COM-RC-1036

BUSINESS ORGANISATION AND MANAGEMENT

GAUHATI UNIVERSITY
Institute of Distance and Open Learning

B.Com First Semester

(Regular Course)

Paper: COM-RC-1036

Business Organisation and Management

(Medium: English)

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Contents:

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ISBN: 978-81-944179-3-4

November, 2019

Published on behalf of Institute of Distance and Open Learning, Gauhati University by the Director, and printed at Gauhati University Press, Guwahati-781014.

UNIT 1

FOUNDATION OF INDIAN BUSINESS

Contents:

1.1 Introduction

Historically, India was regarded as an agrarian economy. However, in the recent years, the dominance of service sector in India is being witnessed by its relatively higher contribution to the country's GDP than agriculture. In spite of these changing trends, India still remains a labour-surplus and capital-scarce country. Thus the Indian economy has been facing severe unemployment crisis since independence. In the light of such circumstances, the role of small scale industries in India is very significant as it contributes towards poverty eradication, employment generation, rural development and balanced regional development. More specifically, the small industries can absorb a huge amount of unemployed labour and be established with a minimum amount of capital. Realizing the potential of these small scale industries in accelerating the economic development of the country, the Government of India has undertaken a slew of initiatives for the promotion and growth of the sector.

1.2 Objectives

After going through this unit, you will be able to learn-

- the nature of business activities in an economy
- the meaning, importance and challenges faced by MSMEs in India
- the Government initiatives towards the promotion of MSMEs in India
- the effect of LPG on the Indian economy
- the emerging dimensions/aspects in modern day business world

1.3 Manufacturing and Service Sector

Business is an activity that involves the production/buying and sale of goods and/or services with the objective of earning profit. Thus, there can be two forms of business activities in an economy, namely, production & sale of goods and rendering of services. The former is concerned with the manufacturing sector and the latter is concerned with the service sector.

Let us now briefly discuss the meaning and nature of manufacturing and service sector.

1.3.1 Manufacturing Sector

Manufacturing sector is that segment of the business activity which comprises of processing raw materials to make a finished product. The product thus manufactured can be seen, touched and felt i.e. it is tangible. The output of the manufacturing sector (or the product) is either sold to the public or other manufacturing businesses that use it as raw material for manufacturing other products. A business enterprise using bamboo plants to manufacture bamboo craft items falls in the manufacturing sector. Businesses in the manufacturing sector usually require factories, machines and humans for their normal functioning. Nowadays, with the digitization of the economy, computers and artificial intelligence are also used in this sector.

1.3.2 Service Sector

Service sector is that segment of the business activity which involves the rendering/delivery of services as per the requirements of the customers. The service product is highly intangible i.e. it cannot be seen or touched but can only be felt or experienced. Unlike goods, services cannot be used as raw materials by other firms. A beauty parlour offering haircuts and other beauty treatments to its customers falls under the service sector. Service firms require equipments and humans to conduct their businesses. However, computers and other technologies are also used in the process of service delivery. Service sector is also popularly known as the tertiary sector of an economy. This sector comprises of industries engaged in financial services, education, healthcare, hospitality and tourism, transportation, telecommunication, media and entertainment, etc. Services contribute more than 60 per cent to the GDP of India.

STOP TO CONSIDER

- Manufacturing sector is that segment of the business activity which comprises of processing raw materials to make a finished product.
- Service sector is that segment of the business activity which involves the rendering/delivery of services as per the requirements of the customers.

Check your progress

1. Business activity involves production and sale of ____________ and rendering of _________.
2. Differentiate between manufacturing and service sector.

Self Asking Question

1. Service sector is becoming dominant in the Indian economy in the recent years. Can India become a developed country without a strong industrial base?

1.4 Small and Medium Enterprises: Concept and Definitions

In the recent years, Small and Medium Enterprises (SMEs) have gained immense prominence in the context of sustainable development of a country. They are regarded as one of the most dynamic and vibrant sectors for the Indian economic structure. SMEs are considered to play a strategic role in the development of the Indian economy. The sector provides a platform for the entrepreneurs of the country and thereby generates employment opportunities for the masses. Moreover, the SMEs occupy a substantial share in the total industrial production and exports of India. At present, the sector contributes around 45 per cent in India's exports, around 25 per cent to the GDP from service activities and more than 33 per cent to the manufacturing output of the country based on data maintained by Ministry of Commerce, Government of India. These enterprises play a vital role in the economic development of a country by providing ancillary support to the large enterprises, effective utilization of untapped capital and human resources, protecting indigenous handicraft and cultural products, and further promoting balanced industrial and regional development as well.

SMEs have not been attributed any globally accepted definition yet. The definition of SMEs differ across countries as well as across time in the same country based on the development pattern and stage, policies enacted by the Government and the administrative structure of the specific country. All these definitions relate to either the capital investment ceiling or the number of people employed or both or any other aspects. The first official definition of SMEs in India was forwarded by the Fiscal Commission in the year 1950. Since then, the definition has undergone numerous modifications over the years. However, a standard definition of SME in India emerged in 2006 with the enforcement of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 by the Ministry of Micro, Small and Medium Enterprises, Government of India.

As per the provisions of the MSMED Act 2006, SMEs in India are broadly classified into two categories, namely, Manufacturing sector and Services sector.

a) ***Manufacturing sector/enterprises:*** These enterprises are defined as business establishments which are engaged in the production or manufacture of goods pertaining to any industry specified in the First Schedule of the Industries (Development and Regulation) Act, 1951.

b) ***Services sector/enterprises:*** These enterprises are defined as business establishments which are engaged in providing or rendering services.

The MSMED Act 2006 further classifies the SMEs into three types, namely, Micro enterprises, Small enterprises and Medium enterprises. These enterprises are defined on the basis of their investment in plant and machinery (in case of manufacturing sector) and investment in equipments (in case of services sector). It is noteworthy that the calculation of the amount of investment excludes the cost of land, building and the items listed by the Ministry of Small Scale Industries vide its notification No. SO 1722(E) dated October 5, 2006. According to the Act, the micro, small and medium enterprises for the manufacturing sector have been defined as follows:

- A **Micro enterprise** is an enterprise where the investment in plant and machinery does not exceed ₹25 lakhs.
- A **Small enterprise** is an enterprise where the investment in plant and machinery is more than ₹25 lakhs but does not exceed ₹5 crores.
- A **Medium enterprise** is an enterprise where the investment in plant and machinery is more than ₹5 crores but does not exceed ₹10 crores.

In addition, the Act defines micro, small and medium enterprises for the services sector as follows:

- A **Micro enterprise** is an enterprise whose investment in equipments does not exceed ₹10 lakhs.
- A **Small enterprise** is an enterprise whose investment in equipments is more than ₹10 lakhs but does not exceed ₹2 crores.
- A **Medium enterprise** is an enterprise whose investment in equipments is more than ₹2 crores but does not exceed ₹5 crores.

Now, the above mentioned definitions of micro, small and medium enterprises are presented in table 1.1 below:

Table 1.1
Definitions of MSMEs

Manufacturing sector	
Enterprises	***Investment in plant and machinery***
Micro enterprise	Does not exceed ₹25 lakhs
Small enterprise	More than ₹25 lakhs but does not exceed ₹5 crores
Medium enterprise	More than ₹5 crores but does not exceed ₹10 crores
Service sector	
Enterprises	***Investment in equipments***
Micro enterprise	Does not exceed ₹10 lakhs
Small enterprise	More than ₹10 lakhs but does not exceed ₹2 crores
Medium enterprise	More than ₹2 crores but does not exceed ₹5 crores

(**Source:** www.dcmsme.gov.in/ssiindia/defination_msme.htm)

STOP TO CONSIDER

The definition of MSME as per the MSMED Act is as follows:

Manufacturing Enterprise

- *A **Micro enterprise** is an enterprise where the investment in plant and machinery does not exceed ₹25 lakhs.*
- *A **Small enterprise** is an enterprise where the investment in plant and machinery is more than ₹25 lakhs but does not exceed ₹5 crores.*
- *A **Medium enterprise** is an enterprise where the investment in plant and machinery is more than ₹5 crores but does not exceed ₹10 crores.*

Service Enterprise

- *A **Micro enterprise** is an enterprise whose investment in equipments does not exceed ₹10 lakhs.*
- *A **Small enterprise** is an enterprise whose investment in equipments is more than ₹10 lakhs but does not exceed ₹2 crores.*
- *A **Medium enterprise** is an enterprise whose investment in equipments is more than ₹2 crores but does not exceed ₹5 crores.*

1.4.1 Rationale of MSMEs in India

The rationale behind development of MSMEs in the country can be justified on the basis of the following points:

1. **Employment:** In a developing country like India with scarcity of capital and abundant availability of labour, MSMEs have the potential to generate large-scale employment opportunities. Moreover, MSMEs help in fostering entrepreneurial attitudes among the youths. It is likely to bring a socio-economic transformation in the country. As per the report of Economic Times in 2018, the MSME sector has been providing employment to about 117 million people across various sectors in the country constituting about 40 per cent of the work force.
2. **Equitable distribution of national income:** MSMEs ensure equal distribution of national income and wealth among the people of the country. They help in reducing the gaps between the haves and have-nots by creating employment potential for the unemployed masses, especially in the rural and backward areas.
3. **Dispersal of industries:** Big industrial houses are mostly located in the urban areas of the country thereby compelling the movement of labour and other resources to these areas. However, the development of MSMEs in the rural and semi-urban areas can help in tapping the local resources such as raw materials, idle savings, local talents, etc. which shall promote balanced regional development in the country and ultimately achieve the goal of inclusive growth.

4. **Utilization of latent resources:** The Government initiatives undertaken towards development of MSMEs in India shall generate an urge among the latent talents to start their own enterprises. Moreover, adequate provision of power, credit facilities and other infrastructural support shall motivate the people to undertake entrepreneurship.
5. **Flexibility:** MSMEs have the capacity to easily adapt to the changing conditions of business environment as compared to that of the large enterprises due to their simple administrative and operational set up. These enterprises comprise a heterogeneous group of businesses in India such as handicrafts, handlooms, entertainment, drugs, garments, agricultural equipments, etc. It is pertinent to note that in the context of several economic reforms taking place from time to time in the Indian economy such as LPG, GST, demonetization, etc. MSMEs are considered to be much more feasible.
6. **Export potential:** MSMEs constitute a significant segment of the economy of India in terms of its contribution to the country's exports. These units mostly cater to the demands of the international markets by producing high-quality personalized and skill-intensive products.
7. **Low investment requirements:** MSMEs are highly labour intensive and less capital intensive. In other words, these enterprises can be established with a small amount of capital and the gestation period is also short. Hence, these units are highly feasible for the Indian economy with low savings and high population.
8. **Better resource allocation:** With increasing budgetary allocations for the development of small scale sector in India, the MSMEs have a huge potential for growth in the country. This will enable them to not only reinvest and expand, but also improve their competitiveness in the economy. For ensuring efficient and effective fund allocation, government is even planning to create a payment platform for MSMEs in the country to enable the filing and payment of bills in the platform itself.
9. **Less pollutant and ecology-friendly:** MSMEs contribute towards sustainable economic development by creating a pollution free environment. In India, the traditional and village industries manufacturing eco-friendly products include handloom, handicraft, pottery, sericulture, vegetable oil, etc. Further, service based traditional industries include ayurveda, yoga, etc. An example of eco-friendly mode of transportation in India is the e-rickshaw.
10. **New government initiatives:** In the recent times, government has introduced a slew of economic initiatives such as *Skill India, Start up India, Stand up India, Digital India, Ease of doing Business in India,* etc. which are expected to pave the growth and development of the MSME sector in India.

STOP TO CONSIDER

The need for MSMEs in a developing country like India arises due to the following reasons:

- *Employment potential*
- *Equitable distribution of national income*
- *Dispersal of industries*
- *Utilization of latent resources*
- *Flexibility*
- *Export potential*
- *Low investment requirements*
- *Better and effective resource allocation*
- *Reduces pollution and is ecology-friendly*
- *Launch of Government initiatives such as Skill India, Start-up India, Stand up India, Ease of Doing Business, etc.*

1.4.2 Objectives of MSMEs

The main objectives of MSMEs are as follows:

1. To create immediate and large-scale employment opportunities with relatively less capital costs;
2. To improve the standard of living of the people in the country;
3. To facilitate effective and efficient utilization of the country's untapped resources;
4. To eradicate poverty and unemployment problem from the country;
5. To promote balanced regional development in the country;
6. To facilitate equitable distribution of income and wealth among the masses through better resource allocation;
7. To bring a socio-economic transformation and facilitate sustainable development of the country.
8. To attain Sustainable Development Goals (SDGs) as per the Sustainable Development Report.

STOP TO CONSIDER

The objectives of MSMEs are as follows:

- *Generation of employment opportunities at less cost*
- *Improvement in the standard of living*
- *Effective and efficient utilization of untapped resources*
- *Elimination of poverty and unemployment*
- *Promotion of balanced regional development*
- *Equitable distribution of income and wealth*
- *Socio-economic transformation and sustainable economic development*
- *Attainment of SDGs*

Check your progress

1. *The MSMED Act was passed by the Government of India in ______________.*
2. *Small scale sector is categorized under MSMED Act into two sectors, namely, ___________ and ______________.*
3. *Enterprises are defined under three categories under MSMED Act 2006, namely, ________, _______________ and ______________.*
4. *Why are MSMEs necessary for a developing economy?*

1.5 Problems encountered by the MSME sector

It has been discussed so far the vast potentialities of MSMEs in India. However, the progress and performance of the sector is not found to be satisfactory. Some of the major causes responsible for their poor growth are discussed as follows:

1. **Inadequate credit facilities:** One of the major problems faced by the MSMEs is the lack of adequate and timely credit facilities. It is mainly due to the fact that banks perceive this sector to be highly risky and the extent of non-performing assets with regard to this segment is also very high. Additionally, the MSMEs cannot afford to mortgage assets, securities or other collaterals needed in obtaining loans. They cannot even furnish a third party guarantee for obtaining institutional credit. Hence, the small scale industries face reluctance from the banks and other financial institutions in terms of credit offerings. As such, they are compelled to obtain loans from the local money-lenders at exploitive rates of interest.
2. **Lack of raw materials:** Due to their weak financial base, the MSMEs face problem in the procurement of raw materials. Although the Government makes provision for supply of raw materials to these units, the small enterprises are not benefitted to the desired level because of their inability to liaise with the official agencies. Consequently, they are bound to make purchases from the open market at very high prices which increases their production costs and thereby ruins their competitive strength in the market.

3. **Dearth of skilled manpower:** Another major problem faced the MSMEs in India is the deficiency of skilled labour. As the small scale sector is unable to provide comparatively better work environment and remuneration than the large enterprises, the retention rate in these enterprises is generally low. Additionally, the small units manage to hire workers with little or no work experience who needs to be trained for a considerable amount of time in order to become productive. But to utter dismay, it is found that after acquiring required training, these labour leave for better jobs in large enterprises. As a result, the MSMEs suffer from the constraint of inefficient workforce and low productivity.
4. **Obsolete technology and lack of product innovation:** As the MSMEs are weak in economic front, they cannot afford to invest much in acquiring modern and latest technologies and as such have limited access to R&D. This inhibits the innovation in products manufactured by the small units thereby making them uncompetitive.
5. **Inadequate infrastructural facilities:** MSMEs also suffer from an inefficient supply chain and poor logistical infrastructure. Moreover, there are problems of power, water and road transport facilities. This leads to under-utilization of capacity of the small units which further escalates their costs and reduces competitiveness in the markets.
6. **Problem of marketing:** Small scale industries cannot afford to spend large amount on the development of their marketing facilities due to lack of resources. Some of the challenges faced by them in this regard are lack of knowledge about potential market, lack of standardization, poor quality and design, absence of product branding, bad product finish, no after-sales service, financial constraints, etc. As a result, their products rank relatively low in quality than that of the large-scale industries.
7. **Unsuitable location:** In the absence of adequate and proper training, the entrepreneurs of the small enterprises mostly fail to decide on the suitable location for establishing their firms. They choose the location based on certain prejudices such as personal attachment with the area, traditional ancestral property, immediate vicinity, availability of cheap land, etc. unlike the practical considerations such as availability of infrastructural facilities, proximity to markets, cost involved, etc.
8. **Poor recoveries:** MSMEs also suffer from poor recoveries of credit facility offered to the buyers. Inability to create a competitive edge in the market adversely affects the bargaining power of the small units and resultantly, they fail to dictate the terms of sale to the potential buyers for their products. This creates working capital problems for the small units.
9. **Impact of WTO regulations and compliance standards:** On account of the WTO regulations, MSMEs face direct competition from the companies in Southeast Asia and China that manufacture products at a much lower cost. As a result the Indian markets get dumped with these foreign products which lead to fall in demand for the indigenous products manufactured by the Indian MSMEs. Moreover, the small enterprises in India lag behind in respect of acquiring requisite Intellectual Property Rights (IPRs).
10. **Difficulty in compliance with GST standards:** MSMEs face challenges in GST return filing and refund, additional cost of employing technology, cost of hiring

professionals and accountants, and confusion in fixing MRP of the handmade products under GST.

STOP TO CONSIDER

The challenges faced by MSMEs in India are:

- *Inadequate credit facilities*
- *Lack of raw materials*
- *Dearth of skilled manpower*
- *Obsolete technology and lack of product innovation*
- *Inadequate infrastructural facilities*
- *Marketing problems*
- *Unsuitable location*
- *Poor recoveries*
- *Impact of WTO regulations and compliance standards*
- *Difficulty in compliance with GST standards*

Check Your Progress

1. *What are the problems faced by MSMEs in a developing country like India?*

1.6 Government Policy initiatives towards MSMEs in India

The history of small scale sector in India dates back to the era of Gandhian philosophy of economic self-reliance. The Government of India has initiated various programmes for the promotion and development of small-scale sector in the country. The most remarkable policy of the Government is the enactment of the MSMED Act 2006 for developing and enhancing the competitiveness of the MSMEs. Other major initiatives in this regard are the setting up of the National Manufacturing Competitiveness Council (NMCC) and the National Commission of Enterprises in the Unorganized Sector (NCEUS). Further, to mitigate the problem of credit delivery, a package for increasing credit to the MSMEs was announced by the government. Also, a comprehensive package for promotion of the SMEs was announced in view of the changing economic environment of the country. However, the motives of the government regarding the small-scale industries have been announced in the form of Industrial Policy Resolutions (IPRs) from time to time. These resolutions were announced in the years 1948, 1956, 1977, 1980, 1991 and 2006. However, the policy initiatives undertaken by the Government with regard to the development of MSMEs in India has been broadly grouped in to the following four periods:

1948-1991 During this period, the government followed a protection policy for the small and medium enterprises in the country by way of measures such as reservation of items to be manufactured exclusively by the MSMEs, grant of priority-sector lending, exemption from excise duty, etc. One remarkable measure announced in the post-independence period in this regard is the adoption of Industrial Policy Resolution (IPR) 1948 which focused on the protection of small-scale sector for the overall industrial development of the country.

In the first Five-Year Plan (1951-56), the agriculture sector received utmost priority which resultantly has drawn government attention towards the rural industries. Eventually, Small Industries Development Organization (SIDO) was set up in 1954, followed by the National Small Industries Corporation (NSIC), the Khadi and Village Industries Commission and the Coir Board during 1955.

In the second Five-Year Plan (1956-61), the government announced the second IPR under which an official definition was given to the small scale sector and a special legislation was passed to recognize and protect the entrepreneurs in the cottage industries. Subsequently, the Small Industries Service Institutes (SISI) and District Industries Centre (DIC) were set up. The IPR 1956 aimed at the protection and development of SSIs in the country.

In the third Five-Year Plan (1961-66) and fourth Five-Year Plan (1969-74), the Keynesian model was introduced for promoting the small scale sector. Moreover, 180 products were reserved for the exclusive manufacture by the small industries in 1967. In the fifth Five-Year Plan (1974-79), the concept of tiny sector was first introduced. The IPR 1977 emphasized on the promotion of the small-scale sector in India. In 1977, the number of products reserved for manufacture by the small-scale sector increased from 180 to 504. In the period ranging from the sixth to seventh Five-Year Plan (1980-89), the government promoted the economic development in the rural and backward areas through the development of SMEs. Further, the IPR 1980 raised the limit of investment ceilings to facilitate inclusion of more units under the small-scale sector. Moreover, the IPR 1990 continued to provide increasing importance to the small enterprises in order to meet the objective of employment generation.

1991-99 With the liberalization of the Indian economy in 1991, the protection policy of the government towards SMEs was dropped in order to make the sector competitive and vibrant. During this period, several policy changes were introduced such as changes in investment limits, delicensing of the sector, equity participation up to 24% by other undertakings, integrated infrastructural development for SMEs with participation of state government and other institutions, establishment of counseling and common testing facilities, orientation relating to modernization and upgrading of technologies in the small-scale sector, etc.

In 1993 the Delayed Payment Act was enacted to protect the SMEs from the problem of delayed payment of dues in order to relieve them from working capital crisis. Then, in 1994, the Small Industries Development Bank of India (SIDBI) was set up, followed by the launch of the Industrial Infrastructure Development (IID) Scheme. In 1995, with the formation of the World Trade Organization (WTO), the government offered financial assistance for introduction of technological services in the small-scale sector in order to combat the competition from imported products. Further, sub-contracting exchanges were established to link the MSMEs with the potential buyers.

In 1996, the Abid Hussain Committee was formed by the Government of India for recommendations on introduction of innovative policy package for rapid development of the SME sector.

1999-2006 During this period, in order to concentrate on the problems faced by the MSMEs in India, a Ministry of Small-Scale Industries and Agro and Rural Industries (SSI & ARI) was formed in 1999. The Ministry announced a new policy package in August 2000 to address the problems encountered by the SME sector. A credit insurance scheme for SSI units was announced in the Budget of 1999-2000 along with a national programme for industrialization of the rural economy. In 2005, the National Manufacturing Competitiveness Programme (NMCP) was introduced to make the SME sector more competitive and modernized along with a performance and credit rating scheme for the SMEs.

2006 and beyond The year 2006 marked a notable step undertaken by the Government of India towards the promotion of small-scale sector in the context of the global economy with the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act. The act classified the small-scale sector into micro enterprises, small enterprises and medium enterprises.

During the eleventh Five-Year Plan (2007-12), emphasis was laid on increasing the competitiveness of the MSME sector in India and consequently, a package for promotion of MSMEs was announced in 2007. The twelfth Five-Year Plan (2012-17) encouraged allocation of substantially higher budget in the area of cluster development programme for micro and small enterprises. Moreover, some of the Govt. schemes introduced in the recent years towards development of MSMEs in India include MSME Market Development Assistance, National awards for individual MSME, Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Pradhan Mantri Kaushal Vikas Yojana, Skill Development Initiative (SDI), Antyodaya Anna Yojana (AAY), Software Technology Parks in India (STPs), Special Economic Zones (SEZs), Pradhan Mantri Mudra Yojana, etc.

STOP TO CONSIDER

Major policy initiatives undertaken by the Government of India towards the promotion and development of MSMEs are:

- *Enactment of the MSMED Act 2006*
- *Setting up of the National Manufacturing Competitiveness Council (NMCC) and the National Commission of Enterprises in the Unorganized Sector (NCEUS)*
- *Package for increasing credit to the MSMEs*
- *Comprehensive package for promotion of the SMEs*
- *Adoption of IPRs in 1948, 1956, 1977, 1980, 1991 and 2006.*
- *Setting up of Small Industries Development Organization (SIDO), followed by the National Small Industries Corporation (NSIC), the Khadi and Village Industries Commission and the Coir Board.*
- *Setting up of Small Industries Service Institutes (SISI) and District Industries Centre (DIC)*
- *Raising the limit of investment ceilings to facilitate inclusion of more units under the small-scale sector delicensing of the sector, equity participation up to 24% by other undertakings, integrated infrastructural development for SMEs with participation of state government and other institutions, establishment of counseling and common testing facilities, orientation relating to modernization and upgrading of technologies in the small-scale sector, etc.*
- *Enactment of the Delayed Payment Act*
- *Setting up of Small Industries Development Bank of India (SIDBI) followed by the launch of the Industrial Infrastructure Development (IID) Scheme.*
- *Financial assistance for introduction of technological services in the small-scale sector in order to combat the competition from imported products. Further, sub-contracting exchanges were established to link the MSMEs with the potential buyers.*
- *A credit insurance scheme for SSI*
- *Introduction of the National Manufacturing Competitiveness Programme (NMCP) to make the SME sector more competitive and modernized along with a performance and credit rating scheme for the SMEs.*
- *Other initiatives include MSME Market Development Assistance, National awards for individual MSME, Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Pradhan Mantri Kaushal Vikas Yojana, Skill Development Initiative (SDI), Antyodaya Anna Yojana (AAY), Software Technology Parks in India (STPs), Special Economic Zones (SEZs), Pradhan Mantri Mudra Yojana, etc.*

Check Your Progress

1. *Discuss the various Govt. policy measures adopted towards development of MSMEs in India.*

1.7 India's experience of Liberalization and Globalization

In July 1991, a remarkable economic reform was introduced in the history of Indian economy by the then Union Finance Minister, Dr. Manmohan Singh under the leadership of the P. V. Narasimha Rao government. The reform is popularly known as Liberalization**,** Privatization and Globalization **(**LPG**)**. Let us first discuss the meaning of these three terms, namely, Liberalization, Privatization and Globalization.

Liberalization means the removal of controls or restrictions in the functioning and operating procedures relating to various sectors of the economy. It is a means of opening up of the economy to foreign companies or multinationals with the aim of building up own strength.

Privatization is the process of converting a public sector industry in to a private sector industry. It is the transfer of economic powers in the hands of private individuals.

Globalization is the removal of trade barriers among countries. In other words, it implies free flow of trade with foreign countries. It is a way of integrating the national economy with the global economy. The globalization process includes globalization of markets, globalization of production, globalization of technology and globalization of investment.

Faced with a severe BOP crisis and its consequent fall in to the debt trap, the Indian government was compelled to adopt a new industrial policy (or LPG) in 1991 in order to be a part of the emerging global economy. Some of the major aspects of the new industrial policy were:

1. Abolition of the requirement of industrial license for establishing new units or undertaking major expansions except for a few strategic industries and those reserved for small-scale sector.
2. Allowance of FDI up to 51 per cent of equity in high priority industries and up to 100 per cent in tourism-related industries, hotels, shipping, export-oriented industries, etc.
3. Automatic approvals for technology-import agreements relating to high-priority areas within specified conditions.
4. Disinvestment of public sector equity capital with a view to make them competitive and referral of chronic loss-making public sector units to the Board of Industrial and Financial Reconstruction (BIFR) for revival.

5. Abolition of registration and requirement for companies undertaking expansion or merger to obtain prior permission under MRTP Act. The MRTP Act has been later replaced by the Competition Act in 2002.
6. Introduction of an exclusive small-sector policy in August 1991 with a view to provide financial support to this sector. Minimization of bureaucratic controls on the sector.
7. Removal of restrictions on imports except for finished goods. Other policy changes include withdrawal of export subsidies, unified rupee exchange rate and total convertibility of the rupee currency on trade account. These reforms were aimed at exposing the Indian business to global competition.
8. Reduction in import tariffs with the aim to curb inefficiency and high production costs of the domestic industries.

1.7.1 Objectives of the LPG model

The major objectives of the LPG policy were:

1. To globalize the Indian economy
2. To reduce the inflation rate in the economy
3. To achieve high economic growth and to build adequate foreign currency reserves
4. To stabilize the economy and to remove unnecessary restrictive controls in the economy
5. To facilitate global flow of goods, services, capital, human resources and technology
6. To allow the entry of private players in all sectors of the economy

1.7.2 Reforms under the New Industrial Policy

- ***Simplification of industrial licensing*:** Subsequent to the introduction of LPG, industrial licensing was abolished for 18 industries including, iron and steel, heavy plant and machinery, minerals, oil, mining, etc. Under this policy, the private sector has been freed from the requirements of obtaining industrial license. Now industrial licensing is necessary for industries, namely, liquor, cigarette, defence equipment, industrial explosives, drugs and hazardous chemicals and the industries reserved for small scale sector.
- ***Removal of import restrictions and reduction in import tariffs:*** Import licensing was earlier applicable for capital goods and intermediates but eventually they became freely importable in 1993. India has also reduced custom duties and tariffs imposed on imports and exports. However, the tariff rates in India are still the highest among the developing countries of the world.
- ***Freedom to industries for expansion and production:*** In the post liberalization period, the industries are relieved from the hassle of obtaining prior permission for expansion of their units or to start production.
- ***Abolition of restrictive trade practices:*** Earlier, the companies having assets worth 100 crore rupees or more were called MRTP units and were subject to several

restrictions. Now, with the replacement of the MRTP Act with the Competition Act, these firms are liberalized from such restrictions.

- ***<u>Liberalized Exchange Rate Management System (LERMS):</u>*** Another important economic reform in this period was the introduction of LERMS in 1992. Regulations on exchange control were liberalized and the rupee became convertible for all approved external transactions with effect from March 1, 1992.
- ***<u>Increase in foreign collaborations:</u>*** The government liberalized the foreign technical and financial collaboration agreements. Single window clearance facility became applicable to foreign investment proposals, authorization for share issue under FERA, exemption from FERA operations and confirmation of import of capital goods covered by the foreign equity. The policy now allows 100 per cent foreign ownership in a large number of industries and majority ownership in all except banks, insurance companies, telecommunication and airlines. FERA has been replaced by the Foreign Exchange Management Act (FEMA) in . Capital Issues Control Act 1947 and Controller of Capital Issues has been replaced by Securities and Exchange Board of India (SEBI) Act 1992.
- ***<u>Privatization of public sector units (PSUs):</u>*** Indian government has started the sale of its shares in PSUs to private individuals and financial institutions. Also the government has been undertaking disinvestment of sick PSUs. For instance, Indian government has sold its shares in Maruti Udyog Ltd. to private sector. The number of industries reserved for public sector in India has reduced in the recent times to 2 from 17, i.e. Railways and Atomic energy. However, the government is soon intending to privatize the railway sector too.
- ***<u>Agricultural reforms:</u>*** Although the new industrial policy brought numerous economic reforms in India, it did not focus much on the agricultural sector. Some of the major impacts of LPG on agriculture are increase in production of food grains, increasing trends in horticulture, diversification in agriculture, rise in floricultural output, agricultural exports, etc.
- ***<u>Infrastructural development:</u>*** The telecommunication sector in the country has improved to a large extent which has paved the growth of Information Technology in India. Civil aviation and port connectivity has also witnessed a tremendous improvement.
- ***<u>Banking and financial sector reforms:</u>*** Reforms in these sectors include permission for operating private banks and foreign financial institutions, market-based interest rate regime, introduction of measures such as capital adequacy norms and other prudential norms, setting up of asset reconstruction fund for weak banks, etc.
- ***<u>Reduction in fiscal deficit:</u>*** An urgent priority at the beginning of the reforms period was to reduce the fiscal deficit which caused the balance of payments crisis in the country in 1991. Consequently the combined fiscal deficit at the central and state level reduced from 9.4 per cent of GDP in 1990-91 to 7 per cent in 1991-92 and 1992-93. As a result the BOP crisis got over by 1993.
- ***<u>Global economic recognition:</u>*** India has emerged as a potential superpower and has gained growing international influence all over the world. It has also become a strong

nuclear power in the world. India has a pivotal and influential role in a number of international organizations such as ADB, BRICS, ASEAN, BIMSTEC, FAO, G-20, World Bank, ICC, IDA, ILO, IMF, SAARC, SCO, UNESCO, WHO, WTO, etc.

- ***Increasing emphasis in marketing:*** With the availability of safe markets for the Indian firms in the pre-liberalized period, the concept of marketing lost its relevance. However, on introduction of LPG, the market got flooded with foreign products which prompted the Indian firms to devise and adopt effective and innovative marketing strategies. This has generated benefits of wide choice for the Indian consumers.
- ***Social reforms:*** International travel and tourism are now subject to fewer restrictions. This has resulted in exchange of cultural values and norms. People in India have developed tendency to adopt western culture and lifestyle such as western outfits, preference for fast foods, interest towards Hollywood movies and pop culture such as Facebook, Twitter,, Sudoku, etc. Besides, India has been witnessing foreign inflows and outflows of human resources in various sectors of the economy. The new industrial policy reforms have also encouraged the hosting of world-wide events such as Cricket World cup, Commonwealth Games, South Asian Games, etc.
- ***Emphasis on IPRs:*** Although the Intellectual Property Rights did not receive much importance earlier, rising international competition has resulted in the enforcement of stringent IPRs in India such as patents, copyrights, Geographical Indication (GI), etc. This ensures respect for indigenous knowledge and its need for documentation and preservation.

On an assessment of India's experience in its transformation in to a global economy, Montek S. Ahluwalia in 2006 opined that although LPG has led to a significant improvement in the overall growth and poverty position in the country, the achievements are less than expected. According to him, there is an uneven distribution of economic growth among the different states of the country. Moreover, he stated that despite a marginal increase in unemployment, the amount of real wages robustly increased.

STOP TO CONSIDER

- *In 1991, the P.V. Narasimha Government introduced the LPG Model of growth in India*
- *The LPG Model is known as the New Economic Policy (NEP) of India.*
- *The NEP was aimed at relaxation in import duties, entry of private and foreign players in the market, reduction of taxes, devaluation of the rupee currency in order to increase exports and improve the unfavourable Balance of Payment (BOP) position of the economy.*
- *The LPG policy has brought drastic changes in the policies relating to foreign trade, FDI, exchange rate, industry and fiscal discipline in India.*
- *The objective of the NEP has been to create competition in the economy as a way to improve the productivity and efficiency of the economic system. This has been planned to achieve by eliminating barriers to entry and restrictions on growth of firms.*

Check Your Progress

1. *What do you mean by liberalization?*
2. *What do you mean by privatization?*
3. *What do you mean by globalization?*
4. *State the advantages and disadvantages of liberalization in an economy.*
5. *State the advantages and disadvantages of privatization in an economy.*
6. *State the advantages and disadvantages of globalization in an economy.*

Self Asking Questions

1. *Critically analyze the impact of LPG on the Indian economy.*

1.8 Technological Innovations and Skill Development

In the context of the Indian economy's transition to a knowledge-based economy, the need for creation of a professional skilled workforce has assumed significant importance. In order to gain a competitive edge in the global market, India requires developing world-class knowledge workers who are flexible and analytical and can drive innovation and growth in to the economy. Availability of skilled workers in a globalized economy attracts foreign investment, enhances the employment potential and improves the job mobility of the workers. Recognizing this aspect, the Government of India announced a National Policy on Skill Development in 2009 and subsequently, the National Policy on Skill Development and Entrepreneurship 2015 was implemented. Additionally, there has been a steady jump in the budgetary allocations for skill development in the country.

Multiple efforts are being undertaken by both the government and private sectors in imparting skill-based education to the youths in India. The government institutions offering formal skill-related training are the Industrial Training Institutes (ITIs), Industrial Training Centres (ITCs) and Polytechnic institutions. Informal skill-related training such as in traditional arts and crafts is also supported through different government ministries. Numerous vocational training programmes are offered by the National Institute of Open Schooling formerly named as the National Open School System under the Ministry of HRD, Government of India. Besides, many companies and NGOs also conduct skill-related training programmes. Imparting skill-based training has become a popular and common practice under the corporate social responsibility (CSR) initiatives undertaken by companies nowadays.

Inclusivity is one of the key policies of the skill development campaign. Skill development is mainly intended to cover the rural and tribal youths, women, disabled persons, economically weaker people, and youths belonging to the sensitive areas. However, despite the enormous efforts on the part of the government and the corporate sector for developing skilled population in India, the target trainees in the rural areas have not been able to avail these opportunities due to geographical boundaries and high costs involved in their mobility to the urban areas. In this context, the advent of technological innovation in skill development has come as boon for the interested participants by creating access and success for all. As Mr. S. Ramadorai aptly said, technology innovation can help in disseminating skill education even to the remotest part of the country. Technology deployment in skill education leads to lower costs, improved quality and greater reach along with reduction of burden on the physical infrastructure.

Let us now understand the role played by technology in developing skilled human capital in India.

Technology has made it possible to deliver skill-based education to areas where it was earlier not possible. Power centres have been set up in rural India with the help of digital equipments and teaching is imparted via video calls. Pilot sessions have been undertaken in parts of Ajmer and Tripura. Many skill training institutes have introduced technology to automate their teaching and conduct online assessments. Eklavvya is a popular technology solution/software used by many companies, institutes and universities imparting skill-based training for conducting online assessment and knowledge sharing. Also the increasing use of mobile phones has made it possible for the people to avail such services. In certain areas, the farmers have started to develop skills with the help of an all time radio that educates them about the vegetation seasons, kind of manure to be used, when to harvest, how much to invest, etc. Besides, teaching though digital platform makes up-to-date and upgraded data available to the trainees. Further, from the trainer's perspective, digitization has lowered the set up and operating costs of the companies or institutes offering skill education. For instance, skills like driving, welding, etc. can be easily imparted with the help of video conferencing and a large audience can be addressed one at a time. Hence, technological innovation has the potential of fulfilling the dream of acquiring best quality education from experts sitting in any corner of the globe.

STOP TO CONSIDER

Technology innovation can help in disseminating skill education even to the remotest part of the country. Technology deployment in skill education leads to lower costs, improved quality and greater reach along with reduction of burden on the physical infrastructure.

Check Your Progress

1. *Write a brief note on the significance of technological innovation in skill development*

Self Asking Question

1. *Is India successful in creating a best quality skilled workforce base with the advent of various technological innovations in the country?*

1.9 Make in India Campaign

"Make in India" is a laudable initiative undertaken by the BJP-led NDA government with a view to generate a Swadeshi movement within the country. The initiative was launched on September 25, 2014 by our honourable Prime Minister Mr. Narendra Modi. The primary objective behind this historic step is to make India a global manufacturing hub, by encouraging both domestic as well as multinational companies to start manufacturing activity within the country. Led by the Department of Industrial Policy & Promotion, the initiative aims to increase the contribution of the manufacturing sector to 25% of the GDP by 2025 from its then 16%. The initiative also seeks to facilitate Foreign Direct Investment (FDI), encourage entrepreneurship and create jobs, foster innovation, enhance skill development, promote Intellectual Property Rights (IPRs) and build world class manufacturing infrastructure. The Government of India is promoting the Make in India campaign by using the logo of a lion made of gear wheels. The logo is depicted in figure 1.1.

Figure 1.1
Make in India logo

The Make in India initiative of the government focuses upon four aspects, namely,

1. Discarding the old business policies and laws and introducing **new processes** to improve India's ranking on the World Bank's 'Ease of Doing Business' index;
2. Introducing **new infrastructure** by developing industrial corridors, building smart cities, speeding up registration systems for innovation and research activities and IPRs, training for skilled workforce for the sector, etc.;
3. Promotion of 25 **new sectors** in the manufacturing, infrastructure and service activities of the economy, and
4. Development of **new mindset** of the government towards the corporate sector by assuming the role of a facilitator rather than a regulator.

1.9.1 Achievements made under the Make in India initiative

A few notable developments in the Indian economy under the Make in India initiative are listed below:

1. Simplification in the tax procedural system with the introduction of the Goods and Services Tax (GST)
2. Online and quick registration of companies
3. Enforcement of the new Insolvency and Bankruptcy Code for restructuring of the insolvent companies
4. Liberalization of FDI in key sectors such as, defence manufacturing, food processing, telecommunications, agriculture, pharmaceuticals, civil aviation, space, private security agencies, insurance and pension, medical devices and railway sector
5. Introduction of the Sagarmala programme and the Bhararatmala Pariyojana Programme to boost port connectivity
6. Penetration of technology in the rural areas with the introduction of BharatNet
7. Improvement in India's rank to 100th position in the 'Ease of Doing Business' index as per World Bank's 'Doing Business 2018: Reforming to Create Jobs' report
8. Launch of the e-visa scheme for tourists
9. Emphasis on skill development with the introduction of Pradhan Mantri Kaushal Vikas Yojana
10. Electrification of around 99% villages under Power for All
11. Participation of MSMEs for 'Make' projects and relaxation in their registration and profitability
12. Approval of Mega Leather Clusters at Nellore, Andhra Pradesh
13. Revival of 160 airports and approval for setting up 6 greenfield airports
14. Manufacture of indigenous defence equipments like Dhanush artillery guns often referred to as 'Desi Bofors'

STOP TO CONSIDER

- *The Make in India campaign was launched by the Government of India on September 25, 2014.*
- *The Government of India is promoting the Make in India campaign by using the logo of a lion made of gear wheels.*
- *The Make in India initiative lays emphasis on four aspects, namely, new processes, new infrastructure, new sectors and new mindset.*
- *The basic concept of the Make in India initiative is to encourage industrialists to set up manufacturing units in India through FDI with a view to boost employment opportunities and increase the GDP growth rate.*

Check Your Progress

1. *State the objectives of the Make in India campaign.*

1.10 Social Responsibility and Ethics

Businesses in their regular course of functioning are faced with many responsibilities including social responsibilities and business ethics.

1.10.1 Social Responsibility of business

Business organizations operate in a society. Hence, they are regarded as a part of the society. In fact, the survival of a business is largely dependent upon its acceptance by the society. A company acquires its inputs from the society in order to run and henceforth makes profits by selling its output to the same society. Thus, the companies ought to have a sense of responsibility towards the protection and betterment of the society. The term 'society' in this context refers to all the stakeholders such as consumers, employees, suppliers, investors, government and the community at large.

Social responsibility of a business is also known as Corporate Social Responsibility (CSR). It is a concept that stresses upon the moral obligations of a business towards the society. As a business enterprise makes use of the resources of the society and also depends on the society for its functioning, it is the duty of the enterprise to operate without any causing any harm towards the stakeholders and the environment. In other words, a company should not earn profits at the cost of the society.

Holme and Watts (2005) defines CSR as "a continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."

In simple words, CSR refers to what a business does, beyond the statutory requirement, for the benefit of the society. Social responsibilities of business are the efforts initiated by a business towards the economic, social and environment development. CSR has become an integral part of business operations nowadays. Better public image is a lethal strategy to survive in the present day growing competitive market scenario. CSR is such a tool that helps improve the public image of a firm. The society develops trust and confidence on the business, gives it better recognition and ensures its competitive survival. Companies undertake several development initiatives as part of CSR, for instance, construction of toilets in educational institutions, organizing training and workshops for the masses, development of health care facilities, providing drinking water facilities, plantation of trees, etc. As per the Responsible Business Rankings Report 2018 published by IIM Udaipur and Futurescape, Tata group companies occupy the top position for its CSR efforts, followed by Ambuja Cement in the second position. Other Indian companies in the top 10 list include Infosys, Bharat Petroleum Corporation Ltd., Hindustan Zinc, Indian Oil Corporation Ltd., etc.

Legal mandatory provisions of CSR in India

Since the evolution of the concept of CSR, it is entirely voluntary on the part of a company to follow the practice. However, the Companies Act 2013 is a remarkable legislation that made India the first country to mandate CSR and quantify the expenditure in this regard. It is an attempt by the government to incorporate the agenda of national development in the activities of businesses. CSR is included in section 135 of the Companies Act 2013. The Act was implemented in April 1, 2014. It requires that every company, private limited or public limited, having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more, or a net profit of rupees five crore or more during immediately preceding financial year needs to spend at least 2% of the average net profits made by it during the three immediately preceding financial years on CSR activities. The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities as mentioned in Schedule VII of the Act. Contribution made to any political parties is not regarded as an activity under CSR. Besides, only activities undertaken in India are eligible to be considered as expenditure under CSR. The companies need to constitute a CSR committee which shall design the CSR policies. Failure to abide by the norms invites penal provisions under the Act.

1.10.2 Business Ethics

Business ethics refer to the set of rules or principles that an organization should follow while doing businesses. Basically, the ethics followed by a business reflect the philosophy of that organization. Ethics help in setting standards to regulate the behavior of a business. The objective of ethics pertains to the study of both moral and immoral behavior in order to make logical and realistic judgements. However, there is no unanimity of opinion regarding what constitutes business ethics. Ethics are indeed based on the creation by a human mind.

Business ethics of corporate entities was recognized in 1887 by the US Supreme court; and the same was recognized in 1897 by the House of Lords in the UK. Adam Smith in his Wealth of Nations (1774) emphasized on *invisible hand* mandating ethical behavior of business entities. However, this was contested after about 200 years by A.D. Chandler as the *visible hand* in the USA. Additionally, P. Chattopadhyay (2017) in his article in the Vanijya, Dibrugarh University, emphasized on ethical behavior and ethical standards of operation for corporate entities.

Business ethics are necessary for organizations to maintain a balance between their desire to make profits and the needs of the society. This ensures that businesses earn money without harming the interests of any individual in particular or the society in general. The success of a business largely depends on the ethics established and followed by the businessman. Unethical practices pose a threat to the survival and growth of a business. Ethical business activities include charging reasonable price from customers, fair treatment to workers, earning a reasonable profit, etc. Being ethical creates a positive reputation for the business, gains the trust and confidence of customers and opens up various opportunities for profits. This is regarded as long term impact of observance of ethical standards.

Some of the generally followed ethical principles for business executives are summarized below:

- Honesty and truthfulness in all dealings
- Maintenance of integrity at any cost
- Fulfillment of promises and commitments
- Loyalty to the company, colleagues and other related parties
- Fair and just dealings
- Concern and respect for others
- Abide by the laws, rules and regulations
- Accept accountability for mistakes, etc.

STOP TO CONSIDER

- *Social responsibility of a business is a concept that stresses upon the moral obligations of a business towards the society. As a business enterprise makes use of the resources of the society and also depends on the society for its functioning, it is the duty of the enterprise to operate without any causing any harm towards the stakeholders and the environment. In other words, a company should not earn profits at the cost of the society.*
- *India is the first country to mandate CSR and quantify the expenditure in this regard by the enactment of the Companies Act 2013.*
- *The Act which was implemented in April 1, 2014 requires every company, private limited or public limited, which has net worth of ₹500 crores or more or turnover of ₹1000 crores or more or a net profit of ₹5 crores or more, to spend at least 2% of its average net profit for the three immediately preceding financial years on CSR activities.*

- *Business ethics refer to the set of rules or principles that an organization should follow while doing businesses.*
- *Unethical practices pose a threat to the survival and growth of a business.*

Check Your Progress

1. *What do you mean by social responsibility of business?*
2. *What do you mean by business ethics?*

1.11 Emerging Opportunities in Business

So far we have discussed various aspects relating to the establishment and operation of an enterprise. But it is pertinent to mention in this context that the entrepreneurial role does not end here. In order to survive in the dynamic business environment, an enterprise needs to be strong enough to adjust with the changes and challenges ahead. This requires the entrepreneurs to devise appropriate growth strategies for their businesses from time to time. Just like human beings, business starts small and then grows to medium and large with the passage of time. Growth ensures business survival even in times of adversity and crisis. Thus enterprise management involves timely environmental analysis in preparing the organization to grab the opportunities prevailing in the business environment for its effective growth and development. In this chapter, we shall discuss a few such emerging business opportunities as follows:

1.11.1 Franchising

The word 'franchise' is derived from an Anglo-French word 'franc' meaning 'free'. Thus franchising is a system of using the business model of another firm. Basically, a franchise is a form of license granting the holder the right to do business according to predetermined terms and conditions. This right can be in the form of selling the parent firm's products/services, using its brand, production/marketing techniques or the general business approach. According to David D. Settz (1980), "A franchise is a form of business ownership created by contract whereby a company grants a buyer the rights to engage in selling or distributing its products or services under a prescribed business format in exchange for royalties or share of profits. The buyer is called the 'franchisee' and the company that sells rights to its business concept is called the 'franchisor'."

Simply speaking, franchising is a contract between the producer (franchisor) and the retailer/dealer (franchisee) whereby the former entitles the latter to sell its goods or services under the same brand name in exchange for a specified fee or commission. One common example of franchising is that of *Coca Cola* supplying the syrup to the bottlers manufacturing the product at different places. However, the franchisor does not transfer the ownership of the products/services to the franchisee.

Types of franchising

Franchising agreements can mostly take the following three forms:

I. Product franchising**:** Under this arrangement, the dealers are given selective right to distribute or sell the goods for the manufacturer. Example: Automobile companies.
II. Manufacturing franchising**:** Under this arrangement, the manufacturer gives the franchisee the right to produce and sell the products/services in a particular area. Example: Coca Cola
III. Business-format franchising**:** This is the most recent type of franchising. Under this arrangement, the franchisor provides a wide range of services to the franchisee such as marketing, advertising, planning, operation manuals and standards, training, quality control maintenance, etc. to run independently. Example: KFC, Dominos, etc.

Advantages and limitations of franchising

Franchising is a symbiotic arrangement for both the franchisor and the franchisee. However, it is mostly beneficial for the franchisee. Following are some of the advantages of franchising from the point of view of the franchisee:

1. The task of starting the business gets easier as the business-format is already market tested and functional.
2. The risk of failure of the business is very low.
3. With a well-tested business model, the business gets easy and quick recognition in the market.
4. The bargaining power of the franchisee increases.
5. The prospects of obtaining loans from banks and other financial institutions by the franchisee get improved.
6. The franchisee gets the benefit of the franchisor's R&D activities.
7. The franchisee gets protected rights to do business in a particular area.

Although, franchising is a lucrative opportunity for the franchisee, it has certain drawbacks too. Some of the limitations of franchising are:

1. The franchisees find no scope for creativity as they have to work under prescribed business format.
2. The franchisees do not have the right to sell their business without the approval of the franchisor.
3. Several restrictions are imposed upon the franchisee, such as confinement to a particular geographical area, a particular product line, etc.
4. Goodwill built up by the franchisee still remains the property of the franchisor.
5. The franchisee may be subject to fail on the failure of the franchisor's business.
6. Generally, franchisors have the option to buy back the business upon termination of the contract. As such, the franchisees operate under constant fear of non-renewal of the contract.

Moreover, from the point of view of the franchisor, the franchising agreement is beneficial in the respect of expansion and growth of the business, high profits, easy goodwill, etc. Nonetheless, the disadvantages of franchising to them include failure of the business subject to the franchisee's failure, dishonesty of the franchisee, franchisee emerging as a competitor in the long run, etc.

To conclude, in spite of the limitations of franchising, it is still a proven and complete business concept world-wide. In fact, hard work, realistic expectations and thorough investigation can make franchising a successful and satisfying experience for both the franchisor and the franchisee.

STOP TO CONSIDER

- *Franchising is a contract between the producer (franchisor) and the retailer/dealer (franchisee) whereby the former entitles the latter to sell its goods or services under the same brand name in exchange for a specified fee or commission.*
- *There are three types of franchising agreements, namely, Product franchising, Manufacturing franchising and Business Format franchising*
- *Franchising is beneficial for the franchisee due to easy business establishment, low risk of failure, quick market recognition, increasing bargaining power of franchisee, improved prospects of loan facilities, benefit of franchisor's R&D, and protected business rights to the franchisee*
- *Franchising is beneficial for the franchisor in the respect of expansion and growth of the business, high profits, easy goodwill, etc.*
- *The limitations of franchising agreement are*
  To the franchisee: No scope for creativity, No right to sell the business, confinement to a particular area or product line, goodwill belongs to the franchisor, subject to fail on the failure of the franchisor's business, and fear of non-renewal of the contract
  To the franchisor: Failure of the business subject to the franchisee's failure, dishonesty of the franchisee, franchisee emerging as a competitor in the long run, etc.

Check Your Progress

1. *What do you mean by franchising?*
2. *What are the types of franchising agreements?*
3. *State the advantages and disadvantages of franchising.*

1.11.2 Outsourcing

Outsourcing is a very popular practice in the present day business environment. Simply speaking, outsourcing is a contract whereby a company hires a party (external to the company) to perform its business functions or any specific business activity. Outsourcing is also known as Business Process Outsourcing (BPO) or Contracting out. Generally, a company outsources its non-core activities to outside agencies so that it can concentrate completely on its core areas. It is also adopted as a cost cutting measure by the companies and to enjoy the benefits of specialized services.

Global competition has popularized the concept of outsourcing. With the help of outsourcing, companies can focus on their key activities which increase their efficiency, improve the quality of their products and thereby bring higher profits. This gives the companies a competitive edge in the markets. BPO includes advertising, payroll, human resource management, accounting, customer/call centre relations, etc. For instance, for many fashion companies in United States, it is too costly to manufacture clothes in their country. Therefore, they often outsource their production to India or China.

Forms of outsourcing

On the basis of the location of the service provider, outsourcing can take the following forms:

1. Offshore outsourcing**:** It is a contract under which a company acquires outsourcing services from a company located in a foreign country. Example, Microsoft outsources its internal IT operations to Infosys Technologies in India.
2. Onshore/Domestic outsourcing**:** It is a contract under which a company acquires outsourcing services from a company located in the same country as that of the hiring organization. Example, Tata Consultancy Services (TCS) offers IT services to the Indian Postal Department.
3. Near-shore outsourcing**:** It is a practice under which a company outsources activities to another company located in a neighboring country. Example, many companies in US outsource work to Canada and Mexico.

Advantages of outsourcing

1. Outsourcing provides companies with the scope to focus on their core areas/competencies which enable them to create a competitive advantage in the market.
2. Management can do away with the additional costs of employing specialized workers within the company by outsourcing the task to an external party. Hence, it is a cost-effective option for the companies.
3. Outsourcing saves times and enables investment in other key areas.
4. Outsourcing provides access to professional and expert services thereby improving the quality of ultimate products/services offered.
5. Outsourcing generates vast employment opportunities.
6. It increases the overall efficiency of the outsourcing company.

7. It enables sharing of knowledge between companies and as such creates a synergistic effect.

Disadvantages of outsourcing

1. The outsourcing company becomes over-dependent on the respective service provider.
2. There are security issues in outsourcing. Sensitive data of the company may be leaked to the outside service providers which may incur losses for the organization and an advantage for the competitors.
3. The outsourced firm may sometimes stretch the delivery time and provide sub-standard services.
4. Offshore outsourcing leads to loss of employment opportunities in one's own country.
5. Re-integration of outsourced tasks in to the company can be expensive and time-consuming.
6. Other problems of outsourcing involve misunderstanding of contract, lack of communication, language and cultural barriers, etc.

STOP TO CONSIDER

- *Outsourcing is a contract whereby a company hires a party (external to the company) to perform its business functions or any specific business activity. Outsourcing is also known as Business Process Outsourcing (BPO) or Contracting out.*
- *A company can outsource its activities to a party outside the country (i.e. Offshore outsourcing), or to a party within the same country (i.e. Onshore outsourcing) or to a party in the neighbouring country (i.e. Near-shore outsourcing).*
- *Outsourcing enables a company to focus on its key strengths and develop competitive edge in the market. It facilitates the provision of specialized services to a company without incurring the additional cost of recruiting professionals. It also has a huge employment potential.*
- *Apart from the advantages, outsourcing has certain limitations too. It makes the outsourcing company over-dependent on others, there is risk of losing sensitive information, the outsourced services may not be of best quality, there may be misunderstanding of the contract provisions by either/both parties, etc.*
- *Offshore outsourcing leads to job losses and aggravates the unemployment problem in the domestic country.*

Check Your Progress

1. *What do you mean by outsourcing?*
2. *What are the types of outsourcing?*
3. *Outsourcing has both advantages and limitations. Explain.*

1.11.3 E-commerce

Electronic commerce or E-commerce has become a buzzword in the modern day business world. With the growing global competition in the market, business organizations are adopting innovative marketing practices and techniques in order to gain and/or retain an edge over their rivals. One such new marketing practice is the introduction of E-commerce. Moreover, the advent of information and communication technology has indeed popularized the concept of E-commerce world-wide.

Simply speaking, E-commerce is the system of performing business operations electronically or via internet. In other words, it is the meeting of buyers and sellers over the internet. It involves buying and selling of goods and services, transfer of funds and exchange of data.

According to Bhaskar (2010), "Electronic commerce means the capability to buy and sell goods, services and information online, through public networks."

As per the definition of WTO, ".. …production, distribution, marketing, sale or delivery of goods and services by electronic means. A commercial transaction can be divided into three main stages: advertising and searching stage; ordering and payment stage; and delivery stage. Any or all of these may be carried out electronically and may, therefore, be covered by the concept of electronic commerce."

Amazon, Alibaba, Flipkart, Myntra, Shop clues, etc. are famous e-commerce portals. Thus, when you open a website, say, Flipkart, log in to your Flipkart account and purchase a watch, this is a typical example of an e-commerce transaction. Here, you communicate with the seller (Flipkart), exchange data in the form of pictures, price, delivery address, etc. and then you make the payment. Payment and settlement of such transactions is done through debit card/credit card/e-wallet/net banking/banking reward points/cash on delivery (COD).

E-commerce industrial sector holds a major share in the present day global market. E-commerce is a tool to cut down costs while improving the quality of goods/services and speeding up the delivery of services. The adoption of E-commerce includes the use of technologies, processes and management techniques that enhance the competitiveness of a firm through strategic utilization of electronic information.

The main difference between E-commerce and traditional commerce lies on the method of carrying transactions. In E-commerce, transactions are processed electronically unlike traditional commerce where transactions are processed manually. Besides, there is direct and face-to-face interaction between the parties in traditional commerce whereas face-to-face communication is generally absent in E-commerce i.e. the interaction is indirect. E-commerce business is conducted world-wide. On the contrary, the scope of traditional business is limited to a particular geographical area.

Types of E-commerce transactions

1. Business-to-Business (B2B) commerce: This involves companies conducting e-procurement, network collaborations, settling purchase transactions over the internet or World Wide Web. Here, companies do businesses with each other. The final consumer is not involved.
2. Business-to-Consumer (B2C) commerce: This involves businesses promoting and selling products and services to consumers via internet. Example, the online retail stores such as Flipkart, Snapdeal, etc. Here, the consumers browse the websites of the companies, look at the products, their prices and reviews and then place their orders. The company thereafter ships the products directly to the consumers.
3. Consumer-to-Business (C2B) commerce: Under this arrangement, the consumers sell their products or services to the companies using the internet. Example, a photographer may license a company to use his photographs for business purposes.
4. Consumer-to-Consumer (C2C) commerce: It involves the use of internet technologies by the consumers to trade and exchange information among themselves. Usually the goods traded include cars, bikes, electronics, furniture, etc. Popular examples of such platform are OLX, Quickr, etc.
5. Business-to-Government (B2G) commerce: It is concerned with the sale of goods of goods or services by businesses to the government or their agencies, such as, supplies to army, police, hospitals, etc. Moreover, it involves obtaining e-contracts by businesses to offer public services on behalf of the government, such as, collection of taxes, etc.

Advantages of E-commerce

E-commerce is beneficial for both the consumers and businesses. Some of these benefits are listed below:

A. Advantages to consumers

1. Consumers can shop anytime and anywhere.
2. The shopping time is reduced and there is quick delivery of products and services.
3. Consumers get a wider variety of products to choose from.
4. The orders are delivered at the door step of the consumers.
5. The branded products are available at a much lesser price.
6. Consumers enjoy the advantage of comparing the products, their features and prices, reviews before deciding to buy.

B. Advantages to business

1. As there is no requirement to maintain huge stocks or expensive showrooms, E-commerce reduces inventory costs. Selling and distribution costs are also lowered. This allows the companies to enjoy higher margin of profit.
2. Quality of customer services is improved.
3. E-commerce ensures efficient and effective marketing of products.
4. E-commerce provides the sellers with a global reach and earn recognition world-wide.

Disadvantages of E-commerce

1. The start-up costs of the business portal are very high. The installation of hardware, software and server, recruiting and training cost of employees, website maintenance and overall upkeep involve huge expenditure.
2. The risk of failure of such businesses is very high.
3. Cultural and legal barriers may crop up in conducting business electronically.
4. There is absence of personal touch with the consumers which can be a disadvantage for businesses such as jewellery, interior designing, etc.
5. The consumers cannot touch and feel the products sold online. This may lead to lack of trust among them towards such products.
6. Security is another area of concern. There are often instances of hackers stealing sensitive customer information provided to the company.
7. There is threat of virus attack too which may slow down the operation of the website or may even make the website inoperative.
8. E-commerce businesses cannot spread to areas where the consumers lack digital illiteracy.
9. The consumers frequently encounter technical problems in making online payment at the time of placing orders. Even after the order is placed, there can be problems such as delayed shipping, cancellation of order, delivery of defective or unordered products, etc.

STOP TO CONSIDER

- *E-commerce is the process of doing business electronically or via internet.*
- *E-commerce transactions can take place between two business corporations (i.e. B2B), or between a business and consumer (i.e. B2C and C2B), or between consumers (i.e. C2C), or between business and government (i.e. B2G).*
- *E-commerce offers benefits of anytime and anywhere shopping to consumers, offers them with a large variety of products at comparatively lesser cost, enhances customer knowledge about the products, and also delivers products at the doorstep of the consumers.*
- *From the business perspective, E-commerce eliminates the need to maintain huge stocks and set up expensive showrooms. It improves the marketing of products and thereby leads to enhanced goodwill.*
- *However, conducting E-commerce transactions runs the risk of virus attack, hackers, technical glitch, problems in product delivery, etc. Although it is very easy and cheap to open a business website, cost involved in website maintenance is very high.*

Check Your Progress

1. *What are the differences between E-commerce and traditional commerce?*
2. *What are the different types of E-commerce transactions?*
3. *What are the advantages and limitations of doing business electronically?*

Self Asking Questions

1. *How has technology affected businesses in the present day competitive market?*

1.12 Summing Up

The Indian economy is currently undergoing overall restructuring with the objective of gaining a competitive edge in the modern day global business environment. Being a rural economy, India has been increasingly focusing on the development of its small-scale industries. Further, the government is intending to build India as a global manufacturing hub in the years ahead. The 'Make in India' campaign is a significant step in this regard. It seeks to attract foreign direct investment in to the country and avail all the up-to-date technological innovations thereon. In addition, skill development is another pertinent area of emphasis. India strives to create a large pool of skilled human resources within the country to eradicate the long facing problem of educated unemployment. Attempts are being made to augment the quality and reach of skill-based education with the use of technology.

Apart from the above, the chapter also highlights the emerging business opportunities in the present era and the modern day best practices adopted and followed by the companies such as CSR and business ethics to survive in the competitive warfare.

1.13 References and Suggested Readings

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1.14 Model Questions

1. Define MSME as per Micro, Small and Medium Enterprises Act 2006. Justify the need for developing MSMEs in our country.
2. Elucidate the role of small-scale enterprises in the economic development of your state.
3. Discuss the problems faced by the small scale sector in India.
4. Elaborate the various policy initiatives introduced by the Government of India towards the promotion and development of small scale sector in the country.
5. Give an account of India's experience of the LPG economic reform.
6. Explain the role of technological innovations in skill development.
7. Write a note on the Make in India policy of the government and its achievements.
8. Discuss briefly on Social responsibility and Business Ethics.
9. What do you mean by Franchising? Explains its various forms, advantages and disadvantages.
10. What is Outsourcing? What are its types? Discuss the benefits and limitations of outsourcing.
11. Write a brief note on E-commerce and its various types.
12. Point the advantages and disadvantages of E-commerce from the points of view of both the vendor and customer.

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UNIT 2

BUSINESS ENTERPRISES

Contents:

2.1 Introduction

When a person wants to start a business, it is important for him to determine which form of business enterprise he is willing to start. This in turn depends on the amount of capital he has in hand, the scale in which he wants to start the enterprise, the number of persons he wants to involve. The person has to choose from one of the several forms of business organization, whether it is private or public. These enterprises are further classified into sub categories which are discussed in the further sections.

2.2 Objectives

The unit is an attempt to discuss the forms of business enterprises. After going through the unit you will be able to know about:

- Sole proprietorship and its features
- Joint Hindu Family business and its features
- Partnership, its features, the kinds of partners, types of partnership
- Company – its features and types.
- Cooperatives- its features and types
- Choice of form of business enterprise
- Public Sector Enterprises and its types
- Multinational Corporations

2.3 Classification of Business Enterprises

From the view point of ownership, business enterprise can be classified into:

1) Private Sector Enterprise
2) Public Sector Enterprise

Private Sector Enterprise

Businesses which are owned by individuals either jointly or alone are known as Private Sector Enterprises. The Private Sector Enterprises may be classified into the following forms:

a) Corporate
b) Non-corporate

Corporate Sector

In case of corporate sector, the identity of the business is separate from the owner i.e. the owner cannot be held liable for the liability of the business. The corporate sector is further divided into the following categories;

- Companies
- Cooperative Societies
- Multinational Companies (MNC)
- Transnational corporations

Non-Corporate Sector

In non-corporate form of business enterprise, the identity of the business is not separate from that of the owner and the owner can be held personally liable for the liability of the business.

The non-corporate sector is further divided into:

- Sole proprietorship
- Hindu Undivided Family (HUF)
- Family Business Entities
- Partnership
- Limited Liability Partnership (LLP)
- Trust

2.4 Sole Proprietorship

A Sole Proprietorship is a form of business enterprise which is owned, controlled and managed by a single individual. He carries on the business exclusively for himself. He is also responsible for all the profits and losses arising in the business. The owner bears all the risk of the business. Such type of business is very easy to establish. There is only a legal formality i.e to collect a trade license from the Gaon Panchayat or Municipal Corporation or the Town Committee.

According to R.S. Daver "A Sole trader is a person who carries on business on his own, i.e. without the assistance of a partner."

2.4.1 Features of Sole Proprietorship

The essential features of a sole proprietorship business are explained below:

Single ownership: The owner of a sole proprietorship business is a single person. It makes the formation of business easy and simple.

Single handed resolutions and decision making: The management of the business rests in the hands of the proprietor. He takes all the decisions regarding the business.

Capital: The capital of the business is contributed by the person himself or he borrows from banks, relatives and friends.

Unlimited liability: The liability in this form of business is unlimited. The owner bears all the risks and losses arising in the business.

Secrecy: In sole proprietorship business, secrecy is maintained to the highest possible extent. All decisions are taken by the proprietor on his own and he is in a position to maintain secrecy in business.

Minimum legal formalities: A Sole proprietorship business is required to maintain minimum legal formalities. Such type of business is not governed by any special rules and regulations.

Self control over the resources: The sole proprietor holds all the control over the resources of the organization. Thus, there is an economical use of resources and less wastage.

Check Your Progress

1. **What is the nature of liability of a Sole Proprietorship business?**
2. **Which type of business is suitable for providing Personalised services?**

Stop to Consider

Sole proprietorship is a business run by one individual

The main features of sole proprietorship are single ownership and management, unlimited liability, minimum legal formalities and maintenance of secrecy,

2.5 Hindu Undivided Family (HUF)

The Joint Hindu Family Business is one of the oldest forms of business organization in India. It is a form of business where the business is owned and controlled by the members of a Hindu Undivided Family (HUF). It does not operate under any formal contract but operates under the Hindu Law. The business is inherited by a Hindu from his father, grandfather and great grandfather. The eldest member of the family conducts and manage the business. He is entirely responsible for the profits and losses arising in the business. He is known as the 'Karta' or 'Manager' of the business. It is recognized as an assessee under the Income Tax Act.

2.5.1 Features

The essential features of a Joint Hindu Family Business are listed below:

Formation: There should be at least two members in order to form a Joint Hindu Family Business. It is not formed by any agreement as membership is obtained by birth. It is governed by the Hindu Succession Act, 1956.

Nature of liability: The liability of the Karta of the family is unlimited while the liability of other members is limited to their share of interest.

Management : The management and control of business is vested in the hands of the Karta of the family.

Perpetual succession : Joint Hindu Business has the highest life span as compared to other forms of business. The business is not dissolved even on the death or insanity of a member. There is succession planning and inheritance within the group.

Check Your Progress

1. **Which act governs the Joint Hindu Family Business?**
2. **What type of liability is borne by the Karta of a Joint Hindu Family Business?**

2.6 Partnership

Partnership refers to the association of two or more persons who carry on a business with the objective of sharing profits under a common name. The partners provide the capital needed for running the business and also share the responsibility of running the business.

Indian Partnership Act, 1932 defines it as "Partnership is the relation between person who have agreed to share profits of a business carried on by all or any one of them acting for all."

2.6.1 Features of Partnership

The important features of Partnership are listed as follows:

Nature: Partnership is a contractual relation between a group of persons. It arises out of a contract between a number of persons.

No. of persons: There must be at least two persons to form a partnership.

Sharing of profits: There must be an agreement to carry out the business with the objective of earning profit and sharing it among the members. If the partnership is formed for some charitable work it is not termed as partnership.

Liability: The liability of the members of the firm are unlimited. If the profits and assets of the firm are not enough to satisfy the creditor's claim, then the personal assets of the partners can be used to satisfy the claims.

Transfer of interest: No partner of the firm can sell or transfer their interest to anyone else without the consent of the other partners.

No separate identity : A partnership firm does not have a separate existence from its members. The partners and the firm are considered same.

Check Your Progress

1. Name the Act governing Partnership Business in India.
2. What is the nature of liability of the partners of a Partnership Firm?

2.6.2 Types of Partnership

Partnership is broadly divided into two categories:

- **General Partnership**

  General Partnership is that partnership where the liability of all the partners is unlimited. The personal property of the partners is attached to the clearance of debts. In India, all forms of partnership are General Partnership where each partner has the right to take part in the management of business.

  On the basis of duration of partnership, General Partnership is classified into the following types:

  Particular partnership: This type of partnership is formed for a particular period and purpose. The firm is completely dissolved after completion of the particular purpose.

  Partnership at will : The tenure of this kind of partnership depends on the willingness of the partners. They are not formed for any particular purpose. The firm can be dissolved if any of the partners give notice in writing that they want to withdraw from the firm.

- **Limited Liability Partnership**:

  The partnership in which the liability of certain members are limited to their individual capital contribution are known as limited partnership. As per the Limited Liability Partnership Act, 2008, it is mostly common among the professional members and firms to limit the liability of the members arising from professional negligence and oversight, like chartered accountants, lawyers, doctors, architects.

2.6.3 Kinds of Partners

The different types of partners are described as follows:

1. **Active Partner**: A partner who is actively engaged in the business activities is called a active partner. He is also called a working partner. The liabilities of an active partner are unlimited.

2. **Dormant or sleeping partner** : A dormant or sleeping partner is one who contributes capital, shares profits and losses of the firm but does not take active part in the working of the business.
3. **Nominal partner**: A nominal partner is that partner who neither invests in the capital of a firm, nor shares the profits and losses of the firm. Such type of partner lends his name to the firm but he is liable to all other parties for the activities of the firm.
4. **Incoming partner**: A person who enters as a partner in an existing partnership business is called an incoming partner. A new person can enter as a partner with the consent of all the existing members.
5. **Outgoing partner**: A partner who leaves the existing firm in which he is a partner is called a outgoing or retiring partner. The outgoing partner is liable for the debts and obligation incurred before his retirement and will also be liable for future debts unless and until he gives a notice on his retirement from the firm.
6. **Partner by estoppel or Holding out** : When a person is not a partner, but poses as a partner by words, either spoken or written , he is known as a partner by estoppels. Just as in case of a nominal partner, he also does not have any right as a partner but is liable to those third parties who deal with the firm with the assumption of him being a partner.

Check Your Progress

1. A partner who only provides his name and capital to a firm is …………. Partner.
2. A partnership business which can be terminated with the willingness of the partners is………….. partnership.

Stop to Consider

Partnership is a business started by two or more persons.

The main features of partnership are : there are two or more partners, the liability of the partners are unlimited, the partners bring capital into the business, they share the profits of the business.

2.7Trust

A trust is a structure where a trustee carries out the business on behalf of the trust's members. It is not a separate legal entity. The trustee is legally liable for the debts of the trust and may use it the assets of the trust to meet those debts.

There are two types of trust:

Discretionary : In this form of trust, the trustee has discretion in the distribution of funds to the beneficiary.

Unit trust : In case of unit trust, the interest in the trust is divided into units with the distribution determined by the number of units held by members.

Check Your Progress
What are the different types of trust ?

2.8 Co-operatives Societies

According to the **International Labour Organisation** "Cooperative organization is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking." Its main aim is to render services to the association rather than personal gain.

It is a democratic form of organization run by its members for serving their common interests. It is a voluntary association of persons for the promotion of their economic interests. In India Cooperative societies are governed by the Cooperative Societies Act, 1912.

2.8.1 Features or characteristics of Cooperative organizations

The main features of cooperative organizations are described as follows:

1. **Voluntary Association**: Cooperative organizations are voluntary association of persons. A person cannot be forced to join it, it depends on the will of the person. The members who join such associations can also withdraw from them at any time.

2. **Service:** In almost all forms of organization, the main motive is to earn profit. But, the cooperatives are democratic set-up run by its members in order to meet the social and economic needs with a minimum amount of profit.
3. **Spirit of cooperation** : The spirit of cooperation resides in a cooperative organization where all the members work towards the betterment of the organization instead of their individual interest.
4. **Equality** : In a cooperative organization all members are treated as equal irrespective of the number of shares they are holding.
5. **Open membership** : The membership of a cooperative society is open to all irrespective of their gender, caste, creed or social status. One member can cast only one vote.
6. **Non trasferable membership** : The membership of the organization is not transferable.
7. **Benefits** : The benefit of the concerned organization is earned by the members.

2.8.2 Types of Cooperative Societies

The principle type of co-operative societies are listed as follows:

1. **Producer's cooperative societies :** The producer's cooperatives are voluntary associations of small producers formed with the aim of eliminating capitalists from industrial production.
2. **Consumer's Co-operative societies** : Such cooperatives are formed by ordinary people with a view to obtain their day to day goods at cheaper prices. The main aim of such societies is to eliminate middlemen. The consumers come together and manage the day to day affairs of the business.
3. **Marketing cooperative societies**: The marketing cooperatives are voluntary association of independent producers who organize the sale of their products. The profits received from selling the products are then distributed among the contributing producers.
4. **Housing cooperative societies**: The main of these co-operative societies is to arrange for housing facilities for their members. They provide for financial assistance for the members so that they can receive land and building.

5. **Credit cooperative societies** : The main aim of these co-operative society is to arrange for loan or credit for their own members. The funds are obtained by these societies from the contribution of their members. The liability of the members are unlimited.
6. **Milk cooperative societies :** The objective of milk cooperative societies is to acquire milk from small producers who cannot find a market on their own. These societies help the small producers to sell their dairy products at best prices in the market.

Stop to Consider

A cooperative is a form of voluntary association started with the objective of serving the society, with the cooperation of all the people in the society. The membership of such associations are open to all.

Check Your Progress

1. Which act governs the functioning of Co-operative societies?
2. Name any two types of cooperative societies.

2.9 Company

Meaning

Company is a voluntary association of persons formed to meet a common objective. It is an artificial person created by law, having a limited liability of its members and have a perpetual succession and a common seal.

According to James Stephenson "A Company is an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business, and who share the profit and loss arising there from."

According to the Companies Act 2013 " A company is a company registered under the companies Act."

Features or characteristics of a company

The main features of the company are described as follows:

1. **Artificial person** : A company is created by the law, and is an artificial person. It can enter into contracts and also buy and sell property in its own name.
2. **Separate legal identity**: A company has a legal identity which is separate from its members. Its assets are distinct and separate from its members. The shareholder cannot be liable for the acts of the company.
3. **Common seal** : A company in order to indicate its separate identity has a common seal for its documents. The company's name is indicated in the seal.
4. **Transfer of shares**: The shareholder of a company can transfer his shares to any other person without taking the consent of the other members.
5. **Voluntary Association for profits**: A company is a voluntary association of persons to earn profits. A company cannot be formed to carry on any activity without profit motive.
6. **Juridicial Personality** : A company has a right to sue others in its own name and can also be sued by others.
7. Liability : A company can own property in its own name and incur liability in its own name.

Check Your Progress

1. A company is an ……………. Person created by law.
2. Who are the owners of a company?

2.9.1 Kinds of Companies

Companies can be classified into the following types:

A. On the basis of Incorporation

On the basis of incorporation, companies can be classified into the following types:

1. **Chartered company** : A chartered company is created by a special charter or certain special sanctions granted by the Head of the state, where certain special rights and privileges are granted to the company.
2. **Statutory company**: A statutory company is brought into existence under the Act passed by the legislature of the country or state. The Act which forms the company also defines its rights, powers, liabilities etc. Examples are the Reserve Bank of India, Life Insurance Corporation of India etc.

3. **Registered company**: A registered company is formed by getting registered with the Registrar of
companies under the provisions of the Companies Act, 2013.

B. On the Basis of members

On the basis of the number of members, company can be classified into:

1. Private company: According to the Companies Act, 2013, a private company has the following characteristics:

i) The number of membership does not exceed two hundred.

ii) The right of transfer of share is restricted.

iii) The minimum number of members needed to start a private company is two.

2. Public company: According to Section 3(1) (iv) of the Companies Act, 2013 "A public company means a company other than private company."

This means that the Public company is a company which

i) Does not restrict the right of transfer of shares by members.

ii) Membership is not limited to two hundred.

iii) Invites public to buy its shares and debentures by issuing prospectus.

Public companies can be formed by seven persons and there is no limit to the maximum number of members.

C. On the basis of liability

On the basis of liability, a company can be classified into

1. Companies limited by shares: In this type of company, the liability of members is kept to the limit of the value of shares issued to them. When the company winds up, the members can be asked to pay only the unpaid amount on the shares held by them. This type of company may either be public or private.

2. Companies limited by guarantee : In this type of company, the liability of the members of the company is limited to the amount they decide to contribute when the company winds up. This type of company is formed for the promotion of arts, science, culture etc.

3. Unlimited liability companies: When the liability of the members of the company is not limited, such companies are called unlimited companies. In such type of companies, not only the property of the shareholders in the company but also their personal property are liable to be used to pay off any debts.

4. **One Person company** : One person company has limited liability and is registered under the Companies Act, 2013.

D. On the basis of ownership

On the basis of ownership, Companies can be classified into:

Government company: A government company is a company in which not less than 51 percent of the paid-up capital is held by the Central or state government and it also includes a company which is the subsidiary of a Government company.

Non-government company: A registered company which is not a government company is called a non-government company.

Check Your Progress

1. Who controls and manages a Joint Stock Company?
2. Which company is required to issue a prospectus?

Stop to Consider

A company is an association of persons formed for the purpose of earning profit.

The identity of the company is separate from that of the owner, it is considered as an artificial person in the eyes of law, the liability of a company is limited and it operates under a common seal.

2.10 Choice of form of business enterprise

The choice of a particular form of business organization is one of the most important decisions for a businessmen. Any decision regarding the type of business organization should be taken into account by considering certain important aspects like risk involved in business, amount of profit ,loss involved and availability of raw materials etc.

The main factors involved while making a choice regarding a business organization are listed below;

1. **Ease of raising capital** : If a business men has to arrange all finances from his own pocket, than he has to go for sole trading. But, if the finance has to be arranged from other persons or sources of finance, then determination of other form of business is more important.
2. **Tax burden** : Tax burden is one of the important factors to be considered while selecting the type of organization. The tax burden is the highest in case of joint stock company, while in case of partnership the burden of tax is borne by all the partners.
3. **Nature of business activity**: The nature of business activity i.e. whether manufacturing, trading or service oriented determines the form of business enterprise. Business which has direct link with the customers are mostly sole proprietorship business.
4. **Management and control** : The most effective type of management can only be exercised in case of sole trading concern. As there is more than one owner in partnership and other forms of business, the decisions get slowed up in these undertakings.
5. **Government control** : In the present business environment, the government imposes a lot of restrictions on businesses. Thus, from this point of view sole trading concerns are in the most advantageous position followed by partnership. The most amount of restriction is imposed on joint stock companies.
6. **Government schemes and subsidies** : The ease in doing business and availing of various schemes and subsidies by the Government can also affect the choice of business.

2.11 Public Sector Enterprises

Public Sector Enterprises are undertakings which are owned, controlled and managed by the local, state or the central Government. The main objective of Public Sector Enterprises are to provide the goods and services to the general public at reasonable prices.

Such enterprises though owned and managed by the government do not depend upon the Government for financing their day to day operations. They enjoy financial freedom to the fullest extent. They basic objective of such enterprises is to provide service to the society. They can also act as monopoly enterprises in those sectors where the entry of private sector is not permitted like the railways, coal, mining etc.

2.11.1 Forms or types of Public enterprises

The public or state enterprises generally exists in the following forms:

Departmental Undertaking

This is one of the oldest forms of Public Sector Undertaking that exists in our society. Under such type of Public Sector Enterprise, the business activities are conducted under the overall control of one of the departments of the Government. Usually, the minister of that particular department is in-charge of that particular enterprise. For example, the Indian railways is managed by the Ministry of Railways, postal services, Telecommunication are few examples of Departmental form of undertaking.

Characteristics of Departmental Undertaking

Departmental Undertakings have the following characteristics:

1. **Formation** : A departmental undertaking is set up as a separate department of the Government.
2. **Management** : The management of departmental undertaking is looked upon by the civil servants of the government. The overall responsibility lies with the minister who is in-charge of that particular department.
3. **Funding** : these undertakings are funded by the government.
4. **Legally immune** : The Departmental undertakings enjoy legal immunity. Thus, no legal action can be taken against them.

Statutory Corporation

Statutory corporations are those public enterprises which are constituted as autonomous bodies under certain special Acts of the State legislature. So, it is a separate autonomous business which is created by law to conduct certain business activities. As these enterprises are created under special statute, they are also known as Statutory Corporation. Examples are Oil and Natural Gas Corporation, Indian Oil Corporation Limited, Life Insurance Corporation of India etc.

Statutory Corporations have the following features:

1. **Special statute** : The statutory organizations are created by a special statute of the parliament.

2. **Separate legal entity**: Statutory organizations have a separate legal entity with perpetual succession and a common seal.
3. **Owned by the state**: It is wholly owned by the state. The capital of such corporations are provided by the Central and state government.
4. **Financial power**: Such organizations enjoy financial power as they can save their own money and use it for future work in the organization
5. **Main motive** : The main objective of such organization is too provide service to the society. Profit is secondary

Government Company

Government Company means those companies in which not less than 51 percent of the shares are owned by the Central Government, or by the state government, or partly by the state and central government and also includes companies which are subsidiaries of Government companies. Examples of Government companies are Steel Authority of India Ltd, Oil India Ltd etc.

The main features of a Government company are :

1. **Registration** : A government company is formed and registered under the Companies Act, 2013. The Central Government can however make certain changes in the working of these enterprises.
2. **Separate legal entity**: The Government companies have a sepertae identity from the government. It can acquire contracts and dispose off property in its own name.
3. **Government subscription** : The whole or majority i.e at least 51 percent of the capital is subscribed by the Government.
4. **Employees** : As the company has a separate identity from that of the owners, thus, the employees are employees of the company only, they have no link to the government in power.

Check Your Progress

1. The company which functions under a particular department are called………… undertaking.
2. The public companies created under a statute are………………..

2.11.2 Rationale of Public Sector Enterprises

In developing countries like India, industrial progress and the economic growth cannot be achieved without the positive participation of the state. The state has to create and provide a positive climate for the overall development. The following conditions justify the rationale for setting up Public Sector Enterprises in the country.

1. **Infrastructure**: Infrastructure of a particular state like transport, electricity, communication, power, irrigation can be developed only by the state. Infrastructure is one of the main elements for economic growth of the country. Private sector enterprises do not want to enter such areas due to lack of proper infrastructure. Thus, Public sector enterprises come up.
2. **Public utilities**: Most of the private businesses are driven with the motive of earning profit. In case of Public utility services like water supply, gas, public transport etc. the scope of earning profit is limited. Thus, such services are not taken into consideration by the private sector. So , it becomes the responsibility of the state to look into these services.
3. **Defence equipments**: The government has the responsibility of providing equipments and materials to the defence forces in order to maintain the security of the country. As these equipment has a strategic meaning for the country and are of national importance they cannot be left for the operation of the Private sector.
4. **Preventing monopoly** : The Public Sector Enterprises help in reducing monopoly. If all the industries reside in the hands of the Private sector than there will be concentration of income in the hands of few individuals and the weaker sections of the society will suffer.
5. **Development of backward places** : Public sector enterprises help in balanced development of all the regions of the country. The private sector enterprises are often reluctant to operate in the backward areas because they feel they will incur losses. The Government often tends to develop certain areas in order to develop balanced regional growth, thus, the public enterprises are set up in such areas.
6. **Joint operations** : Public sector enterprises can undertake joint operations of projects under Public Private Partnerships.
7. **Optimum utilization of resources** : Equitable distribution of natural resources on a fair and reasonable manner to percolate fruits of development equitably among all citizens and regions.

8. **Removal of regional disparities** :The Public sector Enterprises helps in removing regional imbalances by setting up projects equally across all regions.

2.11.3 Reasons of failure of Public sector entities

The main reasons for the failure of public sector enterprises are :

1. **Poor planning** : The projects of public sector enterprises take such a long time to complete that they fail to reap the benefits of the projects.
2. **Huge expenses** : as the projects undertaken by these enterprises are huge, a large amount of funds are spent and sometimes it becomes difficult for them to recover the funds.
3. **Manpower planning** : The man power planning in Public Sector enterprises is considered to be poor, overstaffing is an important problem of such enterprises.
4. **Recruitment** : the method of recruitment and selection in such enterprises is considered to be faulty and poor.
5. **Faulty financial planning** : the Financial planning tactics of Public sector enterprises are also poor. Due to mis management of funds these enterprises sometimes have to face huge amount of losses which becomes a burden to the government and the enterprises also fail.

2.12 Multinational Corporations

Multinational Corporations are those organizations which operate beyond the country of origin. Such organizations operate across various countries. They have offices, factories, branches in more than one country.

According to the United Nations Commission " A Multinational Corporation is a corporation which operates, in addition to the country in which it is incorporated, in one or more other countries."

2.12.1 Features of Multinational Corporation

The main features of Multinational Corporation are :

1. **Centralised Control**: An MNC has its headquarters in the home country. It exercises its control over all its branches and subsidiaries, which operate within its policy framework.
2. **Huge size**: The sales and assets of MNC's are quite huge. The sales of certain MNC cross the GDP of certain developing countries.
3. **Oligopolistic power**: MNC's are generally oligopolistic in nature. A few firms operate in the same line of business. As they are huge organizations, they occupy a dominant role in the business.
4. **Sophisticated technology** : An MNC introduces advanced technology while producing their products and services. They employ sophisticated technology not only in manufacturing but also in other areas of business.
5. **Professional Management** : An MNC employs personnel with professional skill , specialized knowledge and skill . It employs trained personnel who have knowledge in handling advanced technology, huge funds and international operations.
6. **Adaptability** : The Multinational corporations can easily adapt to the global art and culture in the nations in which they set up the business.
7. **Expansion of jurisdiction** : Multinational corporations can expand their boundaries of production and distribution in the countries in which they set up the business.

2.12.2 Operations of MNC's

An MNC can extend its operations to different countries through the following alternatives:

Joint Ventures : Joint ventures are combinations of technical know-how, finances and marketing abilities. An MNC can also enter into partnership with a local agency in the foreign country. The Joint ventures can enjoy special concessions and can get relief in matters of import licenses and taxation. They are also safe and are the least expensive way of entering a foreign country.

Branches : Branches are the most simplest way of extending business operations in international markets. Branches are not independent entities and are linked to the parent companies in other countries.

Subsidiary companies : An MNC can also enter other countries by setting up subsidiaries in those countries. A Subsidiary in other country is set up as per the law of that other country. Subsidiaries are generally set up in other countries by acquiring some other company or forming a new company.

Franchise Holder : Franchise is a special contract by which an affiliate firm produces or markets the product of multinational firms by obtaining a license from the firm. The manufacturers of the contract enter into an agreement with a licensee in the other country who authorize him to use the manufacturing process, the patent design or the trademark or the technical facilities.

Turnkey projects : Under this form of organization, the MNC undertakes the responsibility of completing the project from the start to the operational stages. When the project is ready, it is handed over to the home country. Underdeveloped countries are not able to complete certain highly technical projects themselves. They require the help of developed countries to complete these projects.

Stop to Consider

An MNC is a organization which operates in more than one country and beyond the country of its operations. The main modes through which an MNC enters other countries are Licensing, franchising, subsidiary companies, turnkey projects, branches.

Check Your Progress

1. MNC's in which the owner take the responsibility of completing the project from the scratch are called………………….
2. In which type of MNC a license is issued to the operating firm?

2.13 Summing Up

- Business enterprises are classified into Public and Private enterprises.
- The Private enterprises are again classified into Corporate and Non-corporate sector.

- The corporate sector is further classified into- Company, Co-operative and Multinational Corporations.
- The non-corporate sector is classified into – Sole-proprietorship, partnership, Joint Hindu Family Business.
- A sole- proprietorship business is characterized by single ownership, secrecy, unlimited liability.
- A company is considered as a separate legal entity under law with a common seal and limited liability.
- Public Sector Entities are classified into Statutory corporations, Departmental undertakings and Government Companies.
- MNC ‘s extend their business in other companies by Branches, franchisee, Turnkey projects, licensing etc.

2.14 References & Suggested Readings

Chabbra, T.N, Business Organisation and Management, Sun India Publications, New Delhi

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UNIT-3

MANAGEMENT AND ORGANISATION

Contents:

3.1 Introduction

Management has emerged as a powerful institution and an important discipline of learning in the modern world. It is not a one way process. It has become essentials for all types of organisation.

Management process is a process of setting goals, planning and controlling the organisation and leading the execution of any type of activity. Over the years management has gone for many changes. In any organisation human factor is considered to be the most important.

It is indeed not easy to give a precise definition of management. It differs from person to person. In a nutshell, Management can be defined as an art as it involves application of skills and it also termed as a science as it contains a systematic body of knowledge based on experiments and observation.
F.W. Taylor: "Management is knowing exactly what you want men to do and then seeing that they do it in the best and cheapest way."

There are four parts to the process of management: Planning, Organising, Leading/directing and controlling. In addition it expands to decision making, strategy formulation, delegation of authority etc.

Stop to Consider

- *Management is the art of getting things done through others.*
- *Management is both arts as well as a science.*

3.2 Objectives

This unit is an attempt to understand the process involved in successfully managing an organisation. After going through this unit you will be able to learn:

- The process of management
- The meaning and importance of planning
- The concept of decision making and strategy formulation
- The concept of organisation and its types
- Delegation of Authority and Decentralisation of Authority

3.3 The Process of Management

Management Process can be referred as a process to emphasize that all managers irrespective of their aptitude and skill engage in some inter-related functions in order to achieve their desired goals.

The process of management involves four basic activities:

i. Planning and decision making-Determining the course of action

ii. Organising- Coordination activities and resources
iii. Staffing: Staffing involves filling the positions needed in the organisation structure by appointing competent and qualified persons for the job.
iv. Leading- Managing, motivation and directing people
v. Controlling- Monitoring and evaluating activities

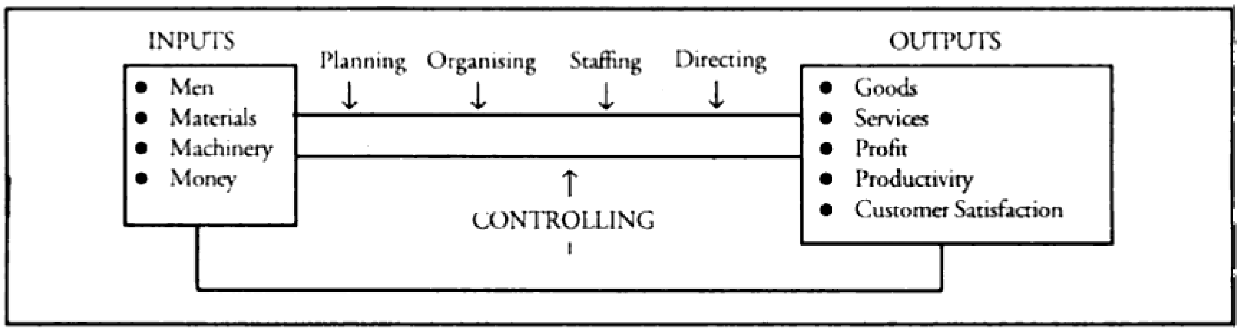


Fig: The Process of Management *(source: Management: Text and Cases by V.S.P. Rao, V Hari Krishna)*

An organisation's senior management is responsible for carrying out its management process.

According to D.E. McFarland, "Management process is the distinct process by which the managers create, direct, maintain and operate purposive organisation through systematic, coordinated and cooperative human efforts."

Check Your Progress

1. Management is a one time /continous process.(choose the correct one)

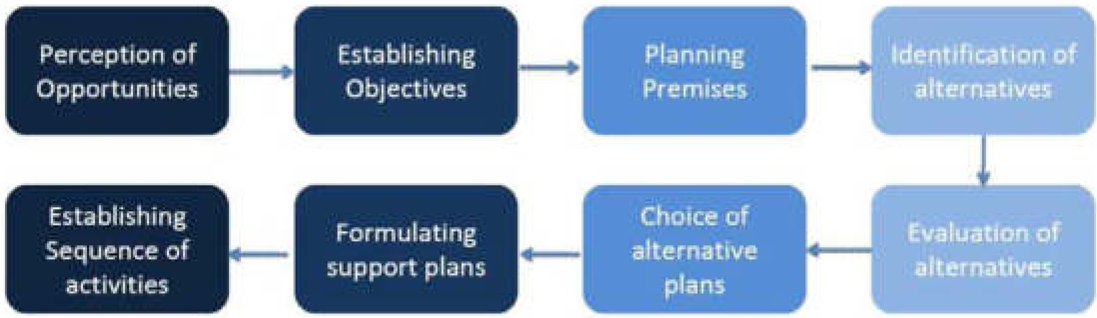
2. The top level managers are assigned the task of performing day to day activities.(True or false)

3.4 Planning

In simple term, planning means looking in the future. It is an old age phenomenon. Planning is to forecast the future in advance. It is an intellect process whereby the management foresees and determines what is to be done, how. When, where it will be done and who has to do it. Planning is the first function of a management process.

Definition:

M.E.Hurle :"Planning is deciding in advance what is to be done in future. It involves the selection of objectives, policies, procedures and programs for attaining the objectives."



Planning Process

Characteristics/ Features of planning

A careful analyze of planning reveals the following characteristics:

i. Primary Function: It is the first function of management. Without planning no other functions can take place. If there is no planning in advance, chances are that it may lead to nothing but disorder and failure.
ii. Pervasive Function: All managers, irrespective of their levels and area of operation have to perform this function. Managers of higher level are concerned with long term planning whereas lower level managers are concerned with day to day planning.
iii. Continuous Process: it is a never ending process. It goes on for even during the life of an organization.
iv. Time Frame: Planning may be for one month, a year or year. It is always time bound.
v. Future: Planning is prepared in advance to achieve objectives in future.

Benefits of Planning:

i. Improve motivation: Planning ensures participation of all managers and subordinates which improves motivation and desire to work.
ii. Innovation and Creativity: planning creates innovative and creative things, because many new ideas come to the mind when a manager is planning.

iii. Minimize uncertainty: Planning minimizes the chances of uncertainty which may be caused by changes in technology taste. Govt. policy etc.

iv. Utilization of Resources: planning helps in optimum utilization of resources with less amount of wastage.

Limitations of Planning:

i. Costly: Planning is a costly process as it involves time, money and energy which may be long in some cases.

ii. Lack of Reliability: Planning may not be reliable if the planner does not determine the reliability of facts and

iii. Delayed Action: it may delay the actions since planning is a time consuming process.

iv. Resistance to Change: Planning is hindered by resistance to change because people often feel frustrated in instituting new places.

Self Asking Questions

1. *Planning is the first function of management. How planning plays an important role in successfully achieving the objectives set by an organisation?*
2. *How Planning and controlling are interrelated to each other?*

3.5 Decision Making

Decision making is significant in any business enterprise as it involves time and money. Decision making is the selection of one best alternative for doing work. It is a choice made about what should or shouldn't be done in a given situation. Decision making arises mainly because of the existence of alternative cause or action.

Definition

George R. Terry: "Decision making is the selection based on some criteria from two or more possible alternatives."

Characteristics of Decision Making:

The characteristics of decision making are as follows:

i. Decision making is a selection of the best alternative out of many alternatives.
ii. Decision making involves careful evaluation and analysis of all the possible alternatives.
iii. Decision making can be positive to do a certain thing or negative not to do a certain thing.
iv. Decision making is based on situations. An individual has to take decisions based on the situations prevailing.

Decision Making Process:

Using a step-by-step decision making process can help to make more deliberate thoughtful decisions. The following are the simple process for decision making:

i. Identify the problem: The problem should be recognized before taking a decision. A well-defined problem is half solved. Manager should continuously find the causes of a problem.
ii. Gather relevant information: Next step is to collect some pertinent information. Relevant information should be collected by the manager.
iii. Identify the alternatives: While collecting information several possible paths of action or alternatives will come up. It is to the manager to discover a number of alternatives.
iv. Evaluation of alternatives: An alternative is compared with other alternatives available.
v. Choosing the alternatives: The alternatives which gives maximum benefits to the organization is selected. It should be kept in mind that the selected alternatives should fit with the organizational objectives.
vi. Take action: the manager has to consider the policy of the management. The selected decision is communicated to concerned persons.
vii. Implementation: Decision making process comes to an end with the actual implementation of decision. Necessary resources should be allocated for specific tasks.

Stop to Consider

- *Decision making is the selection of best alternative out of various alternatives.*
- *Decision making is situational.Different decisions may be required to solve the same problem.*

Check Your Progress

1.Decision making requires _____________ thinking.(creative/outdated)

2.Desision making comes to an end with the actual implementation of decision.(true or false)

Self Asking Question

1.”Decision making is the primary task of a manager”. Discuss the role of decision making as managerial functions.

3.6 Strategy Formulation:

Strategy formulation is the process by which an organization chooses the most appropriate courses of action to achieve its defined goals. This process is essential to an organization’s success, because it provides a framework for the actions that bad to the anticipated results.

The term ‘Strategy’ is a military term which means to counter the moves of every forces. Candler defined strategy as ‘the determination of basic long term goals and objectives of an enterprise and adoption of course of action for carrying out these goals.’

Characteristics of Strategy:

i. Systematic phenomenon: Strategy involves a series of action plans. It is not merely a good idea; it is making that idea happens too.

ii. Multidisciplinary: Strategy involves marketing, finance, human resource and operations to formulate and implement strategy. It is multidisciplinary as a new strategy influences all the functional areas.
iii. Multidimensional: Strategy not only tells about vision and objectives, but also the way to achieve them.
iv. Dynamic: Strategy is confined to environment change. The Strategy has to be dynamic to move in accordance to the environment.

Steps in Strategy Formulation:

The process of strategy formulation basically involves six main steps. The steps can be followed in this order:

i. Setting organization's objectives: Objectives stress the state of being the success whereas strategy stresses upon the process of reaching there. It includes both the fixation of objectives as well as the medium used to realize the objectives.
ii. Evaluating the organizational environment: The next step is to evaluate the general economic and industrial environment in which the organization operates. It includes a review of the organizations competitive position.
iii. Setting quantitative target: An organization must fix the quantitative target values for some of the objectives.
iv. Aiming in context with divisional plans: The contributions made by each department or division within the product is identified and accordingly strategic planning is done for each sub- unit.
v. Performance analysis: Performance analysis includes discovering and analyzing the gap between the planned performance. An evaluation of the past performance, present condition and the desired future conditions must be done by the organization.
vi. Choice of strategy: This is the ultimate step in strategy formulation. The best course of action is actually chosen after considering organizational goals strengths, potential limitations as well as opportunities.

Importance of Strategy Formulation:

The formulation of sound strategy may be seen as having six important steps:

i. The company or organization must first choose the business in which it wishes to engage.

ii. The company should then articulate a “mission statement” consistent with its business.

iii. Every company must develop strategic objectives or goals and set performance objectives.

iv. The company must create a specific business strategy that will fulfill its corporate goals.

v. Every company implement the business strategy by taking specific steps.

vi. At last, every company has to review the level of effectiveness of strategy, measure the performance and look for action if changes are required.

Stop to Consider

- *Strategy is the preparation of oneself for some unforeseen and unexpected events.*
- *Strategy provides guidelines for taking action to the management.*

Self Asking Questions

1. *In the context of present day situation, explain the role of strategy formulation in an ever changing business environment.*

3.7 Organizing

Concept: The word ‘organizing’ means a process of identifying and grouping of activities to be performed and dividing them among the individuals and creating authority and responsibility relationship among them for the accomplishment of organizational objectives.

The concept of organization has been perceived differently by different persons. An organization exists where two or more people agree to get together and co- ordinate their activities so as to achieve a common goal.

According to Koontz and O'Donnell, "Organization involves the grouping of activities necessary to accomplish goals and plans, the assignment of these activities to appropriate *departments and the provision of authority, delegation and co-ordination."*

Organization involves division of work among people whose efforts must be co-ordinated to achieve specific objectives and to implement pre-determined strategies.

Definitions:

Louis A. Allen, "Organization 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 in accomplishing objectives."

Koontz and O'D: "Organization is the establishment of authority relationship with provision for co- ordination between them with vertically and horizontally in the enterprise structure."

Basic considerations of organizing:

Every business to be run successfully and to have the best possible chance of succeeding, it is very important to have considered many of the basic and fundamental aspects of the business from the start.

The basic considerations that need to be made in a business organization are as follows:

i. Each and every objective need to be laid out in advance.
ii. Forecast has to be done on how to achieve these objectives.
iii. An estimated budget should be prepared for the business and how it is to be spread out.
iv. Actions should be implemented for correct management in place to run each department.
v. Alternative contingency plan should be prepared for any potential issues or in the course of business.

Business need to be built on solid foundations and this of course needs to be done from the very start. The basic considerations of a business organization can be vital to the overall success in the future. All the objectives need to be clear and work towards same direction. It is all also crucial to have strong and knowledgeable leaders as managers in each department.

Importance of Organization:

i. Organizing results in making larger outputs than the inputs. It avoids delay and confusion in performance.
ii. Because of specialization, correct persons are placed in the right position based on their knowledge, skill and experience.
iii. Organization provides a proper network of communication among the members and departments.
iv. Common interests of the enterprise are given importance by all the departments.
v. Organization provides the group a climate for thinking innovatively and development of creative ideas.

Formal and informal organization:

Formal Organization:

Organization with clearly defined set of functions and relationship where the activities of persons are co- ordinated towards the attainment of objectives is called Formal Organization.

In a formal organization, the lower level workers (i.e. subordinate) must obey his/ her superior.

Features of a formal organization:

i. Formal organization is based on relationships.
ii. Formal organization is deliberately created structure that define official relationships.
iii. It focuses more on jobs than people.
iv. Work is divided into smaller units and assigned to individuals on the basis of skills and abilities.

Informal Organization:

Organization which comes into existence not by any formal authority but arises from the personal and social relations of the workforce in the organization are called informal organization.

Informal organization refers to the personal relationships developing continuously people work together outside the formal structure.

Features of informal organization:

i. Informal organization is not planned by managers. It arises out of interactions among people.
ii. Informal organization arises for fulfillment of social and personal needs of people.
iii. Leaders are informally elected by the group members.
iv. Such organization has no fixed rules and regulations. Rules are framed and changed by people according to their convenience.
v. Informal organization does not operate for a fixed time period. It forms at the will of the people and dissolves at their will.

Difference between Formal and Informal Organizations:

Mode of difference	Formal organization	Informal organization
a) Meaning	An organization in which the job of each member is clearly defined.	An organization within the formal organization where people interact with each other and forms interpersonal relationship.
b) Creation	Deliberately created by top management.	Spontaneously created by members.
c) Purpose	To fulfill the ultimate objectives of the organization.	To satisfy the social and psychological needs of the members.
d) Nature	It is stable and continues for a long time.	It is not stable.
e) Authority	Members are bound by hierarchical structure.	All members are equal in informal organization.

Stop to Consider

- *Organisation is the association of two or more persons working for achieving common set of goals.*
- *When the organisation is created by the top management under certain rules and regulations, it is called formal organisation.*

Check Your Progress

1. *An Informal Organisation has __________rules and regulations.(fill in the blank)*
2. *When the total work of the organisation is divided among different persons it is called__________.(fill in the blank)*

Self Asking Questions

1. *Infromal Organisation is as important as formal organisation. Write a note on the importance of Informal organisation.*

3.8 Departmentation:

Meaning: In simple words the process of dividing activities into units and sub- units is referred to as departmentation. In other word 'Departmentation' means the grouping of similar activities of a lesson concern into a number of small units for facilitating administration wherein the administrative units so created may be designed as divisions, units, branches.

Definition:

Louis A. Allen," Departmentation is a means of dividing a large and monotonous functional organization into smaller, flexible administrative units."

Key Factors in Departmentation

• It should facilitate control.
• It should ensure proper coordination.
• It should take into consideration the benefits of specialization.

• It should not result in excess cost.

• It should give due consideration to Human Aspects.

The following points highlight the importance of departmentation:

i. Organization structure: Division of work into units and sub- units create departments. People are placed in different departments according to their specialization skills. Thus, organization structure is facilitated through departments.
ii. Flexibility: Creating departments and departmental heads make an organization flexible and adaptive to environment.
iii. Specialization: Division of work into departments lead to specialization as people of one department perform activities related to that department only. Specialization promotes efficiency, lowers the cost of production etc.
iv. Sharing of resources: Departmentation helps in sharing resources according to departmental needs. Priorities are set and resources are allocated according to the need.
v. Co- ordination: Creating departments focuses on departmental activities and facilitates co- ordination, resulting in efficiency and significant outcome.

3.8.1 Basis/ Types of Departmentation:

Departmentation refers to the process of grouping activities into departments.

Departmentation is the process of grouping of work activities into departments, divisions, and other homogenous units.

The form of organization structure depends upon basis of departmentation. Creating departments and sub- dividing the work of departments into smaller units creates organization structure. With growing size of organization, departments are created for activities of similar nature. The basis of departmentation can be explained as follows:

3.8.1.1 Functional Departmentation:

Functional organization creates departments along activities or functions of the undertaking. It is grouping of activities on the basis of similarities of functions. Functional departmentation is ‘the grouping if jobs and resources within the company in such a way that employees who perform the same or similar activities are in the same departments.’

It is the simplest, logical and most widely accepted form of creating departments. It is suitable for organizations where limited number of products are produced. The major functional departments further have derivative departments. Production department has sub-departments to manage purchase, production planning and control. Financial department creates departments to look into capital budgeting.

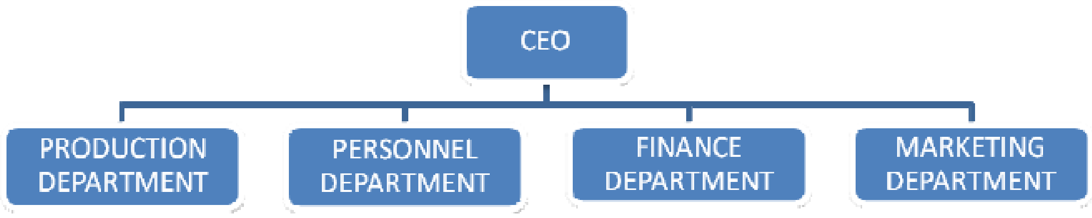


Fig: Simplified Functional Structure

Merits of Functional Departmentation:

i. Simple and logical: Production, marketing, finance and personnel are widely accepted and recognized functions of a manufacturing organization and therefore, it is a simple basis of departmentation.
ii. Specialization: Workers are employed in their area of expertise and they focus on their area of interest. They acquire experience and specialized skills in performing their duties.
iii. Co- ordination; Workers working in different departments are closely knitted and work together the fulfillment of common goals. There is co- ordination among the various departments.
iv. Framing and control: Each departmental head is accountable for functions performed by his department. If workers of the departments are not in a position to carry out the activities, managers can train them.
v. Supervision: it is easy for departmental heads to supervise the departmental activities as they have to supervise a narrow set of functional skills.

vi. Suitable for stable organization: Organizations which do not go for changes frequently in their work culture are suitable for orienting departments on the basis of functional activities.

Demerits of Functional Departmentation:

i. Delayed action; Decision are made by departmental heads for their respective departments and hence it may delay decision making as a whole.
ii. Overall goals; Employees become very focused on their departmental goals that they lose sight of the overall organizational goals.
iii. Co- ordination: Sometimes workers show loyalty towards their departmental managers. Top- manager finds it difficult to co- ordinate the various functional activities.
iv. Accountability: Managers often find it difficult to hold accountability of any one particular department for failure of the production the market.

Project Organization:

In project departmentation the organizational activities are classified by differentiated or special ventures or activities. It is to be noted that for a project departmentation, we have to assume that the organization already exists and when the existing organization finds it difficult to cope with the new situations, it decides to launch a project organization. It is one-time task which have specially definable results.

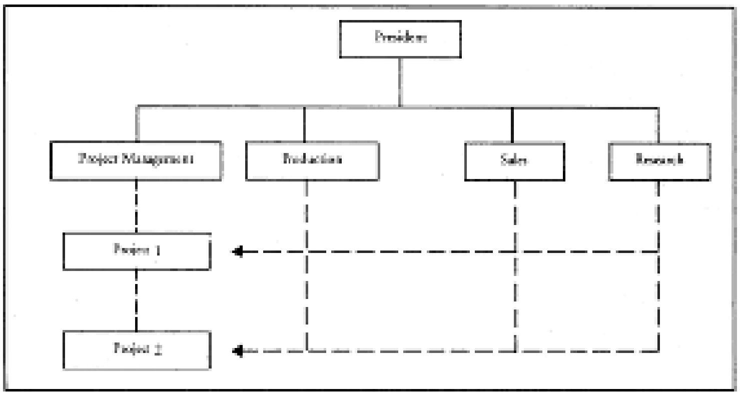


Fig : Project Organization (*source: Management: Text and Cases by V.S.P. Rao, V Hari Krishna)*

Merits of Project Organization:

i. Project management concentrated its attention on the special assignment to complete the project in time and within cost and profit goals.
ii. Project manager task the overall responsibility for the project results. It helps in better control and better relations resulting in more success.
iii. Project organization is the best means of getting the right things done right.
iv. Project departmentation leads to the development of strong team- work and team with identity fully with project goals.

Demerits of Project Organization:

i. Rotation form project reduces employees' loyalty to the parent functional department.
ii. A conflict may arise between the project officer and the department leads because of overlapping of delegation of authority.
iii. Growth and development of employees are hindered when people are shifted from projects to projects.
iv. Work culture also differs from project to project. And as a result the experience gathered from one project may not necessarily be applicable to other projects.

Matrix Organization:

The matrix structure is a combination and interaction of functional and project departmentation structure. A matrix structure is termed to overcome the problems associated with project and functional structures. In matrix organization design is most useful when there is pressure for shared resources. Every matrix contains three unique sets of role relationships:

i. The top manager or executive officer
ii. The managers of functional and project departments
iii. The specialists who report to both the respective functional manager and project manager.

The most important aspect of a matrix structure is that each person working on the project has two supervisors- the project manager and the functional manager.

The matrix structure provides clear lines of responsibility for each program. The structure provides co- ordination among the various course and program.

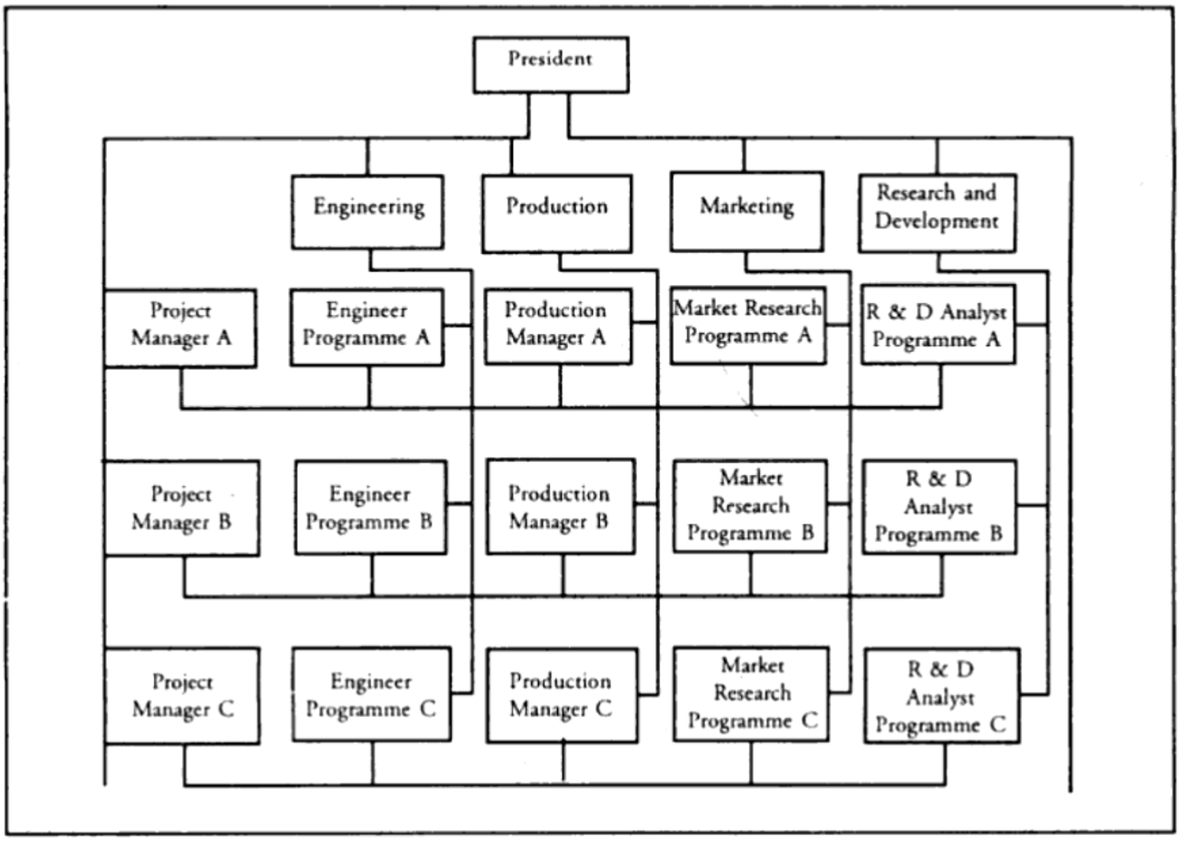


Fig: Matrix Organisation (*source: Management: Text and Cases by V.S.P. Rao, V Hari Krishna)*

Merits of Matrix Organisation:

Some of the strengths of matrix Organisation structure are:

i. Unity of command: In matrix structure the accountability for the success of the project lies with the leader or manager.
ii. Optimum use of resources: The staff and their experience can be utilized whenever and wherever it is necessary. If a specialist is not needed for a given project, he can be used for another project.
iii. Functional conflicts: The matrix structure provokes functional conflicts which is healthy especially in academic institution.

iv. Motivation: When people work together on a project with a unity, participation becomes more and more fruitful. This improves co- ordination and harmony which ultimately results to high motivation.

Demerits of Matrix Organisation:

i. Conflicts: Conflicts may arise in matrix structure when there is more than one supervisor for each worker.
ii. High costs: matrix structure results in high paper work and costs because continuous communication, meetings and discussions take place both vertically and horizontally.
iii. Balance: In matrix structure, it becomes difficult to achieve balance between the projects technical and administrative aspects. It is difficult to achieve a balance of authority between project heads and functional managers.

Network Organization Structure:

A network structure is one where more than one organization combine to produce a good or provide a service.

A network organizational structure is more complicated and complex than other structure because it consists of multiple organizations that work together to produce the goods or provide service.

Network structure helps visualize both internal and external relationships between managers and top- level management. They are not only less hierarchical but are also more decentralized and more flexible than other structures.

The idea behind the network structure is based on social networks. The main objective of network structure is to eliminate unnecessary departments and to perform specialized works through outsource experts. In network form of organization there is a very small staff head office to perform administrative work.

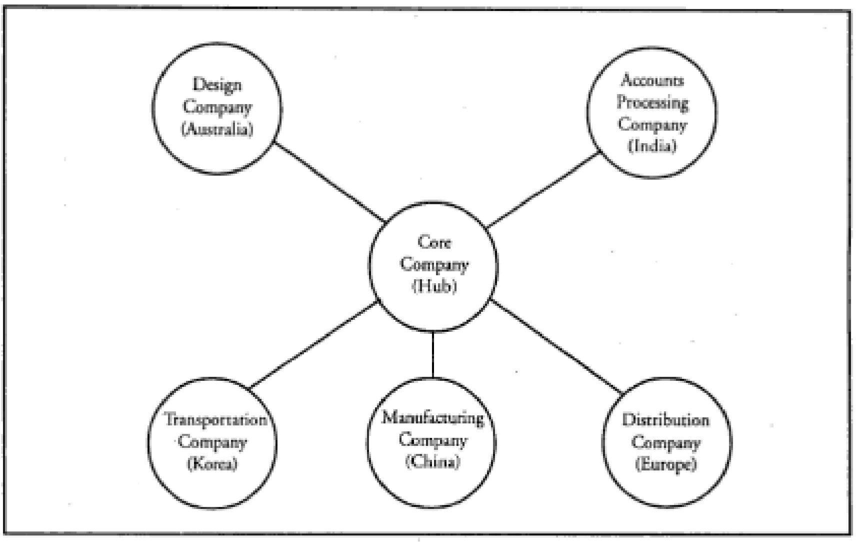


Fig: Network structure: (*source: Management: Text and Cases by V.S.P. Rao, V Hari Krishna)*

Merits of Network Structure:

i. Network structure eliminates over departmentation of an organization. Tasks are given to those institutions that have core competencies for performing tasks.
ii. In network structure there is small staff to perform administrative work. It helps to minimize administrative cost of the organization.
iii. Network structure is the flexible form of organization. Network structure is adaptable on the basis of choosing environment of the business.
iv. Network form of structure foster learning by encouraging combination of information and knowledgeable among employees. The transfer of information between two teams, the existence and ending exchange relation may actually yield new knowledge.

Demerits of networking structure:

i. Network structure might result in conflict between management and work assigned in the organization. It may arise due to non- completion of assigned task, lack of quality of work etc.

ii. Secrecy cannot be maintained about the internal matters of the organizations, while maintaining link with core competency, lack of secrecy may be the reason of loss of business.

iii. If there is lack of communication it becomes difficult to maintain co- ordination for an integration of all the activities to meet common goals.

iv. Network organization increases over dependency of the management on other organization. It emphasizes on strategic alliance. Management needs to depend on other organizations for fulfilment of the needs of the customers.

Stop to Consider

- *Departmentation is the division of large functional organisation into smaller units.*
- *Departmentation makes growth and expansion easier as it divides the functions and responsibilities among various departments*

Check Your Progress

1. *Departmentation makes the tasks_____________(easier/difficult).*

2. A combination of functional and project department structure is called _________ structure.

Self Asking Questions

1. *What is the importance of Project in an organisation.*
2. *What would be the best department structure in case of a large organisation having different functions. Explain citing examples.*

3.9 Delegation

Authority can be defined as the power of the superiors to make decisions which affect the behaviour of the subordinates. The word Authority implies the sum of rights and powers entrusted to a person so that he can perform the assigned tasks.

According to Henry Fayol, “Authority is the right to give orders and the power to exact obedience.”

The characteristics of Authority are as follows:

i. Authority is the legal right of an individual
ii. Authority is the right to command and control others
iii. Authority can be delegated by a superior to a subordinate
iv. Authority is used to achieve the organisational goals.

No manager can perform the tasks assigned to him all alone. It becomes necessary on the part of a manager to delegate authority in order to meet the targets. Delegation of authority means division of authority and powers downwards to the subordinate. It is the process of subdividing and allocation of powers to the subordinates in order to achieve effective results.

“Delegation of authority merely means granting of authority to subordinates to operate within prescribed limits.”- Theo Haimann

The following are the features of Delegation of Authority:

i. Delegation involves sharing of authority with others.
ii. Delegation always moves downwards
iii. Delegation of authority is based on the principle of division of work.
iv. Delegation is provided to others with certain limits. A manager clearly defines the limits within which a subordinate can exercise the authority.
v. A manager can delegate authority to other only when he himself has the authority.

3.9. 1 Nature of Delegation:

- Two-sided relationship
- Act of trust
- Dependency relationship
- A challenging task- on senior’s side mostly
- Forward thinking principle- opens a new chapter for senior
- subordinate relationship

3.9.2 Importance of Delegation of Authority

The main advantages of delegating the tasks by a superior to a subordinate are as follows:

i. Less Burden: Delegation reduces the overall burden of work on the superior. As soon as authority is delegated by a superior, the superior can concentrate on important policy matters.

ii. Specialisation: The superior assign jobs to the subordinate based on the abilities and experience of the subordinates. In this way the benefits of division of work is established.

iii. Motivation: Subordinates enjoy a feeling of importance when authority is delegated to them. They get motivated to work more hard and achieve the targets set by higher authority.

iv. Quick action: The subordinate can take quick action when authority is delegated to them without waiting for superior interference.

v. Development and growth: When authority is delegated to the subordinate, they get a chance to enlarge their duties and gather more understanding and also develop their skills and ability.

3.9. 3 Principles of Delegation:

1. Principle of result expected- suggests that every manager before delegating the powers to the subordinate should be able to clearly define the goals as well as results expected from them.

2. Principle of Parity of Authority and Responsibility- Both of them should go hand in hand.

3. Principle of absolute responsibility- authority can be delegated but responsibility cannot be delegated by managers to his subordinates. It does not means that he can escape from his responsibility. Superiors cannot pass the blame to the subordinates even if he has delegated certain powers to subordinates for example if the production manager has been given a work and the machine breaks down. If repairmen is not able to get repair work done, production manager will be responsible to CEO if their production is not completed.

4. Principle of Authority level- suggests that a manager should exercise his authority within the framework given.

5. Principle of unity of command- for any given activity an employee should be made accountable to only one superior

6. Scalar principle- line of authority should be clear from top to bottom so that delegation decisions can be made clearly

3.9.4 Process of Delegation of Authority:

The process involved in Delegation of Authority can be categorised into four steps:

i. Determination of Results: Determining the result expected from a subordinate is the first step of delegation of authority. In order to make delegation more and more effective, the expected result must be determined.

ii. Assigning duty: The next step in delegation is assigning the duties to the subordinate in an enterprise. Duties can be described to the subordinates in terms of functions or goals by the manager.

iii. Authority: A subordinate should be granted proper authority in order to perform his duties effectively. The manager should be clear as to what authority is associated with the assigned duties that is to be delegated.

iv. Accountability: Delegation implies accountability from the subordinates to the manager and superior. It is essential to measure the performance of the subordinates. A subordinate gives a promise to give his best in carrying out the tasks assigned to him while accepting authority. Duty and authority can be delegated but accountability cannot be delegated. Accountability always flows upwards from the subordinate to the superior in a hierarchy.

3.9.5 Advantages of Delegation:

1. **Minimize Work Load of Managers:** Delegation of authority minimizes the workload of managers. It relieves the manager of the need to attend to minor or routine types of duties. They can assign regular and routine nature of work to their subordinates while they concentrate more effectively in managerial and creative functions. Thus, he is enabled to devote greater attention and effort towards broader and more important responsibilities. In this way, delegation of authority helps in improving managerial efficiency and effectiveness.

2. **Benefit of Specialization:** Specialization is the means of success in a dynamic environment. The management delegates authority as well as responsibility to subordinates on the basis of their ability and knowledge. Since the work is assigned to the persons who have specialized knowledge and expertise, it helps for specialized services. This contributes in the development of the concept of specialization among the subordinates. For example, sales may be delegated to the sales manager, marketing-to-marketing manager, finance-to-finance manager.

3. **Motivation and Morale:** Delegation of authority develops among the subordinates a feeling of status and prestige. It may also be used as a device to motivate the subordinate. Subordinates usually respond to delegated authority with favourable attitude. It helps to improve their working efficiency. It also promotes a sense of initiative and responsibility among them. They become more responsible and more dedicated to their work and they feel proud of being given such authority and responsibility, this in turn boosts their morale. This ultimately leads to maintenance of high morale on the part of subordinates. This motivation and morale of subordinates encourages them to develop their effort towards the achievement of common goals.

4. **Training and Development:** Delegation of authority provides a background for training and development of subordinates. It ensures the employees in the organization to develop their capabilities to undertake new and more challenging jobs and also it promotes job satisfaction. The manager delegates some of his authority as well as responsibility to the subordinates in accordance with their ability. The subordinates have to perform a task on behalf of the superior and in the same situation they have to take decisions by using their own ideas and knowledge. This environment provides a framework for the development of managerial ability among the subordinates.

5. **Facilitates Growth and Expansion:** Delegation of authority facilitates growth and expansion of business activities. It provides flexibility in the organizational structure. Subordinates, when given control over the problems they face are able to analyze the situation and make decisions accordingly. According to the requirement, more layers can be added to the existing organizational structure through the process of delegation. This process will also screen out those from the executive level who have proved to be less successful in handling problems at the lower level.

6. **Quicker and Better Decision:** The process of delegation makes it possible to push decision. Making to the lowest level where information, competence and willingness to make decisions are available. Delegation of authority ensures a quicker and better decision. Subordinates get the authority to decide on the matters of their own area by remaining within the limitations. Here, subordinates can take quick decisions without consulting the superior. Decision making is also better because subordinates are closer to the reality of the situation. Decisions can be made right away at or near the centre of operations as soon as a deviation occurs or the situation demands.

7. **Basis of Organizing:** Delegation of authority is the basis of forming an organizational structure. It helps the executive to apportion that part of his work to his subordinates. The number of layers in the organizational structure depends upon the nature of delegation of authority and responsibility. In a similar way, the functioning of the enterprise is not possible without an organizational structure. Therefore, the management has to first decide on the layers of delegation of work, authority and responsibility and then proceed with the formation of organizational structure. So that he can devote his time to more important areas of his duties like leadership, organisation planning and coordination

Stop to Consider

- *Delegation is always a downward moving activity.*
- *Decentralisation increases the role of worker participation in an organisation.*

Check Your Progress

1. *Delegation and decentralisation are both same in meaning.(true or false)*
2. *Decentralisation is wider in scope than delegation of authority.(true or false)*

Self Asking Questions

1. *What is delegation of authority? Explain how delegation provides an opportunity to the subordinates to perform in an organisation.*

3.10 Centralisation and Decentralisation

Centralization is said to be a process where the concentration of decision making is in a few hands. All the important decision and actions at the lower level, all subjects and actions at the lower level are subject to the approval of top management. According to Allen, "Centralization" is the systematic and consistent reservation of authority at central points in the organization. The implication of centralization can be :-

- Reservation of decision making power at top level.
- Reservation of operating authority with the middle level managers.
- Reservation of operation at lower level at the directions of the top level.

Under centralization, the important and key decisions are taken by the top management and the other levels are into implementations as per the directions of top level. For example, in a business concern, the father & son being the owners decide about the important matters and all the rest of functions like product, finance, marketing, personnel, are carried out by the department heads and they have to act as per instruction and orders of the two people. Therefore in this case, decision making power remain in the hands of father & son.

Decentralisation can be defined as the division of the managerial task to the lowest level of management with an intention to grant authority. It is the division of power and authority of decision making to the lower levels of organisation. Decentralisation is actually an extension of the concept of delegation. Decentralisation is a question of degree. It is not what is delegated but it means how much is delegated.

Louis Allen: " Decentralisation refers to the systematic effort to delegate to the lowest levels all the authority except that which can only be exercised at central points."

Henry Fayol has pointed out that " everything that goes to increase the importance of the subordinates role is decentralisation, everything which goes to reduce it is centralisation."

3.10.1 Importance of Decentralisation of Authority

Decentralisation is more useful to those organisations which are big with various products or operating in different locations. The importance of decentralisation may be noted as follows:

i. Reduction of burden: The top executive by decentralising the work to the lower management diminishes the workload and helps them to concentrate on future plans.

ii. Motivation: The lower level managers feels motivated when the work is decentralised and develops a feeling of recognition and accomplishment which ultimately results in increased productivity.

iii. Improved performance: The decisions in a decentralised environment tends to be quick and of higher quality. Decisons are democratic as every member is involved in decision making. The performance of workers rises and results in more efficiency.

iv. Improve Morale: In decentralisation there is high degree of participation of workers and also constant effort to communicate with welfare of the group in priority.As such they secure a higher degree of morale.

3.10.2 Limitations of Decentralisation of Authority:

Inspite of various advantages , decentralisation suffers from certain drawbacks which are cited as follows:

i. Lack of coordination: The top executives may find it difficult to coordinate the goals and functions to the subordinates. They may develop a narrow outlook towards the subordinates. Maintaining coordination among the departments becomes difficult.

ii. High cost: Decentralisation results in increase of cost of operation in an enterprise. Smaller enterprise cannot afford to have decentralisation.

iii. Delay in decision: In case of quick and emergency situation where decisions need to be taken immediately , decentralisations becomes a handicap.

iv. Lack of uniformity: In certain cases decentralisation may not be the right action in an organisation.. Each department may follow their own rules and policies as such there will be lack of uniformity.

3.10.3 Difference between delegation of authority and decentralisation of authority

Delegation and decentralisation is most often looked as a similar term. But delegation of authority is not exactly same as decentralisation of authority. Delegation implies flow of power from superior to subordinate but in decentralisation top management grants authority to specific departmental heads to make the unit independent. The main points of contrast between delegation and decentralisation of authority includes:

Point of difference	Delegation of Authority	Decentralisation of Authority
1. Nature	Delegation implies the process of division of authority from top to bottom.	Decentralisation implies the end result which is achieved when authority is delegated at all the levels.
2. Accountability	In delegation superiors are accountable for the acts done by the subordinates.	In decentralisation departmental heads are accountable for the specific department.
3. Control	In delegation the subordinates do not have full liberty.	In decentralisation a certain amount of freedom rests with the departmental heads.
4. Requirement	Delegation of authority is necessary for decentralisation.	Decentralisation of authority is not necessary for delegation.
5. Scope	Delegation takes place when manager shares authority with the subordinates. It is confined to a manager and his subordinate.	Decentralisation is an extension of delegation so it is a wider scope than delegation.

3.11 Groups and Teams:

Group: A group is an association of persons who work , interact and cooperate with one another in achieving a common goal. In an organisation, the groups are made on the basis of common interests, beliefs, experience in common fields so that they can coordinate with each other. Most of the work in a business organisation is performed in groups. It is true that the personality of an individual is important but the effectiveness depends on the group in which the individual is working. A group can be defined as a collection of individuals who work together in completing a given task within a specified time. Basically there are two types of groups:

i. Formal group: Formal groups are those groups which are created by the management of the organisation itself for performing a given task.

ii. Informal group: Informal groups comes into existence naturally in an organisation and is created by the workers themselves. Informal groups are created to satisfy the social and psychological human needs of the workers.

    Example: Trade Unions, Ethnic groups etc

Teams:

Team can be defined as a group of people who comes together for achieving a common goal within a period of time. The motto for team is always " one for all and all for one". In a team the team members share the responsibility of the total work and have collective accountability. The members in a team must have a mutual understanding with each other. Team members work jointly to maximise the strengths and minimise the weaknesses by supporting each other in the work. Team always works in a synergy. Synergy in a team implies that a team can achieve much more than the members can achieve individually.

Example: Management team, Team of doctors, cricket team etc

Difference between Groups and teams:

Point of difference	**Group**	**Team**
1.Number of head	In a group there is only one head.	A team can have more than one head.
2.Responsibility	The members of a group do not share responsibility.	The members of a team share responsibility of any outcome.

3. Process	The group first discuss the problem then decide and finally delegate the tasks to the members.	A team discusses the problem, then decide the way of solving it and finally work it collectively.
4. Members	In a group the members are independent.	In a team the members are interdependent to each other.
5.Meaning	A collection of individuals who work together in completing a task.	A group of persons having collective identity join together to accomplish a goal.

A team is different from a group. A team plays a vital role in the life of the members. The team members motivates the members for working creatively and actively participating in the team tasks. While in a group, the group helps the members in developing a sense of conformity between the members and respect the group values. It increases their resistance to change. Above all, the power of a group is always more than an individual.

Check Your Progress

1. *The members in a group focuses on achieving_________goals.*
2. *The members in a team are ____________________to each other.*

Stop to Consider

- *A group is an association of individuals coordinating their individual efforts for the organisation.*
- *A team is more competitive than a group in any organisation*

3.12 Summing Up

The present chapter explains the role of management and organisation in a business. In today's business environment, management has become an integral part of every organisation. It is rightly said that without management no business can succeed. Organisation has to manage resources like man, materials, money and machine. Placing the right person in the right job is the need of the hour. Planning is the lifeblood of an enterprise. Before taking any action the manager has to look for some planning and also develop a set of alternatives to face certain unwanted situations. Planning can be either for short term, mid-term or long term depending upon the objectives of the business. As soon as planning and forecasting is carried out, the management has to go for decision making. Decision making is very essential since it takes time to coordinate the situation among all the levels of management and is also costly affair.

The management carefully structures the organisation so that the work is efficient and objectives are achievable. Organisation is divided into various departments based on the objectives and departmental heads are assigned the authority to carry out the tasks. Any organisation which delegate authority from top to bottom will perform better in any situation. Workers should be provided authority so that they develop a feeling of self dependent and recognition. Similarly authority should be granted to all the levels of management under a departmental head i.e decentralisation.

Apart from the above, the chapter also focuses on the importance of group and team work in an organisation.An organisation is a group activity. A single person cannot run a business all by himself. He needs to create groups and work in unity. Similarly creating a team in the organisation for specific tasks keeping in tune with the objectives set would be better for quick and efficient outcome.

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3.14 Model Questions

1. What do you mean by planning? State its characteristics.

2. " Administration is primarily a decision making process''. Discuss the statement and explain the importance of decision making.

3. Explain the role of strategy in a planning.

4.What do you understand by formal and informal organisation? Explain its merits and demerits

5. Explain the concept of organisation and the steps involved in organisation.

6. What is departmentation? What are the different bases of departmentation?

7. State the factors influencing the preparation of departmentation in organisation.

8. Explain the process involved in delegation of authority.

9. What is decentralisation? Mention any 6 differences between delegation and decentralisation of authority.

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UNIT 4
LEADERSHIP, MOTIVATION AND CONTROL

Contents:

4.1 Introduction:

Good leader is made; they are not born with the leadership quality. If a man has the willpower and desire, than they can become an effective leader. Good leader are prepared through a never ending process of training, self-study, education, and experience *(Jago, 1982).*

Leadership is and integral part of work and social life. In any situation, when people want to accomplish some goal, a leader is required. Leadership occurs in all formal and informal situations. In a non-formal, such as a group of friends Leadership behavior occurs when one individual takes lead in most of the group activities and influences people to work towards common goals.

In an organisation, desirable behavior of the people produces an intended result which leads to achieve organizational objectives. People may be influenced to engage in desirable behavior in two ways; by exercise of authority or by winning their support. Out of these, the second way is better as it has a lasting effect over the people’s motivation. However, it is only possible when a manager becomes their leader in the real sense to influence their behavior in desired direction. Therefore, understanding of leadership and its various aspects is important.

4.2 Objectives:

After going through this unit, you should be able to understand:

- The concept, factors and purpose of leadership
- To know the difference between management and leadership
- It will help students to know the traits and situational leadership

4.3 What is Leadership?

Dr. A.P.J. Abdul Kalam was the Project Director of SLV mission and Prof. Satish Dhawan was the Chairman of ISRO at that time. That was the first time India was building its own rocket launch vehicle in Sri Harikota, India. After ten years of hard struggle, they were ready to launch their first experimental rocket 'Rohini Technology Payload' on August 10,1979.

The Countdown started and Dr. Abdul Kalam along with six other experts monitoring the launch anxiously. When it was four minutes before the satellite launch, the computer began to go through the checklist of items that needed to be checked. One minute later, the computer program put the launch on hold; the display showed that some control components were not in order. Everyone was stunned not knowing whether to proceed or not. The whole country was waiting for the good news.

The experts advised Dr. Abdul Kalam to go ahead with the launch and they were confident about their calculations. The decision was Dr. Kalam's to take and he decided to bypass the computer, switched to manual mode, and launched the rocket. In the first stage, everything worked fine. In the second stage, a problem developed. Instead of the satellite going into orbit, the whole rocket system plunged into the Bay of Bengal. It was a big failure.

The whole world media was waiting for the press meet curious to know what had happened. Dr. Kalam was very frightened to face the media and answer their criticism of wasting millions of people's money.

Prof. Satish Dhawan, the chairman of ISRO took Dr. Kalam to the press meet and made him sit aside and he took the blame for the team's failure and said *"We failed! But I have a very good trust in my team that next time we will be succeeding for sure"* and made everyone to believe in the team.

Next year, 18 July 1980, the same team led by Dr. Kalam successfully launched Rohini RS-1 into the orbit! The whole country was proud and cheering for the success of the launch.

Prof. Satish Dhawan congratulated Dr. Kalam and the team and asked Dr. Kalam to conduct the press conference that day!

The rest is History as we know it. Dr. Kalam led many more successful launches and became the 'Missile man' of India. This would not have happened without what Prof. Satish Dhawan did on the day of Failure!

Point to be remembered:

Well, this sums up what Leadership is all about! Leadership is not just about 'leading' someone to achieve a task but it is about 'empowering' someone to achieve far Greater deeds. One needs no bigger support than a Leader like Prof.Satish Dhawan to achieve things that have never been achieved before. The 'Trust' that Prof.Dhawan had in his team and the willingness to take responsibility when they fail, is something everyone should look up to and learn in order to become a True Leader.

4.4 Definition of Leadership:

The leadership is the process of influencing the behavior of other people to work towards the achievement of the goal in a given time. A leader is one who conducts, acts as a guide to others in action or opinion and takes the lead in any organisation. The leader builds confidence and zeal among people and creates an urge to be led. He inspires and supports the group members to achieve the organizational goal.

Leadership is the process in which an individual influences other group members towards the attainment of group or organizational goals. (Shackleton 1995, p. 2)

According to Robert Tannen Baum, *"leadership is the interpersonal influence exercised in a situation and directed through communication process towards attainment of specified goals".*

According to Louis A. Allen, *"A leader is one who guides and directs other people. A leader gives the efforts of his ollowers a direction and purpose by influencing their behavior.*

***According to Koonz and Weihrich**, "leadership is influence, that is, the art or process of influencing people so that they will strive willingly and enthusiastically towards the achievement of group goals".*

4.5 Importance of Leadership:

Leadership helps an organization in the following ways:

1. **Task support:** leaders support their followers by assembling organizational resources and help them accomplish their task and need the standards of performance.
2. **Helps in guiding and Inspiring Employees:** leader guides and inspires the employee towards higher performance and helps in the attainment of orgnisational goals.
3. **Secure cooperation of members of the organisaiton:** A leader persuades employees work co-operatively and enthusiastically towards attainment of organizational goals.
4. **Creates confidence:** leader creates confidence among the employee by his conduct and expression.
5. **Develops and maintains an environment conducive to maximum work effort:** leader develops and maintains an environment for employee to contribute their maximum efforts towards attainment of organizational goals.
6. **Act as an intermediately**: leader acts as an intermediary between his subordinates and the higher level management to his subordinates and of the problems and grievances of his subordinates to the top management.
7. **Act as a counselor**: leader acts as a counselor of is subordinats where they face problem in connection with their performance at work. He guides and advises the subordinates concerned.
8. **Develop work group as team**: leader develops the work group as a team.
9. **Helps in motivation:** leader helps in motivating the employee and boosting their morals.

4.6 Management verses Leadership:

People often mistake leadership and management as the same thing but in essence, they are very different. The main difference between the two is that leaders have people that follow them, while managers have people who simply work for them. Particularly in small businesses, for a small business owner to be successful they need to be both a strong leader and manager to get their team on board with working towards their vision of success. Leadership is about getting people to comprehend and believe in the vision you set for the company and to work with you on achieving your goals, while management is more about administering and making sure the day-to-day activities are happening as they should.

Leadership and management must go hand in hand. They are not the same thing, but they are necessarily linked and complementary to one another. Any effort to separate the two within an organisation is likely to cause more problems than it solves. For any company to be successful, it needs management that can plan, organise and coordinate its staff, while also inspiring and motivating them to perform to the best of their ability.

Hence we can say that Leadership is mission-driven while management is task-driven. Leaders coach, while managers direct. While a leader keeps a team focused on the overall purpose of their work, a manager keeps a team focused on completing a task. Leaders can be transformational and inspire people to achieve high-quality work, while managers control people and their work. Leaders are innovative while managers follow the books. Leaders take risks, while managers control risk.

The following table highlights differences between the two:

Basis of difference	Management	Leadership
Concept	Broader concepts and includes leadership	It is a part of management
Purpose	Management aims at accomplishment of organizational goals	It may or may not attain organizational goals. It can occur outside the organization also.
Functions	It is planning, organizing, directing and controlling the organizational activities.	It is influencing behavior to achieve a specific purpose.
Interchangeability	Good managers are normally good leaders. Managers may carry out the functions of leaders also.	Good leaders need not necessarily be good managers. Leader does not normally carry out the functions of managers.
Formal structure	Managers belong to the organizational hierarchy. They manage structured groups of people.	Leaders are not part of organizational hierarch. They may even lead unstructured group of people.
Interaction	A manager does not interact with directs people to behave in a particular way.	Leaders personally interacts with followers.

4.7 Characteristics of Leadership:

On the basis of different situation the characteristics of the leadership may be emerges as follows:

1. **It is the process of influence:** leadership is the process of influencing others towards the goal. It is also the influencing ability of the leader to change the behavior, attitude and belief of another individual directly or indirectly.
2. **It involves interaction between two or more persons:** The interaction between the leader and is followers are based on interpersonal relationship which grows out of the leaders support and help to the followers in achieving the individual and their group goals.
3. **It is related to a situation:** the leadership style varies from the situation to situation. A person with the some trait may adopt autocratic style of leadership in one situation and democratic in another situation. The same leadership style may not apply in the different situation.
4. **It involves pursuit of common goals:** the process of leadership will help individual and groups to achieve their common goal. The goal of individual is different than the goal of the organization but the leadership will help all stakeholders to achieve their goals.
5. **Leadership is multi faceted:** Leadership is the combination of tangible skills and personality i.e. self confidence, decisiveness, attractive personality, drive, integrity etc.
6. **Role model:** Leader always ac as a role model for their followers. Subordinates are not loyal if the leader is not supportive. The followers always expect leader's cooperation in their work.

4.8 Qualities of a Good Leader: The Greatman Theory

The Greatman Theory assumes the leader is different from the average person in terms of personality traits such as intelligence, perseverance, and ambition. This theory holds that leaders are born not made. According to this theory, People are born with inherited traits. Some traits are particularly suited to leadership and People who make good leaders have the right (or sufficient) combination of traits.

Some of the qualities that commonly make them a good leadership personality are

- Intelligence
- Communication skills
- Emotional balance
- Technical Skills
- Inner Drive
- Energy
- Human Relations Skills
- Teaching Skills

4.9 Leadership Styles:

Leadership style means the way in leaders behave in exercising the power to influence his subordinates. It is the dominant behaviour pattern of leader in relation to his subordinates. Interestingly, each one of us has the different leadership style and each one of us is leader in our own field. Leadership style reflects the different types of leader. Leadership style is the manner and approach of providing direction, implementing plans, and motivating people. As seen by the employees, it includes the total pattern of explicit and implicit actions performed by their leader (Newstrom, Davis, 1993).

This can be discussed under the following categories:

1. **Autocratic leadership style:**

   'It's my way or the highway.' 'If you want something done right you have to do it yourself.' 'Anything you can do I can do better.' Perhaps you have heard someone say one of these phrases before or maybe you have said one of them yourself. They all encompass this idea of control. Often regarded as control freaks, these people try to dictate anything and everything in their lives, and sometimes in the lives of others. They are often perfectionists and demand excellence from themselves and others. In management, control freaks can really cause anguish for their followers and often result in micromanagement. They tend to regard themselves as superior to others and feel that it is necessary for them to intervene continuously in the works of their subordinates to ensure that things are completed to their standards. This often leaves subordinates who resent their leader and regard them as being bossy, controlling, and dictatorial. May result in Employees having a tendency to avoid responsibility leading to frustration and low morale.

Stop to Consider:

i). centralization of decision making, ii). Production oriented iii). Close supervision, iv). Use of coercion, v). Does not allow participation of subordinate in decision making vi). Compels subordinates under threat of penalties, vii). Centralization of Authority

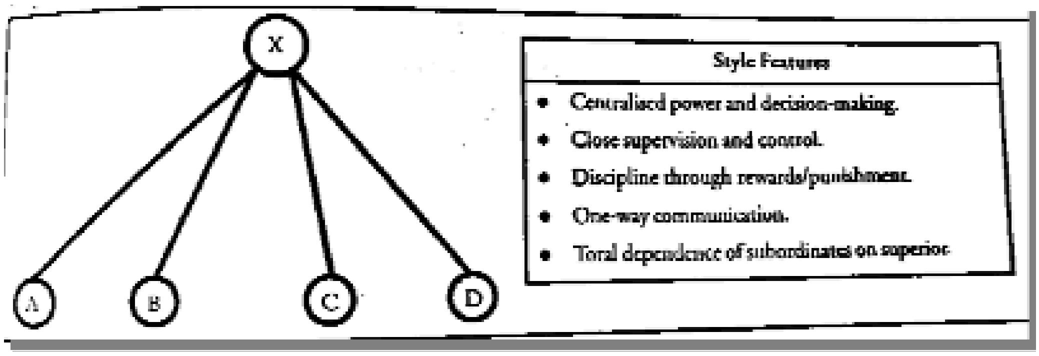

Fig: Autocratic leadership style

2. **Democratic leadership style:**

Those leaders who take the time to share with their employees and encourage their participation in the decision making process are accordingly referred to as **participative leaders**, or otherwise known as **democratic leaders**. The two terms are really one in the same and describe a leader who includes subordinates in the decision making process by encouraging employees to be creative, innovative and engaged in projects.

In turn, subordinates are more involved and willing to work towards whatever decisions are being made due to the vested interest they have as a result of being a part of the decision making process. Employees tend to have a higher level of productivity and job satisfaction because they feel valued by their manager and that what they say or feel actually matters. The democratic leader essentially empowers the subordinates by recognizing the valuable contributions they can make during the decision making process. Employees become less competitive and more cooperative with one another, creating a welcoming organizational culture that people like to be a part of.

While there are many benefits of participative leadership, it is not without its drawbacks. Specifically, although it can be argued that two minds are better than one, it also takes more time to come to a decision.

Therefore, the decision making process can be extremely slow at times under the democratic leader, but inevitability leads to good results. The question becomes: is it worth the wait? There are certainly times where speed or efficiency is essential, making the democratic leadership style ineffective. Employees might also resent the participative leader who only listens to their ideas but never implements them. They want to be able to express their ideas and see them put into action, otherwise it can lead to low motivation, skepticism and feelings of betrayal. Even worse, the employees might not have the knowledge, skills or expertise to provide high quality input during decision making.

Democratic Leadership is best when implemented in the team environment where Subordinates competent Leader prefers participative decision-making, Reward and involvement used for motivation and control and the work is Objective oriented

Stop to Consider:

i) Delegation of Authority, ii) Participative decision making, iii) Production of employee oriented, iv) Allow participation, v) Not subject to close supervision, v) Allow two way communications.

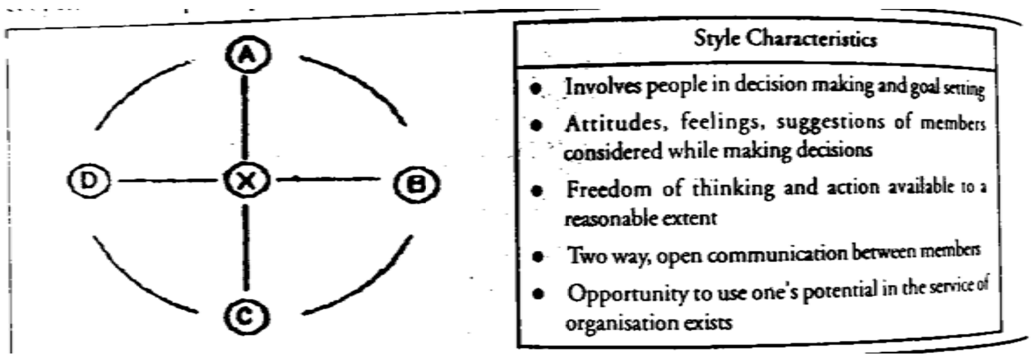

Fig: Democratic Leadership style

3. Laissez Faire Leadership or Free Rein Style:

Laissez-faire, or leave it be leadership depicts a leader who allows subordinates to work on their own. The laissez-faire leader is the opposite of autocratic leadership, where people have complete control over their employees, much like a micromanager. Laissez-faire leaders offer their subordinates autonomy, providing them with all of the resources and information they need to do their jobs and intervene only by request or when there is a problem.

This leadership style can be highly intentional but also terribly accidental at the same time. Essentially, some laissez-faire leaders purposefully work to provide their followers with freedom to manage their own tasks and deadlines, while other laissez-faire leaders fail to provide their employees with adequate leadership and structure, leaving them to fend for themselves.

Effective laissez-faire leaders understand that while they can practice a more hands-off approach to leadership they still have a high level of responsibility to their followers. The effective laissez-faire leader still monitors the performance of their employees and provides them with feedback on a regular basis. They simply refrain from micromanaging them.

In doing so, the laissez-faire leader is able to promote a higher level of job satisfaction and productivity as long as the employees themselves are knowledgeable, experienced self-starters. Monitoring employees is a critical activity for the laissez-faire leader to identify when subordinates lack the necessary skills, training, expertise, and motivation to effectively manage themselves.

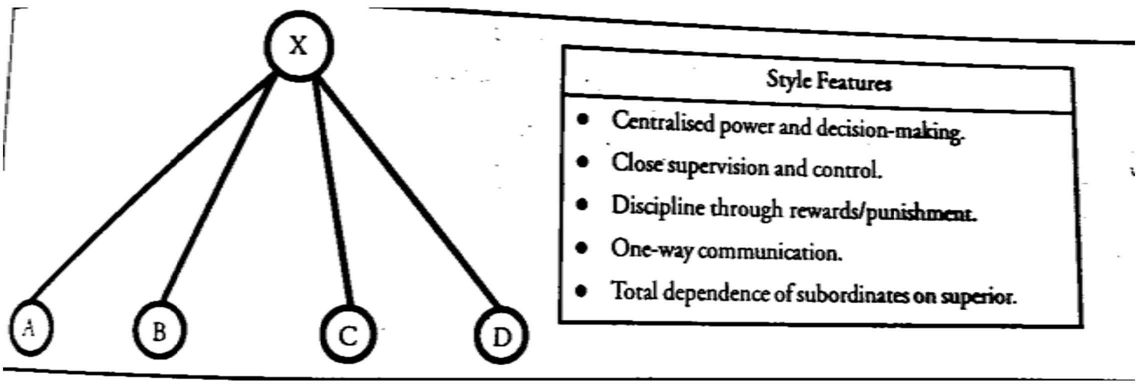

Fig: Laissez Faire Leadership

Stop to Consider:

i) Goal setting, ii) Taking decisions, iii) Implementing decisions

The Leadership Styles at Glance

Basis	Autocratic Style	Democratic Style	Laissez-Faire Style
Authority	Leaders retain the authority for decision making	It is partly delegated to the subordinates	It is completely delegated to the subordinates

Decision Making	Decision makings are made by the leader	Followers participate in the decision making process	Decisions are made by subordinates
Motivation	Negative motivation	Positive motivation	Self motivated to work
Communication	One way, vertical and top to bottom	Vertical, two way, top to bottom and bottom to top	Vertical and horizontal
Need satisfaction	Lower order needs	Lower order and partly higher order	Higher order needs

4.10 Theories of Leadership:

The leadership theories are broadly classified into three types: Trait theory, Behavioural theory and Situational Theory.

4.10.1 Trait Theory:

The trait approach to leadership is the earliest theories of leadership. Although it is not a fully expressed theory with clearly developed hypotheses, the trait approach formed the basis of most early leadership research. This approach focuses on the personal attributes (or traits) of leaders, such as physical and personality competencies, characteristics and values. It views the leadership solely from the individual leader perspective. In this approach it is assumed that the traits produce patterns of behavior that are consistent across situations. The leader ship traits are considered to be enduring characteristics that people are born with some characteristics and that remain relatively stable over time.

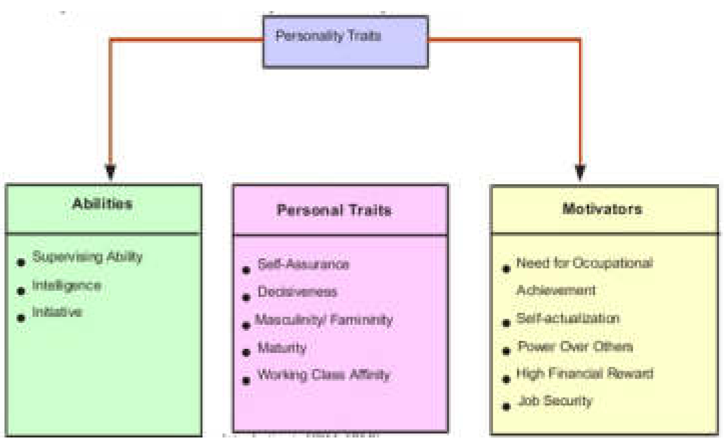

Fig: Personality Traits (Trait Theory)

The trait theory of leadership focuses on identifying different personality traits and characteristics that are linked to successful leadership across a variety of situations. Trait theory suggests that an individual who has traits relevant to leadership emerges as an effective leader. A trait is a distinguishable and relatively enduring quality of an individual that affects his behavior. Researcher has concluded that for being successful, a leader should have the following traits:

1. **Physical features:** Physical features include heights, appearance and weight etc. these are in born features and positive features of a leader attract others. Another in born features is one's intelligence.
2. **Decisiveness:** Often a leader has to face conflicting situations because of ambiguity present in the situations. Therefore, the leader has to analyze the situation rationally and take a stand on which he should remain firm.
3. **Knowledge:** Leader should have intimate knowledge of his field so that whn he discusses about his field, he discusses it with some kind of authenticity. This influences others.
4. **Integrity:** Leader should have initiative so that he initiates the actions which his followers may follow. He should take his actions on proactive basis, which is, taking actions in advance of likely changes in the environment rather than reacting to changes taken place.
5. **Self confidence:** In order to develop confidence in his followers, the leader himself should have confidence so that he believes that he can get things done.
6. **Objectivity:** Leader should have objectivity in taking any action. Objectivity implies that what the leader does should b based on the fact and in formations ad not n his own biases.

Trait Leadership suffers from the following Disadvantages

1. A universally accepted set of traits cannot be identified with successful leaders.
2. It fails to state which set of traits are more important for the leader than others.
3. It does not consider the influence of situational factors in leadership.
4. It has been noticed that traits claimed to be possessed by leaders are also exhibited by the followers as well.

5. It does not indicate the traits which are required for acquiring leadership and which are required for nurturing and maintaining leadership.

Situational Theory of Leadership:

Situational theories of leadership work on the assumption that the most effective style of leadership changes from situation to situation. To be most effective and successful, a leader must be able to adapt his style and approach to diverse circumstances.

For example, some employees function better under a leader who is more autocratic and directive. For others, success will be more likely if the leader can step back and trust his team to make decisions and carry out plans without the leader's direct involvement. On a similar note, not all types of industries and business settings require the same skills and leadership traits in equal measure. Some fields demand a large measure of innovation, whereas in others, personal charisma and relational connection with clients are far more important.

Different theories have been developed that recognize the situational aspects of leadership. Each theory attempts to provide its own analysis of how leadership can be most successful in various situations.

Let's consider a few of the key theories.

1. Fiedler's Contingency Model
2. House's Path Goal Model
3. Life Cycle theory of leadership
4. Vroom's and Yetton's normative model

Hersey and Blanchard's Situational Leadership Theory:

The term "situational leadership" is most commonly derived from and connected with Paul Hersey and Ken Blanchard's Situational Leadership Theory. This approach to leadership suggests the need to match two key elements appropriately: the leader's leadership style and the followers' maturity or preparedness levels.

The theory identifies four main leadership approaches:

Telling: Directive and authoritative approach. The leader makes decisions and tells employees what to do.

Selling: The leader is still the decision maker, but he communicates and works to persuade the employees rather than simply directing them.

Participating: The leader works with the team members to make decisions together. He supports and encourages them and is more democratic.

Delegating: The leader assigns decision-making responsibility to team members but oversees their work.

In addition to these four approaches to leadership, there are also four levels of follower maturity:

Level M1: Followers have low competence and low commitment.

Level M2: Followers have low competence, but high commitment.

Level M3: Followers have high competence, but low commitment and confidence.

Level M4: Followers have high competence and high commitment and confidence

Source:

Identifying the employee maturity level becomes a very important part of the process, and the leader must have the willingness and ability to use any of the four leadership styles as needed.

Situational Leadership Advantages

The situational approach to leadership concept is easy to understand and apply in any situation across the globe. At present more than 500 companies are using this leadership styles in their organizational program because of credible reputation and positive response. A manager is adapted in any situation, which uses a situational leadership style as, which helps manager to act differently with different employees. For example, say two sales personal have similar types of problems with two customers and they are upset in their orders that the products are reaching late. The manager listens to the first person, and recommends that should go for a research that why the order is late and call the customer to explain the problems.

The second sales person has a tendency to come across as hesitant and defensive. The customer is new, so relationship hasn't really been established. In this situation, the manager asks the sales persons to find out why the shipment is late, and fix a meeting with the customer. The interaction and face to face meeting has shown the customer that the companies cares about his business and give the employee the chance to make a good impression, which he wouldn't have accomplished over the phone.

Disadvantages of Situational Leadership:

Age, experience, education and gender of the leader influence their subordinates preference for certain forms of leadership. But so far, the demographic characteristics are not considered in the situational-leadership approach. No much evidence research shows supporting such situational leadership. There are very limited research exists to support the theories of situational leadership approach. Similarly there is no guidelines exist on applying this type of leadership to groups and this guidelines concern only man to man interactions.

4.11 Transcational Leadership and Transformational Leadership:

Transactional Leadership:

Transactional leadership promotes compliance with existing organizational goals and performance expectations through supervision and the use of rewards and punishments. Transactional leaders are task- and outcome-oriented. Especially effective under strict time and resource constraints and in highly-specified projects, this approach adheres to the status quo and employs a form of management that pays close attention to how employees perform their tasks.

Transformational Leadership:

Transformational leadership focuses on increasing employee motivation and engagement and attempts to link employees' sense of self with organizational values. This leadership style emphasizes leading by example, so followers can identify with the leader's vision and values. A transformational approach focuses on individual strengths and weaknesses of employees and on enhancing their capabilities and their commitment to organizational goals, often by seeking their buy-in for decisions.

Transactional Leadership	Transformational leadership
• Contingent reward: Promises rewards for good performance, recognizes accomplishment • Management by exception (active): Watches and searches for deviations from rules and standards, takes corrective actions • Management by exception (passive): Intervenes only when standards are not met • Laissez-faire	• Charisma: provides vision and sense of mission, instills pride, gains respect and trust • Inspiration: communicates high expectations, uses symbols of focus • Intellectual stimulation: promotes intelligence, rationality, and careful problem solving • Individualized consideration: gives personal attention, treats each employee individually, coaches, advises.

4.12 Summing Up:

Leadership is an important facet in every organization, whether you are running a country, a kitchen, or an organization. There should be an atmosphere of trust and understanding between leaders and stakeholders of the company for smooth running of the business. Leaders play an important role in shaping the culture and ethical agenda of the organization. Leaders realign their organizations with employees, customers, shareholders, suppliers, regulators and the communities in which they operate. Leaders cannot operate in isolation and group cannot do away with leaders.

There are dozens of leadership styles but we've chosen the ones most relatable and relevant to the present day scenarios. If you have observed different leadership styles other than mentioned in the above list, drop a comment below and share your take on their leadership style.

4.13 Self Assessment Questions:

1. How good are your leadership skills?
2. What factors influence leader most?
3. Have you noticed any difference between leadership and management? If yes, state briefly.
4. What is the various principle of leadership?
5. What is leadership trait?

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MOTIVATION (B)

Contents:

4.1 Introduction:

The term motivation is derived from the word 'motive'. The word 'motive' if we take it as a noun it will means an objective, if we take it as a verb this word means moving into action. Hence, motives are a force that induces people to act in a way to ensure the fulfillment of need of a human being at a time.

Motive may be defined as a ***needs, wants, drives or impulses*** within the individual. Behind the every action of a human, there is a motive. Therefore, management must provide motives to people to make them work for the organization.

Motives are expressions of a person's needs and hence they are personal and internal. Need here means something within an individual that prompts him to action. Motives are the primary energizers of behavior which prompt people to action. Motives give directions to human behavior because they are directed towards achievement of certain goals.

"Motivation means a process of stimulating people to action to accomplish desired goods." —William G. Scott

"Motivation is the process of attempting to influence others to do your will through the possibility of gain or reward." — Flippo

Thus motivation refers to the process by which human needs direct and control th behavior of a human being. Motivation may be defined as the process which inspires the people at work to contribute to the nest of their capability for the achievement of organizational objectives. In other words, motivation may be defined as the process of stimulating people to action to accomplish desired goals. Motivation is no doubt an essential ingredient of any Organization.

4.2 Objectives:

After going through this unit, you should be able to understand:

- Students will be able know the concept of motivation
- This part of the unit will help students to know the importance of motivation.
- Need hierarchy theory of Abraham Maslow

4.3 Concept and Features of Motivation:

Rupa works at Kasturi, a popular fast food restaurant. Her boss, Arun, has noticed that Rupa hasn't been completing all of her tasks each day. No one else seems to have an issue completing the same tasks on their shifts. Arun looks in the corporate handbook, which tells him he should use employee motivation to encourage slacking employees. But what is employee motivation?

Employee motivation is a factor, or factors, that cause(s) an employee to pursue work tasks or goals. It's what causes you to act in a certain way. There are two primary theories of motivation that are often used by employers: extrinsic motivation and intrinsic motivation.

Why should motivation be something that managers understand? Isn't all that matters that employees do what they are hired to do? Perhaps. But more often than not, employee behavior is not a binary output - it's not if employees do their jobs, but how well they do their jobs. If managers can understand the factors that lead employees to perform at a higher level, they can increase the performance of their entire departments.

4.4 Features of Motivation:

1. **Motivation is a personal and internal:**

Motives or motivation are personal and internal and these are expressions of a person's needs. Motivation is a psychological which arises from the feeling of a needs and wants within an individual.

2. **Motivation is need based:**

Without the needs of an individual, the entire process of motivation fails. Therefore, it is a behavioural concept that directs human behavior towards certain goals.

3. **Motivation may be positive or negative:**

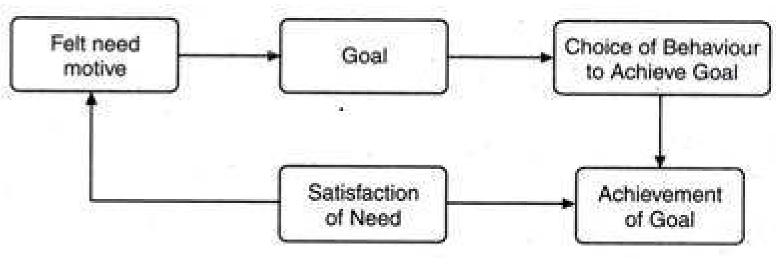
A positive motivation promotes willpower and an incentive to people while a negative motivation demoralize and threatens the enforcement of disincentives.

4. **Motivation is a planned process:**

The approaches of the people are differing with the different people, to respond to the process of motivation. Therefore, no two different individuals could be motivated in an exactly similar manner. So the motivation needs plan to motivate two different people at a time.

5. **Motivation is a continuous process:**

Since the human needs and wants are unlimited, therefore motivation is an ongoing process. The following figure shows that motivation does not stop at one point of time. It is a continuous process.



4.5 Significance/Importance of Motivation:

Motivation is an integral part of the process of direction. While directing his subordinate, a manager must create and sustain in them the desire to work for the specified objectives:

1. High Efficiency:

Motivation improves the efficiency of the worker by bridging the gap between the ability and wiliness to work. A number of studies have shown that motivation plays a crucial role in determining the level of performance. According to Allen "Poorly motivated people can nullify the soundest organization."

By satisfying the needs of the human helps in increasing productivity. Better utilization of resources lowers cost of operations. Motivation is always goal directed. Therefore, higher the level of motivation, greater is the degree of goal accomplishment.

2. Better Image:

A firm where the employees are motivated provides opportunities for financial and personal advancement as well which creates a better image in the employment market. People prefer to in such work in such organization where the opportunity for development and sympathetic outlook will be there. This will surely helps in attracting qualified personnel and simplifies the staffing function.

3. Facilitates Change:

Effective motivation helps the management to introduce change in the organizational objectives. Satisfied workers take interest in new organizational goals. The employee becomes more receptive to anticipate their advancement after the introduction of change in the organization.

4. Keep employee happy:

Usually remuneration given in the form of salary or commission or any other kind is not sufficient, as it is common to all employees. Man is not a machine. He must be happy, satisfied and cheerful. It is seen that a man is able to do best when he is motivated. Motivation comes in the form of recognition, promotion transfer etc.

6. Reduces labor absenteeism and turnover:

If workers are satisfied with their work and work environment, they contribute positively towards organizational goals and objectives. When the employees are motivated the rate of absenteeism automatically reduces and it provides job satisfaction.

7. Develops Leadership:

Manager always tries to find the need of employee and leads the employee in the right direction. Efficient leaders thus develop because of effective motivation.

8. Good industrial relations:

Motivation reduces the absenteeism and rate of turnover; hence it improves the employer and employee relationship. There is discipline and peace in the organization. This helps organization to promote goodwill of the company and strengthens the ability to recruit efficient personnel.

4.6 Variables Affecting Motivation:

Variables affecting Motivation in Organisational Setting

Individual Characteristics	**Job Characteristics**	**Work Situation Characteristics**
Interests Attitudes • Towards self • Towards Job • Towards aspects of work Situation *Needs* • Security • Social • achievement	*Intrinsic Reward* • Degree of Autonomy • Degree of variety in Tasks	*Immediate Work Environment* • Peers • Supervisors *Organisation Actions* • Reward Practices • Organisational Culture

(Laymen W. Porter and R. E. Miles: Motivation and Management)

4.7 Theories of Motivation:

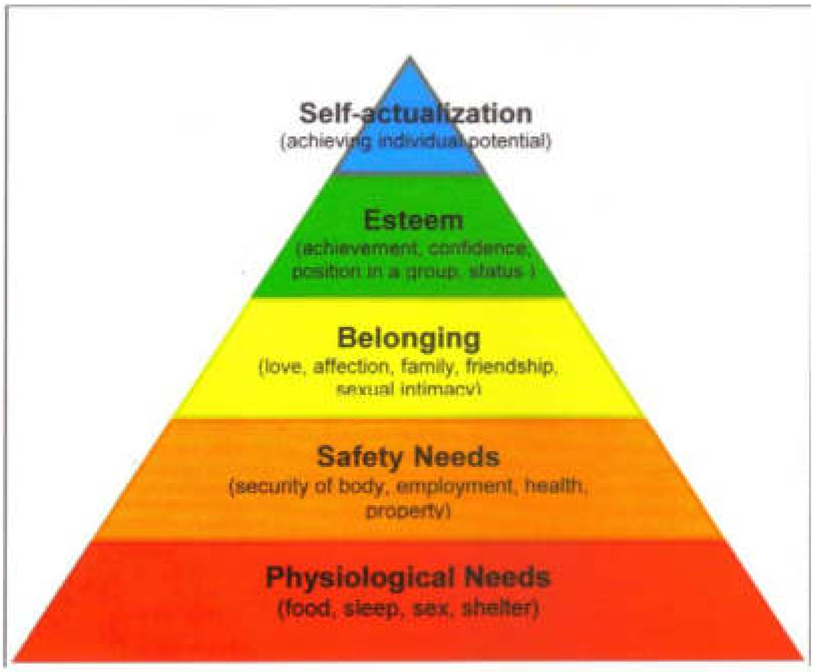
In all enterprises whether private or state owned, motivation plays a key role in driving employees towards achieving their goals, organizational goals and to a certain extent the dreams of their nations. There are many theories of motivation, and they mostly give a relation or influence the outcomes of employee job satisfaction. There are three main theory categories, namely content theories, process theories and contemporary theories.

CONTENT THEORIES	**PROCESS THEORIES**
• Maslow’s needs hierarchy • Alderfer’s ERG theory	• Skinner’s reinforcement theory • Victor Vroom's expectancy theory

• McClelland's achievement motivation • Herzberg's two-factor theory • Theory X & theory Y • Urwick's Theory Z • Maturity- Immaturity theory	• Adam's equity theory • Locke's goal setting theory

4.7.1 Abraham Maslow's Need Hierarchy Theory of Need:

The need hierarchy theory is formulated by Abraham Maslow a well renowned for proposing the Hierarchy of Needs Theory in 1943. At a point of time, his behavior reflects his desire to satisfy the strongest need present in him. According to him, once the need is satisfied by a man, the next strongest need arises and one strives to satisfy that need. The manager determines that need and adopt motivators to satisfy the need. Though the people satisfy the need in the order of hierarchy, starting from lower-level to higher level needs and this goes on and on. He asserted that there was a hierarchy of these five groups of needs in terms of their importance for human development. The higher needs at the top of the hierarchy were most important for the development of personality; however, these higher needs could not be satisfied until the lower needs, or deficiency needs, such as the physiological needs and safety needs were satisfied. If two different needs were in conflict, the lower need would dominate. These five needs hierarchy are as follows-



1. **Physiological needs-** These are the basic needs that people want to satisfy. They are air, water, food, clothing and shelter. In other words, physiological needs are the needs for basic amenities of life. The strongest motivator that can satisfy these needs is money and a healthy environment.
2. **Safety needs-** Safety needs include physical, environmental and emotional safety and protection. These are the needs to remain free from external dangerous of war, accidents and destructions, job security, financial security, protection from animals, family security, health security, etc.
3. **Social needs-** man is a social animal. He cannot live alone. While working in the formal structure of authority and responsibility relationship, he develops affection and respect for his superiors and fellow workers. Social needs include the need for love, affection, care, belongingness, and friendship.
4. **Esteem needs-** this is a higher order need concerned with self respect, power, self worth and prestige and arises after satisfaction of the low order needs. Esteem needs are of two types: internal esteem needs (self- respect, confidence, competence, achievement and freedom) and external esteem needs (recognition, power, status, attention and admiration).
5. **Self-actualization need-** the needs inspires a person to develop his maximum potential. They are placed at the top level of the need hierarchy. These include the urge to become what you are capable of becoming, what you have the potential to become, the need for growth and self-contentment. It also includes desire for gaining more knowledge, social- service, creativity and being aesthetic. The motivators that satisfy self-actualization needs are challenging jobs, opportunity for growth, innovation and participative decision making. The self- actualization needs are never fully satiable.

4.8 Limitations of Maslow's Theory:

- It is essential to note that not all employees are governed by same set of needs. Different individuals may be driven by different needs at same point of time. It is always the **most powerful unsatisfied need that motivates an individual**.
- The theory is not empirically supported.
- The theory is not applicable in case of starving artist as even if the artist's basic needs are not satisfied, he will still strive for recognition and achievement.

"It is quite true that man lives by bread alone — when there is no bread. But what happens to man's desires when there is plenty of bread and when his belly is chronically filled?

At once other (and "higher") needs emerge and these, rather than physiological hungers, dominate the organism. And when these in turn are satisfied, again new (and still "higher") needs emerge and so on. This is what we mean by saying that the basic human needs are organized into a hierarchy of relative prepotency" *(Maslow, 1943, p. 375)*.

Two Factor Theory By Frederick Herzberg:

This theory, also called the **Motivation-Hygiene Theory** or the **dual-factor theory**, was penned by Frederick Herzberg in 1959. Herzberg conducted interviews with 200 accountant and engineers of companies in the Pittsburgh area of the United States and asked them to describe their job experiences in terms of what they felt good or bad about their jobs. This American psychologist, who was very interested in people's motivation and job satisfaction, came up with the theory. He asked them two questions:-

1. What factors make you feel satisfied with your work and motivate you to perform better?

2. What factors make you feel dissatisfied with your work and do not motivate you to perform better?

He was surprised that the group answered questions about their good experiences very differently from the ones about their bad experiences. Herzberg categorized two sets of factors that provided satisfaction or dissatisfaction to employee as **hygiene factor and motivators.**

1. **Hygiene factors:** These factors are salary retirement benefit plans, insurance policies, secondary working conditions, the relationship with colleagues, bonus, job security, physical work place and the relationship between supervisor and employee. Herzberg found that the presence of this factor provide no dissatisfaction to employees that is presence of these factors do not motivate the workers to perform better but their absence becomes a source of dissatisfaction. These factors are shown on a single continuum ranging from dissatisfaction to no dissatisfaction.

They are also called maintenance factors, dissatisfiers or extrinsic factors; maintenance, because they maintain the level of performance on the job and any increase beyond this level does not motivate the employees; dissatisfiers, because their absence dissatisfy the workers environment and not to the job content.

Dissatisfaction is thus related to the environment in which the people work. They are not part of the job but relate to the environment or conditions in which the job is performed. Thus they are extrinsic to the job and are environmental factors.

"extrinsic motivators are external rewards that occur apart from work, providing no direct satisfaction at the time the work is performed"- Keith Davis. They have value only as they provide external rewards that accrue outside the job.

The hygiene factors appear on a continuum as follows:

Presence (no dissatisfaction) ------------------------Absence (dissattsfaction)

(Hygiene factors such as working condition, security salary etc)

2. **Motivators:** These factors are related to the job content like recognition, challenge, achievement, opportunities fro personal growth and responsibility etc.

   Their absence provides no motivation but their presence provide high degree of motivation and job satisfaction. They are also, therefore, called satisfiers. They do not lie outside the job. They are related to the job itself or the job content. They are also known as intrinsic factors. Satisfaction is thus related to the job and increase in these factors motivates the employees to do better.

   "Intrinsic motivators are internal rewards that a person feels when performing a job, so there is a direct connection between work and rewards" – *Keith Davis*

   Motivation factors appear on a continuum as follows:

Presence --Absence

(Satisfaction or motivation) ***(No satisfaction or no motivation)***

(Motivation factors such as achievement, advancement, recognitions, growth and challenging work etc.)

4.9 Four Different Combinations Can Exist at Work:

The following are the different combination that we can see existing at work:

1: High hygiene and high motivation

This is the ideal situation. Employees are very motivated and barely have any complaints.

2: High hygiene and low motivation

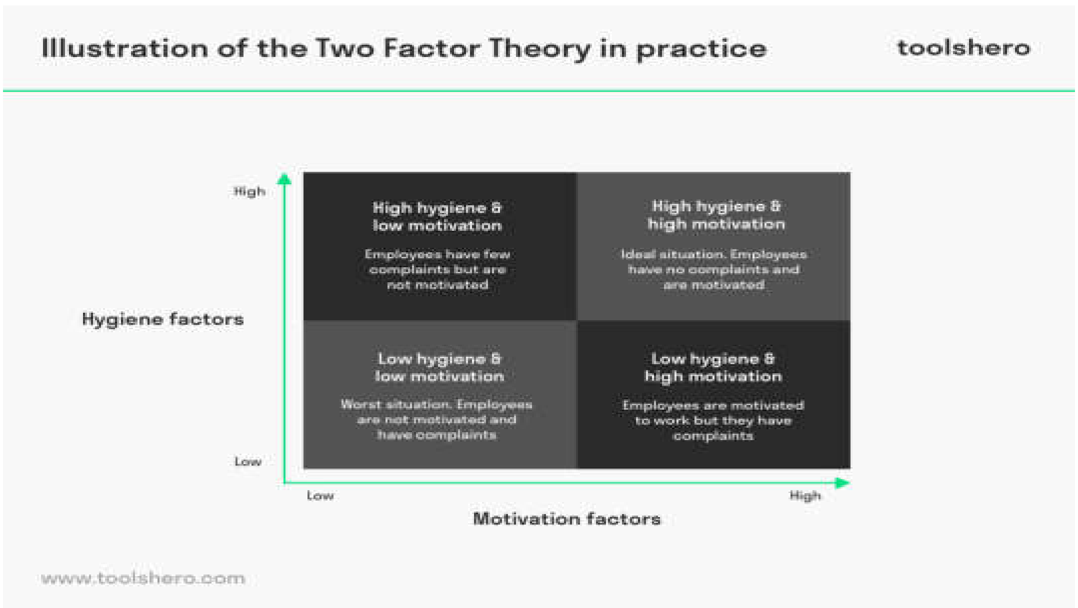
Employees have few complaints, but they're not really motivated, they see their work simply as a pay check.

3: Low hygiene and high motivation

Employees are motivated, their job is challenging, but they have complaints about salary or work conditions.

4: Low hygiene and low motivation

This is the worst possible situation; employees are not motivated and have a lot of complaints.



Following are the difference between hygiene factor and motivators

Hygiene factors	Motivators
1. They are called maintenance factors	They are called motivational factors
2. Their presence does not motivate the workers	Their presence act as satisfiers and therefore, motivates the worker to perform better.
3. Their absence acts as dissatisfiers	Their absence does not motivate the worker
4. They have extrinsic value – they lie outside the job	They have intrinsic value-they lie on the job
5. They are related to job context	They are related to job content
6. Some of the example are salary, working condition, bonus etc.	Examples are achievement, personal growth and recognition etc.

4.10 Summing Up:

The Two Factor Theory by Herzberg is a theory about motivation of employees. The Two Factor Theory assumes on the one hand, that employees can be dissatisfied with their jobs. This often has something to do with so-called hygiene factors, such as salary and work conditions. On the other hand, employees' satisfaction has to do with so-called motivation factors. These factors have to do with development opportunities, responsibility and appreciation.

Herzberg claims these factors exist side by side. Taking away the dissatisfaction factors doesn't necessarily mean employees will be satisfied. To motivate a team using motivation factors, the hygiene factors need to be taken care of first.

4.11 Self Assessment Questions:

1. What is motivation? State its features.
2. How motivation is important to an organisation?
3. What is Need Hierarchy theory of Abraham Maslow? State its implication to the managers.
4. State briefly the two factor theory of F. Herzberg

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COMMUNICATION (C)

Contents:

4.1 Introduction:

Communication can be broadly be defined as exchange of ideas, message and information between two or more persons' through a medium, in a manner that the sender and the receiver understand the message in the common sense, that is, they develop common understanding of the message. The word communication is derived from the Latin word 'communicare', which means to share, participate, impart, exchange, and transmit or to make common. It emphasizes on sharing common information, ideas and messages. It is not merely issuing orders and instructions.

Some popular definitions of communication are given below:

"Communication is the transfer of information from a sender to a receiver, with the information being understood by the receiver." -Koontz and Weihrich

"Communication is the art of developing and attaining understanding between people. It is the process of exchanging information and feelings between two or more people and it are essential to effective management". – Rerry and Franklin

"Communication is the sum of the things one person does when he wants to create understanding in the mind of another. It is a bridge of meaning. It involves a systematic and continuous process of telling, listening and understanding." Louis A. Allen

4.2 Objectives:

After going through this unit, you should be able to understand:

- The concept, features and process of communication
  To know the various types of communication and its barriers

4.3 Features of Communication:

On the basis of the above definitions and the surrounding knowledge, we can gather the following salient features of the concept of communication:

i. **Two way process:** communication is a two way process of understanding between two or more person i.e. sender and receiver.

ii. **Exchange:** communication involves exchange of ideas and opinions. People interact and develop understanding for each other.

iii. **Inter-disciplinary:** Since communication is the art of how communicators use knowledge of different fields of study like anthropology and sociology. Making best use of this discipline makes communication effective. It is thus an interdisciplinary area of management.

iv. **Dynamic process:** communication between sender and receiver takes different forms and medium depending upon their moods and behavior. It is thus said to be a dynamic process that keeps changing in different situation.

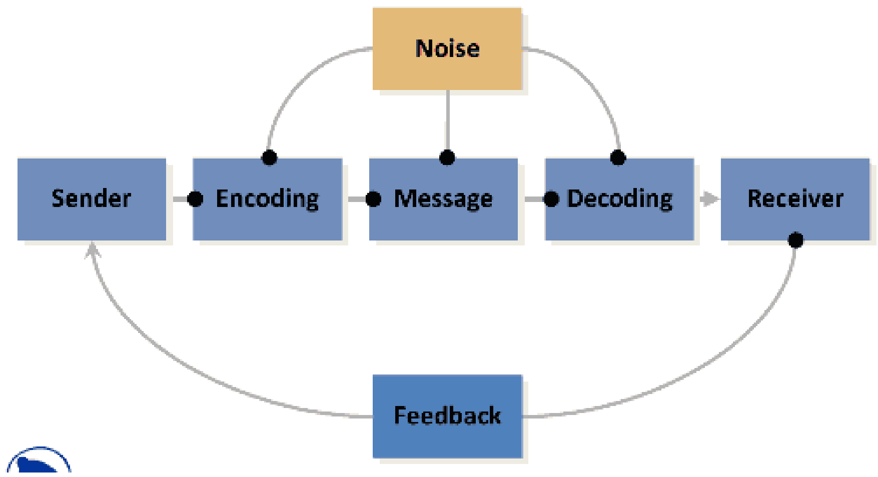
v. **Foundation of management:** though communication is a directing function, it is important for other managerial functions also. Designing plans and organization structures, motivating people to accomplish goals and controlling organizational activities; all require communication amongst managers a various level.

vi. **Continuous Process:** exchange of ideas and opinion amongst people is an ongoing process in business and non-business organizations. Continuous interaction promotes understanding and exchange of information relevant for decision making.

4.4 Process of Communication:

The process of communication consists of the following steps or stages:

The Communication Process



(i) Sender:

Sender is the person who initiates, generates and sends the message. He represents the source of message. The communication process begins when the sender develops an idea or message he wants to transmit. He must arrange the ideas in a manner that can be understood by the receiver.

(ii) Message:

Message is the idea of information that the sender wants to convey. He may convey it verbally or non-verbally. Whatever the form, the message should be clearly formed so that desired objectivity is accomplished.

(iii) Encoding:

Once the sender is clear of what message to transmit, he decides the code through which the message shall be transmitted. The message is abstract and intangible and, therefore, has to be converted into some form to make it meaningful. Encoding means converting the message into symbol. Encoding gives the meaning to the message or converts ideas into codes, symbols or gestures.

(iv) Medium:

Choices of channel depend upon the message to be conveyed, peersonalbiases of the sender and nature of information. Short mesaages are generally sends through telephone. Where drawings, charts and illustrations form part of the message, it should be sent in writing. Once decided the message has to be sent in writing, the sender may select the electronic medium or postal form.

(v) Recipient (or the Receiver):

Recepient is the person or a group of persons to whom the message is conveyed. In case of telephone conversation, the sender can send message to one receiver but in case of group discussion, seminar and conferences, the receiver can be more than one. The message must be designed, encoded and transmitted in a manner that receiver can understand it easily. Use of technical words, jargons and complicated symbols should be avoided. Depending on the channel selected, receiver may be a listener, viewer or a reader.

(vi) Decoding:

Decoding means giving meaningful interpretation to the message. On receiving the message, the receiver translates the symbols into meaningful information to the best of his ability. Communication is effective if receiver understand the message in the same way as intended by the sender. The receiver must, therefore, be familiar with the codes and symbols used by the sender.

(vii) Noise:

It represents the disturbing factor in the process of communication. It interferes with effective communication and reduces clarity of the message. The message may be interpreted differently than intended by the sender. Conversing near a machine making sounds, disturbance in telephone lines, mental distress of sender are the common form of noise that obstruct the quality of message transmitted from sender to the receiver.

(viii) Feedback:

Feedback is the receivers' response to sender's message. The receiver communicates his reaction to the sender through words, symbols or gestures. It is the reversal of communication process where receiver becomes the sender and sender becomes the receiver. Unless the receiver responds to the message, communication process is incomplete. Feedback helps the sender to transform his message, if needed. It also allows the receiver to clear doubt on the message, ask question to build his confidence and enables the sender to know efficiency of the message.

Principles of communication – at a glance

1. Principle of understanding
2. Principle of attention
3. Principle of brevity
4. Principle of timeliness
5. Principle of appropriateness (or rationality)
6. Principle of feedback
7. Principle of the constructive and strategic use of informal groups.

4.5 Channels of Communication:

Communication, very broadly, is classified into the following two categories:

(a) Formal communication

(b) Informal communication

(a) Formal Communication: it refers to the communication which takes place on the basis of organizational relationships formally established by the management. It is used for the transmission of official messages within or outside the organisation. It follows the officially established chain of command. It is mostly expressed in written form.

There are three ways in which formal communication can go:

(1) Downward Communication:

Downward communication refers to flow of information from higher to lower levels of the organizational hierarchy. Information flows from to-most authority to the bottom-most person through various levels. This flow of information generally prevails where autocratic style of management is dominant. Downwards communication can be oral or written. Oral communication is done through speeches, telephone, face to face interactions or meetings. Written communication is done through letters, and books, pamphlets, posters, bulletins, annual reports, policy statements, notice, circular etc. written form of downward communication is used when confidential matter to be reported requires documentary evidence.

(2) Upward Communication:

Flow of information from lower- levels to higher levels is known as upward communication. Employee responds to directions and instructions through upward communication. This flow of communication is suitable where a democratic or participative style of management is prevalent.

Matters such as subordinates work related problems, suggestions, ideas, opinion, feelings about their superiors and co-workers etc. flow through upward communication. Upward communication can take place through media like suggestions, appeal, meetings, grievance procedures, open door policy, complaint system, questionnaires, group meetings etc.

(3) Sideward or Horizontal Communication:

Flow of information amongst people at the same level is known as horizontal communication. It is interaction amongst peer groups. It involves communication with people at the same level. Most common horizontal communication happens amongst functional heads. Marketing manager and production manager interact with each other to coordinate demand with production schedules. Exchange of information between two departmental heads or two or more managers of equal rank are examples of horizontal communication. For example, co-ordination of production and sales activities requires continuous exchange of information between the respective managers of the two departments.

(b) Informal communication: it is an unofficial channel of communication that arises out of socio-psychological needs of people to interact with each other. It is an important and spontaneous outgrowth of formal channel of communication. It emphasizes more on the person than position. It arises when people of common nationality, caste or religion interact with each other or when they share a car pool or meet each other regularly in canteens, libraries, bus stands etc. The informal channel of communication is often discouraged or looked down upon in an "organization, and is not officially sanctioned. It is popularly referred to as grapevine. This is because it runs in all directions irrespective of the formal structure.

The origin of the term grapevine can be traced to the way the botanical vine grew over telegraph wires, making telegraphic messages go in unintended directions. In business life, grapevine owes its existence to man's gossipy nature.

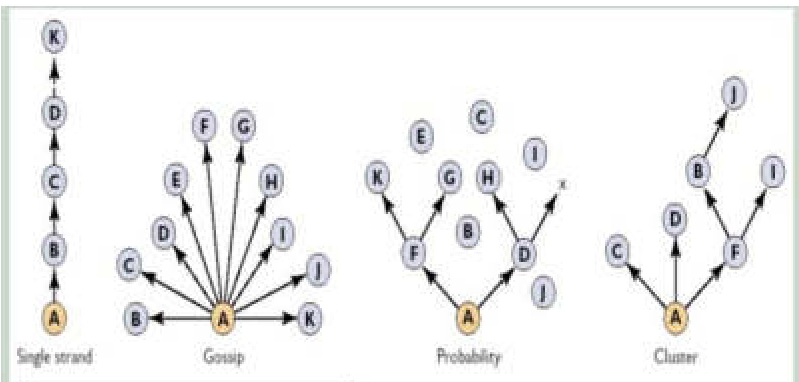


Fig: Grapevine Patterns

Difference Between Formal and Informal Communication Channels

Basis	Formal Communication	Informal Communication
Origin	Deliberately Structured	Spontaneous and Unstructured
Nature	Well Planned, Systematic and Authorized	Unplanned, unsystematic and unauthorized
Flow	Prescribed through chain of command	Unofficial channels not Prescribed
Flexibility	Rigid	Flexible
Authority	Official Channel	Unofficial
Purpose	To achieve Business Objectives	To satisfy personal needs
Speed	Time taking	Fast
Accuracy	Accurate, Legal and Authentic	Often Distorted, may be Rumors and Gossips
Form	Oral and Written	Usually Oral
Source	Can be traced	Cannot be traced

4.6 Types of Communication:

There are 2 basic types of communications:

- Verbal Communication
- Non-Verbal Communication

Verbal Communication: The communication happens through verbally, vocally or through written words which express or convey the message to other is called verbal communication. Verbal communication has two types:

- **Written Communication:** This kind of communication involves any kind of exchange of information in the written form. For example, e-mails, texts, letters, reports, SMS, posts on social media platforms, documents, handbooks, posters, flyers, etc.
- **Oral Communication:** This is the communication which employs the spoken word, either direct or indirect as a communication channel. This verbal communication could be made on a channel that passes information in only one form i.e. sound. You could converse either face to face, or over the phone, or via voice notes or chat rooms, etc. It all comes under the oral communication. This form of communication is an effective form.

Nonverbal Communication - all elements of communication that do not involve words. Nonverbal Communication is expressed through nonlinguistic means. It is the actions or attributes of humans, including their appearance, use of objects, sound, time, smell, and space, that have socially shared significance and stimulate meaning in others.

Four basic types

- **Proxemics -** an individual's perception & use of space. It is the study of how our use of space influences the ways we relate with others. For example, when we are content with and attracted to someone, we say we are "close" to him or her. When we lose connection with someone, we may say he or she is "distant." In general, space influences how people communicate and behave. Smaller spaces with a higher density of people often lead to breaches of our personal space bubbles. If this is a setting in which this type of density is expected beforehand, like at a crowded concert or on a train during rush hour, then we make various communicative adjustments to manage the space issue. Unexpected breaches of personal space can lead to negative reactions, especially if we feel someone has violated our space voluntarily, meaning that a crowding situation didn't force them into our space.
- **Kinesics -** study of body movements, including posture. Kinesics is the study of human body motion. It includes such variables as facial expression, eye movement, gestures, posture, and walking speed
- **Facial & Eye Behavior -** movements that add cues for the receiver
- **Paralanguage -** variations in speech, such as pitch, loudness, tempo, tone, duration, laughing, & crying. It is also known as vocalics, is a component of meta-communication that may modify meaning, give nuanced meaning, or convey emotion, by using techniques such as prosody, pitch, volume, intonation, etc.

4.7 Barriers to Communication:

Communication barriers are the factors that obstruct the effectiveness of communication. They result in mismatch between understanding of the message by the sender and the receiver. These barriers can occurs at any stage of the communication process- sending, encoding, medium, decoding or receiving. The second may not be audible to the audience, he may not properly convert his message into signals, the choice f channel may be faulty, receivers understanding o codes or symbols may be different from that of the sender or receiver may not be in a mood to listen to the message. The point at which communication barrier occurs should be properly identified so that remedial action can be taken at the earliest. The common causes of communication barriers are:

1. **Linguistic Barriers**

The language used for communicating a message may also be an obstacle to effective communication. This happens particularly when the pronunciation of words is not clear in the verbal communication. Language is the most commonly employed tool of communication. The fact that each major region has its own language is one of the Barriers to effective communication. Sometimes even a thick dialect may render the communication ineffective.

2. **Emotional and Psychological Barriers**

This barrier arises from motives, judgments, emotions, social values of participants. This barrier often arises due to lack of mutual trust and confidence. People having strong attitudes and feelings either reject or refuse to accept the messages affecting them emotionally. These barriers create psychological distance that hinders communication.

3. **Physical Barriers to Communication**

They are the most obvious barriers to effective communication. These barriers are mostly easily removable in principle at least. They include barriers like noise, closed doors, faulty equipment used for communication, closed cabins, etc. Sometimes, in a large office, the physical separation between various employees combined with faulty equipment may result in severe barriers to effective communication.

4. **Cultural Barriers of Communication**

Cultural differences occur when the managers work with people of different culture. Culture refers to values, belief, norms, attitude and perceptions of people of different nations. As the world is getting more and more globalized, any large office may have people from several parts of the world. Different cultures have a different meaning for several basic values of society. Dressing, Religions or lack of them, food, drinks, pets, and the general behavior will change drastically from one culture to another. Cultural barrier represents national barrier that is important for organizations involved in overseas business.

5. **Organisational Structure Barriers**

Organisational policies should be clear to avoid misinterpretations. Expressly stated policies are better understood than implicit policies. As implicit policies are subject to interpretation of behavior of the top managers, people may be subjective in interpretation.

Strict rules and regulation of the organisation also becomes organizational barriers. People lose creativity in transmitting messages. Too many levels in the organisation in the organizational hierarchy can delay processing of information. Information can be filtered, particularly in case of upward communication as negative information is generally not transmitted.

6. **Attitude Barriers**

This problem arises because of the problems with staff in the organization. They may be the result of lack of consultation with employees, poor management, personal conflicts that can result in people delaying or refusing to communicate, personal attitude of individual employees that may be due to lack of motivation or dissatisfaction at work, bought by insufficient training to enable them to carry out particular task, or just resistance to change due to entrenchment attitudes and ideas.

These employees can cause severe strains in the communication channels that they are present in. Certain personality traits like shyness, anger, social anxiety may be removable through courses and proper training. However, problems like egocentric behaviour and selfishness may not be correctable.

7. **Perception Barriers**

Perceptions are the feelings, knowledge and understanding of the subject matter conveyed. The people with different cultural, background understand the message differently, educational and emotional. People tend to hear or see what they want to hear or see and, therefore, perceive the message in their own way. If sender's perception is different from that of the receiver, if will make the message misleading and communication process ineffective. In perception distortions, meaning of the message lie in the perception of the receiver than the words.

8. **Physiological Barriers**

Certain disorders or diseases or other limitations could also prevent effective communication between the various channels of an organization. The shrillness of voice, dyslexia, etc are some examples of physiological barriers to effective communication. However, these are not crucial because they can easily be compensated and removed.

9. **Technological Barriers & Socio-religious Barriers**

Other barriers include the technological barriers. The technology is developing fast and as a result, it becomes difficult to keep up with the newest developments. Hence sometimes the technological advance may become a barrier. In addition to this, the cost of technology is sometimes very high.

Most of the organizations will not be able to afford a decent tech for the purpose of communication. Hence, this becomes a very crucial barrier. Other barriers are socio-religious barriers. In a patriarchal society, a woman or a transgender may face many difficulties and barriers while communicating.

4.8 Summing Up:

Communication is often cited as being at the root of practically all the problems of the world. For example, two management writers have observed, “perhaps it is true, as someone has suggested, that the heart of all the world’s problem at least of men with each other is man’s inability to communicate as well as he thinks he is communicating. It is given as the explanation for lover’s quarrels, ethic prejudice, and war between nations, the generation gap, industrial disputes and organizational conflict.

An idea, no matter how great, is useless until it is transmitted and understood by others. Thus, communication may be defined as giving, receiving or exchanging information, opinions or ideas by writing, speech or visual means, so that the material communicated is completed and understood by every concerned.

4.9 Self Assessment Questions:

1. What is communication?
2. What are the various process of communication?
3. State briefly the principles followed in process of communication.
4. State the various types of communication.
5. What are barriers of communication? State its types

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CONCEPT OF CONTROLLING (D)

Contents:

4.1 Introduction:

Controlling is the process of verifying, measuring actual performance and comparing with standards, identifying and analyzing deviation if any and taking corrective action to meet the standards. It prevents and corrects deviations from plans. It is known as the key to management for implementation of plans in actual fields.

Controlling is defined as that managerial function which seeks to ensure an absolute conformity (i.e. agreement) of actual performance of organisational personnel with the planned standards to facilitate the most effective and efficient attainment of the enterprise objectives.

A few popular definitions of controlling are cited below:

"Controlling is the process which checks performance against standards. It makes sure that organisational goals and objectives are being met." -Theo Haimann and William G. Scott.

"The managerial function of controlling is the measurement and correction of the performance of activities of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished." – Koontz and O'Donnell

Stop to Consider:

1. knowing what work is to be done as to quantity, quality and time available; 2. verifying whether work has been or is being carried out in accordance with the plan 3. Analyzing deviations to ascertain the causes thereof 4. Adopting remedial measures to correct the deviation, 5. Suggesting revision plans, if necessary.

4.2 Objectives:

After going through this unit, you should be able to understand:

- The concept of Controlling
- To know the steps involved in the controlling

4.3 Features of Controlling Function:

Following are the characteristics of controlling function of management:

1. **Controlling is an end function-** A function which comes once the performances are made in conformities with plans.
2. **Controlling is a pervasive function-** which means it is performed by managers at all levels and in all type of concerns.
3. **Controlling is forward looking-** because effective control is not possible without past being controlled. Controlling always look to future so that follow-up can be made whenever required.
4. **Controlling is a dynamic process-** since controlling requires taking reviewal methods, changes have to be made wherever possible.
5. **Controlling is related with planning-** Planning and Controlling are two inseperable functions of management. Without planning, controlling is a meaningless exercise and without controlling, planning is useless. *Planning presupposes controlling and controlling succeeds planning*.

4.4 Importance:

Control is an indispensable function of management without which the controlling function in an organization cannot be accomplished and the best of plans which can be executed can go away. A good control system helps an organization in the following ways:

1. Accomplishing Organizational Goals: The controlling function is an accomplishment of measures that further makes progress towards the organizational goals & brings to light the deviations, & indicates corrective action. Therefore it helps in guiding the organizational goals which can be achieved by performing a controlling function.

2. Judging Accuracy of Standards: A good control system enables management to verify whether the standards set are accurate & objective. The efficient control system also helps in keeping careful and progress check on the changes which help in taking the major place in the organization & in the environment and also helps to review & revise the standards in light of such changes.

3. Making efficient use of Resources: Another important function of controlling is that in this, each activity is performed in such manner so an in accordance with predetermined standards & norms so as to ensure that the resources are used in the most effective & efficient manner for the further availability of resources.

4. Improving Employee Motivation: Another important function is that controlling help in accommodating a good control system which ensures that each employee knows well in advance what they expect & what are the standards of performance on the basis of which they will be appraised. Therefore it helps in motivating and increasing their potential so to make them & helps them to give better performance.

5. Ensuring Order & Discipline: Controlling creates an atmosphere of order & discipline in the organization which helps to minimize dishonest behavior on the part of the employees. It keeps a close check on the activities of employees and the company can be able to track and find out the dishonest employees by using computer monitoring as a part of their control system.

6. Facilitating Coordination in Action: The last important function of controlling is that each department & employee is governed by such pre-determined standards and goals which are well versed and coordinated with one another. This ensures that overall organizational objectives are accomplished in an overall manner.

4.5 Control Process:

Controlling as a management function involves following steps:

1. Establishment of standards- Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two-

a. Measurable or tangible – Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.

b. Non-measurable or intangible- There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

2. Measurement of performance- The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Performance of a manager cannot be measured in quantities. It can be measured only by-

a. Attitude of the workers,
b. Their morale to work,
c. The development in the attitudes regarding the physical environment, and
d. Their communication with the superiors.

It is also sometimes done through various reports like weekly, monthly, quarterly, yearly reports.

3. Comparison of actual and standard performance- Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored.

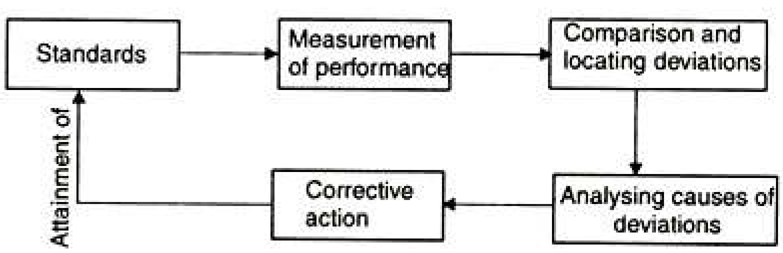
Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon consciously. Therefore it is said, ―If a manager controls everything, he ends up controlling nothing. For example, if stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation. Once the deviation is identified, a manager has to think about various cause which has led to deviation. The causes can be-

a. Erroneous planning,
b. Co-ordination loosens,
c. Implementation of plans is defective, and
d. Supervision and communication is ineffective, etc.

4. Taking remedial actions- Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-

a. Taking corrective measures for deviations which have occurred; and
b. After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.

The above concept of the process of controlling, as consisting of sequential steps, could be illustrated by means of the following chart:



Stop to Consider:
1. To find out the extend of deviation.
2. To identify the causes of deviations if the deviations between the planned performance and actual performance is significant.

4.6 Techniques of Managerial Control:

The various techniques of managerial control may be classified into two broad categories: traditional techniques, and modern techniques. Traditional Techniques: Traditional techniques are those which have been used by the companies for a long time now. However, these techniques have not become obsolete and are still being used by companies. These include:

(a) **Personal observation:** This is the most traditional method of control. Personal observation enables the manager to collect firsthand information. It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally on their job. However, it is a very time-consuming exercise and cannot effectively be used in all kinds of jobs.

(b) **Statistical reports:** Statistical analysis in the form of averages, percentages, ratios, correlation, etc., present useful information to the managers regarding performance of the organisation in various areas. Such information when presented in the form of charts, graphs, tables, etc., enables the managers to read them more easily and allow a comparison to be made with performance in previous periods and also with the benchmarks.

(c) **Breakeven analysis:** Breakeven analysis is a technique used by managers to study the relationship between costs, volume and profits. It determines the probable profit and losses at different levels of activity. The sales volume at which there is no profit, no loss is known as breakeven point. It is a useful technique for the managers as it helps in estimating profits at different levels of activities.

Breakeven analysis helps a firm in keeping a close check over its variable costs and determines the level of activity at which the firm can earn its target profit.

(d) **Budgetary control:** Budgetary control is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary actions to be taken so that organisational objectives are accomplished.

A budget is a quantitative statement for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period. It will contain figures of forecasts both in terms of time and quantities.

Modern Techniques:

Modern techniques of controlling are those which are of recent origin and are comparatively new in management literature. These techniques provide a refreshingly new thinking on the ways in which various aspects of an organisation can be controlled. These include:

(a) Return on investment: Return on Investment (RoI) is a useful technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return. RoI can be used to measure overall performance of an organisation or of its individual departments or divisions. RoI provides top management an effective means of control for measuring and comparing performance of different departments. It also permits departmental managers to find out the problem which affects RoI in an adverse manner.

(b) Ratio analysis: Ratio Analysis refers to analysis of financial statements through computation of ratios. The most commonly used ratios used by organisations can be classified into the following categories:

1. Liquidity Ratios: Liquidity ratios are calculated to determine short-term solvency of business. Analysis of current position of liquid funds determines the ability of the business to pay the amount due to its stakeholders.

2. Solvency Ratios: Ratios which are calculated to determine the long-term solvency of business are known as solvency ratios. Thus, these ratios determine the ability of a business to service its indebtedness.

3. Profitability Ratios: These ratios are calculated to analyse the profitability position of a business. Such ratios involve analysis of profits in relation to sales or funds or capital employed.

4. Turnover Ratios: Turnover ratios are calculated to determine the efficiency of operations based on effective utilisation of resources. Higher turnover means better utilisation of resources.

(c) Responsibility accounting: Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as 'Responsibility Centres'. The head of the centre is responsible for achieving the target set for his centre. Responsibility centres may be of the following types:

1. Cost Centre: A cost or expense centre is a segment of an organisation in which managers are held responsible for the cost incurred in the centre but not for the revenues. For example, in a manufacturing organisation, production department is classified as cost centre.

2. Revenue Centre: A revenue centre is a segment of an organisation which is primarily responsible for generating revenue. For example, marketing department of an organisation may be classified asa revenue center.

3. Profit Centre: A profit centre is a segment of an organisation whose manager is responsible for both revenues and costs. For example, repair and maintenance department of an organisation may be treated as a profit center if it is allowed to bill other production departments for the services provided to them.

4. Investment Centre: An investment centre is responsible not only for profits but also for investments made in the centre in the form of assets. The investment made in each centre is separately ascertained and return on investment is used as a basis for judging the performance of the centre.

(d) Management Audit: Management audit refers to systematic appraisal of the overall performance of the management of an organisation. The purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods. It is helpful in identifying the deficiencies in the performance of management functions. Thus, management audit may be defined as evaluation of the functioning, performance and effectiveness of management of an organisation. The main advantages of management audit are as follows.

1. It helps to locate present and potential deficiencies in the performance of management functions.

2. It helps to improve the control system of an organisation by continuously monitoring the performance of management.

3. It improves coordination in the functioning of various departments so that they work together effectively towards the achievement of organisational objectives.

4. It ensures updating of existing managerial policies and strategies in the light of environmental changes.

(e) PERT and CPM: PERT (Programme Evaluation and Review Technique) and CPM (Critical Path Method) are important network techniques useful in planning and controlling. These techniques are especially useful for planning, scheduling and implementing time bound projects involving performance of a variety of complex, diverse and interrelated activities. These techniques deals with time scheduling and resource allocation for these activities and aims at effective execution of projects within given time schedule and structure of costs.

The steps involved in using PERT/ CPM are as follows:

1. The project is divided into a number of clearly identifiable activities which are then arranged in a logical sequence.

2. A network diagram is prepared to show the sequence of activities, the starting point and the termination point of the project.

3. Time estimates are prepared for each activity. PERT requires the preparation of three time estimates – optimistic (or shortest time), pessimistic (or longest time) and most likely time. In CPM only one time estimate is prepared. In addition, CPM also requires making cost estimatesfor completion of project.

4. The longest path in the network is identified as the critical path. It represents the sequence of those activities which are important for timely completion of the project and where no delays can be allowed without delaying the entire project.

5. If required, the plan is modified so that execution and timely completion of project is under control. PERT and CPM are used extensively in areas like ship-building, construction projects, aircraft manufacture, etc.

(f) Management information system : Management Information System (MIS) is a computer-based information system that provides information and support for effective managerial decision-making. A decision-maker requires up-to-date, accurate and timely information. MIS provides the required information to the managers by systematically processing a massive data generated in an organisation. Thus, MIS is an important communication tool for managers.

MIS also serves as an important control technique. It provides data and information to the managers at the right time so that appropriate corrective action may be taken in case of deviations from standards.

MIS offers the following advantages to the managers:

2. It facilitates collection, management and dissemination of information at different levels of management and across different departments of the organisation.
3. It supports planning, decision making and controlling at all levels.
4. It improves the quality of information with which a manager works.
5. It ensures cost effectiveness in managing information.
6. It reduces information overload on the managers as only relevant information is provided to them.

4.7 Summing Up:

The term ‘Control’ is used by many people in different contexts. Control appears to be threatening words for many. There is a general feeling that freedom is good and control is bad. But this is a misconception. Control is the essence of good management. Control is concerned with ascertaining that planning, organizing and directing functions result in attaining of organizational objectives. Control removes bad decisions and their consequences and restores effectives and efficiency.

The concept of control is often confused with limitation of freedom. The opposite of control is not freedom but chaos or anarchy. Control is fully consistent with freedom- in fact, they are inter-dependent. Without control, freedom cannot be sustained for long. Without freedom, control becomes ineffective. Both autonomy and accountability are embedded in the concept of control.

4.8 Self Assessment Questions:

1. What is controlling and its process?

4.9 Reference and Suggested Reading:

1. Vasishth,N. (1992), Principles of Management Text & Cases, taxman's 1992.
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UNIT –5

FUNCTIONAL AREAS OF MANAGEMENT LECTUR

Contents:

5.1 Introduction:

Management is the process of planning, organising, directing, staffing, controlling and coordinating the activities of an organisation to achieve the organisational objective.The management is a broad area of study. It has different functional areas like Marketing management, Financial Management, Human Resource Managementetc.Here, we discuss all these three functional areas.

5.2 Objectives:

This unit is an attempt to analyse the three functional areas of management. After going through this unit you will able to –

i. Learn the marketing concept, different components of marketing mix, different stages of product life cycle, and different product pricing policies and practices;
ii. Learn the concept and objectives of financial management,
iii. Learn the different sources of funds i.e. Equity Shares, Debentures, Venture Capital and Lease Finance
iv. Learn the meaning, functions and types of Securities market
v. Learn the role of Securities Exchange Board of India (SEBI)
vi. Learn the concept and functions of Human Resource Management
vii. Learn the basic dynamics of Employer – Employee relation

5.3 Marketing Management:

> What is a **market**?
> *"A market consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want" (Philip Kotler).*

Marketing is a process that directs and facilitates the flow of goods and services from producer to consumer. To move the goods and services from the producer to consumer; a number of marketing activities are performed such as product designing, packaging, warehousing, transportation, branding, selling, advertising, pricing etc.

Definitions of Marketing:

i. According to *Philip Kotler*, “Marketing is a human activity directed at satisfying needs and wants through exchange process.”

ii. According *American Marketing Association (2004)*, “Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefitthe organization and its stakeholders.”

Marketing management refers to planning, organising, directing and control of the activities which facilitate exchange of goods and services between producers and consumers or users of products and services. Thus, the focus of marketing management is on achieving desired exchange results with the target markets.

According to Philip Kotler, “Marketing management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target audiences for the purpose of mutual or personal gain. It relies heavily on the adaptation and coordination of product, price, promotion and place for achieving effective response.”

Thus, marketing management involves performance of various functions such as analysing and planning the marketing activities, implementing marketing plans and setting control mechanism. These functions are to be performed in such a way that organisation’s objectives are achieved effectively.

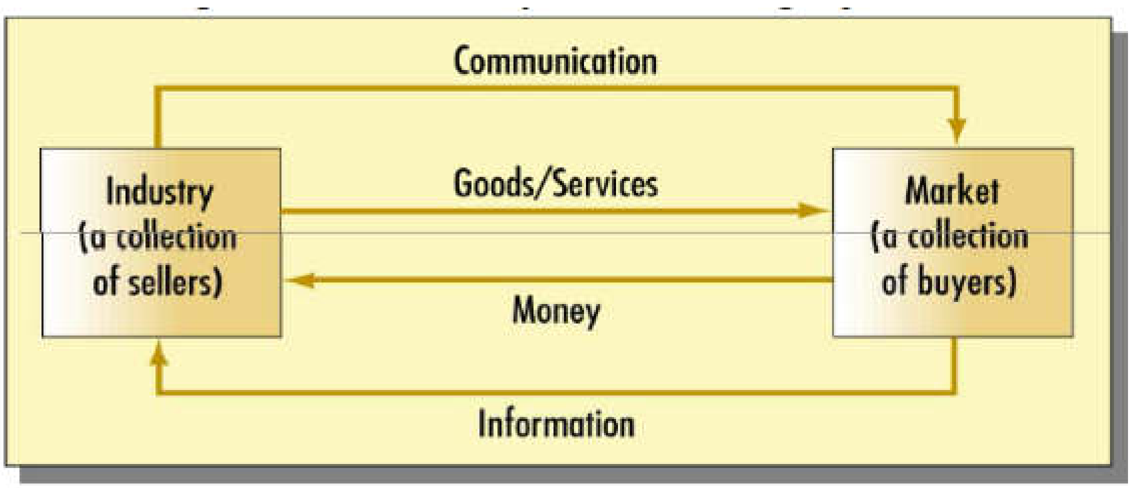


Fig 3: Simple Marketing System

Source: Marketing Management Millenium Edition, Tenth Edition, by Philip Kotler

5.3.1 Marketing Concepts:

The concept or philosophy of marketing has evolved over a period of time; Which are discussed as follows:

Production Concept: The production concept is one of the oldest concepts in business. It emphasises on achieving high production efficiency, low cost and wide distribution coverage. It holds that consumers prefer products that are widely available and inexpensive.

Product Concept: The product concept suggests that consumers prefer products offering the most quality, performance, or innovative features. The marketers believe that by making superior products and improving their quality that creates customers by quality offerings.

Selling Concept: It is assumed that the customer would not buy, or not buy enough, unless they are adequately convinced and motivated to do so. Therefore, firms must undertake aggressive selling and promotional efforts to make customers buy their products. The use of promotional techniques, such as advertising, personal selling and sales promotion are considered important for selling products. The focus of selling concept is to increase the sale of products through aggressive promotional measures to motivate customer.

Marketing Concept: In marketing concept, customer's satisfaction become the focal point of all decision making in the organisation. It believes that an organisation can achieve its profit maximisation objective in long run by satisfying present and prospective buyers needs and wants. The decisions are taken from customer's point of view.

Societal Marketing Concept: According to this concept, the task of any organisation is to identify the needs and wants of customers and deliver the desired satisfaction in an effective way so that long term well-being of the customers and the society taken care of. This concept is the extension of marketing concept supplemented by long term service.

Holistic Marketing Concept: This can be defined as a marketing strategy which considers the business as a whole and not as an entity with various different parts.According to holistic marketing concept, even if a business is made of various departments, the departments have to come together to project a positive & united business image in the minds of the customer.

STOP TO CONSIDER

The marketing concepts are developed over the period of time. Each marketing concept emphasises on different marketing aspects.

- Production concept emphasise on mass production of product.
- Product concept stresses on quality product.
- Selling concept emphasises on aggressive selling and promotional efforts.

- Marketing concept highlights on satisfaction of customer's needs and preferences.
- Societal marketing concept emphasises on long term customer relation.

ORIENTATIONS TOWARDS MARKETING

- **Production concept** (before 1930):

  demand > supply

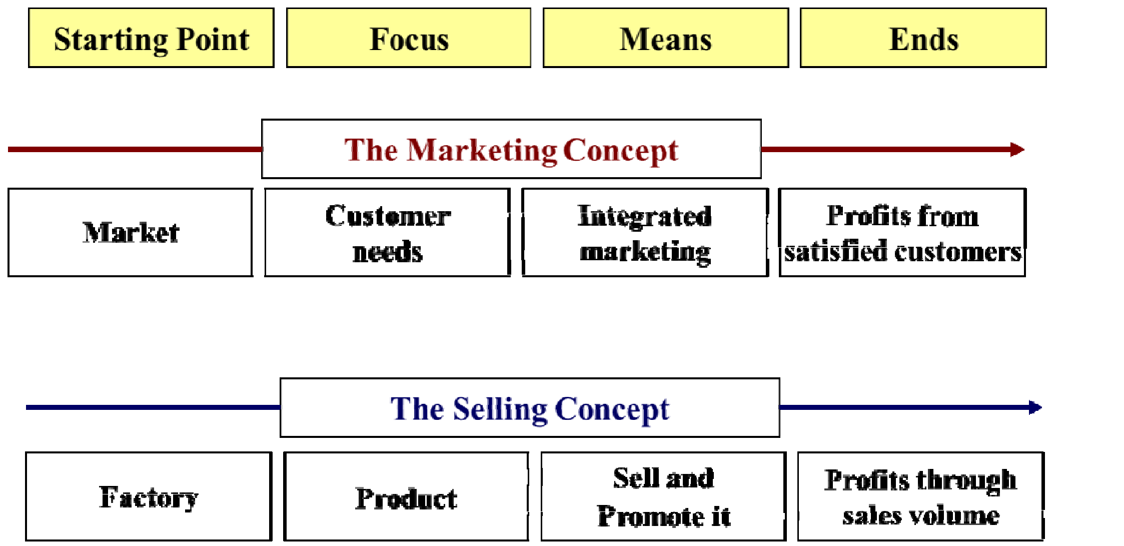
- **Selling concept** (1930-1950):

  supply > demand

- **Marketing concept** (post-1960s):

  Analyze consumer needs before producing and selling, market orientation, competition…

MARKETING CONCEPT VERSUS SELLING CONCEPT



5.3.2 Marketing Mix:

Marketing mix is a set of marketing elements that the company uses to pursue it marketing objectives in a target market. The elements of marketing mix have been divided into four categories, commonly known as four Ps of marketing viz., Product, Price, place and promotion. The elements of marketing mix are related to each other and the all elements have to reinforce each other to improve the customer experience.

According to Philip Kotler, "Marketing mix is the mixture of controllable marketing variables that the firm uses to pursue the sought level of sales in the target market."

Thus, the marketing mix indicates the appropriate combination of four Ps for achieving marketing objectives.

Elements or Components of Marketing Mix

The four elements of marketing mix are discussed as follows:

Product: The product is anassortment of tangible and intangible attributes which is offered to the market for sale to satisfy customer needs. From customer's point of view, a product is a bundle of utilities, which is purchased to provide satisfaction of certain needs. The company performs in the market with single or multiple product lines. For example, Hindustan Unilever offers different product lines like toiletries, detergent powder, food products etc. Product includes following consideration-

- **i** Product mix
- **ii** Product quality
- **iii** New product
- **iv** Product Design and development
- **v** Packaging
- **vi** Labelling
- **vii** Branding

Price: Price is the cost that customer is willing to pay for the product and the way it is made available in the market. Price is an important consideration and an influencing factor in customer's buying decision. Pricing also influences the profit level, operational level etc. The various factors determine the price of a product which are –

- i Pricing Objectives
- ii Demand for product or service
- iii Competition
- iv Pricing policy
- v Distribution Channel

Place: Place or physical distribution includes activities that make firm's products available to the target customers. It involves decisions concerning the channel of distribution to be used, the location of outlets, methods of transportation, and inventory levels to be held.The physical distribution ensures the productavailabilityin the right quantity, at the right time and place.

The distribution channels perform three distinct functions –

i They transfer products from the manufacturer to the customers.

ii They pass information from the manufacturer to the customers.

iii They retrieve payment from the customers to the manufacturer.

Promotion: Promotion refers to the activities that communicate availability, features, merits, etc. of the products to the target customers and persuade them to buy it. In today's business environment, promotion plays a significant role in drawing customer attention.

The promotional mix is classified in four ways:

i Advertising

ii Personal Selling

iii Sales Promotion

iv Publicity

Thus, the different elements of marketing mix enables marketer to take sound marketing decision.

STOP TO CONSIDER

The four different components of marketing mix affects marketing decisions.

- Product includes decisions regarding what kinds of product to be offered in market.
- Price involves decision regarding pricing of a product.
- Place or physical distribution involves decision regarding channel of distribution, transportation, inventory level etc.
- Promotion includes decision regarding advertising, personal selling, sales promotion and publicity.

5.3.3 Product Life Cycle:

Every product goes through a definite life stages. They are first introduced in the market and customers accept the product if they satisfy their needs. Sales grow rapidly. At some stage, either the need that the product was satisfying ceases to exist, or a different solution to the need arises. Customer stop buying the product and finally the product ceases to exist.

The product life cycle is marked by four different stages:

i Introduction

ii Growth

iii Maturity

iv Decline

Each stages of the life cycle represents different marketing challenges and opportunities. Practically, all products may not pass through all stages. Thus, each stage requires a different marketing strategy.

i **Introduction:** The product is launched in the market; awareness and acceptance are minimal. The firm bears high promotional costs. Sometimes a product may create a new demand in the market. At introductory stage, competition is given no importance and profit is negligible.

The characteristics of this stage are –

- Sales are low.
- High distribution and promotion expenses.
- Profits are negative or low.
- Better quality or features and superior performance of the basic product.

ii **Growth:** The product begins to make rapid sales gains because of the effect of introductory promotion, distribution and word of mouth influence. High and sharply rising profits may be witnessed. But to sustain growth in the market, customer satisfaction must be ensured.

The characteristics of this stage are –

- Sales climb rapidly.
- Marked increase in profits.
- Increase in competition.
- New market segment are opened.

iii **Maturity:** In this stage, sales growth continues, but at a diminishing rate, because of the declining number of potential customers who remain of unaware of the product. There is no improvement in the product but changes in selling effort are common. Profit margins slip despite rising sales.

The characteristics of this stage are –

- Slowdown in sales growth
- Increased capacities

- Competition brings the prices down
- Profits decline

iv **Decline:** In this stage,sales begin to decreases the customers begin to tire of using the product and product is gradually edged out by better products or substitutes. The declining volume of sales pushes costs up and eliminates profits.At this stage, the strategy aims at overall preparation for renewal.

The characteristics of this stage are –

- Sales decline
- Very low or no profits
- Reduced competition due to low volumes and margins
- Few customers (Laggards)

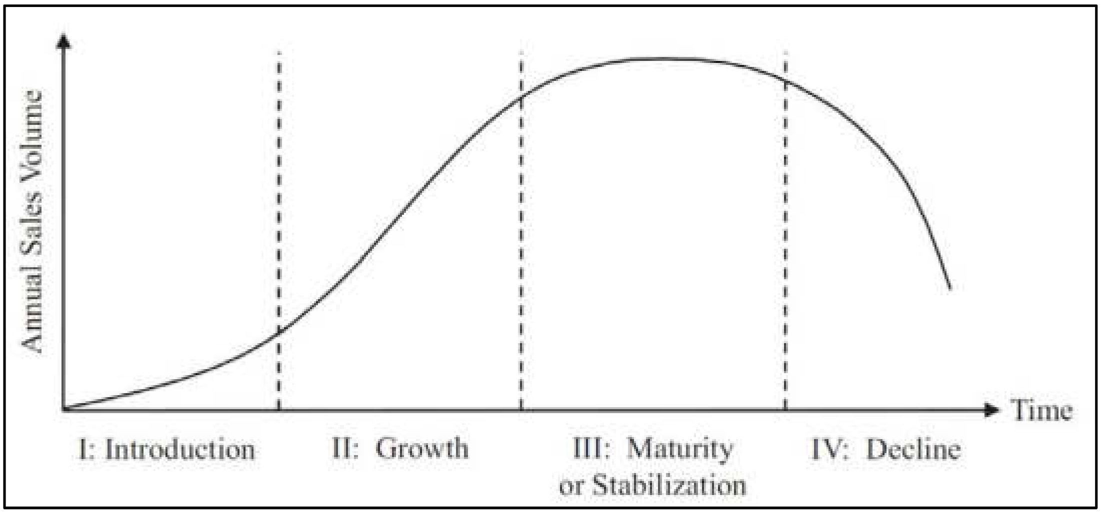


Fig: Product life Cycle *(source: Malakooti, B. (2013). Operations and Production Systems with Multiple Objectives. John Wiley & Sons)*

STOP TO CONSIDER

A product goes through a various life cycles or stages viz. Introduction, Growth, Maturity and Decline.

- Introduction stage includes a new product launch in the market; limited customer awareness and acceptance and featuring low sales growth and high promotional expenses.
- Growth stage features by high sale and profit; and intense competition.
- Maturity involves slowdown in sale and profit.
- Decline includes very low profit or no profit due to decline in sale.

MANAGING THE PRODUCT LIFE CYCLE

In the different stages of Product life cycle, a company follows various strategies to sustain in the market.

Introduction strategies: At this stage, the success in the market depends on pricing and promotion. Since the product is new in the market, all competitors will be focusing on building the distribution network and product awareness. The following policies are adopted.

a **High Price and Low Promotion:** This policy will provide high profit per unit and decrease the marketing cost. It will succeed when:

- Competition is limited.
- Market size is limited.
- Product awareness already exists.
- Customers are willing to pay a high price.

b **Low Price and Heavy Promotion:** This policy will help in targeting a bigger market share and faster market penetration. The strategy will succeed in the following conditions:

- Large market
- Price sensitive buyers
- Product unawareness
- Strong competition
- Economy of scale in product

Growth Strategies:

As the sales and profit grow rapidly as compared to the introduction stage, companies use varying strategies in the growth stge. Some typical strategies are:

- Lured by high sales and high profits, competition enters the market. Therefore, improving or adding features will expand the market for a company.
- Due to the high volume of business and increase in competition, price should not be raised. The policy of lowering of price should be maintained to attract more buyers.
- Increased emphasis on promotions will play a very important role in educating the market and meeting the challenges of the competition.

Maturity Strategies:

In this stage, due to intense competition and declining profits, all company cannot survive. The pricing policy depends on what consumers can bear and competitors are offering. Thus, a number of steps are taken to stay profitable.

a. Market modification: In order to increase the sale, the companies look for:
   - New users
   - New market segments
   - Increased usages among existing customers

b. Product modification: In order to attract more customer, a company may improve product such as:
   - Quality
   - Features
   - Styles

c. Marketing mix: Marketing mix modification may be value for money concepts, Contests, Prizes etc.

Decline Strategies:

A company may introduce a number of products simultaneously but the extent of decline may not be the same for all products. Therefore, company should identify and pay more attention to aging products. In this stage low pricing policy is followed. A company can follow following strategies:

a. **Maintain:**A company have to keep patients in the existing market condition and have to wait for good days. With passage of time, the competition will drop out and the product will continue to sell, a company may decide to continue with the product.
b. **Harvest:** This strategy is aimed at reducing the costs and hoping that the product sales will be profitable in coming days.
c. **Drop:** This is the dead or end of a particular product. However, it may be sold to some other company.

5.3.4 Pricing Policies and Practices:

The Importance of Price
• Price is a direct determinant of profits (or losses) • Price indirectly affects costs (through quantity sold) • Price determines the type of customer and competition the organization will attract • Price affects the image of the brand • A pricing error can nullify all other marketing mix activities

Pricing Considerations:

Pricing Objectives have to be consistent with an organization's overall marketing objectives

Examples of Pricing Objectives:

- Maximization of profits
- Enhancing product or brand image
- Providing customer value
- Obtaining an adequate return on investment or cash flow
- Maintaining price stability

Few factors that affect pricing decisions are:

- Demand sets the price ceiling
- Direct (variable) costs set the price floor
- Government regulations
- Price of competitive offerings
- Organizational objectives and policies
- Life-cycle stage of product or service
- Effect of pricing decisions on profit margins of marketing channel members
- Prices of other products and services provided by the organization

Price as an Indicator of Value:

- Price affects perception of quality
- Price affects consumer perceptions of prestige
- Consumer value assessments are often comparative – worth and desirability of a product relative to substitutes that satisfy the same need
- Consumer's comparison of costs and benefits of substitute items gives rise to a "reference value"

Value can be defined as the ratio of perceived benefits to price:

$$\text{Value} = \frac{\text{perceived benefits}}{\text{price}}$$

Pricing Strategies:

Full-cost Price Strategies: Considers both (direct) variable and (indirect) fixed costs

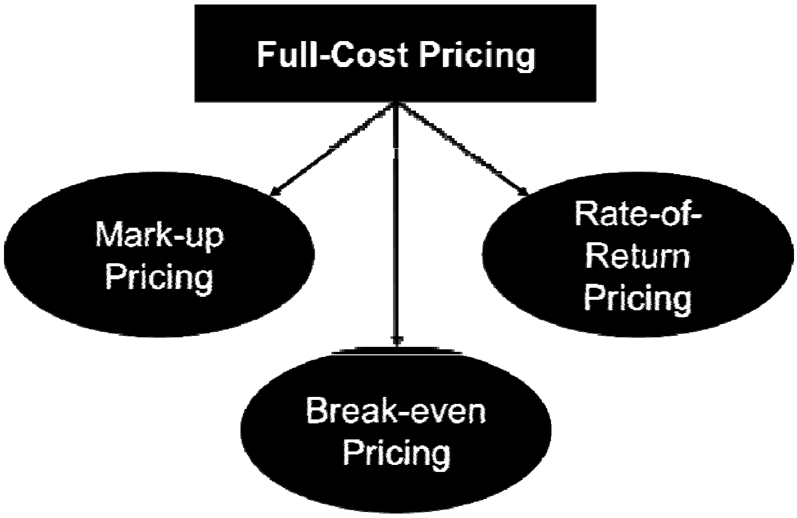
- **Markup Pricing:** Selling price is determined by adding a fixed amount, usually a percentage, to the (total) cost of the product. Most commonly used pricing method (e.g., groceries and clothing). It is Simple, flexible, controllable. Example: If a product costs Rs 4.60 to produce and selling price is Rs 6.35, the market on cost is 38% and markup on price is 28%.
- **Breakeven Pricing:** Break even pricing is a strategy focused on penetrating the market by keeping the price of the product in such a manner that the company is neither in profit nor in loss.It equals the per-unit fixed costs plus the per-unit variable costs. It is a useful tool for determining the minimum price at which a product must be sold to cover fixed and variable costs and is often used by non-profit organizations, or by profit-making organizations that may have a short-term breakeven objective.
- **Rate-of-Return Pricing:** Price is set so as to obtain a pre-specified rate of return on investment (capital) for the organization. Also assumes a linear demand function and insensitivity of buyers to price. Most commonly used by large firms and public utilities whose return rates are closely watched or regulated by government agencies or commissions

$$ROI = Pr / I = \frac{\text{revenues - cost}}{\text{investment}} = \frac{P \times Q - C \times Q}{I}$$

where P = Unit Selling Price; C = Unit Cost; Q = Quantity Sold

Solving for P, we get:

$$P = \frac{ROI \times I \times CQ}{Q}$$



Variable-cost Price Strategies: Considers only (direct) variable costs. Represents the minimum selling price at which the product or service can be marketed in the short run. It is often used to:

- **Stimulate demand (Example: lower fares for seniors)**
  Can increase revenues, and hence, lead to economies of scale, lower unit costs, and higher profits
- **Shift demand (Example: weeknight calling plans)**
  Away from peak load times to smooth it out over extended time periods

Skimming Pricing Strategy:

Price initially set very high and reduced over time. High price is charged for a product till such time as competitors allow after which prices can be dropped. The idea is to recover maximum money before the product or segment attracts more competitors who will lower profits for all concerned.

When to Use Skimming Pricing:

1. Demand is likely to be price inelastic
2. There are different price-market segments
3. The offering is unique enough to be protected from competition by patent, copyright, or trade secret
4. Production or marketing costs are unknown
5. A capacity constraint in producing the product or providing the service exists
6. An organization wants to generate funds quickly
7. There is a realistic perceived value in the product or service

Penetration Pricing Strategy:

Price is initially set low to gain a foothold in the market. This is done when a new product is being launched. It is understood that prices will be raised once the promotion period is over and market share objectives are achieved. Example: Mobile phone rates in India; housing loans etc.

When to Use Penetration Pricing

1. Demand is likely to be price elastic
2. The offering is not unique or protected by patents, copyrights, or trade secrets
3. Competitors are expected to enter market quickly
4. There are no distinct and separate price-market segments
5. There is a possibility of large savings in production and marketing costs if a large sales volume can be generated
6. The organization's major objective is to obtain a large market share

Intermediate Pricing Strategy:

Between the two extremes; most prevalent. Most companies do not use the skimming strategy or the penetration strategy. Instead, they use a blend of these two polar opposites -- something in between.

5.4 Financial Management:

5.4.1 Concept and Objectives:

Financial management is concerned with optimal procurement and utilisation of fund. The different available sources of finance are identified and compared in terms of their costs and associated risks. Likewise, finance so procured needs to be invested in a manner that the returns from the investment exceed the cost at which procurement has taken place. Thus the financial management aims at reducing the cost of funds procured, keeping the risk under control and achieving effective deployment of such funds. It also ensures availability of enough funds whenever required an avoiding idle finance.

Objectives of Financial Management

- **Wealth Maximisation:** The primary objective of financial management is to maximise shareholder's wealth. It is called as the wealth maximisation concept. The shareholder's wealth can be maximised through increasing the market value of equity shares. The market price of equity share increases, if the benefit from a financial decision (i.e. investment, financing and dividend decision) exceeds the cost involved. The shareholders gain if the value of shares in the market increases.Those decisions which result in decline in the share price are poor financial decisions. Thus, the objective of financial management is to maximise the current price of equity shares of the company or to maximise the wealth of shareholders of the company.
- **Profit Maximisation:** The generation of profit is the main aim of every economic activity. A business ust earn profit to cover its costs and provide funds for growth. No business can survive without earning profit. It is the measure of efficiency of business enterprise. The profit enables the business to face risks like fall in prices, competition, adverse government policies etc.

STOP TO CONSIDER

Wealth of shareholders = Number of shares held X Market price per share

CHCEK YOUR PROGRESS

1. What is financial management?
2. What do you understand by wealth maximisation?

5.4.2 Sources of Funds:

In every business, the fund is required to carry out short term and long term business activities. The short term funds are needed for the purchase of raw materials, payment of wages and other day to day expenses, etc. On the other hand, long term funds are required to create production facilities through purchase of fixed assets like plant, machinery, land, building furniture, etc. To perform these short and long term activities, business requires funds. The fund so required is financed through various long term and short sources of funds. These long term funds are equity share, debenture, venture capital, lease finance, etc.

Equity Share:

Equity share represents the owner's capital in a company. The holders of these shares are the real owners of the company and have control over the company. Equity shareholders are paid dividend after paying it to the preference shareholders. But they take more risk as compare to preference shareholders.

Characteristics of Equity Shares:

- Equity shares provide permanent capital to the company and cannot be redeemed during the life time of the company.
- Equity shareholders get dividend after paying it to preference shareholders.
- Equity shareholders enjoy voting rights, and have a control over the working of the company.
- Equity share bears limited liability.

Debenture:

A debenture is an acknowledgement of a debt. A company may raise long term finance through issue of debenture. A debenture holder is a creditor of the company. A fixed rate of interest is paid on debentures.

There are many kinds of debenturesissued by a company such assimple, naked or unsecured debentures, secured debenture, bearer debentures, registered debenture, redeemable debenture, convertible debenture etc. These debentures are issued as per the financial requirement of the company. Debentures or bonds have a great significance in the financial plan of a company.

Advantage of Debentures:

- Debenture provides long term funds to a company.
- The interest on debenture is a tax deductible expense.
- Debenture provides a fixed, regular and stable source of income to its investors.
- It has a definite period of maturity.

SELF ASKING QUESTION
1. How does equity share differ from debenture?

Venture Capital:

The term 'venture capital' represents financial investment in a highly risky project with the objective of earning a high rate of return. The venture capital companies provide the necessary risk capital to the entrepreneurs so as to meet the promoters' contribution as required by the financial institutions. In addition to providing capital, these venture capital firms take an active interest in guiding the assisted firms. Venture capital financing involves a high degree of risk. Following are the some venture capital institutions:

- Venture capital scheme of IDBI
- Venture capital scheme of ICICI
- Risk capital and Technology Corporation Ltd.
- Infrastructure Leasing and Financial Service Ltd.
- Stock holding Corporation of India Ltd.
- Credit rating Information Services of India Ltd. (CRISIL)

Lease Finance:

Leasing is an arrangement that provides a firm with the use and control over assets without buying and owning the asset. It is one of the significant sources of medium and long term financing where the owner of an asset gives another person, the right to use the assets against periodical payments. The owner of the asset is called as lessor and the user is called lessee.The periodical payment is known as lease rental.

Types of Leasing:

- **Operating Lease:** Operating lease is short term lease on a period to period basis. The lease period is less than the useful life of the asset. The lease is cancellable at short notice by the lessee.
- **Financial Lease:** A lease is called financiallease if it ensures the lessor for amortisation of the entire cost of investment plus the expected return on capital outlay during the term of lease. Financial lease is usually for a longer period and non-cancellable.

CHECK YOUR PROGRESS
1. What is venture capital?

5.4.3 Securities Market:

Securities market or capital market refers to facilities and institutional arrangements through which long term funds are raised and invested. The securities market consists of development banks, commercial banks and stock exchanges. An ideal capital market is one where finance is available at reasonable cost.

Functions of Securities/capital Market

The functions of an efficient securities market are as follows:

- Mobilise long term savings to finance long term investment.
- Provide risk capital in the form of equity or quasi equity to entrepreneurs.
- Provide liquidity with a mechanism enabling the investor to sell financial assets.
- Lower the costs of transactions and information.
- Improve the efficiency of capital allocation through a competitive pricing mechanism.
- Enable quick valuation of financial instruments – both equity and debt.

The capital market are two types – Primary capital market and secondary capital market.

a. **Primary Capital Market:** The primary market is a market for new issue. It deals with new securities being issued for the first time. It facilitates the transfer of investible funds from savers to entrepreneurs seeking to establish new enterprises or to expand existing ones through the issue of securities for the first time. The investors in this market are banks, financial institution, insurance companies, mutual funds and individuals.

The fund raising in primary market can be classified as follows:

- Public issue by prospectus
- Private placement
- Right issues
- Preferential issues

b. **Secondary Capital Market:** The secondary market is a market for the purchase and sale of existing securities. It is also known as stock market or stock exchange. The secondary market contributes to economic growth by channelizing funds through the process of disinvestment to reinvestment. This market reduce the cost of capital by providing liquidity, price discovery and risk transfer.

Functions of secondary/stock market:

- Providing liquidity and marketability to existing securities;
- Provides valuation of securities;
- Reduce cost of capital;
- Enables price discovery;

The Indian secondary market can be categorised as;

a. Recognise stock exchanges
b. The National Stock Exchange of India Limited (NSE)
c. The Over the Counter Exchange of India (OTCEI)
d. The Interconnected Stock Exchange of India (ISE)

STOP TO CONSIDER

- Primary market is a market for trading of new securities.
- Secondary market is a market for trading of existing securities.

SELF ASKING QUESTION

1. How does primary market differ from secondary market?

5.4.4 Role of Securities Exchange Board of India (SEBI):

Securities Exchange Board of India was established in 1988 and given statutory status through an Act in 1992. The SEBI was set up to protect the interests of investors, development and regulation of securities market. It was entrusted with the twin task of both regulation and development of the securities market.

Regulatory Role:

- Registration of brokers and sub brokers and other players in the market.
- Registration of collective investment scheme and mutual funds.
- Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities.
- Regulation of takeover bids by companies.
- Calling for information by undertaking inspection, conducting enquiries and audits of stock exchange and intermediaries.
- Levying fee or other charges for carrying out the purposes of the act.
- Performing and exercising such power under Securities Contracts (Regulation) Act 1956, as may be delegated by the Government of India.

Development Role:

- Training of intermediaries of securities market.
- Conducting research and publishing information useful to all market participants.
- Undertaking measures to develop the capital markets by adapting a flexible approach.

Protective Role:

- Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
- Controlling insider trading and imposing penalties for such practices.
- Undertaking steps for investor protection.
- Promotion of fair practices and code of conduct in securities market.

STOP TO CONSIDER

- SEBI plays a three different role in the stock market viz. regulatory, development and protective.

5.5 Human Resource Management:

5.5.1 Concept of HRM and Functions

An organisation is made up of four resources, namely, men, material, money and machinery. Ofthese, the first one is living one, i.e, human and the other three are non-living i.e, non-human. It is thehuman/people that make use of non-human resources. Hence, people are the most significant resourcesin an organisation. It is man who makes all the difference in organisations.

Human resource is the human aspect of the organisation. In every business establishment, the various activities are done through human resources. They form the workforce of the organisation. Human resource is of paramount importance for the success of any organisation. Human resources are the wealth of an organisation which can help it in achieving its goals. Human resource is the total knowledge, abilities, skills, talents and aptitudes of an organisation's workforce.

Human resource management can be defined as a process of procuring, developing and maintaining competent human resources in the organisation so that the goals of an organisation are achieved in an effective and efficient manner. According to Flippo, "Human resource management is the planning, organising, directing, and controlling of the procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organisational and social objectives are accomplished''.

HRM is an art of managing people at work in such a manner that theygive their best to the organisation.

5.5.2 Objectives & Scope:

Objectives:

According to Dr. S.S. Khanka, the primary objective of HRM is to ensure the availability of right people for right jobs so as theorganisational goals are achieved effectively. This primary objective can further be divided into thefollowing sub-objectives:

1. To help the organisation to attain its goals effectively and efficiently by providing competentand motivated employees.
2. To utilize the available human resources effectively.
3. To increase to the fullest the employee's job satisfaction and self–actualisation.
4. To develop and maintain the quality of work life (QWL) which makes employment in theorganisation a desirable personal and social situation.

5. To help maintain ethical policies and behaviour inside and outside the organisation.

6. To establish and maintain cordial relations between employees and management.

7. To reconcile individual/group goals with organisational goals.

Scope:

The scope of HRM is, indeed, very vast and wide. It includes all activities starting from manpowerplanning till employee leaves the organisation. Accordingly, the scope of HRM consists of acquisition,development, maintenance/retention, and control of human resources in the organisation.

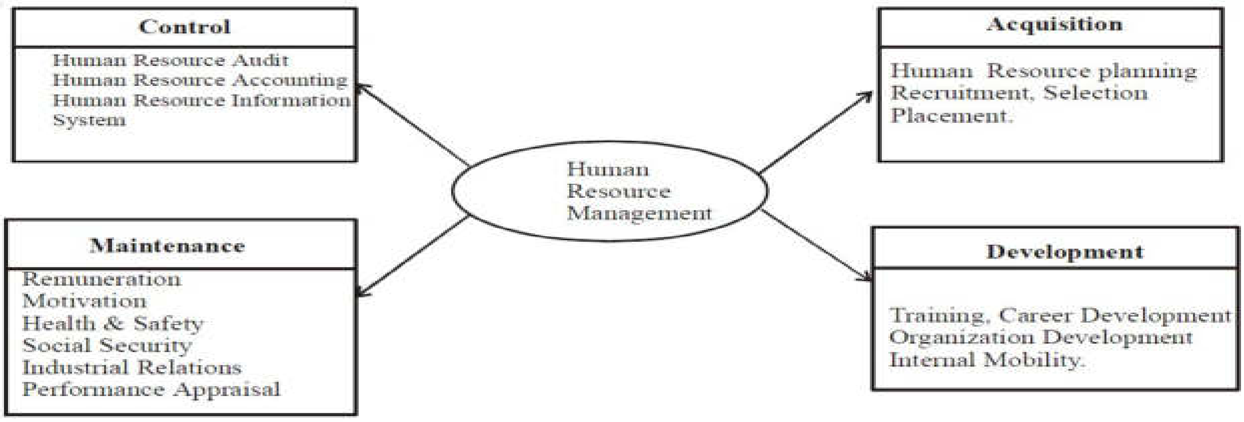


Fig: Scope of HRM (Source: Human Resource Management 2003, Dr. S.S. Khanka)

5.5.3 Functions of Human Resource Management:

The functions performed by the human resource management can be broadly be classified into two categories, viz. Managerial functions and Operative functions.

a. **Managerial Functions**

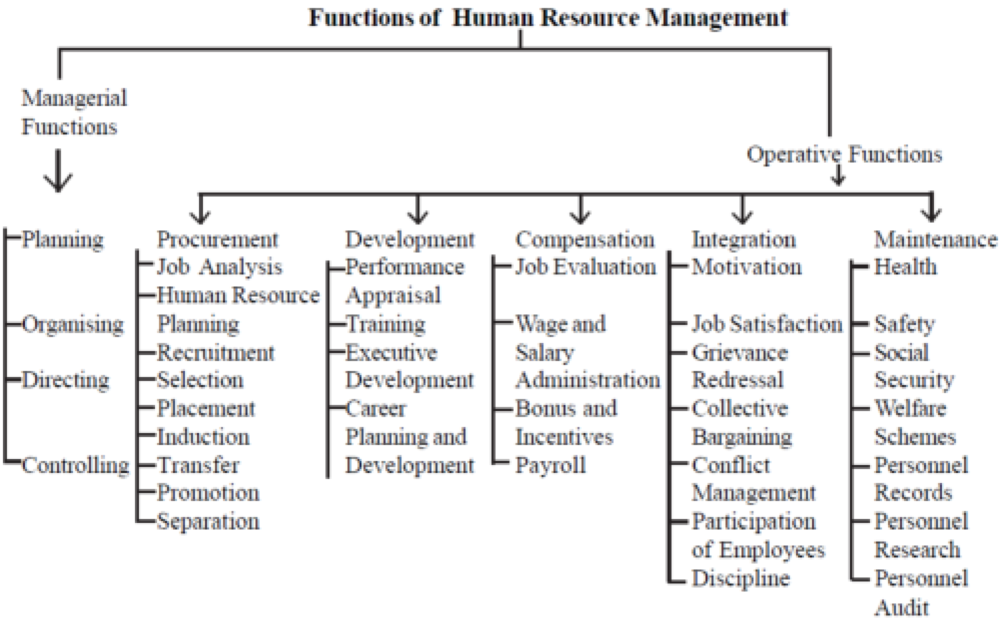
- **Planning-** Planning is a predetermined course of actions. It is a process of determining the organisational goals and formulation of policies and programme for achieving them. Thus, planning is future oriented concerned with clearly charting out the desired direction of business activities in future.
- **Organising:** Organising is a process by which the structure and allocation of jobs are determined. It involves giving each subordinate a specific task, establishing departments, delegating authority to subordinates, establishing

channels of authority and communication, coordinating the work of subordinates and so on.

- **Staffing:** It is a process by which manager select, train, promote and retire their subordinates. This includes deciding what type of people should be hired, recruiting prospective employees, selecting employees, setting performance standard, compensating employees, evaluating performance, counselling employees, training and developing employees.
- **Directing:** Directing is the process of activating group efforts to achieve the desired goals. It includes activities like getting subordinates to get the job done, maintaining morale, motivating subordinates etc. for achieving the goals of the organisation.
- **Controlling:** It is the process of setting standards for performance, checking to see how actual performance compares with these set standards and taking corrective measures as needed.

b. Operative Functions

- **Procurement-** It involves procuring the right kind of people in right number to be appointed in the organisation. It consists of activities such as manpower planning, recruitment, selection, placement and induction or orientation of new employees.
- **Development-**The development function is concerned with the improvement of knowledge, skills, aptitudes and values of employees so as to enable them to perform their jobs in a better manner in future. These functions may comprise training to employees, executive training to develop managers, and organisational development.
- **Compensation:** Compensation function involves determination of wages and salaries matching with contribution made by employees to organisational goals. It consists of activities such as job evaluation, wage and salary administration, bonus, incentives, etc.
- **Maintenance:** It is concerned with protecting and promoting employees while at work. For this purpose, various benefits such as housing, medical, educational, transport facilities, etc. are provided to the employees.



CHECK YOUR PROGRESS

1. What do you understand by human resource management?

5.5.4 Recruitment:

Recruitment is the generating of applications or applicants for specific positions to be filled up inthe organisation. In other words, it is a process of searching for and obtaining applicants for jobs sothat the right people in right number can be selected. Recruitment can be defined as the process of searching for and securing applicantsfor the various job positions which arise from time to time in the organisation (S S Khanka, 2006).

The various sources of recruitment are classified into two broad categories, namely:

1. Internal sources
2. External sources.

The sources included under each category are depicted below:

Sources of Recriutment

Internal Sources

1. Present Employees
2. Employee Referrals
3. Former Employees
4. Previous Applicants

External Sources

1. Employment Exchanges
2. Advertisements
3. Employment Agencies
4. Professional Associations
5. Campus Recruitment
6. Deputation
7. Word-of-Mouth
8. Raiding.

5.5.5 Training:

Organisations run on long-term basis also termed as 'enternal basis' adapting with changingconditions. Hence, they need human resources inter alia at present and future. The process of humanresource management (HRM) starts with planning, as seen in the previous section, for how many andwhat kind of people will be needed at different points of time in the organisation. Therefore, onceemployees have been recruited and selected, the next step involved in the HRM process is to transformthem to meet the future requirements of the organisation. Such transformation of employees isdone by means of training and development.

Training is the process of teaching the new and/or present employeesthe basic skills they need to effectively perform their jobs. Alternatively speaking, training is the actof increasing the knowledge and skill of an employee for doing his/her job. Thus, training refers to theteaching and learning activities carried on for the primary purpose of helping members of an organisationto acquire and also to apply the required knowledge, skill and attitudes to perform their jobs effectively.

According to S S Khanka, *training is a process that tries to improve skills, or add to the existing level of knowledge so that the employee is better equipped to do his present job, or to mould him to be fit for a higher job involving higher responsibilities. In other words, training is a learning experience that seeks a relatively permanent change in an individual that will improve his/her ability to perform his job.*

5.5.6 Job Analysis:

Job analysis refers to the process of collecting information about a job. In other words, it refers tothe anatomy of the job. Job analysis is performed upon ongoing jobs only. It contains job contents. Forexample, what are the duties of a supervisor, grade II, what minimal knowledge, skills and abilities arenecessary to be able to adequately perform this job?. How do the requirements for a supervisor, grade II,compare with those for a supervisor, grade I? These are the questions that job analysis answers.

There are two major aspects of job analysis: These are:

1. Job Description
2. Job Specification

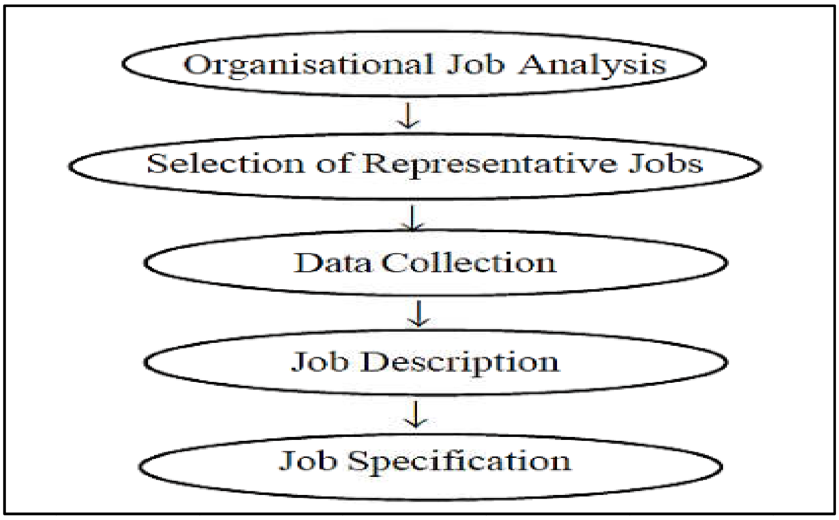


Fig: The Job Analysis Process (source: Human Resource Management 2003, Dr. S.S. Khanka)

5.7 Job Evaluation:

Job evaluation is a comparative process of establishing the value of different jobs in a hierarchicalorder. It allows one to compare jobs by using common criterial to define the relationship of one job toanother. This serves as basis for grading different jobs and developing a suitable pay structure forthem. It is important to mention that job evaluation cannot be the sole determining factor for decidingpay structures because job evaluation is about relationships, and not absolutes.

5.5.8 Job Description:

A job description or JD is a written narrative that describes the general tasks, or other related duties, and responsibilities of a position. It may specify the functionary to whom the position reports, specifications such as the qualifications or skills needed by the person in the job, information about the equipment, tools and work aids used, working conditions, physical demands, and a salary range.A job description is an essential part of the job application process as, with the right information, it should help applicants to determine whether the role is in line with their skill set and whether it is a job they actually want to do.

From the organisation's perspective, the job description is vital in ensuring that the applications received for the position closely match the needs of the role itself.

Job Specification:

While job description focuses on the job, job specification focuses on the person i.e, the jobholder. Job specification is a statement of the minimum levels of qualifications, skills, physical andother abilities, experience, judgement and attributes required for performing job effectively. In otherwords, it is a statement of the minimum acceptable qualifications that an incumbent must possess toperform a given job. It sets forth the knowledge, skills and abilities required to do the job effectively.

Job Description	*Job specification*
A statement containing items such as • Job title • Location • Job summary • Duties • Machines, tools, and equipment • Materials and forms used • Supervision given or received • Working conditions • Hazards	A statement of human qualifications necessary to do the job. Usually contains such items as • Education • Experience • Training • Judgement • Initiative • Physical effort • Physical skills • Responsibilities • Communication skills • Emotional characteristics • Unusual sensory demands such as sight, smell, hearing.

Source: Dale S. Beach: *Personnel-The Management of People at Work,* Macmillan, New York, 1980, p. 166.

Fig: Job Content

5.5.9 Performance Appraisal & Evaluation:

A performance appraisal is a regular review of an employee's job performance and overall contribution to a company. Also known as an "annual review," "performance review or evaluation," or "employee appraisal," a performance appraisal evaluates an employee's skills, achievements and growth, or lack thereof. Companies use performance appraisals to give employees big-picture feedback on their work and to justify pay increases and bonuses, as well as termination decisions. They can be conducted at any given time but tend to be annual, semi-annual or quarterly.

Objectives of Performance Appraisal

Performance Appraisal can be done with following objectives in mind:

1. To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
2. To identify the strengths and weaknesses of employees to place right men on right job.
3. To maintain and assess the potential present in a person for further growth and development.
4. To provide a feedback to employees regarding their performance and related status.
5. To provide a feedback to employees regarding their performance and related status.
6. It serves as a basis for influencing working habits of the employees.
7. To review and retain the promotional and other training programmes.

PROCESS OF PERFORMANCE APPRAISAL

1. Establish Performance Standards

2. Communicate Performance Expectation to Employee

3. Measure Actual Performance

4. Compare Actual Performance with Standards

5. Discuss the Appraisal with the Employee

6. Initiate Corrective Actions

Methods of Performance Appraisal	
Traditional Methods	**Modern Methods**
1. Ranking method 2. Paired comparison 3. Grading 4. Forced distribution method 5. Forced choice method 6. Checklist method 7. Critical incidents method 8. Graphic scale method 9. Essay method 10. Field review method 11. Confidential report In the discussion that follows, each	1. Management by Objectives (MBO) 2. Behaviourally Anchored rating scales 3. Assessment centres 4. 360-degree appraisal 5. Cost accounting method

5.5.10 Basic Dynamics of Employer- Employee Relations:

In an industrial establishment, there are three parties or participants' viz. employer, employee and government. A good and positive relation between the employees and employers is essential. The relation between employees (i.e. trade union), employer (i.e. management) and government in an industrial organisation is known as industrial relation.The good industrial relation help run an industry effectively and successfully.

Importance of Employer and Employee relation:

- A sound industrial relation fosters industrial peace through unilateral actions of both the parties (employee-employer).
- It promotes industrial democracy through joint consultation.
- It protects workers against exploitation and provides procedures to resolve workers grievances relating to work.
- It provides benefit to management by promoting industrial democracy.
- A good and positive relation between employer and employees improves industrial productivity.

Industrial relation as a system is a complex of inter-relations among employee, employer and government.

- **Employees:** Employees are considered as the most affected by the industrial relation system prevalent in an organisation. Employees perceive industrial relation as a means to improve their conditions of employment, voice against any grievances, exchange views and ideas with management and participate in organisational decision making process. Employees participate in the industrial relation through their associations i.e. trade unions. Trade unions with their strong political and emotional overtones are looked upon as a tool to gain concessions from employers. The trade union work to achieve following objectives:

i. To secure better terms and conditions of employment for their members.

ii. To obtain improved status for the workers in his/her workplace.

iii. To increase democratic mode of decision making at various levels.

- **Employer:** Employer is a second party to industrial relation. In the corporate organisation, employer is represented by the management. The management has to see industrial relation in terms of the following employee-employer relationship:

i. Creating and sustaining employee motivation.
ii. Ensuring commitment from employees.
iii. Achieving higher levels of efficiency.
iv. Negotiating terms and conditions of employment with the representatives of employees.
v. Sharing decision making with employees.

- **Government:** The role of government in the matter of industrial relations has been changing along with changes in industrial environment and management perspective. The government intervenes in different industrial relation matters. In India, government tries to regulate the relationship of employees and employers, and also keeps an eye on both groups to keep each in line. This relationship is enforced and maintained through labour courts, industrial tribunals, wage boards, investigating and enquiry committees, etc.

SELF ASKING QUESTION

1. Why employer and employee relation is important?

5.6 Summing Up:

The functional area of management are mainly classified as marketing, finance and human resource management. Each of this functional area contributes to the attainment of organisational objectives. Marketing management facilitates flow of goods and services from producer to consumers through the various marketing means. While financial management ensures smooth availability and proper utilisation of financial resource. Human resource management emphasises on efficient and effective management of workforce in an organisation. Thus, these different functional areas are the integral part of management in successfully carry out organisational task.

5.7 References & Suggested Readings:

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- Arun Kumar and N Meenakshi, *Marketing Management*,Vikas Publishing House Pvt. Ltd. 2018
- S.A. Sherlekar, *Marketing Management,* Himalaya Publishing House, 2017
- Shashi K. Gupta and R.K. Sharma, *Financial Management*, Kalyani Publishers
- Bharati Pathak, *Indian Financial System*, Fourth edition by Pearson
- S.S. Khanka, *Human Resource Management*, S.Chand& Company Ltd., 2006

5.8 Model Questions:

i Briefly discuss the different concepts of marketing.

ii What are the different components of marketing mix?

iii Discuss the various stages of product life cycle.

iv How does pricing policies and practices affect different stages of PLC?

v What are the objectives of financial management?

vi Discuss the various source of funds available to business.

vii Briefly outline the functions of securities market.

viii Discuss the role of SEBI in securities market.

ix Discuss the different functions of human resource management.

x Write a note on employer and employee relation.

5.9 Answer to Check Your Progress / Self Asking Question

i What is financial management?

Answer: Financial management refers to the planning and controlling of firm's financial resources in productive way to reduce cost of fund procured, keeping the risk under control, and achieving effective deployment of funds.

ii What do you understand by wealth maximisation concept?

Answer: It means maximisation of shareholders wealth.The wealth maximisation is linked to increase of market price of each equity share. The market price is depended on market value of equity share. Whenever the current price of equity share increases, the shareholders wealth or company's net worth become maximum.

iii How does equity share differ from debenture?

Answer: Equity share is different from debenture from various points.

Equity Share	**Debenture**
1. A share is a part of owned capital.	It is an acknowledgement of debt.
2. Shareholders are paid dividend.	Debenture holders are paid interest.
3. Shareholders have voting right.	Debenture holders are only creditors of the company.
4. Shares are not redeemable.	It can be redeemed after a certain period.

iv What is venture capital?

Answer: The 'venture capital' is an innovative financing pattern represent financial investment in a highly risky project with the objective of earning a high rate of return.

v How does primary market differ from secondary market?

Answer: The primary market is different from secondary market on following ground.

Primary Market	**Secondary Market**
1. There is sale of securities by new company.	There is trading of existing shares only.
2. Securities are sold by the company to investor directly or through an intermediary.	Ownership of existing securities is exchanged between investors.
3. Prices are determined and decided by the management of the company.	Prices are determined by demand and supply for the security.

vi Why employer and employee relation is important?

Answer: The relationship between employer and employee are crucial in an organisation. A good and positive relation between the parties fosters industrial peace, promote industrial democracy and improve productivity.

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