Explain the characteristics of controlling.

9. There are two managers Mr. X and Mr. Y. They both have different point of views. Mr. X says that “controlling is backward looking” while Mr. Y contradicts by saying that “controlling is forward looking”. Who do you think is right? Give reason.

9. ABC Ltd. is engaged in manufacturing readymade garments. The target production is 500 shirts per day. The company has been successfully attaining this target until last three months. The actual production has been varying between 400-450 shirts. Which management function is needed to rectify the situation? Write any two features associated with it.

5-6 Marks Questions:

11. Explain the various steps involved in the process of control.

12. Explain the importance of controlling in an organisation.

13. 'Planning and controlling are mutually interrelated and inter-dependent activities'. Explain.

14. Explain the limitations of controlling.
Introduction:

Money required for carrying out business activities is called business finance. Finance is needed to establish a business, to run it, to modernize it, to expand or diversify it.

Financial management is the activity concerned with the planning, raising, controlling and administering of funds used in the business. It is concerned with optimal procurement as well as usage of finance. It aims at ensuring availability of enough funds whenever required as well as avoiding idle finance.

Objectives of Financial Management

1. **Wealth Maximisation** :- The main objective of Financial management is to maximise shareholder's wealth, for which achievement of optimum capital structure and proper utilization of funds is a must.

2. **To procure sufficient funds for the organisation** – Adequate and regular supply of funds is to be maintained for smooth operations of the business.

3. To ensure effective utilisation of funds.

4. **To ensure safety of funds**– The chances of risk in investments should be minimum possible.

5. **To attain optimum capital structure**– A sound and economical combination of shares and debentures must be attempted so as to maintain optimum capital structure.

Financial Decisions

- **Investment Decision**
  - Capital Budgeting
  - Working Capital

- **Financing Decision**
  - Equity
  - Debt
  - Financial Institutions

- **Dividend Decision**
  - Retained Earnings
  - Distribution of Dividends
Every company is required to take three main financial decisions which are as follows:-

1. **Investment Decision :-**

It relates to how the firm's funds are invested in different assets. Investment decision can be long-term or short-term. A long term investment decision is called capital budgeting decision as they involve huge amounts of funds and are irreversible except at a huge cost while short term investment decisions are called working capital decisions, which affect day to day working of a business.

**Factors affecting Investment Decisions / Capital Budgeting decisions**

1. **Cash flows of the project** : The series of cash receipts and payments over the life of an investment proposal should be considered and analysed for selecting the best proposal.

2. **Rate of Return** : The expected returns from each proposal and risk involved in them should be taken into account to select the best proposal.

3. **Investment Criteria Involved** : The various investment proposals are evaluated on the basis of capital budgeting techniques. These involve calculation regarding investment amount, interest rate, cash flows, rate of return etc.

2. **Financing Decision** : It relates to the amount of finance to be raised from various long term sources. The main sources of funds are owner’s funds i.e. equity / share holder's funds and the borrowed funds i.e. Debts. Borrowed funds have to be repaid at a fixed time and thus some amount of financial risk (i.e. risk of default on payment) is there in debt financing. Moreover interest on borrowed funds has to be paid regardless of whether or not a firm has made a profit. On the other hand, shareholder’s fund involve no commitment regarding payment of returns or repayment of capital. A firm mixes both debt and equity in making financing decisions.

**Factors Affecting Financing Decision**

1. **Cost** :- The cost of raising funds from different sources are different. The cheapest source should be selected.

2. **Risk** :- The risk associated with different sources is different. More risk is associated with borrowed funds as compared to owner's fund as interest is paid on it and it is repaid also, after a fixed period of time or on expiry of its tenure.
3. **Floatation Cost** :- The costs involved in issuing securities such as brokers commission, underwriters' fees, expenses on prospectus etc are called flotation costs. Higher the flotation cost, less attractive is the source of finance.

4. **Cash flow position of the business** :- In case the cash flow position of a company is good enough then it can easily use borrowed funds and pay interest on time.

5. **Control Considerations** : In case the existing shareholders want to retain the complete control of business then finance can be raised through borrowed funds but when they are ready for dilution of control over business, equity can be used for raising finance.

6. **State of Capital Markets** :- During boom, finance can easily be raised by issuing shares but during depression period, raising finance by means of debt is easy.

7. **Period of Finance** - For permanent capital requirement, Equity shares must be issued as they are not to be paid back and for long and medium term requirement, preference shares or debentures can be issued.

3. **Dividend Decision** :-

Dividend refers to that part of the profit which is distributed to shareholders. A company is required to decide how much of the profit earned by it should be distributed among shareholders and how much should be retained. The decision regarding dividend should be taken keeping in view the overall objective of maximising shareholder's wealth.

**Factors affecting Dividend Decision** :

1. **Earnings** : - Companies having high and stable earning could declare high rate of dividends as dividends are paid out of current and past earnings.

2. **Stability of Dividends** : Companies generally follow the policy of stable dividend. The dividend per share is not altered/ changed in case earnings change by small proportion or increase in earnings is temporary in nature.

3. **Growth Prospects** : In case there are growth prospects for the company in the near future them it will retain its earning and thus, no or less dividend will be declared.

4. **Cash Flow Positions** : Dividends involve an outflow of cash and thus, availability of adequate cash is foremost requirement for declaration of
dividends.

5. **Preference of Shareholders**: While deciding about dividend the preference of shareholders is also taken into account. In case shareholders desire for dividend then company may go for declaring the same.

6. **Taxation Policy**: A company is required to pay tax on dividend declared by it. If tax on dividend is higher, company will prefer to pay less by way of dividends whereas if tax rates are lower then more dividends can be declared by the company.

7. **Issue of bonus shares**: Companies with large reserves may also distribute bonus shares to increase their capital base as it signifies growth of the company and enhances its reputation also.

8. **Legal constraints** – Under provisions of Companies Act, all earnings can’t be distributed and the company has to provide for various reserves. This limits the capacity of company to declare dividend.

**FINANCIAL PLANNING**

**Financial Planning :-**

The process of estimating the fund requirement of a business and specifying the sources of funds is called financial planning. It ensures that enough funds are available at right time so that a firm could honour its commitments and carry out its plans.

**Importance of Financial Planning**

(1) To ensure availability of adequate funds at right time.

(2) To see that the firm does not raise funds unnecessarily.

(3) It provides policies and procedures for the sound administration of finance function.

(4) It results in preparation of plans for future. Thus new projects can be undertaken smoothly.

(5) It attempts to achieve a balance between inflow and outflow of funds. Adequate liquidity is ensured throughout the year.

(6) It serves as the basis of financial control. The management attempts to ensure utilization of funds in tune with the financial plans.
Capital Structure

Capital structure refers to the mix between owner's funds and borrowed funds. It will be said to be optimal when the proportion of debt and equity is such that it results in an increase in the value of the equity share. The proportion of debt in the overall capital of a firm is called Financial Leverage or Capital Gearing. When the proportion of debt in the total capital is high then the firm will be called highly levered firm but when the proportion of debts in the total capital is less, then the firm will be called low levered firm.

Factors affecting Capital Structure:-

1. **Trading on Equity** : It refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest. Trading on equity happens when the rate of earning of an organisation is higher than the cost at which funds have been borrowed and as a result equity shareholders get higher rate of dividend per share. The use of more debt along with the equity increases EPS as the debt carries fixed amount of interest which is tax deductible. Let us understand with an example :-

<table>
<thead>
<tr>
<th></th>
<th>Company X</th>
<th>Company Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital ( of Rs. 10 each )</td>
<td>10,00,000</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Debentures @ 10%</td>
<td></td>
<td>5,00,000</td>
</tr>
<tr>
<td>Total capital</td>
<td>10,00,000</td>
<td>10,00,000</td>
</tr>
<tr>
<td>Earning before int. and taxes(EBIT) @ 25% p.a</td>
<td>2,50,000</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Less interest on deb.</td>
<td></td>
<td>(50,000)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>2,50,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Less tax (40%)</td>
<td>(1,00,000)</td>
<td>(80,000)</td>
</tr>
<tr>
<td>Profit after tax ( available for equity share holders)</td>
<td>1,50,000</td>
<td>1,20,000</td>
</tr>
<tr>
<td>No. of equity shares.</td>
<td>1,00,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>₹ 1.50</td>
<td>₹ 2.40</td>
</tr>
</tbody>
</table>

Thus the EPS of company Y is higher than company X because of application of 'Trading on equity'.

2. **Cash flow position** :- In case a company has strong cash flow position then it may raise finance by issuing debts, as they are to be paid back after some time.

3. **Interest Coverage Ratio** :- It refers to the number of times earning before interest and taxes of a company covers the interest obligation. High Interest
coverage ratio indicates that company can have more of borrowed funds. Formula for calculating ICR = EBIT / interest.

4. **Return on Investment** :- If return on investment is higher than the rate of interest on debt then it will be beneficial for a firm to raise finance through borrowed funds.

5. **Floatation Cost** :- The cost involved in issuing securities such as brokers' commission, under-writers' fees, cost of prospectus etc is called flotation cost. While selecting the source of finance, flotation cost should be taken into account.

6. **Control** :- When existing shareholders are ready to dilute their control over the firm then new equity shares can be issued for raising finance but in reverse situation debts should be used.

7. **Tax Rate** :- Interest on debt is allowed as a deduction, thus in case of high tax rate, debts are preferred over equity but in case of low tax rate more preference is given to equity.

8. **Flexibility** :- A good financial structure should be flexible enough to have scope for expansion or contraction of capitalization whenever the need arises. Issue of debenture and preference shares brings flexibility.

9. **Capital market conditions** :- Conditions prevailing in capital market influences the determination of securities to be issued. Like during depression, people do not like to take risk and so are not interested in equity shares but during boom, investors are ready to take risk and invest in equity shares.

**Fixed Capital**

Fixed capital refers to investment in long-term assets. Investment in fixed assets is for longer duration and they must be financed through long-term sources of capital. Decisions relating to fixed capital involve huge capital/ funds and are not reversible without incurring heavy losses.

**Factors affecting requirement of Fixed capital**

1. **Nature of Business** : Manufacturing concerns require huge investment in fixed assets & thus huge fixed capital is required for them but trading concerns need less fixed capital as they are not required to purchase plant and machinery etc.

2. **Scale of Operations** : An organisation operating on large scale requires
more fixed capital as compared to an organisation operating on small scale.

**For Example** - A large scale steel enterprise like TISCO requires large investment as compared to a mini steel plant.

3. **Choice of Technique** :- An organisation using capital intensive techniques requires more investment in plant & machinery as compared to an organisation using labour intensive techniques.

4. **Technology upgradation** :- Organisations using assets which become obsolete faster require more fixed capital as compared to other organisations.

5. **Growth Prospects** :- Companies having more growth plans require more fixed capital. In order to expand production capacity more plant & machinery are required.

6. **Diversification** :- In case a company goes for diversification then it will require more fixed capital to invest in fixed assets like plant and machinery.

7. **Distribution Channels** :- The firm which sells its product through wholesalers and retailers requires less fixed capital.

8. **Collaboration** :- If companies are under collaboration, Joint venture, then they need less fixed capital as they share plant & machinery with their collaborators.

**Working Capital**

Working Capital refers to the capital required for day to day working of an organisation. Apart from the investment in fixed assets every business organisation needs to invest in current assets, which can be converted into cash or cash equivalents within a period of one year. They provide liquidity to the business. Working capital is of two types - Gross working capital and Net working capital. Investment in all the current assets is called Gross Working Capital whereas the excess of current assets over current liabilities is called Net Working Capital. Following are the factors which affect working capital requirements of an organisation:-

1. **Nature of Business** : A trading organisation needs a lower amount of working capital as compared to a manufacturing organisation, as trading organisation undertakes no processing work.

2. **Scale of operations** :- An organisation operating on large scale will require
more inventory and thus, its working capital requirement will be more as compared to small organisation.

3. **Business Cycle**: In the time of boom more production will be undertaken and so more working capital will be required during that time as compared to depression.

4. **Seasonal Factors**: During peak season demand of a product will be high and thus high working capital will be required as compared to lean season.

5. **Credit allowed**: If credit is allowed by a concern to its customers than it will require more working capital but if goods are sold on cash basis than less working capital is required.

6. **Credit availed**: If a firm is able to purchase raw materials on credit from its suppliers than less working capital will be required.

7. **Inflation**: Working capital requirement is also determined by price level changes. For example, during inflation prices of raw material, wages also rise resulting in increase in working capital requirements.

8. **Turnover of working capital**: Turnover means speed with which the working capital is converted into cash by sale of goods. If it is speedier, the amount of working capital required will be less.

1 Mark Questions

1. Name the concept which increases the return on equity shares with a change in the capital structure.

2. A company wants to establish a new unit in which a machinery worth ₹ 10 lakhs is involved. Identify the type of decision involved in financial management.

3. What is the primary aim of financial management?

4. What is financial risk?

5. Why service-industry requires less working capital?

6. Identify the decision taken in financial management which affects the liquidity as well as profitability of business.

7. 'A' Ltd. earns a net profit of Rs 50 crores. Atul, the finance manager of 'A'
Ltd. has to decide how to appropriate their profits. Which financial decision will help him in deciding it?

3/4 Marks Questions


2. What is meant by financial planning? Explain its objectives.

3. Explain the meaning and objectives of financial management.

4. Explain Financial Leverage and Trading on Equity.

5. Explain the various financial decisions taken by an organisation.

6. How does 'Trading on equity' affect the capital structure of a company? Explain with the help of a suitable example.

5/6 Marks Questions

1. Define capital structure. Explain five factors affecting it.

2. Explain six factors affecting fixed capital of a concern.

3. Give the meaning of Working capital. Explain any five factors determining Working capital requirements.

4. What is meant by Dividend Decision? Explain any five factors affecting it.

5. Suggest Working capital requirement for the following manufacturing concerns:
   a) Bread
   b) Sugar
   c) Coolers
   d) Motor Car
   e) Locomotive
   f) Furniture on Specific order.

6. Explain the three major decisions taken by a Finance Manager.
UNIT - 10

FINANCIAL MARKETS

Introduction :

Financial Market is a market for creation and exchange of financial assets like shares, bonds etc. It helps in mobilising savings and channelising them into the most productive uses. It helps to link the savers and the investors by mobilizing funds between them. The persons or institutions by which allocation of funds is done are called Financial Intermediaries. They bring together borrowers and lenders and make funds available to those willing to pay for their use.

Functions of Financial Market:-

1. **Mobilisation of Savings and channeling them into the most productive uses**: Financial market facilitates the transfer of savings from savers to investors and thus helps to channelise surplus funds into the most productive use.

2. **Helps in Price Determination**: Financial Market helps in interaction of savers and investors which in turn helps in the determination of prices of the financial assets such as shares, debentures etc.

3. **Provide Liquidity to Financial Assets**: Financial market facilitates easy purchase and sale of financial assets. Thus, it provides liquidity to them so that they can be easily converted into cash whenever required.

4. **Reduce cost of transactions**: Financial market provides valuable information about securities which helps in saving time, efforts and money and thus it reduces cost of transactions.
Types of Financial Markets

Money Market :-

It is a market for short term funds/securities whose period of maturity is upto one year. The major participants in the money market are RBI, Commercial Banks, Non-Banking Finance Companies, State Government, Large Corporate Houses and Mutual Funds. The main instruments of money market are as follows:-

1. **Treasury Bills** : They are issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds. They are issued at a price which is lower than their face value and are repaid at par. They are available for a minimum amount of ₹ 25000 and in multiples thereof. They are also known as Zero Coupon Bonds. They are negotiable instruments i.e. they are freely transferable.

2. **Commercial Paper** : It is a short term unsecured promissory note issued by large credit worthy companies to raise short term funds at lower rates of interest than market rates. They are negotiable instruments transferable by endorsement and delivery with a fixed maturity period of 15 days to one year.

3. **Call Money** : It is short term finance repayable on demand, with a maturity period of one day to 15 days, used for interbank transactions. Call Money is a method by which banks borrow from each other to be able to maintain the
cash reserve ratio as per RBI. The interest rate paid on call money loans is known as the call rate.

4. **Certificate of Deposit**: It is an unsecured instrument issued in bearer form by Commercial Banks & Financial Institutions. They can be issued to individuals, Corporations and companies for raising money for a short period ranging from 91 days to one year.

5. **Commercial Bill**: It is a bill of exchange used to finance the working capital requirements of business firms. A seller of the goods draws the bill on the buyer when goods are sold on credit. When the bill is accepted by the buyer it becomes a marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill maturity.

**Capital Market**:

It is a market for long term funds where debt and equity are traded. It consists of development banks, commercial banks and stock exchanges. The capital market can be divided into two parts:-

1. **Primary Market**.
2. **Secondary Market**.

**Primary Market**:

It deals with the new securities which are issued for the first time. It is also known as the New Issue Market. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals. It has no fixed geographical location and only buying of securities takes place in the primary market.

**Methods of floatation of New Issues in the Primary Market**:-

1. **Offer through Prospectus**: It involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.

2. **Offer for sale**: Under this method securities are offered for sale through intermediaries like issuing houses or stock brokers. The company sells securities to intermediary / broker at an agreed price and the broker resells them to investors at a higher price.
3. **Private Placements**: It refers to the process in which securities are allotted to institutional investors and some selected individuals.

4. **Rights Issue**: It refers to the issue in which new shares are offered to the existing shareholders in proportion to the number of shares they already possess.

5. **e-IPOs**: It is a method of issuing securities through an online system of stock exchange. A company proposing to issue capital to the public through the online system of the stock exchange has to enter into an agreement with the stock exchange. This is called an e-initial public offer. SEBI's registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company.

**Secondary Market**:

It is also known as the stock market or stock exchange where purchase and sale of existing securities takes place. They are located at specified places and both the buying as well as selling of securities takes place.

### Difference between Primary and Secondary Market

<table>
<thead>
<tr>
<th>Basis</th>
<th>Primary Market</th>
<th>Secondary Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Securities</td>
<td>Only new Securities are traded.</td>
<td>Existing securities are traded.</td>
</tr>
<tr>
<td>2. Price of Securities</td>
<td>Prices of securities are determined by the management of the company</td>
<td>Price are determined by the forces of demand and supply of the securities.</td>
</tr>
<tr>
<td>3. Purchase &amp; Sale.</td>
<td>Securities are sold to investors directly by the company or through intermediary.</td>
<td>Investors exchange ownership of securities.</td>
</tr>
<tr>
<td>4. Place of Market</td>
<td>There is no fixed geographical location.</td>
<td>Located at specified places.</td>
</tr>
<tr>
<td>5. Medium</td>
<td>Only buying of securities takes place.</td>
<td>Both buying &amp; selling of securities can take place.</td>
</tr>
</tbody>
</table>
Stock Exchange / Share Market

A Stock Exchange is an institution which provides a platform for buying and selling of existing securities. It facilitates the exchange of a security i.e. share, debenture etc. into money and vice versa. Following are some of the important functions of a Stock Exchange:-

1. **Providing liquidity and Marketability to Existing Securities**: Stock Exchange provides a ready and continuous market for the sale and purchase of securities.

2. **Pricing of Securities**: Stock Exchange helps in constant valuation of securities which provide instant information to both buyers and sellers and thus helps in pricing of securities which is based on the forces of demand & supply.

3. **Safety of transaction**: The members of a stock exchange are well regulated, who are required to work within the legal framework. This ensures safety of transactions.

4. **Contributes to Economic Growth**: Stock exchange provides a platform by which savings get channelised into the most productive investment proposals, which leads to capital formation & economic growth.

5. **Spreading of Equity culture**: Stock exchange helps in educating public about investments in securities which leads to spreading of Equity culture.

6. **Providing scope for speculation**: Stock exchange provides scope within the provisions of law for speculation in a restricted and controlled manner.

Trading Procedure on a Stock Exchange:-

1. **Selection of Broker**: In order to trade on a Stock Exchange first a broker is selected who should be a member of stock exchange as they can only trade on the stock exchange.

2. **Placing the order**: After selecting a broker, the investors specify the type and number of securities they want to buy or sell.

3. **Executing the order**: The broker will buy or sell the securities as per the instructions of the investor.

4. **Settlement**: Transactions on a stock exchange may be carried out on either cash basis or carry over basis (i.e. badla). The time period for which the
transactions are carried forward is referred to as accounts which vary from a
fortnight to a month. All transactions made during one account are to be
settled by payment for purchases and by delivery of share certificates,
which is a proof of ownership of securities by an individual.

Earlier trading on a stock exchange took place through a public outcry or
auction system which is now replaced by an online screen based electronic
trading system. Moreover, to eliminate, the problems of theft, forgery,
transfer, delays etc an electronic book entry from a holding and transferring
securities has been introduced, which is called process of dematerialisation
of securities.

(Difference between Capital and Money Market.)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Basis</th>
<th>Capital Market</th>
<th>Money Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Participants</td>
<td>Financial Institutions, Banks, Corporate Entities, foreign investors and individuals.</td>
<td>RBI, Banks Financial Institutions &amp; finance companies</td>
</tr>
<tr>
<td>2.</td>
<td>Instruments</td>
<td>Equity shares, bonds preference shares and debentures.</td>
<td>Treasury Bills, Trade bills, commercial paper, call money etc.</td>
</tr>
<tr>
<td></td>
<td>Traded</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Investment</td>
<td>Does not necessarily require a huge financial outlay.</td>
<td>Entail huge sums of money as the instruments are quite expensive.</td>
</tr>
<tr>
<td></td>
<td>outlay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Duration</td>
<td>Deals in medium &amp; long term securities having maturity period of over</td>
<td>Deals in short term funds having maturity period up to one year. one year.</td>
</tr>
<tr>
<td>5.</td>
<td>Liquidity</td>
<td>Securities are less liquid as compared to money</td>
<td>Money market instruments are highly liquid. market securities.</td>
</tr>
<tr>
<td>6.</td>
<td>Expected</td>
<td>High return</td>
<td>Low return</td>
</tr>
<tr>
<td>7.</td>
<td>Safety</td>
<td>Capital Market instruments are riskier both with respect to return and repayment.</td>
<td>Money market instruments are generally much safer with a minimum risk of default.</td>
</tr>
</tbody>
</table>
**Depository Services and DEMAT Accounts**: Keeping in the mind the difficulties to transfer of shares in physical form, SEBI has developed a new system in which trading in shares is made compulsory in electronic form. Depository services system and D-Mat Account are very basis of this system.

**Depository Services**:-‘Depository’ is an institution / organization which holds securities (e.g. shares, debentures, bonds, mutual funds etc.) in electronic form, in which trading is done. The services provided by a Depository are termed as 'Depository Services'. At present there are two depositories in India: NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.). which are known as "Depository Participants". (DPs)

**Services provided by Depository**

- Dematerialisation (usually known as demat) is converting physical certificates to electronic form.
- Rematerialisation, known as remat, is reverse of demat, i.e getting physical certificates from the electronic securities.
- Transfer of securities, change of beneficial ownership.
- Settlement of trades done on exchange connected to the Depository. Now a days on-line paper-less trading in shares of the company is compulsory in India. Depository services is the name of that mechanism. In this system transfer of ownership in shares take place by means of book entry without the physical delivery of shares. When an investor wants to deal in shares of any company he has to open a Demat account. There are four players who participate in this system.

1. **The Depository** : A depository is an institution which holds the shares of an investor in electronic form. There are two depository institutions in India these are NSDL and CDSL.

2. **The Depository Participant** : He opens the account of Investor and maintains securities records.

3. **The Investor** : He is a person who wants to deal in shares whose name is recorded.

4. **The Issuing Company** : That organisation which issues the securities. This issuing company sends a list of the shareholders to the
Benefits of Depository Services

- Sale and Purchase of shares and stocks of any company on any stock Exchange.
- Saves time.
- Lower transaction costs.
- Ease in trading.
- Transparency in transactions.
- No counterfeiting of security certificate.
- Physical presence of investor is not required in stock exchange.
- Risk of mutilation and loss of security certificate is eliminated.

Demat Account

Demat account is the abbreviation of 'Dematerialized Account'. Demat (Dematerialized account refers to an account which an Indian citizen must open with the depository) participant (banks, stockbrokers) to trade in listed securities in electronic form wherein one can hold shares of various companies in the Dematerialized {electronic} form. Access to De-mat account requires an internet password and a transaction password. Transfer and purchase of securities can then be initiated. Purchase and sale of securities on the De-mat account are automatically made once transaction is confirmed and completed.

Benefits of Demat Account

1. Reduces paper work.
2. Elimination of problems on transfer of shares such as loss, theft and delay.
3. Exemption of stamp duty when transfer of shares.
4. The concept of odd lot stand abolished.
5. Increase liquidity through speedy settlement.
6. Attract foreign investors and promoting foreign investment.
7. A single demat account can hold investments in both equity and debt instruments.

8. Traders can work from anywhere.

9. Automatic credit into demat account for shares arising out of bonus / split /consolidation / merger.

10. Immediate transfer of securities.

11. Change in address recorded with a DP gets registered with all companies in which investor holds securities eliminating the need to correspond with each of them.

**Opening of Demat Account**

A Demat account is opened on the same lines as that of a bank account. Prescribed account opening forms available with the DP, need to be filled in. Standard agreement is to be signed by the client and the DP, which details the rights and obligation of both parties. Along with the form, the client is required to attach photograph, attested copies of residence proof and proof of identity need to be submitted.

**Securities and Exchange Board of India (SEBI)**

SEBI was established by Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was given a statutory status on 30 January 1992 through an ordinance, which was later replaced by an Act of Parliament known as the SEBI Act, 1992. It seeks to protect the interest of investors in new and second hand securities.

**Objectives of SEBI**

1. To regulate stock exchange and the securities market to promote their orderly functioning.

2. To protect the rights and interests of investors and to guide & educate them.

3. To prevent trade mal practices such as internal trading.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.

**Functions of SEBI**

The SEBI performs three important functions:-

1. **Regulatory functions** - These functions are performed by SEBI to regulate the business in stock exchange.

2. **Development functions** - These functions are performed by SEBI to promote and develop activities in stock.

3. **Protective functions** - These functions are performed by SEBI to protect the interest of investors and provide safety on investments.

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**Functions of SEBI**

1. **Regulatory Functions**
   - Framing Rule & Regulations
   - Registration of brokers & sub-brokers.
   - Registration of collective investment schemes & mutual funds.
   - Regulation of stock broker, portfolio exchanges, underwriters & merchant bankers.
   - Regulation of task over bids by companies.
   - Levying fee or other charges as per act.

2. **Development Functions**
   - Training of intermediaries
   - Conducting Research & Publishing useful information.
   - Undertaking measures to develop capital market by adopting flexible approach.
   - Educating Investors to broaden their understanding.
   - Permitting Internet trading through registered stock brokers.

3. **Protective Functions**
   - Prohibiting of fraudulent & unfair trade practices.
   - Check on insider trading.
   - Ensure investors protection.
   - Promote fair practices & code of conduct in securities market.
   - Check on preferential allotment.
One Marks Questions:

1. What is the maturity period of a commercial Paper?
2. What is a Treasury Bill?
3. AB Ltd. has sold 1 lakh equity shares of Rs. 10 each at Rs. 12 per share to an investment banker, who offered them to the public at Rs. 20 each. Identify the method of floatation.
5. Who acts as the Watchdog of Security Market in India?
6. Who is the Borrower of call money?
7. What is the other name of Zero coupon Bonds?
8. Who issues the treasury Bill?
9. What is the other name of Primary Market?
10. What is a Prospectus?
11. What is Dematerialization?
12. What is the minimum amount of Treasury Bill?
13. What is Demat A/C?
14. Write one benefit of Demat Account?
15. What do you mean by 'Depository'?
16. What is the full form of CDSL?
17. What is the full form of NSDL?
18. What is the full form of DEMAT?
19. Where is a DEMAT account used?
20. Shabnam wants to invest her savings in share market. What is the most important requirement for this?
21. Julie wants to get her share certificates in electronic form. What is the name of service provided by Depository?
3/4 Marks Questions

1. State the various protective functions of SEBI.
2. What is money market? Explain its three instruments.
3. What is meant by commercial paper & certificate of Deposit?
4. State any four regulatory functions of the SEBI.
5. Write difference between Primary and Secondary Market.
6. What are the services provided by a Depository?
7. What are the benefits of opening a DEMAT account?
8. Harjeet wants to invest money in share market. As a Financial advisor what will you suggest him to do and why?
   (Hint: Open a Demat account and explain benefits)

5/6 Marks Questions

1. Explain any five functions of stock exchange.
2. Why was SEBI set up? State its development functions.
3. Explain any five methods of floating new issues in the primary market.
4. Explain the trading procedure on stock exchange.
5. Distinguish between capital market and money market on the following basis:
   a) Participants.
   b) Instruments Traded.
   c) Duration of Securities Traded.
   d) Expected Return.
   e) Safety.
   f) Liquidity.
6. 'Primary Markets contribute to capital formation directly. Secondary Market does so indirectly'. Explain.

7. You are finance expert. Your father feels that there is no difference between Primary Market and Secondary Market. Where do you differ with him. How would you convince him. Give reasons in support of your answer.

8. What are the benefits of depository services and Demat Account.

9. Explain the constituents of depository services.

10. Mohan wants to sell 50 shares of Tata Motors. Explain the trading procedure of shares.
MARKETING MANAGEMENT

Market: is used for a place where the buyers and sellers meet and conduct buying and selling activities. In the traditional sense, the market means a place where buyers and sellers gather to enter into transaction involving the exchange of goods and services but today business can be conducted on telephone, through mail, internet etc. In modern marketing sense the term market has a broad meaning. It refers to a set of actual and potential buyers of a product or service.

Marketeer or seller: If a customer is the seeker of satisfaction the marketeer is the provider of satisfaction. Marketeer can be a person or an organisation who makes available the products or services and offers them to the customer with an intention of satisfying the customer needs and wants.

Marketing:
Marketing is a social process whereby people exchange goods & services for money or for something of value to them. Anything that is of value to the other can be marketed e.g.

1. Physical Products - T.V, Mobile phone etc.
2. Services - Insurance, education etc.
3. Person - Selection for different posts.
4. Place- visit - Agra, Taj Mahal, etc.
5. Events - Fashion show, Films, Festivals

Important features of Marketing:

1. Needs and wants: Satisfaction of the needs and wants of individuals and organisations.
2. Creating a market offering: Complete offer for a product of service.
3. Customer value: greatest benefit or value for the money.
4. Exchange mechanism: Exchange of products / services for money / for something of value to them.
Meaning and concept of Marketing management -

Marketing management means management of the marketing functions. It is the process of organising, directing and controlling the activities related to marketing of goods and services to satisfy customers' needs & achieve organisational goals.

Marketing management involves the following steps or activities:-

1. Choosing a target market - e.g., a manufacturer may choose to make ready-made garments upto the age of 5 years for children.

2. Creating customers in target market - To increase the number of customers by analysing their needs, wants etc.

3. Creating superior value - To make the product better than competitors products for customers.

Functions of Marketing / Marketing activities

1. Marketing research : Gathering and analyzing marketing information i.e. what the customers want to buy, when they are likely to buy, in what quantities do they buy, from where do they buy etc.

2. Marketing planning : Specific plan for increasing the level of production, promotion of the products etc and specify the action programmes to achieve these objectives.


4. Buying & assembling : e.g. Car-Raw materials like steel, tyres, batteries, seats, stearing wheel etc are bought & then assembled in the form of a complete product.

5. Packaging / Labelling : designing the package for the product and put label on the package.

6. Branding : Creating a distinct identity of the product from that of competitors e.g. Videocon washing machine, Usha Fans, Lux Soap etc.

Concepts & Philosophies of Marketing :-

1. Production concept : Profits could be maximized by producing products on a large scale, thereby reducing average cost of production.
**Drawback** : Customers do not always buy inexpensive products.

2. **Product Concept** : When the supply of products increases customers begin to prefer products of superior quality and features. Therefore the focus shifted from quantity of production to quality of products.

3. **Sales Concept** : With the passage of time the marketing environment underwent future change of quality and availability does not ensure survival and growth of the firm because of competition to sell quality products. Therefore firms must undertake aggressive selling and promotion efforts to make customer buy their products.

4. **Marketing Concept** : Implies that a firm can achieve its goals by identifying needs of the customer and satisfying them better than the competitors. Customer satisfaction is the precondition for realising the firm's goal and objectives.

5. **Societal Marketing Concept** : Under this concept customer satisfaction is supplemented by social welfare. Some products bring harmful effect on environment so these should not be supplied. It pays attention to the social, ethical and ecological aspects of marketing.

**Meaning and concept of Marketing and selling** :

Marketing is a wide term. It refers to a large set of activities of which selling is just one part. A marketeer before making the sale does a lot of other activities such as planning the type, design of the product, the price and selecting the distribution outlets at which the same would be available.

Selling - refers to the sale of goods or service through publicity, promotion and salesmanship. The title of the product is transferred from seller to buyer. The entire focus in selling is to covert the product into cash.
### Difference between selling & marketing

<table>
<thead>
<tr>
<th>S.no.</th>
<th>Basis</th>
<th>Selling</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Scope</td>
<td>It is only a part of process of marketing.</td>
<td>It is a wide term consisting of a number of activities such as identification, customers need etc.</td>
</tr>
<tr>
<td>2.</td>
<td>Focus</td>
<td>Transfer of the title from seller to consumer.</td>
<td>Achieving maximum satisfaction of customer's needs and wants.</td>
</tr>
<tr>
<td>3.</td>
<td>Pre-dominance</td>
<td>Product is given priority</td>
<td>Costumer is treated as the king.</td>
</tr>
<tr>
<td>5.</td>
<td>Emphasis</td>
<td>Bending the customer according to the product.</td>
<td>To develop the products as per the customers needs.</td>
</tr>
</tbody>
</table>

Meaning and concept of Marketing Mix-In orders to satisfy the needs and wants of its customer, every business firm must develop an appropriate marketing mix.

#### Marketing Mix

Marketing mix refers to ingredients or the tools or the variables which the marketeer mixes in order to interact with a particular market.
Elements / 4 Ps of Marketing mix

1. **Product mix**: All the features of the product or service to be offered for sale.
   - **Elements**
     - Branding
     - Packaging
     - Labelling

2. **Price Mix**: Value (Money) in lieu of product / service received by seller from a buyer.
   - **Factors**
     - Company's Objectives
     - Costs
     - Competition
     - Customer Demand

3. **Promotion mix**: Informing the customers about the products & persuading them to buy the same.
   - **Elements**
     - Personal Selling
     - Advertising
     - Publicity
     - Sales Promotion

4. **Place Mix**: Physical distribution: Various decisions regarding distribution of products.
   - Channels of distribution: Whether wholesalers, retailers are to be used or not.
   - Physical movement of the products from producer to consumers.
   - Storage, transportation, managing inventory (stock) etc.
**IP - PRODUCT MIX**

**Meaning and Concept of Product** - Product is anything that can be offered to a market to satisfy a want or need.

1. Product mix refers to a combination of various features relating to the product or service like quality, size, range, package, warranty etc.

2. **Industrial Products**: used as inputs in producing other products e.g. raw material, tools etc.

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**Classification of Products**

- **Consumer Products**
  - **Durability Basis**
    - Non Durable: which are consumed in a short period of time e.g. soap, toothpaste
    - Durable: which are used for a longer period of time e.g. T.V., washing Machine
  - **Services**: Benefits or satisfaction offered for sale e.g. repair, dry cleaning etc.

- **Shopping Efforts Involved**
  - **Convenience Products**: Which are purchased frequently, immediately with minimum time and efforts e.g. medicine, salt, bread etc.
  - **Shopping Products**: Which are purchased after some shopping efforts on the basis of price, quality etc. e.g. T.V., Jewellery etc.
  - **Speciality Products**: Which have certain special features. Buyers spend a lot of time and efforts to purchase them e.g. Restaurant, Collection of Art work, Particular Hair Cutting Salon etc.
**Features:**

1. The number of buyers are limited
2. The sale of industrial products is generally made with the help of short channels of distribution.

\[
\text{Manufacturer} \rightarrow \text{Retailer} \rightarrow \text{Consumer (One level)}
\]

\[
\text{Manufacturer} \rightarrow \text{Consumer (Direct Selling)}
\]

**PRODUCT MIX** - Three components are - Branding, Packaging, Labelling

1. i) Branding - giving a name / a sign / a symbol etc to a product
   - eg.: Pepsi
   - Nike

**Qualities of a good Brand Name:**

1. **Simple and short** : A brand name should be simple and short as Tata, Bata.
2. **Easily Pronounceable** : A brand names should be easily pronounceable as Lux, Dalda.
3. **Suggestive** : Brand name should be self explanatory, suggesting the inherent quality of the product as Ujjala suggests more whiteness.
4. **Distinctive** : Brand name should be so distinctive that it highlights itself in the group of other brand names such as: Tide, Perk.

**Advantages of Branding:**

1. Brand name helps in advertising it in an easier way.
2. Brand name establishes permanent identity of the product.
3. Branded products can be easily identified by consumers.
4. Brand name promotes repurchasing.
5. **Branding ensures a particular level of quality of the product**: If there is any deviation in the quality the customers can make a complaint to the manufacturer.

2. ii) **Packaging** : Act of designing and producing the container or wrapper of a product. Good packaging often helps in selling the product so it is called a silent salesman.
Levels of packaging

1. Primary package - refers to the product's immediate containere.g. toffee in a wrapper, a match box.

2. Secondary package - refers to additional layers of protection that are kept till the product is ready for use e.g. a Colgate toothpaste usually comes in a card board box.

3. Transportation package - refers to further packaging components necessary for storage, identification and transportation e.g. package of toffees are put into corrugated boxes for storing at a manufacturer's warehouse and for transportation.

Functions of Packaging:-


2. Product Protection : The main function of the packing is to provide protection to the product from dirt, insects and breakage.

3. Convenience : It provides convenience in carriage, stocking and in consumption.

4. Product Promotion : Packaging simplifies the work of sales promotion.

Advantages of Packaging :-

1. Rising standards of Health and Sanitation : The people are becoming health conscious so they like to buy packed goods. The reason is that the chances of adulteration in such goods are minimised.

2. Innovational Opportunity : With the increasing use of packaging more innovational opportunity becomes available in this area for the researchers.

3. Product Differentiation : Packaging is helpful in creating product differentiation. The colour, material and size of the package makes differences in the quantity of the product.

3. Labelling : A label is a carrier of information which is to be provided to the customers which describes the product, its contents, the date and time of manufacturing etc.

Functions:

1. Helps in identifying the product or brand from the various types available,
say deodorants, chocolates, biscuits imprinted on its package helps us to identify from number of packages, which is our favourite brand.

2. Helps in grading the products into different categories.

3. Carrier of information: Labelling helps in describing salient features of a product such as contents, price, instructions for use etc.

4. Legal Requirement: It provides information required by law e.g. statutory warning on the package of cigarette.

5. Helps in promotion of products: Attractive labels increase sales volume by mentioning the promotional schemes launched by companies.

II P - PRICE MIX: Meaning and concept of price: Price may be defined as the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a service. Pricing is crucial for manufacturers, customers and intermediaries. A customer will buy a product only when he perceives that value or a product is at least equal to value of money, which he has to pay in the form of price. Before framing any pricing policy following factors should be considered:

1. Pricing objectives -
   (a) to maximise profits in the short term tend to charge maximum price.
   (b) Obtain large share of the market i.e., by maximising sales it will charge lower price.
   (c) Firm is operating in the competitive market it may charge low price for it.

2. Cost of Production - Needs to be fully realised before fixing prices.

3. Demand - High Demand and less supply may permit increase in price while low demand and more supply may not allow increase in price.

4. Competition in market - Prices of competitors need to be considered before fixing prices.

5. Government Policies - Products regulated by government pricing regulations need to be priced as per government policies.
III. P - Place Mix/ Physical Distribution Mix :

Covers all the activities required to physically move goods from manufacturers to the customers Important activities include.

1. **Order Processing**: Accurate & speedy order processing leads to profit & goodwill & vice versa.

2. **Transportation**: Add value of the goods by moving them to the place where they are required.

3. **Inventory control**: Additional demand can be met in less time, the need for inventory will also be low.

4. **Warehousing**: Need arises to fill the gap between the time when the product is produced & time when it is required for consumption.

**Channels of Distribution** :

- **Direct Channel**: Manufacturer - Customer
- **Indirect Channel**: Manufacturer - Retailer - Customer
  - Manufacture - wholesaler - Retailer - customer
  - Manufacturer - Agent - wholesaler - Retailer - customer

**Factors Determining Choice of Channels of Distribution**:

Choice of appropriate channel of distribution is a very important marketing decision, which affects the performance of an organisation. Whether the firm will adopt direct marketing channels or long channels involving a no. of intermediaries is a strategic decision.
Factors Determining Choice of Channels of Distribution

<table>
<thead>
<tr>
<th>Market related Factors</th>
<th>Product Related Factors</th>
<th>Company related factor</th>
</tr>
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<tbody>
<tr>
<td>4. Products' Complexity - Complex products - direct selling, Non- Complex - long channels.</td>
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</table>

IV.P- Promotion Mix

It refers to combination of promotional tools used by an organisation to communicate and persuade customers to buy its products.

Tools/ Elements of Promotion mix:-

1. Advertising: Most commonly used tool of promotion. It is an impersonal form to communication, which is paid by the marketers (sponsors) to promote goods and services. Common mediums are newspaper, magazine, television & radio.

Role or Importance of Advertising:

1. Enhancing customer satisfaction and confidence.
2. Helpful in increasing the demand of existing product.
3. Helpful to increase the market share.
4. Helpful in generating more employment.
5. Helpful in the economic development of the country.
7. No fear of exploitation.

**Objections Against Advertising** - Though advertising is one of the most frequently used medium of promotion of goods & services but it attracts a lot of criticism / objections against it, which are as follows:

1. **Increased Product Price** - Which is ultimately added to product cost, manufacturers pass this cost to ultimate customers.
2. **Confusion to Customers** - The number of advertisements shown for a single product having different brands confuse the customers and it becomes very difficult for them to make choice.
3. **Encouraging sale of inferior products** - In many cases some product features are over emphasized.
4. **Advertisement of Bad Tastes** - Events, models degrade the human dignity.
5. **Undermines social values and promotes materialism** - It induces the customers to buy more and more products. Because of emphasis on materialism, social relationships are distorted which brings social disorder.

In the changed economic environment of globalisation, advertising is considered as an important tool of marketing. It helps a firm in effectively communicating with its target market, increasing the sale and thereby reducing the per unit cost of production. It is not a social waste rather it adds value to the social cause by giving a boost to production and generating employment.

2. **Personal Selling:**

   Personal selling consists of contacting prospective buyers of product personally i.e face to face interaction between seller and buyer for the purpose of sale.

**Features of the Personal Selling:**

1. Personal contact is established under personal selling.
2. Oral conversation.
3. Quick solution of queries.
4. Receipt of additional information.
5. Development of relationship with the prospective customers which may become important in making sale.

Qualities of a good Salesman:

1. Physical Qualities: Physical qualities include personality health, stamina and tolerance. A salesman can instantly connect with the customers if he is good looking and smart.

2. Mental Qualities: These include mainly skills, mental alertness, imagination and self confidence.

3. Technical Qualities: He should have full and updated knowledge about the product he is selling—its features, price and variety available. He should be aware of the nature of work carried on by the firm, he is working for.

4. Good communication skills: He should be able to develop a good conversation with the customer. He should be confident while he is communicating and should be able to answer all the queries of the customer satisfactorily.

5. Honesty: It is a very important quality of a good salesman. In order to establish the goodwill of firm he must be honest and sincere in performing his duty. A salesman who resorts to selling inferior goods, charging higher rates, providing wrong information, giving exaggerated claims etc will cause a decline in goodwill of the firm in the long run.

6. Courtesy: A Salesman who is polite and courteous generates buyer's confidence selling product becomes easy for him.

7. Persistent: "Never give up", is the spirit that a salesman should have. Making the customer buy maximum amount of a product is the ultimate task given to him.

8. Capacity to inspire trust: The salesman should have the convincing power to develop the belief in a customer that the product he is buying is the best product in the market.

3. Sales Promotion: Short term incentives designed to encourage the buyers to make immediate purchase of a product/service.
Techniques

1. **Rebate**: Special price to clear off excess inventory.

2. **Discounts**: Price reduced to induce buyers to buy more.

3. **Sampling**: Free sample of a product to customers to try product & learn about it.

4. **Lucky draw**: Lucky draw coupon e.g., purchase an easy product & win a car etc.

5. **Full Finance @ 0%**: Easy financing schemes.

6. **Contents**: Competitive events involving application of skills or luck.

7. **Product Combination**: Offering another product as gift along with the purchase of a product.

8. **Instant draws and assigned gift**: Scratch a card and instantly win a prize with the purchase of a TV, T. Shirt, Refrigerator etc.

9. **Quantity Gift**: Offering extra quantity of the product e.g., Buy three LUX soaps and get one free.

Public Relations

“The Chartered Institute of Public Relations” defines Public Relations as ‘a strategic management function that adds value to an organization by helping it to manage its reputation’

Public relations covers a wide range of tactics, usually involve providing information to independent media sources in the hope of gaining favorable coverage. It also involves a mix of promoting specific products, services and events and promoting the overall brand of an organization, which is an ongoing tact.

Public Relation Tools include-

1. **Press release**: A press release is an announcement of an event, performance, or other newsworthy item that is issued to the press by a public relations professional of an organisation.

   It is written in the form of a story with an attractive heading so that the media quickly grasps and circulates the message through newspapers / radio / television / internet.
2. **Press Kits**: It is a comprehensive package of information outlining a company's products and services most frequently sent to members of the press. It includes

- A brief company biography.
- Information of senior management.
- Comments from customers.
- Reprints of newspaper and magazine articles.
- Photos of products.

3. **Brochures**: It is a booklet published by the organization which contains the organization’s background, its ethics, vision, mission, its past, present and future projects, its USP, etc. Eg: brochure given to new employees to give them a gist of the organization.

4. **Newsletter**: It is a printed publication produced at regular intervals focussing on a particular set of people. The content of a newsletter is presented in a writing style that is less formal and letter-like. For example, a newsletter published by a college consists of information about activities conducted during a particular period, special achievements by students or teachers, etc.

5. **Events and Press support**: Special events are acts of news development. The ingredients are time, place, people, activities, drama, showmanship; one special event may have many subsidiary events, such as luncheons, banquets, contests, speeches, and many others as part of the build up.

6. **Conferences and Seminars**: Conferences and seminars are conducted for making people aware about the organization. For example travel companies generally call prospective clients and offer travel packages. The members are contacted through telephones and asked to attend seminar.

7. **Websites**: A website acts as a window for the outside world to know an organization. So it is designed not just to serve as a resource for members, but also to present a positive message to non-members who are browsing through.
ROLE OF ‘PR’ IN AN ORGANIZATION

(i) Smooth functioning of business and achievement of objectives.

(ii) Building corporate image that affects favorably on its products.
     - Uprkeep of parks, gardens, sponsoring sports activities etc.

(iii) Build interest in the established product and help in launching new products.

(iv) Establishing positive image of products facing adverse publicity. For example, soft drink majors- Pepsi, Coco-cola was subjected to a controversy that there were pesticides found in the samples collected from different areas. In this situation, the companies attracted severe criticism from various sectors like consumers, investors, government etc. This called for public relations exercise so that damage control could be done.

(V) It acts as a supplement to advertising in promoting (new and existing) products.

1 Mark Questions.

1. Define marketing management in present context.

2. Outline one objective of marketing management.

3. What is marketing research?

4. What is meant by product Mix?

5. What is a trade mark?

6. Which marketing philosophy gives more importance to consumer welfare instead of consumer satisfaction.

7. State any one pillar of marketing concept.

8. Name the channel wherein goods are made directly available by the manufacturer to consumers without involving any intermediary.

9. A lunch box free with Kissan Sauce is an example of the techniques of sales promotion. Name the technique.

10. Write any two brand names available in the market.

11. State any one feature of convenience goods.
12. Toothpaste is packed in a tube is an example of which type of packing.

13. Which concept of Marketing suggests that the organisation should earn profit through volume of production.

14. Name any two products which are subject to the process of grading.

15. Name the element of marketing mix which makes the products available to the target customers.

3-4 Marks Questions

1. Explain any three advantages of labelling to the customers.

2. Differentiate between marketing and selling on the basis of:
   (i) Meaning (ii) Scope (iii) Objectives.

3. Write any four differences between advertising and personal selling.

4. State any three advantages of sales promotion.

5. Explain any four functions of packaging.

6. 'Advertising confuses rather than helps'. Do you agree? Give reasons.

5-6 Marks Questions

1. Explain the various functions of marketing mix

2. Explain four important elements of marketing mix.

3. Explain any four factors on which the choice of channels of distribution depends.


5. Why Public Relations are important for an organisation?

6. Explain four qualities of a good brand.

7. Explain three methods of sales promotion.

8. A new movie "XYZ" is to be released in the month of December. Which department is going to look into the techniques of promoting the movie?
What tools will they employ for the same? Explain any three.

9. A mobile company is launching a new high tech mobile phone in the market. What will be the role of public relations department in this case. What tools can it use to promote it?

10. What are the most important requirements for personal selling? What skills are needed to perform it effectively?
UNIT 12

CONSUMER PROTECTION

Protecting consumers from unfair trade practices, adopted by the producers and sellers of goods and services is termed as consumer protection. It not only includes educating consumers about their rights and responsibilities, but also helps in getting their grievances redressed.

Importance of Consumer Protection (from consumer’s point of view):

1. **Consumers Ignorance**: Majority of consumers are not aware of their rights and reliefs available to them as a result of which they are exploited. In order to save consumers from exploitation, consumer protection is needed.

2. **Unorganised Consumers**: In India consumers are still unorganised and there is lack of consumer organisations also, thus consumer protection is required.

3. **Widespread exploitation of Consumers**: Consumers are exploited on large scale by means of various unfair trade practices and consumer protection is required to protect them from exploitation.

Importance of Consumer Protection (from the point of view of Business):

1. **Long term business interest**: It is always in the interest of the business to keep its customer satisfied. Global competition could be won only after satisfying customers. Satisfied customers lead to repeat sales and help in increasing customer base of business.

2. **Moral Justification**: It is the moral duty of any business to take care of consumer interest & avoid any form of their exploitation & unfair trade practices like defective & unsafe products, adultration, false and misleading advertising, hoardings, black marketing etc.

3. **Business uses resources of society**: Every business uses the resources of the society and thus it is their responsibility to work in the interest of the society.

4. **Social Responsibility**: A business has social responsibilities towards various groups like owners, workers, government, customers etc. Thus, customers should be provided qualitative goods at reasonable prices.

5. **Government Intervention**: If a business engages in any form of unfair
trade practices then government takes action against it, which adversely affects its goodwill.

CONSUMER PROTECTION ACT, 1986 (CPA, 1986)

**Meaning of Consumer**

Consumer protection Act 1986 was introduced to make consumers aware about their rights and to give them legal protection. According to it consumer is defined as follows.

1. Any person who buys any goods for a consideration. It includes any user of such goods with the approval of the buyer. But it does not include a person who obtains goods for resale or any commercial purpose.

2. Any person who avails any services for a consideration. It includes any beneficiary of such services but it does not include a person who avails such service for any commercial purpose.

**Meaning of Consumer Protection**

**CPA, 1986 defines consumer protection as :**

1. To protect and promote the interest of consumers by recognising consumers rights such as right to safety, right to be informed, right to choose, right to be heard, right to seek redressal and right to consumer education.

2. To provide for a simple, speedy and inexpensive redressal of consumer grievances by setting a 3 tier enforcement machinery.

**Rights of a Consumer**

Consumer protection Act, 1986 has provided six rights to the consumers, which are as follows:

1. **Right to Safety**: Consumer has the right to be protected against products, & services which are hazardous to health & life (should use ISI marked electronic device).

2. **Right to be informed**: Consumer has right to have complete information about the product before buying it.

3. **Right to choose**: Consumer has a right to choose any product out of the available products as per his own decision making.

4. **Right to be heard**: Consumer has the right to file a complaint to be heard in
case of dissatisfaction with goods or services (use of grievance cell)

5. **Right to Seek Redressal**: Consumer has the right to get relief in case the product or service falls short of his expectations or is dangerous. He may be provided with replacement / removal of defect or compensation for any loss. Various redressal forums are set up by the Govt. at National and State level.

6. **Right to consumer education**: Consumer has the right to acquire knowledge and to be well informed throughout life. He should be made aware of his rights and reliefs available to him in case of the product or service falls short of his exceptions. The Govt. of India has included consumer education in the school curriculum & is making use of media to make consumers aware of their rights.

**Responsibilities / Duties of a Consumer**

1. **Consumer must exercise his rights**: Consumers must be aware of their rights with regard to the products or services they buy from the market.

2. **Consumer must be a Cautious consumer**: While buying a product or services, a consumer should read labels carefully.

3. Consumer must file a complaint in an appropriate forum in case of any shortcoming in product / service availed.

4. Consumer must insist on cash memo i.e a proof of purchase is required to file a complaint.

5. Consumer must be quality conscious. He should ask / look for ISI mark on electric goods. FPO mark on food products, Hall mark on jewellery etc.

6. Consumer must bring the discrepancy in the advertisement to the notice of the sponsor.

7. Consumer must exercise his legal right. If any of these rights is violated by manufacturer or seller, the consumers must file a complaint with the legal machinery constituted under CPA, 1986.

**THE SALIENT FEATURES AND PROVISIONS OF CONSUMER PROTECTION ACT, 1986**

Who Can File A Complaint Under CPA, 1986

A complaint before the appropriate consumer forum can be made by:

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(1) Any consumer.

(2) Any registered consumer association.

(3) The central or state government.

(4) One or more consumers on behalf of numerous consumers having same interest.

(5) A legal heir or representative of a deceased consumer.

Against whom a complaint can be filed?

Consumer Protection Act, 1986 is applicable to all types of undertakings, whether big or small, private or public, or in co-operative sector, manufacturer or a trader, wholesaler or retailer, supplying goods or providing services.

Thus, a complaint can be filed against:

1. The seller, manufacturer or dealer of defective goods. Defect means any fault, imperfection or shortcoming in the quality, quantity or purity of goods.

2. The provider of services if they are deficient in any manner. Deficiency means any imperfection, shortcoming or inadequacy in the quality, nature and manner of performance of services.

Consumer Protection Act, 1986 defines deficiency as “any fault, imperfection, shortcoming or inadequacy in the quality, nature and manner of performance which is required to be maintained by or under any law for the time being in force or has been undertaken to be performed by a person in pursuance of a contract or otherwise in relation to any service”.

The term service includes any service that is not rendered free of charge.

The term deficiency has been applied differently to different sectors. For example, in the banking sector acts such as delay in issuing a cheque book, non encashment of a cheque and delay have been held to be deficiency and whereas in the medical sector, courts are not as liberal and count only gross negligence as deficiency. The courts have however been proactive in holding that even departments such as the housing boards are liable for any deficiency in services rendered.
REDRESSAL AGENCIES UNDER CONSUMER PROTECTION ACT, 1986

For the redressal of consumer grievances the act provides a three-tier machinery as:

- National Commission
- State Commission
- District Forum

(1) **DISTRICT FORUM**

District forum are set up in each district by the state concerned. The important features are:

(a) It consists of a President and two members, one of whom should be a woman, duly appointed by State Govt.

(b) It can receive consumer complaints of not more than Rs. 20 Lakhs value.

(c) On receiving the complaint, the district forum shall refer the complaint to the opposite party concerned and send the sample of goods for testing in a laboratory.

(d) The district forum after being satisfied that goods are defective or there is some unfair trade practice can issue an order to opposite party directing him to either replace or return the price or pay compensation. In case the aggrieved party is not satisfied with the order of district forum. He can appeal before state forum within 30 days of passing an order.

(2) **STATE COMMISSION**

It is set up in each state by the govt. concerned. The salient features are:

(a) Each commission consists of a president and at least 2 members appointed by state Govt.

(b) Complaints of at least Rs. 20 lakhs but not more than 1 crore can be filed with state commission.

(c) On receiving the complaint, the state commission can also refer the complaint to opposite party and send the goods for testing in laboratory.
(d) The state commission after being satisfied can order to opposite party to either replace or repay or pay compensation. In case the aggrieved party is not satisfied, they can appeal before national commission within 30 days of passing an order.

(3) NATIONAL COMMISSION

It is set up by Central Govt. The provisions of act are: -

(a) It consists of a President and at least 4 members appointed by Central Govt.

(b) All complaints are pertaining to goods and services of value more than Rs. 1 crore can be filed with national commission.

(c) On receiving the complaint, the national commission can also refer it to opposite party and send goods for testing.

(d) The National Commission has the power to issue orders for replacement or removal and to pay the compensation for loss.

REMEDIES AVAILABLE TO CONSUMERS

1. To remove the defect in goods or services.
2. To replace the defective product with a new one free from defect.
3. To refund the price paid for the product/service.
4. To pay compensation for the loss or injury suffered by the consumer due to product/service.
5. To discontinue the unfair trade practice and not to repeat them.
6. To withdraw the hazardous goods from sale.
7. To pay any amount (not less than 5% of the value of defective goods) to any person, consumer organisation.
8. To issue corrective advertisement to neutralise the effect of a misleading advertisement.

CONSUMER AWARENESS -
Some important consumer organization and NGO's engaged in protecting consumer interests are:-

1. Consumer coordination council, Delhi.
2. Voluntary organisation in Interest of Consumer Education, Delhi.

**Role of Consumer organisations and NGO's**

1. Educating the general public about consumer rights by organising training programmes, seminars and workshops.
2. Publishing periodical & other publications to educate consumers.
3. Providing legal assistance to consumers by providing legal advice etc.
4. Producing films or cassettes on food adulteration, misuse of drugs etc.
5. Filing complaints in appropriate consumer courts on behalf of consumers.
6. Encouraging consumers to take on action against unfair trade practices.
7. Taking an initiative in filing cases in consumer courts on behalf of consumers.

**Ways and Means of Consumer Protection.**


2. **Consumer Organisation**: Force business firms to avoid malpractices & exploitation of consumers.

3. **Business Association**: The associations of trade, Commerce & business like federation of Indian Chambers of Commerce (FICCI), Confederation of Indian Industries (CII) have laid down their code of conduct for their members in their dealings with the customers.
IMPORTANT QUESTIONS:

1 marks

1. What are the two aspects of consumer protection?
   (Hint - Educating consumers and Redressal of their grievances)

2. Give an example of consumer exploitation.
   (unsafe products / Black marketing)

3. Name any two legalitations which provide protection to consumers.
   (Hint: (i) CPA 1986, The Essential Commodities Act 1955)

   (Hint - Consumer organisation & Govt.)

5. Which mark is issued under the Bureau of Indian Standard Act 1986?
   (Hint : ISI)

6. Against whom can a complaint be filed by a consumer?

7. What does a 'defect in goods' mean?

8. What does a 'deficiency in services' mean?

9. If a dealer responds positively to a consumer's complaint, which value of the dealer is depicted?
   (Hint: Honesty, commitment)

3/4 Marks Questions

1. Explain the role of Universities & schools in consumer protection?

2. Explain briefly the salient features of consumer protection Act 1986?

3. "NGO's perform several functions for the protection and promotion of interest of consumers." State any six such functions.

4. Joseph had got a confirmed ticket of Jet Airways. The flight was later
cancelled on account of technical problem. Is it a deficiency in service? What relief can Joseph seek in this regard?

5. Kabir bought a piece of cloth for getting a pant stitched from a dealer for Rs.1000/- with proper receipt. His tailor detected manufacturing defect in the pant piece. The shopkeeper refused to change or compensate. What relief can Kabir seek in this regard?

6. Mamta bought a branded computer for Rs. 30,000/- from an authorized dealer with proper receipt. There was a warranty of one year on the computer. When she used the computer at home, she detected that CD drive was not functioning properly due to technical reasons. What remedy can she seek from the company?
UNIT 13

PROJECT WORK

INTRODUCTION:

A project means an activity which has a special purpose and which is performed with absolute devotion and enthusiasm. Project work can be assigned to the students whether individually or in groups. It has two types as:-

1. Visit of an Industrial unit as Bank, Stock Exchange or a mall.
2. Case study of a product as packing, branding and labelling.

OBJECTS OF A PROJECT

1. Providing deep knowledge to the students.
2. Developing Creativity in the students.
3. Developing independent thinking skills in the student.
4. To convert theoretical knowledge into practical knowledge.

STEPS IN PROJECT WORK

1. Selection of topic or problem
2. Define the problem.
3. Setting objectives of the problem.
4. Preparing questionnaire.
5. Conducting enquiry.
6. Collect information and Data.
7. Editing the information or data.
8. Analysing the Data or Information.

9. Preparing the Report

The marks will be allocated on the following heads by C.B.S.E.:-

1. Initiative, cooperativeness and participation  1 Mark
2. Creativity in presentation  1 Mark
3. Content, observation and research work  2 Marks
4. Analysis of situations  2 Marks
5. Viva  4 Marks

Total: 10 Marks

Project One - Elements of Business Environment

The teachers should help the students in selecting any one element of the following:

1. Changes witnessed over the last few years on mode of packaging and its economic impact. The teacher may guide the students to identify the following changes:

(a) The changes in transportation of fruits and vegetables such as cardboard crates being used in place of wooden crates, etc. Reasons for above changes.

(b) Milk being supplied in glass bottles, later in plastic bags and now in tetra packs and through vending machines.

(c) Plastic furniture [doors and stools] gaining preference over wooden furniture.

(d) The origin of cardboard and the various stages of changes and growth.

(e) Brown paper bags packing to recycled paper bags to plastic bags and cloth bags.

(f) Reuse of packaging [bottles, jars and tins] to attract customers for
their products.

(g) The concept of pyramid packaging for milk.

(h) Cost being borne by the consumer/manufacturer.

(i) Packaging used as means of advertisements.

2. The reasons behind changes in the following:

Coca-Cola and Fanta in the seventies to Thums up and Campa Cola in the eighties to Pepsi and Coke in nineties.

The teacher may guide the students to the times when India sold Coca-Cola and Fanta were being manufactured in India by the foreign companies.

The students may be asked to enquire about

a. Reasons of stopping the manufacturing of the above mentioned drinks in India THEN.

b. The introduction of Thums up and Campa cola range.

c. Re-entry of Coke and introduction of Pepsi in the Indian market.

d. Factors responsible for the change.

e. Other linkages with the above.

f. Leading brands and the company having the highest market share.

g. Different local brands venturing in the Indian market.

h. The rating of the above brands in the market.

i. The survival and reasons of failure in competition with the international brands.

j. Other observations made by the students.

The teacher may develop the following on the above lines:-

Changing role of the women in the past 25 years relating to joint families, nuclear families, women as a bread earner of the family, changes in the requirement, trend of mixers, washing machines, micro waves and standard of living.
4. The changes in the pattern of import and export of different products.
5. The trend in the changing interest rates and their effect on savings.
6. A study on child labour laws, its implementation and consequences.
7. The state of anti-plastic campaign—the law, its effects and implementation.
8. The laws of mining/setting up of industries, rules and regulations, licences required for running that business.
9. Social factors affecting acceptance and rejection of an identified product. (Dish washer, Atta maker, etc)
10. What has been the effect on the types of goods and service? The students can take examples like:
   a. Washing machines, micro-waves, mixers and grinders.
   b. Need for creche, day care center for young and old.
   c. Ready to eat food, eating food outside, and tiffin centers.
11. Change in the man-machine ratio, technological advances resulting in change of cost structure.
12. Effect of change in technological environment on the behaviors of employee.

II  Project TWO: Principles of Management

The students are required to visit any one of the following:

1) A departmental store.
2) An Industrial unit.
3) A fast food outlet.
4) Any other organisation approved by the teacher.

They are required to observe the application of the 14 General Principles of management advocated by Fayol.

They may enquire into the application of scientific management techniques by F.W. Taylor in the unit visited.
**Tips to teacher**

(i) The teacher may organise this visit.

(ii) The teacher should facilitate the students to identify any unit of their choice and guide them to identify the principles that are being followed.

(iii) Similarly they should guide the students to identify the techniques of scientific management implemented in the organisation.

(iv) It may be done as a group activity.

(v) The observations could be on the basis of:-

- The different stages of division of word resulting to specialisation.
- Following instructions and accountability of subordinates to higher authorities.
- Visibility of order and equity in the unit.
- Balance of authority and responsibility.
- Communication levels and pattern in the organisation.
- Methods and techniques followed by the organisation for unity of direction and coordination amongst all.
- Methods of wage payments followed:
- The teacher may organise this visit.
- The arrangements of fatigue study.
- Derivation of time study.
- Derivation and advantages of method study.
- Organisational chart of functional foremanship.

(vi) It is advised that students should be motivated to pick up different areas of visit. As presentations of different areas in the class would help in better understanding to the other students.

(vii) The students may be encouraged to develop worksheets. Teachers should help students to prepare observation tools to be used for undertaking the
III. **Project three: Marketing Management**

Students are advised by the teacher to do a simple market research with the objective of finding out a product/service whose marketing may be profitable like:

1. Shampoo  
2. Deodorant  
3. Roosted snacks  
4. Washing detergent  
5. Chocolate  
6. Pickles  
7. Battle  
8. Bread  
9. Jam  
10. Cheese spread  
11. Dry Cleaning

Any more can be suggested.

Now the students are required to make a project on the identified product/service keeping in mind the following:

1. Why have they selected this product/service?  
2. Find out 5 competitive brands that exist in the market.  
3. What permission and licences would be required to make the product?  
4. What are your competitors Unique Selling Proposition. [U.S.P.]?  
5. Does your product have any range, give details?  
6. What is the name of your product?  
7. Enlist its features.  
8. Draw and Label of your product.  
9. Draw a logo for your product.  
10. Draft a tag line.
11. What is the selling price of your competitors product?
   (i) Selling price to consumer
   (ii) Selling price to retailer
   (iii) Selling price to wholesaler

   What is the profit margin in percentage to the
   • Manufacturer.
   • Wholesaler.
   • Retailer.

12. How will your product be packed?

13. Which channel of distribution are you going to use?


15. What is going to be your selling price?
   (i) The wholesaler
   (ii) To retailer
   (iii) To wholesaler

16. List 5 ways of promoting your product.

17. Any schemes for
   (i) The wholesaler
   (ii) The retailer
   (iii) The consumer

18. What is going to be your U.S.P ?

19. Means of transport you will use and why?

20. Draft a good message for your label.

21. What good effective techniques will you follow for your product.

22. What cost effective techniques will you follow for your promotion plan.

   By doing such type of project one donate will understand the importance of concept of marketing mix and the necessary decisions regarding to the your mix p's product, place, price and promotion.
CBSE PAPER 2013 (Delhi)
Question Paper with Solutions

व्यावसायिक अध्ययन
BUSINESS STUDIES

निर्धारित समय : 3 घण्टे
Time allowed : 3 hours

अधिकतम अंक : 90
Maximum Marks : 90

सामान्य निर्देशः

(i) 1 अंक वाले प्रश्नों के उत्तर एक शब्द से एक वाक्य तक हों।

(ii) 3 अंकों वाले प्रश्नों के उत्तर 50–75 शब्दों के हों।

(iii) 4 - 5 अंकों वाले प्रश्नों के उत्तर लगभग 150 शब्दों के हों।

(iv) 6 अंकों वाले प्रश्नों के उत्तर लगभग 200 शब्दों के हों।

(v) एक प्रश्न के सभी भाग साथ-साथ ही हल कीजिए।

General instructions :

(i) Answers to questions carrying 1 mark may be from one word to one sentence.

(ii) Answers to questions carrying 3 marks may be from 50 to 75 sentence.

(iii) Answers to questions carrying 4 - 5 marks may be about 150 word.

(iv) Answers to questions carrying 6 marks may be about 200 words.

(v) Attempt all parts of a question together.
1. Define "Recruitment".

2. Why is motivation called a complex process?

3. At which level of management directing takes place?

4. What should be done while 'taking corrective action' in the process of controlling when especially in the important areas deviations go beyond the acceptable range?

5. State how 'Growth Prospects' affect working capital requirements of a company?

6. What is the primary objective of 'Financial Management'?

7. Give the meaning of 'Money Market'.

8. State any one consequence of a well performed 'allocative function' of financial market.

9. Why is marketing called a social process?

10. Distinguish between 'Selling Concept' and 'Marketing Concept' of Marketing Management Philosophies on the basis of 'main focus'.

11. page 133
1. Under three-tier machinery where can a legal heir or representative of a deceased consumer file a complaint when the compensation claimed is ₹ 25 Lakhs.

12. Pragya bought an iron of a reputed brand for ₹ 1,500 but it caused an electric shock while it was being used. Pragya wants to exercise her 'Right' Identify the 'Right' under which she can be protected.

13. Pragya bought an iron of a reputed brand for ₹ 1,500 but it caused an electric shock while it was being used. Pragya wants to exercise her 'Right' Identify the 'Right' under which she can be protected.

14. Name and explain the principle of management according to which a manager should replace 'I' with 'We' in all his conversations with workers.

15. Explain 'Harmony Not Discord' as a principle of Scientific Management.

16. Explain 'objectives' as one of the types of plans.

17. Explain the following as features of Planning:
   (a) Planning is continuous, and
   (b) Planning is futuristic.
Ajay was appointed a marketing head of 'Alfa Enterprise' manufacturers of toothpaste and toothbrushes. His target sale was 2000 units a month. Apart from thinking about various channels of distribution to achieve the target he himself started visiting schools in backward areas. He found that even after taking various steps and counselling, some school children had not started brushing their teeth. He investigated and found that they could not afford to buy toothbrush and toothpaste. So with due permission he started donating 200 toothbrushes and toothpastes every month to the school.

(i) Identify the channel of distribution 'Ajay' would adopt for distribution of toothpaste and toothbrushes and justify it by giving one reason.

(ii) State any two values which Ajay wants to communicate to the society.

'Though branding adds to the cost, it provides several advantages to the consumers'. In the light of the statement, state any three advantages of branding to customers.

State the steps in the organising process.

(अ) उद्देश्य;  
(ब) क्षेत्र;  
(छ) स्थिति; तथा
Distinguish between 'Delegation' and 'Decentralisation' on the basis of the following:

(a) Purpose;
(b) Scope;
(c) Status; and
(d) Nature.

21. ‘दीर्घकालीन निवेश निर्णय’ का क्या अर्थ है? दीर्घकालीन निवेश निर्णय को प्रभावित करने वाली किन्हीं तीन कारकों का उल्लेख कीजिए।

What is meant by 'Long-term Investment Decision'? State any three factors which affect the long term investment decision.

22. व्यवसाय के दृष्टिकोण से उपभोक्ता संरक्षण के महत्व के किन्हीं चार बिन्दुओं का वर्णन कीजिए।

Explain any four points of importance of consumer protection from the point of view of business.

23. ऐसे पॉंच कारणों का वर्णन कीजिए जो यह स्पष्ट करते हैं कि प्रबंध दिन-प्रतिदिन महत्वपूर्ण होता जा रहा है।

Describe any five reasons which clarify that management is gaining importance day-by-day.

24. कोर्ट ने एक आदेश पार्श्व का सामान्यता कि विभाग के बच्चों के लिए सभी विभागों में ‘पानी शुद्धिकरण यंत्र’ (बाटर प्यूरिफायर) अवश्य होना चाहिए क्योंकि:

(i) सामान्यता: समाज जीवन को गुणवत्ता के प्रति अधिक चिंतित है:

(ii) प्रतियोगी कीमतों पर पानी शुद्धिकरण यंत्र निर्मित करने के लिए नवप्रकार्य तकनीकों का विकास हो रहा है।

(iii) आय में वृद्धि हो रही है और बच्चे घर पर भी शुद्ध पानी पी रहे हैं।

पानी शुद्धिकरण व्यवसाय के प्रति सरकार भी अपना सकारात्मक दृष्टिकोण दिखा रही है। उपरोक्त विवरण से पंक्तियों को उद्धृत करते हुए व्यावसायिक पर्यावरण के विभिन्न आयामों को पहचानिए।

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The court passed an order that all schools must have water purifier for the school children as:

(i) Society in general is more concerned about quality of life;
(ii) Innovative techniques are being developed to manufacture water purifier at competitive rates:
(iii) Incomes are rising and children at home are also drinking purified water. 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.

Nishant, the director of a garments company, is planning to manufacture bags for the utilization of waste material from one of his garment units. He has decided that this manufacturing unit will be set-up in a rural area of Orissa where people have very few job-opportunities and labour is available at very low rates. He has also thought of giving equal opportunities to men and women.

For this he wants four different heads for Sales, Accounts, Purchase and...
Production. He gives an advertisement and shortlists ten candidates per post after conducting different selection-tests.

(i) Identify and state the next three steps for choosing the best candidate out of the candidates short-listed.

(ii) Also identify two values which Nishant wants to communicate to the society by setting up this manufacturing unit.

26. 'नियोजन एवं नियंत्रण प्रबंध के अपृश्वकरणीय द्विय-युग में।' कैसे?
   'Planning and Controlling are inseparable twins of management.' How?

27. 'सभी समस्त में प्रभावी संगठन में बाधाएँ अधिक या कम अंश में विद्यमान रहती हैं।' इन बाधाओं को दूर करने के किन्हीं छः उपायों का उल्लेख कीजिए।

अध्याय

'पर्यावेशक समस्त में बहुत से कार्यों को सम्पन्न करने एक महत्वपूर्ण भूमिका निभाता है।' ऐसे किन्हीं छः कार्यों का उल्लेख कीजिए।

'The barriers to effective communication exist in all organisations to a greater or lesser degree.' State any six measures to overcome these barriers.

OR

'The Supervisor performs a very important role in an organisation by performing multiple functions.' State any six such functions.

28. 'लाभांश निर्णय' से क्या अभिव्यक्ति है? एक कम्पनी के लाभांश निर्णय को प्रभावित करने वाले किन्हीं चार कारकों को समझाए।

अध्याय

'वित्तीय नियोजन' का क्या अर्थ है? वित्तीय नियोजन के महत्व पर प्रकाश डालने वाले किन्हीं पाँच बिंदुओं को समझाए।

What is meant by 'Dividend Decision'? Explain any four factors which affect the dividend decision of a company.
What is meant by 'Financial Planning'? Explain any five points which highlight its importance.

What is meant by 'Financial Planning'? Explain any five points which highlight its importance.

Explain the following money market instruments:
(a) Call Money
(b) Treasury Bill and
(c) Commercial Paper
(d) Certificate of Deposit

Explain any four functions of stock exchange.

Explain the concept of personal selling and any four qualities of a good salesman.

Explain any four factors which affect the determination of the price of a product.
SOLUTION

Ans1 Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organization.

Ans2 Motivation is called a complex process because any type of motivation may not have a uniform effect on all the members.

OR

Motivation is called a complex process because individuals are heterogeneous in their expectations, perception and reactions.

Ans3 Directing takes place at every/all levels of management.

Ans4 When deviations go beyond the acceptable range especially in important areas, immediate managerial attention is required so that the deviations do not occur again.

OR

If the deviation cannot be corrected through managerial action the standards may have to be revised.

Ans5 If the growth prospects for a concern are higher, it will require larger amount of Working Capital to meet higher production and sales targets.

Ans6 The primary objective of Financial Management is Wealth maximization i.e. to Maximize the market price of the shares.

Ans7 Money market is a market for short term funds which deals in monetary assets whose period of maturity is up to one year.

Ans8 Consequence of a well performed a Allocative Function of financial market (Any one)

i) The rate of return offered to the households would be higher.

ii) Scarce resources are allocated to those firms which have the highest productivity for the economy.

Ans9 Marketing is called a social process because it involves interaction of people.
OR

Marketing is called a social process because it focuses on needs and wants of people.

Ans10 Main focus of selling concept is on the existing product while main focus of marketing concept is on Customer needs.

Ans11 State commission

Ans12 Right to safety

Ans13 Espirit de corps.

- Management should promote team spirit of unity and harmony among employees.

- This will give rise to spirit of mutual trust and belongingness among team members and will minimize the need for using penalties.

Ans14 HARMONY NOT DISCORD

- The principle emphasizes that there should be complete harmony between the management and the workers.

- This requires mental revolution on the part of both management and the workers. Both management and the workers should transform their thinking.

- Management should share gains of the company if any with the workers and should work hard and be willing to embrace change for the good of the company.

Ans15 Objective

- An objective is the end which the management seeks to achieve.

- An objective needs to be expressed in specific/quantitative terms and is to be achieved within a given time period.

- It is set by the top management and focuses on broad general issues.

Ans16 (a) Planning is continuous because once a plan is framed it is implemented and then it is followed by another plan and so on.
(b) Planning is futuristic because it involves looking ahead and preparing for the future to meet future events effectively to the best advantage of the organization.

Ans17 (i) The channel of distribution, Ajay would adopt (any one)

- Indirect channel
- One level channel
- Two level channel
- Three level channel
- Longer channels.

Because he is distributing consumer goods.

(ii) Values which Ajay wants to communicate to the Society are (any two)

- Charity
- Concern for the underprivileged.
- Hygiene
- Sensitivity towards health

Ans18 Though branding adds to the cost, it provides several advantages to the consumers. In the light of the statement, advantages of branding to customers are:

(i) It helps in product identification because if a customer is satisfied with the product, he need not make a close inspection every time he has to buy the product.

(ii) It ensures quality because if there is any deviation in the quality, the customers can have recourse to the manufacture which builds up their confidence.

(iii) It is a status symbol and the consumers of branded products feel proud of using them adding to their level of satisfaction.
Ans 19  Steps in the organizing process are:

(i) Identification and division of work into manageable activities so that duplication is avoided.

(ii) Departmentalization to group together activities of a similar nature to facilitate specialization.

(iii) Assignment of duties to job positions for effective performance.

(iv) Establishing reporting relationships so that each individual knows who he has to take orders from and to whom he is accountable.

Ans 20  Difference between delegation and decentralization:

<table>
<thead>
<tr>
<th>Basis</th>
<th>Delegation</th>
<th>Decentralization</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) purpose</td>
<td>To lessen the burden of the manager.</td>
<td>To increase the role of the subordinates in the organization by giving them more autonomy.</td>
</tr>
<tr>
<td>(b) scope</td>
<td>It has a narrow scope as it is limited to superior and his immediate subordinate.</td>
<td>It has a wide scope as it implies extension of delegation to the lowest level of management.</td>
</tr>
<tr>
<td>(c) Status</td>
<td>It is a process followed to share tasks.</td>
<td>It is the result of the policy decision of the top management.</td>
</tr>
<tr>
<td>(d) Nature</td>
<td>It is compulsory because no individual can perform all tasks on his own.</td>
<td>It is optional because it is done at the discretion of the top management.</td>
</tr>
</tbody>
</table>
Ans 21 The long term investment decision means committing the funds on a long term basis on fixed assets or various projects of an organization. Factors which affect the long term investment decision are:

The following are the factors affecting the long term investment decision (any three):

(a) Cash flows of the project during the life of an investment affect the long term investment decision.

(b) The rate of return of the project based on expected return and the risk involved affects the long term investment decision.

(c) The investment criteria involved must be considered before taking the long term investment decision.

(d) Nature of business as a trading concern needs lower fixed capital than a manufacturing concern since it does not require to purchase plant and machinery etc.

(e) Scale of operations as a large scale organization requires higher investment in fixed assets than a small scale organization.

(f) Choice of technique as a capital intensive organization requires higher investment in plant and machinery as compared to a labour intensive organization.

Ans 22 Importance of consumer protection from the point of view of business:

(1) Long term Interest- Consumer's faith in an enterprise is of prime importance as if business fails to provide safety the consumers, they will shift over to competitors.

(2) Use of society resources- Business is a trustee of society's resources and they must be used effectively to satisfy the needs of consumers

(3) Social responsibility- The social objectives arise because of several stakeholders of business such as consumers, employees, suppliers, society etc and the business can't ignore the interest of these groups.

(4) Government Invention- The importance of the consumer protection also arises from the fact that Govt. is committed to the welfare of
general public who are consumer also. Over the years, the Govt. has passed several laws for protection of consumers.

Ans 23  Importance of management:

1. **Help in achieving group goals:** Success of an organization can be measured in terms of group goals. Management creates team work and coordination in the group. It reconciles the objectives of the group with those of its members.

2. **Increases efficiency:** Management works out ways to attain efficiency and effectiveness in its activities by planning, organizing, staffing, directing and controlling. Its aim is to reduce the cost and increase profitability and productivity through proper utilization of resources.

3. **Creates a dynamic organization:** An enterprise has to adapt itself to changing demands of the market and society. Management helps people to adapt to these changes of complex and dynamic environment quickly without any resistance.

4. **Help in achieving personal objectives:** Every manager tries to harmonise individual goals with organization goals. Through effective motivation and leadership, management develops team spirit among employees which increases production. Thus employees earn more by producing more which fulfils the objectives of both the groups.

5. **Help in development of society:** Managers work for the development of the society by proving qualitative goals and services, creating employment opportunities and adopting new techniques of production. This increases the national income and living standards of the people. (Any other point with correct explanation, full credit will be given where ½ mark is for heading and ½ mark is for explanation).

Ans 24 1- **Legal environment:** The court passed an order that all the schools must have water purifier for the school children.

2- **Social environment:** Society in general is more concerned about quality of life.

3- **Technological environment:** Innovative techniques are being
developed to manufacture water purifier at competitive rates.

4- **Economic environment**: Incomes are rising and children at home are also drinking purified water.

5- **Political environment**: The government is also showing positive attitude towards the water purifier business. (1/2 mark is for identifying the dimension and 1/2 mark for quoting the line).

Ans25 (i) The next three steps for choosing the best candidate are:

a) **Employment Interview**: Which is conducted to evaluate the applicant's suitability for the job.

b) **Reference and background checks**: For the purpose of verifying the information and gaining additional information.

c) **Selection decision**: From among the candidates: who pass the tests, interviews and reference checks. (Each point careers i make and ½ marks should be deducted if sequence is incorrect)

(ii) The values which Nishant wants to communicate to the society are (any two)

a) Equality

b) Development of rural area

c) Providing job opportunities in rural area

d) Optimum utilization of resources

(Full credit will be given for any other justified response of values)

Ans 26 Planning and controlling are inseparable twins of management because:

1) **Without planning there is no basis for controlling**: Controlling requires standards with which performance can be measured and evaluated. These standards are laid down in planning.

2) **Planning is meaningless without controlling**: Planning sets the standards, controlling observes the deviations from the standards and initiates corrective actions.
3) Planning is an intellectual process involving thinking and analysis to discover and prescribe an appropriate course of action for achieving Objectives. Controlling on the other hand checks whether decisions have been translated into desired actions. Planning is thus prescribing and controlling is evaluative.

4) **Planning and controlling both are forward looking:** Planning is future-oriented function as it involves looking in advance and making policies for future. The controlling function makes sure that in future actual performance and output match with planned performance so it is forward looking.

5) **Planning and controlling both are looking back:** We look back to the performance which is already achieved by the employees and compare it with plan. (Each point carries with mark)

Ans 27 Measures to overcome communication barriers. (any six)

(1) Clarify the ideas before communicating.

(2) Communicate according to the needs of the receiver.

(3) Consult others before communicating.

(4) Beware of the language, tone and content of the message.

(5) Convey things of help and value to listeners.

(6) Ensure proper feedback by asking questions regarding the message conveyed.

(Any other correct point will be given credit)

OR

Functions performed by a Supervisor (Any Six)

(1) Supervisor maintains day to day contact and friendly relations with workers.

(2) Supervisor acts as a link between workers and management by conveying management ideas to the workers and workers problems to the management.
(3) He maintains group unity among workers by sorting out their internal differences.

(4) He provides good on the job training to the workers to build an efficient team.

(5) He builds up high morale among workers through good leadership.

(6) He gives feedback to the workers after analyzing their work.

(Each point carries 1 mark, full credit shall be given for any other suitable point)

Ans 28

Dividend decision is the decision about the proportion of profit to be distributed among the shareholders and to be retained in business.

Factors which affect the dividend decision of the company are:

(1) **Current earnings**- Generally companies distribute higher rate of dividend when earnings are substantially higher as compared to previous year.

(2) **Stability of dividend**- Stable dividend policy ensures regular income to shareholders and has a favorable impact on the value of shares and reduces uncertainty from the point of view of shareholders as they are assured of a reasonable rate of return.

(3) **Liquidity or cash flow position**- The Company must have sufficient cash available with it to pay dividend. If the company has liquidity problem; it may have to skip dividend for a year.

(4) **Shareholders expectations**- Small shareholders prefer current income whereas big wealthy shareholders invest in shares for earning capital gains. Management has to consider the expectations of both the group of shareholders.

OR

The process of estimating the fund requirements of a business and specifying the sources of funds is called financial planning.

OR
Financial planning is the preparation of a financial blueprint of an organization's future operations.

Importance of Financial Planning:

1. Financial planning provides policies and procedures for the sound administration of finance function.

2. Financial planning results in preparation of plans for the future. Thus new projects could be undertaken smoothly.

3. It ensures required funds from various sources for the smooth conduct of business.

4. It achieves a balance between inflow and outflow of funds. Adequate liquidity is ensured throughout the year.

5. It serves as the basis of financial control. The management attempts to ensure utilization of funds in tune with the financial plans.

Ans 29 Four functions of stock exchange are:-

1. **Providing liquidity to securities**- Stock exchanges provide a ready market for the securities issued by various institutions. The investors can convert their money into securities and vice-versa very quickly.

2. **Pricing of securities**- It helps in determining the price of various Securities. The prices at which transactions take place are recorded and made public in the form of market quotations which helps the investors to know current market prices.

3. **Mobilization of savings**- It helps in mobilizations of surplus fund of individual firms for investment in securities.

4. **Safety of transactions**- It ensures fair dealing and safety of funds. The members of stock exchange have to operate under certain rules which seeks to check over-trading, illegitimate speculation and manipulation.

(Or any other function of stock exchange can be explained)

OR
(a) **Call Money**

- It is the method by which banks borrow from each other to be able to maintain the cash reserve ratio.
- It is repayable on demand, with a maturity period of one day to fifteen days.

(b) **Treasury bill**

- It is an instrument issued by Reserve Bank of India on behalf of the Central Government to meet its short term requirements of funds.
- It is highly liquid, has an assured yield and negligible risk of default.

(c) **Commercial Paper**

- It is an instrument issued by large and creditworthy companies to raise short term funds at lower rates of interest than the market rates.
- It is an unsecured, negotiable promissory note with a fixed maturity period.

(d) **Certificate of Deposit**

- A certificate of deposit is a short term, unsecured, negotiable instrument issued by commercial banks or development financial institutions to individuals, corporations and companies.
- It is issued during periods of tight liquidity when the deposit growth of banks is slow but the demand for credit is high.

Ans 30 Personal selling involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales.

Qualities of good salesman:-

1. **Personality** - A good physical appearance is an asset for a salesman as it creates good impression and self-confidence to salesman.
2. **Social qualities** - A salesman should be social and have the ability to mix up with the people. He should be polite, humble and courteous with the customers.

3. **Mental qualities** - An effective salesman must possess certain mental qualities like- imagination, foresightedness, presence of mind, strong memory and initiative.

4. **Communication ability** - Communication skill is an asset for the salesman. He should be able to speak freely, clearly and in a well pitched voice.

   (Or any other quality like vocational skills, Patience, dependability etc)

**OR**

Four factors which affect the determination of the price of product:-

1. **Cost of product** - While fixing the price of a product the cost of production and distribution must be considered which should be covered to avoid losses.

2. **Demand of product** - The market demand for a product has a big impact on its pricing. If the demand is inelastic higher price may be fixed and if the demand is elastic, the firm should not fix higher prices.

3. **Extent of competition** - Competition in the market is a crucial factor in price determination. The price charged for similar product by competition determines the price of our product.

4. **Govt. Regulations** - The maximum sale price of some products is fixed by Govt. No firm can charge beyond the statutory price.

   (Or any other factor likes types of customers, pricing objectives, marketing methods etc.)