The Motto of Our University
(SEWA)
SKILL ENHANCEMENT
EMPLOYABILITY
WISDOM
ACCESSIBILITY

SELF-INSTRUCTIONAL STUDY MATERIAL FOR JGND PSOU

JAGAT GURU NANAK DEV
PUNJAB STATE OPEN UNIVERSITY, PATIALA
(Established by Act No. 19 of 2019 of the Legislature of State of Punjab)

B.COM (Hons.)

SEMESTER-I

BCB31103T

BUSINESS ORGANISATION AND MANAGEMENT

Head Quarter: C/28, The Lower Mall, Patiala-147001
Website: www.psou.ac.in

The Study Material has been prepared exclusively under the guidance of Jagat Guru Nanak Dev Punjab State Open University, Patiala, as per the syllabi prepared by Committee of Experts and approved by the Academic Council.

COURSE COORDINATOR AND EDITOR:

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PREFACE

Jagat Guru Nanak Dev Punjab State Open University, Patiala was established in December 2019 by Act 19 of the Legislature of State of Punjab. It is the first and only Open University of the State, entrusted with the responsibility of making higher education accessible to all, especially to those sections of society who do not have the means, time or opportunity to pursue regular education.

In keeping with the nature of an Open University, this University provides a flexible education system to suit every need. The time given to complete a programme is double the duration of a regular mode programme. Well-designed study material has been prepared in consultation with experts in their respective fields.

The University offers programmes which have been designed to provide relevant, skill-based and employability-enhancing education. The study material provided in this booklet is self-instructional, with self-assessment exercises, and recommendations for further readings. The syllabus has been divided in sections, and provided as units for simplification.

The University has a network of 10 Learner Support Centres/Study Centres, to enable students to make use of reading facilities, and for curriculum-based counselling and practicals. We, at the University, welcome you to be a part of this instituition of knowledge.

Prof. G.S Batra
Dean Academic Affairs

B Com (Hons.)
CORE COURSE (CC)

SEMESTER -I
(BCB31103T): BUSINESS ORGANISATION AND MANAGEMENT

MAX. MARKS: 100
EXTERNAL: 70
INTERNAL: 30
PASS: 40%
Credits: 6

Objective:
The course aims to provide basic knowledge to the students about the organisation and management of a business enterprise.

INSTRUCTIONS FOR THE CANDIDATES:
Candidates are required to attempt any two questions each from the sections A and B of the question paper and any ten short questions from Section C. They have to attempt questions only at one place and only once. Second or subsequent attempts, unless the earlier ones have been crossed out, shall not be evaluated.

SECTION A

Block 1: (Foundation of Indian Business)
Foundation of Indian Business: Manufacturing and service sectors; Small and medium enterprises; Problems and government policy. Technological innovations and skill development, 'Make in India' Movement. Social responsibility and ethics; Emerging opportunities in business; Franchising, Outsourcing, and E-commerce.

Block 2: (Business Enterprises)
Business Enterprises: Forms of Business Organisation:- Sole Proprietorship, Joint Hindu Family Firm, Partnership firm, JointStock Company, Cooperative society; Limited Liability Partnership; Choice of Form of Organisation. Government - Business Interface**;** Rationale and Forms of Public Enterprises. International Business. Multinational Corporations.

Block 3: (Management and Organisation)
Management and Organisation: The Process of Management; Planning; Decision-making; Strategy Formulation. Organizing: Basic Considerations; Departmentation–Functional, Project, Matrix and Network;

SECTION B

Block 4: (Delegation, Leadership and Communication)
Delegation and Decentralization of Authority; Groups and Teams. Leadership: Concept and Styles; Trait and Situational Theory of Leadership. Motivation: Concept and Importance; Maslow Need Hierarchy Theory; Herzberg Two Factors Theory. Communication: Process and Barriers; Control: Concept and Process.

Block 5: (Functional Areas of Management: Marketing Management)
Functional Areas of Management: Marketing Management:- Marketing Concept; Marketing Mix; Product Life Cycle; Pricing Policies and Practices.

Block 6: Functional Areas of Management: Financial Management and Human Resource Management)
Financial Management: Concept and Objectives; Sources of Funds – Equity Shares, Debentures, Venture Capital and Lease Finance. Securities Market, Role of SEBI.
Human Resource Management: Concept and Functions; Basic Dynamics of Employer –Employee Relations.

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BCB31103T: BUSINESS ORGANIZATION AND MANAGEMENT COURSE COORDINATOR AND EDITOR: DR. BALPREET SINGH

SECTION A

UNIT NO.	UNIT NAME
UNIT 1	INDIAN BUSINESS
UNIT 2	INNOVATION AND SKILL DEVELOPMENT
UNIT 3	BUSINESS ORGANISATION
UNIT 4	GOVERNMENT-BUSINESSES INTERFACE
UNIT 5	MANAGEMENT AND ORGANISATION
UNIT 6	ORGANIZATION

SECTION B

UNIT NO.	UNIT NAME
UNIT 7	DELEGATION & DECENRALISATION
UNIT 8	LEADERSHIP: CONCEPT AND STYLES
UNIT 9	MOTIVATION AND ITS THEORIES
UNIT 10	MARKETING MANAGEMENT
UNIT 11	FINANCIAL MANAGEMENT – AN INTRODUCTION
UNIT 12	HUMAN RESOURCE MANAGEMENT

B. COM (Hons.)

SEMESTER I

COURSE: BUSINESS ORGANISATION AND MANAGEMENT

UNIT I - INDIAN BUSINESS

STRUCTURE

1.0 OBJECTIVES

After going through this unit, you will be able to:

- Describe the Indian history of business.
- Understand the concept of business.
- Outline the economic and non-economic activities.
- Explain the meaning of manufacturing and service sectors
- Describe the classification of service sector.
- Elaborate the term MSME‘s.

- Describe the various policies made by government for development of business
- Understand the role of MSME in economy.
- Identify the challenges in Indian business.

1.1 INDIA BEGINS TO REINDUSTRIALISE

After the Independence, there was a need to rebuild the Indian economy under centralised planning. In 1952 major importance was given to the development of modern industries, modern technological and scientific institutes, space and nuclear programmes in the First Five year Plan of India but all the efforts failed to bring fruit as the Indian economy could not develop at rapid pace. The main reasons for failure of the First five year plan were lack of capital formation, rise in population, huge expenditure on defence and inadequacy of infrastructure.

This resulted in high dependency of India on borrowings from foreign sources. In order to cope with this liberalisation was introduced in 1991 and today Indian economy becomes one of the fastest growing economies in the world with the most preferred FDI destination. Sectors having tendency of growth have been identified. Initiatives such as _Make in India', Skill India', _Digital India' are taken by the government with the expectation to help the economy in terms of exports and imports and trade balance.

After 1850 there was great scope for Indian entrepreneurs to recapture the domestic market by setting up their own modern textile mills. In 1896, out of the total cloth consumed in India, Indian mills supplied 8% which gradually increased to 20% in 1913, 62% in 1936 and76% in 1945. Thus, during the period from1913-1938, India's manufacturing output grew above the world average of 3.3% that was 5.6% per year. From the 1920s, tariff protection was provided by the British government, which helped industrialists to expand and diversify. In 1947, Indian entrepreneurs were strong enough to buy the businesses of departing British. Share of Indian Industries in India's GDP had doubled from 3.18% in 1913 to 7.5% in 1947 and the share of manufacturers in exports increased from 22.4% to 30% for the years 1913 and 1947, respectively.

1.1.1 HUMAN ACTIVITIES

Any activity performed by human beings to meet their needs and wants in the society are known as human activities. People undertake various activities to satisfy their needs in the society which can be broadly classified into two groups, i.e., **economic** and **non-economic activities**.

1. NON-ECONOMIC ACTIVITIES

The activities conducted out of love and affection, social obligation, religious obligation, physical requirement, patriotism, etc. by human beings are known as non-economic activities. There is no profit motive in these activities. For example, a lady cooking food for the family, people going for prayer, a social worker working against social problems etc., are some such examples.

Purpose of non-economic activities is providing services to others with a non-monetary objective. Persons working in the Non-Government Organisations (NGOs) are performing non-economic activities. These are done for satisfaction of personal, social, religious, cultural and sentimental requirements of human beings. A few models are:

- **CHARITABLE ACTIVITIES:** Funding education institutes, community work or social assistance.
- **HOUSEHOLD ACTIVITIES:** like cooking, washing dishes, child care, sewing garments for family etc.

- **INDEPENDENCY OF WEAKER SECTIONS**: Navigating under privileged and economically weaker sections of society and working for their upliftment and independence in order to meet their livelihood.
- **VOLUNTARILY SKILLING**: People who provide training for specific skills to individuals and help in employment.

2. <u>ECONOMIC ACTIVITIES</u>

All those activities which are undertaken for profit motive or livelihood by human beings are known as economic activities. These include production, exchange and distribution of goods and services. For example: doctors working in the hospital, teachers teaching in a school, an employee going to his office, a farmer working in the field etc are all economic activities.

Economic activities aimed at cost-effective intentions whereas non-economic activities do not have fiscal cause but carried out on account of love, warmth, societal enriching or spiritual reasons.

<u>SECTORS OF ECONOMIC ACTIVITIES</u>

The economic activity in the economy can be divided into following divisions; primary sector, secondary sector and tertiary sector.

i) **PRIMARY ECONOMIC SECTOR**: Primary sector is a sector which is related to use of natural resources and provides raw material to other sectors. Examples: agriculture, breeding, forestry, fishery, hunting, and mining, poultry, tree plantation etc.

ii) **SECONDARY ECONOMIC SECTOR**: Secondary sector relates with the production of goods with the use of raw material provided by the primary sector. Its examples includes: Sugar made from sugarcane, jute, Indian Khadi Industry, Construction of houses etc.

ii) **TERTIARY ECONOMIC SECTOR**: also known as service sector. This sector acts as a link between primary and secondary sector as it includes all those services which helps in conducting business unhindered. Its examples are: transportation, banking, advertisement, insurance, communication, warehouse facility, medical services etc.

We can say that these three sectors are like three legs of the economy and all the sectors work together and interlinked to each other to create an economic chain of production. The primary sector provides the raw material, the secondary sector put that raw materials to use and last but not least the tertiary sector sells and supports the activities of the other two sectors.

<u>WE CAN FURTHER CLASSIFY THESE ECONOMIC ACTIVITIES INTO THREE GROUPS</u>:

(a) BUSINESS, (B) PROFESSION, AND (C) EMPLOYMENT

(a) BUSINESS: Business includes all those economic activities related to the production of goods and then taking goods to place of consumption. Business also includes after sale services. According to **L. H. Haney**, ―Business may be defined as human activities directed towards producing or acquiring through buying or selling goods‖ Production of soaps, TV sets, transport, etc, are some examples of business. Person engaged in business is called a businessman or entrepreneur.

(b) PROFESSION: Profession is based on professional knowledge, education and training and involves the rendering of personalised services of a specialised nature. This includes services rendered by doctors, lawyers, chartered accountants etc. These are representative professional bodies for each profession like- Medical Council of India for Doctors, Bar Council of India for Lawyers which guides and regulates the respective profession in India. The nature and type of educational qualifications and training required to practice the concerned profession and person should become the member of the concerned professional body and follow the code of conduct prescribed by such body.

(c) EMPLOYMENT: Employment refers to the economic activity in which there is contract between employer and employee in which an employee and consideration received by employee may be in the form of an hourly wage, by piecework or an annual salary as lump sum payment or a contractual basis. For example, doctors employed in government/ private hospitals, engineers employed in a factory, etc. Employment is guided by various employment laws or regulations or legal contracts.

1.2 FOUNDATION OF INDIAN BUSINESS

The term business is derived from the word _busy‘. Any occupation in which people regularly engage in activities related to purchase, produce and/or sale of goods and services to satisfy the needs of other people with the primary motive of earning profit can be explained as term business.

According to Dr. W.R. Spriegel, "All of the activities included in the production and sale of goods or services may be classified Business activities**"**

1.2.1 ESSENTIAL FEATURES OF BUSINESS

As learnt that business refers to the human activities employed in production and/or exchange of want satisfying goods and services carried with the objective of earning profits. Now let us study the important characteristics of business. Following are the five broad features of business.

1) DEALINGS IN GOODS AND SERVICES: Business is doing transactions with goods and services. The goods may be consumer goods such as sweets, breads, clothes, shoes, etc or they may be producer‘s goods such as machinery, equipment, etc., which are used to produce further goods for consumption. Various intangible and invisible services such as transport, warehousing, banking, insurance, etc., are also included in business.

2) PRODUCTION AND/OR EXCHANGE: An economic activity becomes _business‘ only when production or transfer or exchange or sale of goods or services for value takes place. If production is for self-consumption or presentation as gift, shall not be considered as business. Two parties must be there in a business activity i.e., a buyer and a seller and must be indulged in activities of transfer of goods or exchange of goods between a buyer and a seller.

3) CONTINUITY AND REGULARITY IN DEALINGS: An activity is treated as business only when it is undertaken continually or at least repeatedly not any single task is considered as business. For example, if a person sells his residential house doesn‘t comes under business. If he repetitively buys houses and sells to others, such activity comes under business.

4) PROFIT MOTIVE: Earning profit is the primary motive of business. This is not to demoralize the importance of the element of service in business activity. In fact, a business will grow only when it is able to satisfy its customers. Profits are essential for the business to survive, to grow, expand, and to get acknowledgment.

5) ELEMENT OF RISK: In every business, there is a possibility of loss that is termed as risk. The element of risk exists due to a various uncontrollable factors. There are two kinds of risks.

(i) Insurable risks i.e. whose probability can be calculated and can be insured. Example- Losses due to fire, floods, theft etc.
(i) Non-insurable risk are those whose probability cannot be calculated and which cannot be insured against, e.g., changing technology, fall in demand, changing fashions, short supply of raw materials, etc. These risks are to be completely borne by the businessman.

1.2.2 SECTORS OF BUSINESS

All the activities related to production of goods and carrying those manufactured goods to the ultimate consumer from the place of manufacturing are all considered in business. In short, activities related to production come under the **Manufacturing sector** and facilities that help in transfer of goods to consumers are categorized under the **Service sector**. These sectors are discussed as below:

1.2.3 MANUFACTURING SECTOR

Manufacturing is concerned with the conversion of raw material or semi-finished material into finished products with the use of man and machinery. Some finished products are used as raw material for other goods. Manufacturing sector is the wealth producing sector as it helps in growth of the economy because it provides employment opportunities as well as revenue to the government**.**

1.2.3.1 TYPES OF MANUFACTURING INDUSTRIES

- **ANALYTICAL INDUSTRY-**This analyses and separates many products from the same materials, Example oil refinery, crude oil etc.
- **SYNTHETIC INDUSTRY**-which mixes many raw materials to get a new product, Example: cement is prepared with the mix of limestone, gypsum and coal.
- **PROCESSING INDUSTRY-**In this raw material passes through successive stages to convert into a finished product, Example: production of sugar and paper.
- **ASSEMBLING INDUSTRY**-This industry assembles different finished products made by different industries to make a new product, Example: television, car, computer, etc.
- **CONSTRUCTION INDUSTRY-**Under this industry, construction of buildings, dams, bridges, roads as well as tunnels and canals is done using various things produced by other industries. Engineering and architectural skills play an important role here.

1.2.3.2 ROLE OF MAJOR IINDUSTRIES IN INDIAN ECONOMIC DEVELOPMENT: In 1991 because of economic reforms the private sector played an insignificant role in all sectors of the economy which has emerged. India has emerged as one of the fastest growing economies in the world, but still there is a large potential of growth in the manufacturing sector. Manufacturing sector is operating below its capacity. Highest contribution in GDP is of the service sector. The _Make in India' scheme by the Modi Government also focused on increasing the competitiveness of the manufacturing sector.
Six major industries in India used to be Steel, Iron, Textile, Cement, Jut, Sugar and Paper. Emerging industries in last few decades are petrochemicals, information technology, Banking Automobile and insurance. To supervise the growth of the industries the government created good relationships with the industry and would administer their operations to help in their growth.

a) **TEXTILE AND COTTON INDUSTRY**: The India industry was the first of the few industries that were properly set up. This industry in the beginning didn‘t help in India‘s growth but later did. First cotton mill was set up in Kolkata in 1818. This industry contributes 12% of total industrial production also 12% of total exports. This industry is one of the largest industries in the country and employs almost 35 million skilled or semi-skilled workers.

b) **STEEL AND IRON INDUSTRY**: This industry begins in West Bengal, in year 1870 and Bengal iron works company started its first plant. Responsibility of various development of steel within the country was given to SAIL (Steel Authority of India Limited). This industry hired around 2.5 lakh employees. Rank of India in terms of production of steel is 10^{th} but still India imports a lot of steel.

c) **AUTOMOBILE INDUSTRY**: After the liberalization in 1991 in Indian economy, automobile industry flourishes and had significant amount of growth. New art technology replaced traditional manufacturers which were launched by new manufacturers. Standards were improved with the introduction of emission norms and this led to a tremendous amount of competition in market. In 1991 this industry faced relicensed but after that there was tremendous growth. This industry almost 6% of GDP and gives employment to approximately 13 million people of the country.

1.2.3.3 ISSUES FACED BY INDIAN MANUFACTURING SECTOR

There are a lot of problems faced by Indian manufacturing sector, these are discussed as follows:

- **LOW PRODUCTIVITY:** According to McKinsey report in India, workers in the manufacturing sector are, on average, almost four and five times less productive than their counterparts in Thailand and China.
- **UNBALANCED SIZE AND AGE OF INDUSTRIAL UNITS:** Indian MSMEs suffer from the ‗bane of dwarfism‘ as mentioned in Economic Survey 2018-19.(Dwarfs are the firms employing less than 100 employees but having existence for more than 10 years)
- **LOW CONTRIBUTION TO EMPLOYMENT:** Dwarfs cover half of all the firms but their share in employment is 14.1% only and share in NVA (Net Value Added) is 7.6% only. Thus, firms that remain small in spite of becoming older remain the lowest contributors to employment and efficiency in the economy.
- **COMPLICATED LABOUR LAWS:** Government approval is essential under the Industrial Disputes Act of 1947 before laying off any employees and the Contract Labour Act of 1970 needs government and employee approval to do any simple modifications in an employee‘s job description or duties.
- **POOR INFRASTRUCTURE:** Electricity costs are almost the same in India and China but power cuts are much higher in India. Similarly, Indian transportation sector also needs major upgradation.
- **RED TAPISM:** Bureaucratic procedures and corruption make India less attractive for investors. India ranks 78 out of 180 countries in Transparency International‘s Corruption Perception Index.

1.2.3.4 NATIONAL MANUFACTURING POLICY

In order to increase the involvement of the manufacturing sector, Government of India announced National Manufacturing Policy on November, 4, 2011.

➢ **OBJECTIVES OF NMP**

(i) To boost manufacturing sector growth to 12-14 percent over the medium term.

(ii) To increase the share of manufacturing in the GDP from the present level of 16 % to 25% by 2022.
(iii) To create 100 million additional jobs in the manufacturing sector by the year 2022.
(iv) To enhance the global competitiveness of Indian manufacturing sector.
(v) To achieve technological advancement in the manufacturing sector in India.
(vi) To produce appropriate skills among the people so as to achieve faster and comprehensive growth.
(vii) To ensure sustainability of growth and environment protection.

1.2.4 <u>SERVICE SECTOR</u>

―Services are the backbone of the business‖. Service sector includes all those activities which help in production and its smooth channelization. This sector acts as a link between various activities undertaken in the primary sector and secondary sector such as transport, banking, insurance, warehousing, packaging, communication, advertising, etc. All these services are known as business services and are essential for production and exchange of goods.

1.2.4.1 <u>MEANING</u>

An economic activity that is an outcome as a result of a transaction between a service provider and the consumer is known as service. Tertiary industry provides all the business services and assists trade as auxiliaries to trade.

A service is not something tangible or physical product which is given to the buyer but it issued for one‗s convenience or benefit. The purchase of a service does not result in the ownership of anything physical. For example, we can get the services of a doctor, but cannot purchase it. Similarly, the services of a teacher can only be used to teach the students.

1.2.4.2 <u>CHARACTERISTICS/FEATURES OF SERVICES</u>

The nature of services can be described as follows:

1. **INTANGIBLE**: The goods of tangible nature can be touched, and they can even test before making the buying decisions but services are of intangible nature it is not a physical object. It has a mere mental connotation. *According to Carman and Uhl, a buyer of products (goods) have an opportunity to see, touch, hear, smell or taste them before they buy.*

We need to concentrate on benefits and satisfaction which a buyer can derive after buying. Example, the banks sell credit cards to customers by picturing comforts the holders of the credit cards are likely to get i.e. a combination of intangible perceptions. Also, airlines sell seats from one destination to another. Customers expect safe, fast services that‗s why, due to intangibility, the selling and marketing of services turn into much more complex.

2. INCONSISTENCY OR LACK OF HOMOGENEITY: Physical goods are produced with a high degree of standardization like we cannot differentiate between two bars of soap or two cars of the same brand. But, this similarity is impossible in services as two visits to a doctor or two lectures of a teacher cannot be exactly the same. Like goods, quality of services cannot be checked before producing. Quality of service varies across different service outlets, for example service experience of two branches of Cafe Coffee Day (CCD) may different.

3. INSEPARABILITY: The services are created and supplied all together like the dancers, musicians, dentists and other professionals create and offer services jointly.

Donald Cowell says, ―Goods are produced, sold and then consumed whereas the services are sold and then produced and consumed.‖

In case of goods production sale and then consumption takes place but services are sold, produced and then used. This shows inseparability that the services and their providers are the same.

4. NO INVENTORY: In case of goods, if remain unsold that can be preserved for future but in case of services if remain unutilized then they will be lost forever and not possible to be stored for future use.
Example: If a labour stops to work, if a seat in the aircraft remains unsold, a chair in a cinema hall remains vacant; these services will be lost forever and can't be stored or preserved. Unutilised or underutilised services like building left unoccupied, an unemployed person, credit unutilised, vacant beds in a hospital are observed as economic waste because of perishability.

5. CUSTOMER"S INVOLVEMENT: In services customers have to fully participate while service is being delivered otherwise services cannot be utilized. Example: In a cinema, customers should open their eyes to enjoy movies otherwise, service will remain unutilized.

1.2.4.3 CLASSIFICATION/TYPES OF SERVICES
Services may be classified into three categories:

1. BUSINESS SERVICES: These are the services used by business enterprises to carry on their economic activities efficiently and effectively.

2. SOCIAL SERVICES: Social services are carried out voluntarily to carry out the sole motive. These services are provided at minimal cost as no profit motive at all. Eg. donations and charity.

3. PERSONAL SERVICES: These are those services which can be customized by service providers as according to the customers, e.g., Travel agents arrange trips according to the requirement of customers.
Today, Service sector is important because of the complication of Products and increasing Income Levels which induce people to take personalized and better services. Today the number of Working Women is increasing, resulting in an increase of need for the service sector. Information Technology is also growing. People are also becoming health Conscious. All these factors lead to the increase in the need for the service sector.

1.2.4.4 CLASSIFICATION OF BUSINESS SERVICES
The services required by the business are classified as follows:-

1. BANKING: Banking and financial institutions provide credit facility, loan etc to provide finance for smooth conduct of business activities. Business needs funds for acquiring assets, purchasing raw materials and meeting other expenses. Required funds can be obtained from a bank. Thus this removes hindrances of finance. Services provided by the bank are receipt of deposits, lending of funds, transfer of money, agency functions and other services.

2. TRANSPORT: The production of goods takes place at one place whereas demand of those products can be in different parts of the country. Business required transportation facilities for physical distribution of goods. The hindrance of place is removed by the transport. Modes of transportation are Road transport, Rail Transport, Water Transport, Air transport. Due to the availability of advanced transportation systems now business can also be easily expanded to abroad.

3. COMMUNICATION: Communication also plays an important role in the service sector. A business organisation need to have constant contact with the all stakeholders and exchange information and ideas is required. This can be possible by only effective communication. It helps in exchange of information between producers, consumers and traders as and when required. The common communication services are postal service, telephone, fax, internet etc.

4. INSURANCE: Risk of loss in business is unavoidable. Many risks cannot be avoided but they can be transferred or shifted. Insurance companies provide this facility to businesses. Insurances like transportation insurance, unemployment and health insurance, Life Insurance Fire and Marine insurance. Insurance helps in smooth working of the business in uncertain conditions. It provides a cover against the loss or theft of goods, in the process of transit, storage, fire or due to other natural calamities. This service removes the hindrance of risk.

5. WAREHOUSING: There can be a time lag between the production and consumption of goods. This hindrance of time and storage can be solved by storing the goods in warehouses from the time of production till the time they are demanded by customers. This also ensures the continuous supply of goods in the market, storage of unsold goods, prevent damage of goods due to weather change and supply of goods at reasonable prices.

6. ADVERTISING: Advertising provides information of the product to the buyers. It is through advertising that the customers come to know about the new products and their utility. This removes hindrance of information as it is one of the important means of promoting a product. E.g. Manufacturers can advertise the new products on television, magazines, radio etc. Many businessmen depend on advertising agencies to endorse their products as they are professional organizations that arrange, create and set advertisements in various media at the least cost with a specialized hold.

1.2.4.5 IMPORTANCE AND GROWTH OF SERVICE SECTOR IN INDIAN ECONOMY

The services sector is the largest sector in India. The services sector accounts for 53.66% of total India's GVA (Gross Value Addition) of Rs. 137.51 lakh crore. The industrial sector is at the second place and contributing around 31% of the Indian GDP. The agriculture sector contributes 16% of the Indian GDP and is at the third place, the importance of services sector has been increasing continuously decade after decade. There is continuous expansion of services sector, both in terms of volume and diversity, the importance of services sector has been growing at a high speed. The following are some of the importance of services sector in Indian economy:

(i) CONTRIBUTION OF GDP: The share of total services sector in India‘s GDP (at constant prices), which comprises trade, hotels, transport, storage and communications, banking, insurance, real estate and personal services, but excluding construction increased from 28.5 per cent in 1950-51 to 31.8 per cent in 1970-71 and then finally in 2013-14 to 51.3 per cent. Thus it has been observed that the contribution of services sector into GDP of India has been increasing at significant percentage and thereby it has proved to be a major sector among all the three sectors of the economy.

(ii) HIGHER CAGR AND RAPID GROWTH OF SERVICES SECTOR: The CAGR (compound annual growth rate) of the services sector reached at 10.0 per cent for the period 2004-05 to higher than the 8.6 per cent in 2011-12, which clearly indicates that the growth of service sector more than industry and agriculture sectors that shows its domination among all three sectors of the economy in recent years. Such rapid growth of the service sector has resulted considerable changes in the GDP of the country. Moreover, the growth has been specifically noticeable in the public services, information technology and financial services.

(iii) HORIZONTALLY HIGHER SHARE OF SERVICES IN GSDP: The service sector has been contributing towards the gross state domestic product (GSDP) of different states and union territories (UTs) satisfactorily in recent years. Contribution of services in the GSDP of different states and union territories shows that the services sector is the dominating sector in most states of India. States and UTs such as Tripura, Nagaland, West Bengal, Mizoram, Maharashtra, Bihar, Tamil Nadu, Kerala, Delhi and Chandigarh have recorded a higher share of services sector to its GSDP. Chandigarh with an 85 per cent share and Delhi top the list with 81.8 per cent share.

(iv) EMPLOYMENT GENERATION OF SERVICES SECTOR: The service sector also be contributes towards generation of employment in India. Even though the primary sector (mainly agriculture) is the leading employer followed by the services sector, the share of services sector has been increasing over the years and that of the primary sector has been falling. According to National Sample Survey Organization (NSSO) report on Employment and Unemployment Situation in India in 2009-10, for every 1000 people employed in rural India, 679 people are employed in the agriculture sector, 241 in the services sector and 80 persons in the industrial sector. In urban part of India, 75 persons are employed in the agriculture, 683 persons in the services sector and 242 persons in the industrial sector. Important employment sources in service sector are hotels and restaurants and public administration, education and community services.

(v) CONTRIBUTION TO INDIA"S SERVICES TRADE: The services sector is also playing an important role sector in raising the volume of exports in the country. Thus India is moving towards a services oriented export growth in recent years. During 2004-05 to 2008-09 as per the Balance of Payment (BoP) data services exports grew by 22.2 and 25.3 per cent respectively. Also India‘s share of services exports in the world export of services increased from 0.6 per cent in 1990 to 1.0 per cent in 2000 and further to 3.3 per cent in 2011. Services growth slowed in 2009-10 because of the global recession, but the decline was less distinct than the slowdown export growth and has recovered rapidly in 2010-11. In terms of size, software is a major services export category, accounting for 41.7 per cent of total services exports in 2010-11.

(vi) CONTRIBUTION TOWARDS HUMAN DEVELOPMENT: Services sector has contributed a lot towards human development in our country. Accordingly, services sector has been providing some important services, viz., health services, educational facility, IT and IT enabled services (ITes), skill development, health tourism, sports, cultural services etc. which are largely responsible for human empowerment and upgrading quality of life of the people in general**.**

(vii) SERVICES SECTOR GROWTH AND FDI INFLOWS: Growth of services sector has made scope for the smooth inflow of FDI into the country. FDI also helps in the dynamic growth of the services sector. India has been largely considered as preferential destination for increasing flow of FDI. If the shares of some other services like hotels and tourism, trading, information and broadcasting, consultancy services, ports, agriculture services, hospital and diagnostic centers, education, air transport including air freights and retail trading are included then the total share of cumulative FDI inflows to the services sector would be around 58.4 per cent.

(viii) CONTRIBUTION TOWARDS DEVELOPMENT OF INFRASTRUCTURE AND COMMUNICATION SERVICES: Services sector has also been playing an important role in developing expanding and management of infrastructure highlighting development of transportation and communication services. In a developing country like India the importance of development of infrastructural facilities is quite high. The role of transport, storage and communication to the GDP at factor cost (at current prices) in India ranges from 8.2 per cent in 2006-07 to 7.1 per cent in 2011-12.

(ix) CONTRIBUTION TOWARDS GROWTH OF IT AND ITES: The services sector has also helps in continuous growth of its IT and IT enabled services (ITeS) sector and also helping the economy of the country to attain higher growth both in terms of GDP share, employment, exports etc. which has put India on the global map. The IT and ITeS industry has four major sub-components: IT services, business process outsourcing (BPO), engineering services and research and development (R&D), and software products. This IT and ITeS sector is making significant amount of revenues and employment in the economy. Percentage of national GDP, IT and ITeS sector revenues have grown significantly from 1.2 per cent in 1997-98 to an estimated 7.5 per cent in 2011-12.

(x) CONTRIBUTION TOWARDS DEVELOPMENT OF SOME SOCIAL SERVICES: Services sector is also playing a significant function in the development and growth of some social services like sports, cultural services etc. Sports promote physical fitness and develop human personality which also played an important role in national identity, community bonding and international bonding. Cultural activities or services include recreation and entertainment and radio and TV broadcasting and other related cultural services. To fulfill the objective of promoting all forms of art and culture, a variety of activities are being undertaken by the Government of India. A total provision of Rs 3,555 core was made to this sector during the Eleventh Plan. As per the report of Ernst and young, the Indian media and entertainment industry is valued at US $ 26 billion in 2011-14.

1.3 SMALL AND MEDIUM ENTERPRISES

Growth of Small business is important for the development of developing countries like India, it is considered as the ‗Backbone of the industry‘. Small business sector consisting of small scale units, cottage and rural industry promotes employment and production.
MSME‘s contribute to India's nearly 8% of the GDP, 45% of the manufacturing output, and approximately 40% of the country‘s exports. According to an annual report by the Government (2018-19), there are around 6,08,41,245 MSME‘s in India. Industrial units are classified into small scale, medium scale and large scale units, considering the size, capital resources and the number of labourers engaged.
After independence, small scale industries were defined by Industries Development and Regulation Act, 1951 as ―Any enterprise which employs not more than 50%, when using power, and 100, when not using power and with capital assets not exceeding Rs 5 lakhs.‖ These descriptions by small-scale industries have been transformed many times, now using the investment criterion in plant and machinery. Micro, Small and Medium Enterprises Development (MSMED) Act,2006 has provided the first legal outline for the identification of

the concept ―enterprise‖ and integrating the three tiers of three enterprises, viz. micro, small and medium. This Act classifies the enterprises as follows:-
MSMED Act 2006, categories the enterprises as
(i) Manufacturing and
(ii) providing/rendering of services that are classified into micro, small and medium enterprises.

1.3.1 INVESTMENT LIMITS

Revised Classification applicable w.e.f 1st July 2020			
Composite Criteria: Investment in Plant & Machinery/equipment and Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover ; not more than Rs. 5 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.10 crore and Annual Turnover ; not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment: Not more than Rs.50 crore and Annual Turnover ; not more than Rs. 250 crore

(Source: Ministry of Micro, Small and Medium Enterprises)

1.3.2 ADMINISTRATION SET UP FOR MSME

- **The Ministry of Small scale industries** make policies and guidelines for small scale industries which get observed by SIDO (Small Scale Development Organisation).
- **The Ministry of Agro and Rural Industries** formulates norms regarding village and Khadi industry. This ministry guides growth of tiny and micro industries in urban as well rural areas.

1.3.3 GOVERNMENT INSTITUTIONS TO PROMOTE MSME‟S

- **National Small Industries Corporation (NSIC)** established in 1955, to promote growth of small scale industries by providing required equipments on hire purchase basis, assisting in marketing. The mission of NSIC is *"To promote and support Micro, Small and Medium Enterprises by providing integrated support services encompassing, Marketing, Finance, Technology and other Services."*.The vision of NSIC is *"To be premier organization fostering the growth of Micro, Small and Medium Enterprises in the country."*

- **Khadi & Village Industries Commission (KVIC)** established under the Khadi and Village Industries Commission Act, 1956. KVIC is a statutory organization under the support of the Ministry of MSME. The main objectives of KVIC includes social objective to give employment in rural areas; The economic objective of manufacturing marketable articles; and the wider objective of generating self-reliance amongst people and building up a strong rural community strength.

- **Mahatma Gandhi Institute of Rural Industrialisation (MGIRI)** The existing Jamnalal Bajaj Central Research Institute (JBCRI), Wardha was renovated with the help of IIT, Delhi as a national level institute under the Ministry of MSME in October 2008 called Mahatma Gandhi Institute for Rural Industrialization (MGIRI). The main objectives of the institute as mentioned in its Memorandum of Association include speeding up rural industrialization for sustainable village economy, to attach professionals and experts to Gram Swaraj, Empowerment of traditional artisans, Innovation through pilot study/field experiments, R&D for substitute technology using local resources

- **District Industries Centre (DICs)** formulated in 1978 to administrate and apply projects formulated by the state government for promotion and development of SSI. DIC‘s primary focus is to generate employment in rural regions of India. District Industries Centres are managed and controlled at district level to provide all the essential support services to entrepreneurs or start-ups to start their own Micro Small and Medium Enterprises (MSMEs). DICs also support Registration and Development of Industrial Cooperatives.

- **National Institute for Micro Small and Medium Enterprise (NIMSME)** This was originally set up as Central Industrial Extension Training Institute (CIETI) in New Delhi in 1960 under the then Ministry of Industry and Commerce, Government of India then was shifted to Hyderabad in 1962 as a registered society in the name of Small Industry Extension Training Institute (SIET). After passing MSMED Act, 2006, the Institute stretched focus of its objectives and re-designed its organization structure. In line with the new Act, the Institute was named as National Institute for Micro, Small and Medium Enterprises (NIMSME). The primary Objectives of NIMSME was to give training of trainers. Today, with the technological development and ever-changing market scenario, the organization‘s involvement has undergone changes too. From being merely trainers, NIMSME has extended its scope of activities to consultancy, research, extension and information services.

- **National Bank for Agriculture and Rural Development (NABARD)** was established in 1982 as a Development bank to regulate rural entrepreneurs and integrate rural development. NABARD also works as a representative of the government for the development of rural areas.

- **Rural and Women Entrepreneurship Development (RWED)** works to encourage and provide training to women in rural areas to create entrepreneurship. This enhances the human and institutional capability to improve production of small industries.

- **The Rural Small Business Development Centre (RSBDC)** is sponsored by NABARD. It works economically backward category of people and mange MSMEs in rural areas. It provides workshops, counselling camps in villages and training to unemployed youth and women in various trades e.g. food processing, candle making, vermicompost, etc.

Punjab has a strong base of close to 1.6 lac MSME. To address challenges being faced by the MSMEs the State would set up _MSME Punjab‘, as part of the Punjab Industrial and

Business Development Authority to focus on the development of MSMEs. In order to make the functioning of the Council effective, the State will also set up MSME Facilitation Councils under the Chairmanship of respective Deputy Commissioners at Ludhiana, Jalandhar, Amritsar, SAS Nagar and Patiala by designating them as Director for providing effective services to MSE units at district level.
(Source: Ministry of State Industries, Punjab)

1.3.4 <u>REASONS FOR THE GROWTH OF MSME"S</u>

The reasons for the growth of MSMS's is discussed as follows:

- **Schemes** like Skill India, Startup India, Digital India and Make in India which helps MSME to enhanced productivity.
- **Digitization**: Digitalization is when you use digital technologies to modify a business model and make available new revenue and value-producing opportunities. Increase of internet access, customer's adaptation with digital payments fuelled by B2C ecommerce players helped MSME sector expansion.
- **Collaborations with new-age non-banking finance (FinTech) companies** were allowed access to timely security free funding to MSMEs.
- **Changing service patterns:** Shifting of population from agriculture towards entrepreneurial sector because of creating job opportunities.

1.3.5 <u>CATEGORIZATION OF SMALL BUSINESS</u>

On the basis of capital invested small business unit is divided into various types as follows:

(1) **SMALL SCALE INDUSTRY CLASSIFIED BEFORE THE YEAR 2006**:- Prior to MSME act implementation, the small scale industries were those in which

- Investment in fixed assets of machinery and plant was upto one crore.
- Industries working towards modernization, export improvement and expenditure maximum five crores in machinery and plant.

(2) **EXPORT ORIENTED UNITS** (EOUs) is one of its exports that go above 50 percent of its annual productions or manufacturing and having maximum investment of 1 crore.

(3) **ANCILLARY SMALL INDUSTRIAL UNIT:** Industries can hold the status of a small ancillary industry if the supplies are minimum 50 per cent of production, tools, or any other intermediate product to its parent unit.

(4) **TINY INDUSTRIAL UNITS**: are those where the industry or company expenditure on machinery and plant have maximum investment Rs. 25 lakhs.

(5) **Small Scale Service and Business:** Industries having fixed asset financing on machinery and plant except land and building exceeding Rs. 10 lakhs are small scale service and business enterprises.

(6) **SMALL SCALE INDUSTRIES OWNED BY WOMEN:** These units can get suitable grants from the government, with low-interest rates on loans, and other benefits are available for industries operated by women entrepreneurs and them alone or jointly having share capital minimum of 51 percent.

(7) **VILLAGE INDUSTRIES**: These are the Industries placed in rural areas that produce any product or carry out any service with or without the use of power with fixed investments on capital maximum of Rs.50,000.

(8) **MICRO BUSINESS**: enterprise where the investment in machinery and plant should not exceed Rs.1 lakh.

(9) **COTTAGE INDUSTRIES**: They are traditional or rural industries and capital limit is not defined in this industry. Features of cottage industry are:

- They use local available resources.
- Family and locally available people are employed in this industry.
- Capital invested is usually less.
- Products produced are simple.
- Local available Technology is utilized.

(10) **SMALL-SCALE SERVICE AND BUSINESS (INDUSTRY RELATED) ENTERPRISES (SSSBE)** are those where the investment limit in fixed assets of plant and machinery has to be limited within Rs. 10 lakhs. Some examples are that of a beauty parlour, a marketing and advertising consultancy, an industrial testing laboratory, garages and auto repair, dry cleaning, a photocopying centre or a Xeroxing centre.

1.3.6 HIGHLIGHTING FEATURES OF MSME‟S

1. There was provision of Collateral Free Loans to MSME's.
2. An arrangement of Rs. 3 lakh crores loan to MSME's.
3. An offer for MSME's to get a suspension period of 12 months.
4. Consideration of Manufacturing and Service MSME's as the same entities.
5. MSME's are approved with reimbursement term of 48 months.
6. MSME'sare guaranteed by 100% Credit Guarantee.
7. Reclassification of MSME's will benefit about 45 Lac units.

1.3.7 IMPORTANCE OF MSME'S FOR THE INDIAN ECONOMY

MSME‘s promote economic growth and equitable development. MSME‘s have taken India to new achievements through low investment, flexible operations, and the capability to develop a suitable local technology. The importance of MSME‘s for the Indian economy has been described as follows:

1. MSME‘s provides employment opportunities to around 120 million persons, the second-largest employment providing sector after agriculture.
2. MSME‘s contributes about 6.11% of GDP from manufacturing and 24.63% of the GDP from service activities from about 45,00,000 units all over the nation.
3. India tends to become a $5 trillion economy therefore MSME ministry targets to increase its role towards GDP by up to 50% by 2025.
4. MSME‘s Contribution is around 45% of overall Indian exports
5. MSME‘s promote comprehensive growth by giving employment opportunities to people from weaker sections of the society in rural areas.
6. MSME‘s in tier-2 and tier-3 cities facilitate creating opportunities for people to utilize banking services and products, which can amount to the final insertion of the contribution of MSME‘s for the economy.

7. MSME‘s promote improvement by providing an opportunity to growing entrepreneurs to help them make innovative products and thereby increase competition in business and increase the growth.

The Indian MSME‘s acts as a defence against global economic shock and acts as the backbone of Indian economy.

1.3.8 ROLE OF SMALL AND MEDIUM BUSINESS IN INDIA

Small and medium industries have been playing an important role in India's economy in terms of employment generation and growth. It is estimated that small scale sectors have been contributing about 40% of the gross value of output produced in the manufacturing sector and the generation of employment by the small scale sector more than five times that of large scale factors. Following are the some of the important points to describe the role played by business in India

1. **EMPLOYMENT GENERATION**: Small industries cover almost 95% of the total industrial sector. These industries use labour intensive technology and in India small industries are 2^{nd} largest employment providing units. Traditional artisans and the weaker sections of society get employment because of rural and cottage industries in villages.

2. **EFFICIENT USE OF RESOURCES**: Small scale industries have the capability to reduce wastage and produce more from limited resources. MSME‘s can produce worth Rs.4 million from Rs.1 million of capital.

3. **PROMOTES EQUAL DISTRIBUTION OF NATIONAL INCOME**: Industrialization in rural areas promotes growth of that area and leads to rise in their income. Small scale industries use locally available resources therefore; it is easy to set without any constraint.

4. **PROMOTES EXPORTS OF THE COUNTRY:** Almost 50% of Indian export is by small scale industrial units that includes readymade garments, sports goods etc.

5. **REDUCTION OF PRESSURE ON AGRICULTURE**: SSI provides additional income in rural areas. This provides multiple sources of income along with agriculture and attracts people to do non-agriculture activities.

6. **USE OF LOCALS RESOURCES**: SSI uses local raw materials which are easily available at economical cost. This reduces the cost of production and helps to compete in the market.

7. **BASE FOR LARGE SCALE INDUSTRIES**: SSI produces many goods which can be used as raw material for heavy industries. So, small scale industries provide a base and help to grow the industrial sector.

1.4 PROBLEMS FACED BY INDIAN BUSINESS SECTOR

In World Bank‘s Ease of Doing Business Report 2018 India‘s rank is 100th. Even though India is making development in ease of doing business, still there are many hurdles faced by the corporate sector in India. Some of these are:

1. **DELAY BECAUSE OF REGULATORY PROCEDURE:** lengthy procedure because of too many regulatory measures applied by the Government on the private sector results in delays to get clearance for new industrial project.

2. **GOVERNMENT RESTRICTIONS:** Government has imposed price controls on certain goods of the private sector that discourages increased production. Black marketing and hoarding of commodities is the outcome of Price controls, dual pricing etc.

3. **INADEQUATE DIVERSIFICATION:** Government did not allow private sector to participate in basic, heavy and infrastructural sectors like defence and railways which were earlier reserved for the public sector.

4. **LACK OF FINANCE AND CREDIT:** The small scale units are facing severe trouble in raising fund for their expansion even though the large scale industrial corporate units of the private sector are mobilizing their fund from banks, development financial institutions and from the market by the sale of their equities or debentures. Further increase in NPA has led to decrease in credit for the private sector.

5. **TEDIOUS PROCEDURE OF STARTING A BUSINESS IN INDIA:** It can take months to complete all the required procedures to start a business in India with fees and all the cost that depends on the size and type of business.

6. **POOR IMPLEMENTATION OF LAW:** According to Companies Act 2013 a modular law to the Indian economy was introduced but was not implementation due to rigid provisions.

7. **LAND ACQUISITION ISSUE:** Land acquisition remains complex, because of the difficulties in establishing legal ownership. There is much litigation due to inheritance, fragmented holdings, and demands by sellers to be paid in cash.

8. **ELECTRICITY:** Power is vital for the manufacturing sector and service sectors but demand of power is currently more than supply provided there is Inefficient coal linkage due to which there is huge losses to the private power generating companies. Spending on research and development of renewable and transmission technology is low.

9. **INFRASTRUCTURE:** Infrastructural development, boosting road transport, power generation, and modernizing state-owned railways is vital for growth of industry. Any damage to infrastructure poses a challenge to hinder distribution and logistics.

10. **EXPORTS AND IMPORTS CHALLENGES:** There are still various hurdles to importing and exporting goods despite various government efforts. Exporters and investors face non transparent and often unpredictable regulatory and tariff regimes, bureaucracy that makes it challenging to move goods efficiently. Companies have to file a lengthy record of documents before moving products across borders.

11. **SKILL GAP IN INDIA:** A skills gap is a gap between the skills an employee possess and the skills he or she actually required to perform a job well. The study shows that 92% of employees in India believe that there is a skills gap in the country and around two-thirds (76%) of them feel they have been personally impacted by such a skills gap, finds the 2019-2020 Global Skills Gap Report by global e-learning company Udemy. Employment laws in India are complex and it is very difficult to find accurate skill. At present, there is a huge variety of laws which need to be upgraded.

1.5 GOVERNMENT POLICIES TO ENCOURAGE INDIAN BUSINESS

1. ATAL INCUBATION CENTRE (AIC)

Atal Incubation Centre is a funding scheme that was initiated in the year 2016. Under this approved business ventures can avail up to Rs. 10 crore over a five-year term as this aims at supporting entrepreneurs by covering their operating costs of capital. Atal Incubation Centre allows researchers, students, and startup owners to get benefit of the scheme across different sectors. The entrepreneurs offered to set their company as a Public-private partnership, Public organizations, or a completely private organization having space of around 10,000 sq. ft. and should set up the physical infrastructure within six months of pay out of financial support.

2. MSME"S BUSINESS LOANS IN 59 MINUTES

This program was introduced in the year 2018 by the Government of India and become the most discussed scheme. This scheme was introduced to provide financial assistance of upto one crore loan within 59 minutes to micro, small, and medium enterprises if eligibility fulfills. A majority of the public sector banks become part of this scheme.

3. NATIONAL SMALL INDUSTRIES CORPORATION SUBSIDY

Two forms of financial benefits were offered by NSIC subsidy for small businesses: Raw Material and Assistance and Marketing Assistance. Raw Material Assistance helps to purchase raw materials from abroad and from India. Marketing Assistance, helps to increase the sales of products and services with a well-organized selling procedure. The program came into force to provide loans to SME‘s who need for growth or rapid growth.

4. MSME MARKET DEVELOPMENT PROGRAM

This helps to provide market extension help to micro, small, and medium enterprises using worldwide events, trade fairs, and road shows. To apply under this programme startup organization need to be registered under District Industries Centre under which the to and fro travelling expenses half of the accommodation charges and ¾ amount of the participation charges will be on the government for participating in global exhibitions.

5. MUDRA LOANS

MUDRA loans scheme was initiated by the government of India for providing business finance for micro-business units with the single motive of ‗paying the unfunded‘. Since most of the time, the small-medium enterprises suffer from shortage of funds, the government started this program to support involvement and increase of the startups across different sectors like trading, manufacturing, services, etc.

6. SWAROJGAR CREDIT CARD

Swarojgar Credit Card aims to provide loans to small-time businessmen like fisherman, homemakers, travel operators, shopkeepers, etc. of Rs. 25000 in terms of credit card services. Passbook is provided to maintain check of the financial transactions. The card validity for five years and can be renewed upon satisfactory results from the initial investments.

7. COIR UDYAMI YOJANA

The objective of this scheme is to build coir units throughout India. This Coir Board oversees this system which provides financial help up to Rs. 10 lakh to qualified units. However, the credit value should not go beyond one-quarter of the project value. Individual entrepreneurs, joint ventures, private institutions, the public-private enterprises can avail of benefits under this scheme.

8. REFINANCING BY NABARD

This program launched by NABARD aims to provide growth to rural enterprises based in diverse areas by focusing on providing refinancing facilities to lending institutions in agricultural areas. Benefitted institutions were various handicraft, manufacturing industries, rural institutions, agricultural setups.

9. THE WOMEN ENTREPRENEURSHIP PLATFORM

The Government of India introduced the Woman Entrepreneurship Platform to promote women‘s entrepreneurship initiated by NITI Aayog aims to boost the morale of young woman entrepreneurs. This scheme has got three divisions: Gyaan, Iccha, and Karma Shakti.

- Iccha Shakti aims to motivate women to start business.
- Gyaan Shakti offers an encouraging environment for setting up a business.
- Karma Shakti provides skills to women entrepreneurs to start their own business or scale them up.

Any form of the organization - be it NGO, Corporations, and associations - led by women entrepreneurs can take advantage of this program. This also benefits mentoring, credit score improvement, and tie-up with corporate, etc.

10. STREE SHAKTI PACKAGE

Branches of State Bank of India (SBI) providing Stree Shakti Package in India and focuses on promoting women in business with a business loan. The biggest advantage of this startup business loan scheme for women is that it offers loans up to Rs. 5 lakh with no collateral. In addition, some concessions given by the bank, such as reduced interest rate if the loan exceeds Rs. 2 lakh. But the main negative aspect of this loan is that it is only for women who hold a 51% or greater share in the business.

11. VENTURE CAPITAL SCHEME

This Venture Capital Scheme is a program by the Small Farmers Agribusiness Consortium aims to improve agricultural production. Under this program, the Small Farmers Agribusiness Consortium helps in the improvement of agriculture and development in the marketing of agricultural products. The eligible limit decided for this program is the minimum value of the business should be 50 lakhs.

12. END TO END ENERGY EFFICIENCY SCHEME

The End to End Energy Efficiency scheme was launched in the year 2016 initiated by SIDBI in alliance with the Government of India. Any micro, small, or medium enterprise that is in the business for 3 years and earning returns for two years can gain the benefits under this scheme. Energy-efficient units that need to do an energy audit through an auditor affiliated with the Bureau of Energy Efficiency are supported under this scheme.

13. CREDIT LINK CAPITAL SUBSIDY SCHEME

This scheme helps small-medium enterprises to improve their productivity through technological advancement related to the business, such as sales, marketing, delivery system etc. The Government of India initiated the Credit Link Capital Subsidy Scheme to reduce the cost of production for SMEs, thus allowing them to be in competition with other enterprises in local and foreign markets.

14. STANDUP INDIA

The GOI started the Standup India program in the year 2016 with the sole aim of promoting entrepreneurship among women and scheduled castes and tribes and startup cultures in India. Stand-Up India Scheme provided bank loans between Rs 10 lakh and Rs 1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a Greenfield enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be controlled by either an SC/ST or woman entrepreneur.

1.6 ANSWER TO CHECK YOUR PROGRESS

1.6.1 WRITE A SHORT NOTE ON THE FOLLOWING:

1. Categories of MSME‘s
2. MUDRA scheme
3. Women Entrepreneurship platform
4. MSME‘s
5. NABARD
6. NIMSME
7. NSIC

1.6.2 LONG ANSWER TYPE QUESTIONS

1. Explain human activities? list its two types?
2. Explain the service sector and its features.
3. Elaborate the initiatives taken by the government to encourage Indian business.
4. State the differences among business, profession and employment.
5. Discuss the problems faced in Indian Business.
6. What are Micro small and medium size enterprises (MSME‘s)? State the benefits of registration as MSME or Udyog Aadhar
7. Explain the role of major Industries in the development of Indian economy.
8. Describe the impact and growth of service sector on the Indian Economy.

UNIT II - INNOVATION AND SKILL DEVELOPMENT

STRUCTURE

2.0 OBJECTIVES

The study of this unit will help you to answer:

- The concept of technology and innovation,
- Different types of innovation,
- The various government initiatives for skill development,
- Make In India movement,
- The concept of corporate social responsibility in India,
- The concept of business ethics,
- That how do emerging opportunities play an important role in enhancing business,
- The concept of Franchising, outsourcing and E-Commerce.

2.1 TECHNOLOGY

Technology refers to the application of skills, scientific knowledge and ideas to the production or improvement of goods and services. A technical means used like machines, knowledge and tries to find ways and means by which these can interact with the society and environment in general.

The technology is defined as a system, not only as artifacts or processes but In broad terms, five specific components such as tools, materials, energy forms, techniques and organization of work are included in technology.

2.2 INNOVATION

Innovation in simple words is "new idea, creative thoughts, and new imaginations in the form of mechanism or technique". Innovation refers to the application of better solutions that meet the changing needs. Thus Innovation involves application of information, thoughts and schemes in deriving better results from available resources by which new ideas are created and transformed into constructive products.

There are many ideas which have been used for centuries and can be revised from time to time with a new thought process and more flexibility. For example of a toothbrush. Our ancestors used neem sticks (datoon) for cleaning their teeth. The ‗idea‘ was to clean teeth and over the period has evolved into a toothbrush. Now that tooth brush evolved into a form of battery operated toothbrushes where there is no need to manually clean the teeth. If we understand the whole process, we find that at different ages and at different stages the same idea is used in different innovative ways.

According to business dictionary ‗Innovation is the process of translating an idea or invention into a good or service that creates value for which customers will pay‘ (business dictionary.com).

An idea can only be called an innovation when it is replicable, economical and satisfies a specific need e.g. nasofilters. Nasofilters is an economical respiratory nasal filter that sticks to your nose and prevents entry of harmful air/pollutants.

Technology and innovation when combined together lead to technological innovation. The basic purpose of technology management is to implement the technology and launch products in the market, e.g. agricultural produce like harvesting use technology. Life saving drugs introduced using technology is another example of technological innovation. Technological innovation is a part of the total innovation concept. Technological innovation therefore, has the following features:

- Generation or creation of new idea which is based on technology, capability or knowledge (invention);
- Here idea is developed into a reality which leads to building of a product (realisation);
- Implement the new idea is the most important (implementation)

To summarise, the working definition of technological innovation is to create or produce a new product for a real or perceived need which is viable and can be produced then introduced in the market.

2.2.1 PROCESS OF INNOVATION

The process of innovation has five basic steps. These steps are follows:

1) **IDEA GENERATION AND MOBILISATION**: The very first step of the process of innovation focuses on generating an idea or can be created to improve an existing idea.

Example: After the introduction of MP3 players Apple. Apple inc. waited for three years to introduce the iPod. At this step the customers, employees, public at large and supplier innovation are considered.

2) **ADVOCACY AND SCREENING**: The second step involves screening of ideas. All the ideas generated in the first step are considered and a detailed study is conducted on each one of them to choose the best out of it. The idea with maximum opportunity and also having a futuristic outlook is chosen by advocacy.

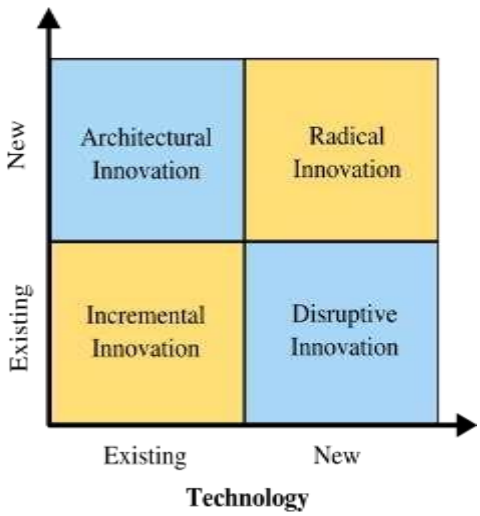
3) **EXPERIMENTATION**: This is the testing stage where the selected ideas are examined in the targeted market by continuous or in phases, here the advocates and screeners can reevaluate the idea. Here the most important factor is time. Example is Amazon. Amazon in 2007 came up with the initial idea of launching grocery delivery service and it tested the experiment in the suburbs of Seattle. When it ensured success then it launched it in other parts of the country.

4) **COMMERCIALISATION:** Next step is to commercialize the innovation and the main aim of this step is to create a market value for the idea and focus on its potential impact. The need is to choose the best time to bring the idea to the market among the customers.The product can be launched in the target market only when it is upto the demands of the customers.

5) **DIFFUSION AND IMPLEMENTATION**: Two stages are involved here i.e. diffusion and implementation. Diffusion is the stage where an organisation accepts the innovative product and implementation is the stage when the idea is developed or produced. If the above steps are applied along with proper resources, the innovation will be successfully launched in the market.

2.2.2 TYPES OF INNOVATION

Innovation can be broken down into two dimensions. Technology and Market and based on these two dimensions there are the following four types of innovation.



1) **INCREMENTAL INNOVATION**: Here the existing technology is utilized thereby increasing the value to the customer. Usually at one point of time all types of organisations engage in incremental innovation. For example Facebook. This social network company since its foundation in 2004 has used incremental innovation in different forms.

2) **DISRUPTIVE INNOVATION**: This type of innovation is also known as secret innovation. In this innovation new technology processes the organisation's current market. It is secretive in nature as this technology makes existing technology inferior in the existing market and is more expensive. The new technology initially is quite hard to use till it exceeds the old technology and outdate all existing organisations. In this case the organisation going in for new technology gains a competitive advantage. Apple‘s iPhone is an example of disruptive innovation wherein it disrupted the mobile phone market.

3) **ARCHITECTURAL INNOVATION**: This type of innovation takes the lessons, skills and overall technology and applies the same in the different markets. Organisations in

computer business like IBM, Dell etc have been using existing technologies with little modification to suit the design. This type of innovation is less risky.

4) **RADICAL INNOVATION**: This is the type of innovation in which existing technology fails and new technology is introduced in the market , it is also known as revolutionary innovation. Radical change consumes the existing technology. This is a very risky innovation.
Example: Nano cars by TATA use such components and material that reduce the cost of building a car. Another example is Netflix that entered the home entertainment industry and proved a radical change. Apple phones achieved a radical innovation that transformed the digital communications industry by applying its core competencies (technology) to a future goal (hand-held computers).

2.3 SKILL DEVELOPMENT

Skill India is an initiative by the Ministry of Skill Development and Entrepreneurship (MSDE), Government of India (www.msde.gov.in) launched to empower the youth of the country which looks after the skill India Kaushal Bharat programme. The aim of such initiative is to fulfil the needs of 65% youth of the country. Under this programme around 40 courses in various sectors across the country were offered.

2.3.1 SKILL DEVELOPMENT INITIATIVES

New skills offered to the youth under various courses offered by it were in the area of big analytics, Artificial intelligence, Internet of things, 3D printing etc. Skill India Mission resulted in national policy on Skill Development and Entrepreneurship 2015 and National Skill Development Policy 2009. The National Skill Development Mission‘s main focus is on developing the skills of the 500 million youth of the country by 2020. This programme still holds prospects for the youth of the country. The main initiatives of the MSDE are as follows**: -**

PRADHAN MANRI KAUSHAL VIKAS YOJNA (PMKVY): This is the largest flagship skill certification scheme in India for skill training of MSDE. There is also recognizes and certification of skills acquired through informal training centres through its Recognition of Prior Learning (RPL) programmes under PMKVY.

NATIONAL APPRENTICESHIP PROMOTION SCHEME (NAPS): This scheme was launched in 2016 which focused on promoting apprenticeship training.

DUAL SYSTEM OF TRAINING: This scheme provides an opportunity for training in dual mode i.e. through face-to-face teaching (ITI) and in industries in order to increase the employability of the trainees.

SPACE BASED DISTANCE LEARNING PROGRAMME (SDLP) FOR MSDE: This programme aims at providing the vocational training facilities to the youth.

NATIONAL SKILL DEVELOPMENT CORPORATION (NSDC)
The National Skill Development Corporation (NSDC) was set up as a part of National Skill Development Mission of MSDE as a public private partnership company with the aim of NSDC to facilitate the skills landscape in India. NSDC‘s concept is based on three pillars:
1) **CREATE**: Establishment of quality vocational training institutions is facilitated.
2) **FUND:** Grants and equality funds were being provided.

3) **ENABLE:** The support systems required for skill development was ensured which includes industry operated sector skill councils (SSCS).

Many more informal skill based training programmes are offered by the government to provide a knowledge base to the people and equip them for skill based jobs. Also MSDE is making efforts to collaborate with various countries in the areas of skill development and entrepreneurship.

2.4 MAKE IN INDIA MOVEMENT

‗Make in India‘ programme was initiated by Prime Minister of India Sh.Narendra Modidated 24thSeptember, 2014 on the occasion of 68th Independence Day in New Delhi. The main motive behind this programme was to motivate the manufacturing sector and make India a global manufacturing hub. Manufacturing sector has capability to create more jobs as compared to any other sectors but it was showing negative growth at times. The main reason behind the growth of China is mainly the growth of the manufacturing sector.

To make this a successful move, the PM of India arranged a meeting with the top 40 CEOs of several fortune 500 companies to attract them to india. ‗Invest India‘(Unit of commerce Ministry) has been set up to guide all the top foreign investors in terms of regulatory and policy issues.

2.4.1 SCHEMES UNDER MAKE IN INDIA

Several schemes launched to support the Make in India programme were:

1. **SKILL INDIA:** In India skilled workforce was only 2% of the total population so the need arose to inculcate skills in human resource. The Skill India campaign was initiated by Prime Minister Narendra Modi on 15 July 2015 aimed to train over 40 crore people in India in different skills by 2022.

- Features of the Skill India Mission:

A. To focus is on providing employability to the youth and also improve entrepreneurship skills among them.
B. Under this scheme training, guidance, and support for all traditional types of employment like weavers, cobblers, carpenters, welders, masons, blacksmiths, nurses, etc is provided.
C. New areas will also be emphasised such as real estate, transportation, construction, gem industry, textiles, banking, jewellery designing, tourism, and other sectors where the level of skill is inadequate.
D. An important feature is the creation of a new scheme launched under this ‗Rural India Skill‘
E. Customised programmes on the bases of skills would be started for specific age groups in communication, life, and positive thinking skills, language skills, behavioural skills, management skills, etc.

2. **STARTUP INDIA:** This scheme mainly aims to encourage new startups which will create large scale employment in India. Under this programme financing was provided to new potential startup plans. Startup India scheme is government scheme that was launched on 16th January 2016 with an aim to support and encourage the start-ups in India by making available bank finances. It was established by the earlier finance minister, Arun Jaitley under the Department for promotion of industry and internal trade, the major objective of Startup India is to remove some of the restraining States Government policies which include:

A. License Raj
B. Land Permissions

C. Foreign Investment Proposals
D. Environmental Clearances

The Startup India scheme is based majorly on three pillars which are mentioned below:

- Providing financing support and incentives to the various start-ups of the country.
- To provide Industry Academia Partnership and Incubation (The Industry-Academia Partnership (IAP) is an association that promotes R&D and innovation by bringing together industry and university partners in pursuit of timely themes in applications**)**

According to state ranking by startup 2019, Best performer states were Gujarat, Andaman and Nicobar Islands.

3. **DIGITAL INDIA:** This scheme aimed to convert India into a knowledge-based and digitally empowered economy. Digital India scheme was launched on 1st July 2015 by the Government of India for providing high-speed internet networks to rural areas.

➢ Digital India Initiatives: Initiatives started by the Government under the Digital India campaign are as below:
    - **DIGI LOCKERS:** This initiative was to Digitally Empower citizens by providing access to authentic digital documents by digital document wallet.
    - **E-HOSPITALS:** It is a Hospital Management Information System (HMIS) which provides platform for patients to communicate with doctors.Till February 2021, 420 e-Hospitals had been registered under this campaign,
    - **E-PATHSHALA:** E-Pathshala Provides all educational e-resources including textbooks, audio, video, periodicals and a variety of other print and non-print materials through the website and development of mobile app NCERT.
    - **BHIM:** Bharat Interface for Money is an app for simple, easy and quick payment transactions using Unified Payments Interface (UPI).

4. **PRADHAN MANTRI JAN DHAN YOJANA (PMJDY):** The mission focuses on financial steps to ensure access to financial services, namely banking savings & deposit accounts, remittances, credit, insurance, pension in an affordable manner.

5. **SMART CITIES:** This mission aims to make major changes and rejuvenate Indian cities. The goal is to establish 100 smart cities in India. In any country infrastructure is the vital consideration to attract FDI. By developing cities into Smart cities it will provide a strong base for investment. In punjab there are 3 smart cities: ludhiana, Jalandar, Amritsar.

6. **AMRUT:** Atal Mission for Rejuvenation and Urban Transformation which focuses to build basic public amenities and to increase living standards of 500 cities in India.

7. **SWACHH BHARAT ABHIYAN:** This is a mission aimed at making India more neat and clean, this also promoted basic sanitation and hygiene facilities.

8. **SAGARMALA:** This scheme focused on the development of ports and promoting port-led development in the country.

9. **INTERNATIONAL SOLAR ALLIANCE (ISA):** he ISA is an alliance of 121 countries initiated by India, where most of them being sunlight abundant countries, lie either completely or partly between the Tropic of Cancer and the Tropic of Capricorn. This alliance aimed at promoting research and development in solar technologies.

10. **AGNII:** Accelerating Growth of New India‘s Innovation was launched to push the innovation environment in the country by joining people and assisting in commercializing innovations.

2.4.2 OBJECTIVES OF MAKE IN INDIA

There are several targets aimed by the Make in India mission. They are:

1. Increase in growth of manufacturing sector 12-14% per year.
2. Creation of 100 million additional job opportunities in the manufacturing sector by 2022.
3. Rise in the manufacturing sector‘s share in the GDP to 25% by 2022.
4. Inculcating required skill among the urban poor and the rural migrants to promote inclusive growth.
5. Promote the domestic value addition and technological depth in the manufacturing sector.
6. Encourage an environmentally friendly sustainable growth.
7. Promote the global competitiveness of the Indian manufacturing sector.

2.4.3 STEPS REQUIRED FOR THE SUCCESS OF MAKE IN INDIA

According to the CII-BCG manufacturing Leadership Survey 2014, 44% CEOs feel highly confident in the _Make in India‘ campaign. There was a need for bold and sustained measures by the both public and private sectors. India needs to take a well planned and structured approach in order to achieve a manufacturing led transformation. There is a need to take steps in the following areas:

1. REVIVE MANUFACTURING

India needs to develop the manufacturing sector to increase the growth of the economy and for creation of employment opportunities for the huge unemployed population of the country. In order to revive manufacturing, following steps will be required:

- Development of proper Infrastructure.
- Encouraging Labour Reforms.
- Promote Ease in Doing Business.

2. GAIN GLOBAL COMPETITIVENESS

There was a need to compete in the manufacturing sector in the global market which was possible only when quality of products fulfilled international standards and prices offered are competitive. China entered the world markets because of low priced products and good quality products. There was a need to bring efficiency and effectiveness in manufacturing processes, wastage need to be controlled, latest technology need to be used to create output, control over various costs, simplification of export processes etc. For gaining global competitiveness, following steps will be required:

- Need to Create an Export Ecosystem.
- Development of Infrastructure that Supports Export Growth.
- Encouragement of Small and Medium Enterprises.
- Attractive policies to gain Investments.

3. CLAIM GLOBAL LEADERSHIP

Global leadership is required to survive in the competitive world. It is possible only when policies are made to revive manufacturing and promote competitiveness driven across the key sectors.

2.5 SOCIAL RESPONSIBILITY

The only aim of business is no more ‗profit maximization' only. It is the responsibility of business to help society in overcoming social problems even at the cost of reducing its profits because businesses earn profit from society as it is the society consisting of workers and consumers. In today's world the interest of stakeholders, community and environment must be protected and supported.

A widely quoted definition by the World Business Council for sustainable development states that ―Corporate social responsibility is the 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‖. (‗Making Good Business Sense' by Lord Holmes and Richard Watts).

2.5.1 EXAMPLES OF CORPORATE SOCIAL RESPONSIBILITY

All the business organisations need to perform corporate social responsibility. Some of the examples of companies are as below:

1. **JOHNSON & JOHNSON:** This brand focuses on reduction of impact on environment by investing in various kinds of energy sources and also works to provide clean, safe water to communities.

2. **STARBUCKS:** This is a global coffee chain which initiated a socially responsible hiring process i.e. more veterans, young people looking to start their careers, and refugees to diversify their workforce.

3. **GOOGLE:** Google has showed its commitment to the environment by investing in renewable energy sources and sustainable offices.

4. **VARDHMAN TEXTILES LIMITED**: This company promotes education by establishing schools, colleges to deliver high quality of education to students. Vardhman is also encouraging development of human capital by conducting skill development, vocational training programmers. Vardhman group has two charitable trusts, Smt.Banarso Devi Oswal public Charitable Trust and Sri Aurobindo Socio-Economic and Management Research Institute.

5. **TRIDENT GROUP**: Company is making initiatives to improve workplace safety and gender equality. Hastkala initiative and Saksham initiative taken by company to help various self-help groups of women in tribal areas give employment to 20 differently abled people to bring them equal to the mainstream of society. This company has also tied up with a medical dispensary at CMC Ludhiana which has benefited more than 46000 people.

2.5.2 VARIOUS SOCIAL RESPONSIBILITIES

There are various social responsibilities of an organization, some of them are discussed as follows:

1. ENVIRONMENTAL RESPONSIBILITY: Environmental responsibility initiatives aim at reducing pollution and greenhouse gas emissions. It is the responsibility of an industry to make sustainable use of natural resources and to preserve them for future.

2. HUMAN RIGHTS RESPONSIBILITY: Human rights responsibility initiatives involve providing fair labor, practices e.g., equal pay for equal work. Fair trade practices should be used, consumers should not be cheated and disavowing child labor.

3. PHILANTHROPIC RESPONSIBILITY: Philanthropic responsibility can include things such as funding educational programs, supporting health initiatives, donating to causes, and supporting community beautification projects.

4. ECONOMIC RESPONSIBILITY: Economic responsibility initiatives involve improving the firm‘s business operation while participating in sustainable practices – for example, using a new manufacturing process to minimize wastage.
Earlier performing social responsibility was not that much important but today due to government interventions and market forces it has become important to survive in society.

2.5.3 SOCIAL ISSUES FOR BUSINESS

Various thinkers have specified that business does not operate only to promote and protect its own interest but has to do something for the society on which it is fully dependent. Some social issues need business attention are as follows**:**

1. There should be no discrimination in employment.
2. Business should support educational institutions.
3. Business should contribute some of its profit for charitable causes.
4. Products that cause harm to plants and animals should not be produced.

2.5.4 ARGUMENTS FOR SOCIAL RESPONSIBILITY

A business should not only fulfill its own interests but should also pay attention towards the social needs such as unemployment, environment, pollution, educational backwardness, lack of medical facilities etc. The following are the arguments that will support the involvement of business in social activities**:**

1. **STRONGER BRAND IMAGE, RECOGNITION, AND REPUTATION**: CSR activities adds value to firms by establishing and maintaining goodwill in society and helps to create brand equity.
2. **INCREASE IN CUSTOMER LOYALTY**: Customers will be more loyal to a firm that is indulging in CSR activities as customers will have a good image of business contributing for the society. Using word of mouth loyal customers will promote in the market that will boost sales and profits.
3. **RETENTION OF TALENTED EMPLOYEES:** Employee turnover and absenteeism will be less and they will be more committed to their firm as they know business is working for CSR practices. This also increases the motivation among employees working in the organisation.
4. **EASIER ACCESS TO FUNDING:** Business firms practicing CSR activities will not find much difficulty in arranging funds from the investors as they will have good reputation in the market. Investors don't have to worry about their returns from the company.
5. **AVOIDANCE OF GOVERNMENT CONTROL**: As business is the part of society,the government has to take actions if it works against the society.Practicing CSR activities can develop strong relations with the regulatory authorities, therefore

do not find much difficulty in operating business activities. Performing CSR activities reduce such long term negative impacts.

6. **MORAL JUSTIFICATION**: It is the moral justification that if business takes something from society then business must contribute towards society. Inputs like money, materials, people, information, etc are used by the business and give output like services and goods to the society.
7. **PREVENTION IS BETTER THAN CURE:** At some point business management needs to handle social problems. Problems like labour unions should be handled in a diplomatic way, so that it does not exaggerate into serious social breakdown that consumes most of the management's time that will cause loss.

2.5.5 ARGUMENTS AGAINST SOCIAL OBLIGATIONS

A business unit is an economic institution so its primary motive should be to protect their profit because Business runs with the money invested by the owner that‗s why it is argued that a business should not assume any social responsibility. These arguments are as follows:

1. **CONTRARY TO BASIC FUNCTION OF BUSINESS**

The primary function of a business is to provide a product to its customers with less price and more satisfaction provided to the use of the product or, at the most, equal to that. On the other hand if it is reversed, the product becomes meaningless. Generally, cost of production is an important factor in determining the product price. Social responsibility will add to cost and product price may increase and business may not remain profitable in the long term.
— Because of this phenomenon, *Milton Friedman*, a noted economist, has observed,
There is one and only one responsibility of business to use its resources and engage in activities designed to increase its profit so long as it stays within the rules of the game.

2. CONFLICT WITH PROFIT MOTIVE

Risk is an important element of business and profit is the reward for this risk. Performing social responsibility reduces profit margin that is against the concept of profit maximization. Thus, social responsibility and profit motive are not able to occur together.

3. DISTORTION IN RESOURCE ALLOCATION

Resources in an economic system are divided on the bases that every resource finds its most optimum utilization. This utilization is not possible with social responsibility, thus resources may get waste if social responsibility is added to business operations.

4. IMPOSITION OF BUSINESS VALUES

Performing social responsibility imposes its own values on the society by replacing the social values. This thing has occurred in many cases so it is highly undesirable from the point of view of society.

5. OPERATIONAL PROBLEMS

There are certain conceptually as well as operational problems, social responsibility is confronting in implementing social responsibility because of that managers involved are not clear about what they have to perform under social responsibility.

2.6 BUSINESS ETHICS

Word ‗Ethics‗ is derived from the ancient Greek word ‗*Ethikos*" which means values and habits of a person. Ethics decides about what is right or wrong, good or bad. Ethics are perceived as social standards or moral judgments that make the norms of a particular society.

Ethics helps a person to fulfill their obligation as they are the personal set of values of an individual or a profession that guides them in their action.
Although ethics can be a subjective matter that may differ from person to person but it is still a very important topic in all types of corporate settings.

GOLDEN RULE OF ETHICS
‗Ethics of Reciprocity' states that ―Do unto others as you would have them to unto you‖. In other words this means a person should treat others in the same way as he/she wants to be treated by others. ―Business ethics is generally coming to know what is right or wrong in the workplace and doing what is the right. This is in regard to products/services and in relationship with the stakeholders.‖-Cater Mcnamara
Business ethics is a practice that decides what is right, wrong, and appropriate in the workplace. Business ethics is often guided by laws, and prevent companies and individuals from indulging in any illegal activity such as insider trading, discrimination and bribery. The purpose of business ethics is to maintain a consistent moral attitude within the company, from executive-level management to new hires. It ensures that everyone is treated with respect, fairness and honesty.

2.6.1 IMPORTANCE OF BUSINESS ETHICS

In any business organisation, ethics plays an important role for the growth of that organisation. Importance of business ethics is discussed as below:

1. IMPROVEMENT OF EMPLOYEE RETENTION
Strong ethics of any business would encourage managers to appreciate an employee's hard work. As a result, employees may be more loyal to the company and work hard. This also leads to the decrease in attrition rate in a company.

2. STRONGER COLLABORATION
Employees of the ethical business will have respect for one another and work well together. This not only fosters a healthy work environment but also helps with team collaboration and increases productivity.

3. EFFECTIVE LEADERSHIP
When a manager follows business ethics and treats all employees well then employees will be more inclined to follow their leader. This minimizes discipline issues and increases trust on managers and supervisors when tough decisions need to be made as employees will be more attached and ready to make individual sacrifices for the organizational goals.

4. INCREASE GOODWILL OF THE COMPANY
Reputation can be built only through a strong ethical foundation in the society. Business ethics helps to create trust and confidence of customers in a company's product. Customers will share positive information through word of mouth and through social networking sites like facebook, instagram etc which in return will increase the goodwill of the company.

5. LONG TERM SUSTAINABILITY OF A BUSINESS
Ethical conduct will allow the business to maintain long term liaison with their customers and this helps them to retain business in society for the long run.

2.6.2 SOME EXAMPLES OF BUSINESS ETHICS IN THE WORKPLACE

There are many examples of ways you can have an ethical work environment, these can be**,**

1. TAKE CARE OF COMPANY PROPERTY

Employees are allowed to use tools, technology, equipment and supplies provided by the employer and these items are typically reserved for work use only. Employees have to follow rules related to the use and maintenance of these items to ensure use of company‘s property ethically.

2. LAWFULNESS

Business ethics also include legal regulations and obligations regarding their business activities like taxes, worker safety and employment and labor laws. Companies that work within the boundaries of the legal system are more trustworthy and honorable, which can establish a strong positive reputation as an employer.

3. USE DISCRETION WITH SENSITIVE INFORMATION

Some employees may interact with sensitive data or materials, which requires employees to practice discretion through careful organization, the use of passwords and other security measures. Consult your code of conduct to understand the method of handling sensitive information in the workplace.

4. PRACTICE INTEGRITY

Employees should be transparent in how well they‘re doing and areas they may be able to improve. Employees should accept mistakes, and work to correct them as soon as possible. Keep supervisors informed of mistakes and progress to ensure everything is updated.

5. KEEP A HIGH ATTENDANCE

Your workplace may have an attendance policy. If employees unexpectedly are not able to come to work by illness, accident, or some other cause, let the manager or supervisor know as soon as possible. Manager or supervisor can then make sure work is handled by someone else in absence. If an employee will be late, give the manager advance notice, if possible.

6. RESPECT COWORKERS AND OTHER OFFICE PERSONNEL

Employees should communicate respectfully with colleagues by treating them professionally and as you would like to be treated. Both male and female should be treated equally and with respect.

7. DISCUSS ISSUES WITH MANAGEMENT

There may be times when you face an ethical dilemma at work, and this particular type of issue may not be covered in the employee handbook or your training that should be discussed with supervisor, the human resources department or, an ethics officer.

8. WORKPLACE DIVERSITY

A diverse workplace means using recruiting practices that give equal opportunity to people from different ethnic, gender and social groups. Employing a diverse range of people shows different perspectives and demonstrates that the company is serious about equality and treating all people with respect.

2.6.3 WOMEN SAFETY AS PART OF BUSINESS ETHICS

Women's safety and its issues is becoming an emerging issue around the world. Number of reports on sexual harassment is rising every year at an disturbing rate. A hostile work environment is an influence or behavior targeted towards women, which makes it uncomfortable for them to work in a workplace. Bengaluru, known as the hub of India's technology industry. About 60% of women working in the garment industry complain of violence at job and safety issues. Here are some of the steps need to take to promote women safety in an organization:

1. **ROLE OF AN HR TO CREATE AWARENESS**: HR needs to create awareness among the employees about the safe work environment and HR should consider the complaints or any issues to women to higher authorities if required. Regular surveys should be conducted in order to take timely feedback about the working environment.
2. **ZERO-TOLERANCE POLICY SHOULD BE ENFORCED**: There should be zero tolerance policy and strict action needs to be taken if anyone is found guilty. This also improves the goodwill of the organization in the society**.**
3. **PAY ATTENTION TO THE ENVIRONMENTAL ASPECTS OF SECURITY:** When women are working in an organization, it is important to follow some guidelines like: display of clearly visible emergency contact numbers, maintain proper records of visitors, ensure safe transportation facility to women in case of night shifts, availability of required medical facilities etc. If all these facilities will be available only then women can be safe at the workplace.

- **INTERNAL COMPLAINTS COMMITTEE (ICC) ON WOMEN"S SAFETY**

The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 (―POSH Act‖) has made ICC compulsory for both the private and non-privatefor women's safety on sexual harassment. Under this act a woman who is harassed can make the complaint within 90 days of the incident to ICC. Her co-worker, friend or a relative can also file a complaint on her behalf with a written consent from her. ICC should investigate the issue within 90 days and issue a report within 10 days when investigation is completed.
Any organisation having 10 or more than 10 employees needs to form ICC in the workplace. ICC should have a team of at least 4 members in which at least 50% of the members need to be women. The chairperson of ICC has to be a woman. Organizations need to come up with tactics and ideas which suit best to ensure women's safety at the workplace.

2.7 EMERGING OPPORTUNITIES IN BUSINESS

In Today's world customers are ready to spend money on concerts, dinner dates, and trips. This is the new kind of strategy with the know-how economy. Organisations in the present scenario are trying to build, synchronise with the old business in a new way.
Business patterns are quickly developing. It appears innovation is progressing at a consistent quicker rate. We are feeling the impact of these progressions. Business intelligence and analytics are in high demand as organisations seek to use information assets to improve business outcomes, customer relationships, and operational efficiency. Some of the emerging business trends are explained below:

1. TECHNOLOGY ADVANCEMENT

Today every business is shifting towards automation and use of more and more technology. Example- In pizza hut now robots have replaced humans at the payment counter. WALMART has replaced 7000 accounting and invoicing employees by automation.

2. BLOCKCHAIN

Blockchain is a kind of storing database in blocks in such a manner that it becomes impossible to change, hack or cheat the system. A database is the collection of information electronically on a computer system arranged in table format to allow for easier searching and access to specific information. Once the new data gets entered in a block it gets attached with the previous block and this makes a chain of blocks in chronological manner. It is essentially an electronic ledger that is duplicated and distributed across the entire network of computer systems on the block blockchain. It is used in bit coins, so that it can't be controlled by a single person but collectively all uses hold the control.

3. ARTIFICIAL INTELLIGENCE

Artificial intelligence (AI) refers to the replica of human intelligence in machines that are programmed to think and mimic the acts of humans. This also means any machine that exhibits traits associated with a human mind such as learning and problem-solving. Example- Robots, self-driven cars etc. Nowadays artificial intelligence is used in industries to operate machinery, repetitive works are done by automatic machines by just putting commands.

4. MACHINE LEARNING

Machine learning is an application of artificial intelligence (AI) in which a computer program can learn and adapt to new data without the help of humans and without being overtly programmed. It is the scientific study of algorithms and statistical models that computer systems use to in actual fact perform a specific task without the help of explicit instructions and depending on patterns.

Machine Learning today has grabbed the attention it needs. With the help of Machine Learning, businesses can automate routine tasks and can quickly create models for data analysis. Various industries depend on vast quantities of data to optimize their operations and make intelligent decisions. Machine Learning has the capability to create precise and scalable models that can process and analyze large amounts of complex data to deliver accurate results. With these precise Machine Learning models, businesses have the opportunity to leverage profitable opportunities and avoid unknown risks.

ɔ For businesses today, Image recognition, text generation, and many other uses are finding applications in the real world.

ɔ Today, organizations can adopt machine learning into core business processes that are connected with the firm's data streams with the objective of improving their decision-making processes.

5. SOCIAL SHOPPING

Social shopping is a method of e-commerce where social network users can procure products that come into sight in their feeds without interrupting their browsing occurrence. In the process of social shopping a corporation could set an advertisement on a social network where anyone who wanted to purchase their product would necessitate clicking the ad then visiting a landing page on the company website and ensuring through a purchasing funnel.

Example: Facebook - The tech giant is a powerhouse for advertising and virtual goods with 500 million small businesses around the world that use the service to communicate and share information with their friends. It enabled businesses to display and sell products on the platform. This is an interesting place to play in by allowing users to directly message businessmen using either Messenger, WhatsApp, or Instagram to ask questions or track orders and deliveries.

6. ROBOTICS

Robotics is an interdisciplinary field that combines computer science and engineering which deals with the design, construction, operation, as well as computer systems for their control, sensory response, and information processing. Robotics is used in various affairs including business as machines developed can substitute humans and replicate human actions. In industries, manufacturing robots can perform tasks such as welding, sorting, assembly and pick-and-place operations with greater speed and efficiency than human workers could ever hope to achieve. Today robots are used to do repetitive tasks or jobs considered too dangerous for humans. This technology can also be used in factories to fabricate things like cars, candy bars, and electronics.

7. E-TAILING

Electronic retailing (e-tailing) is a buzzword for any business-to-consumer (B2C) transactions which means e-tailing is the sale of goods online. The important difference between e-tailing and e-commerce is that the former is the method of selling of retail goods on the Internet whereas the latter is the commercial transactions conducted by electronic means on the Internet. The various impacts of E-tailing in business are mentioned below:

- ɔ E-tailing act a platform and eliminate the barriers between businesses and consumers, because the information about the product and the business can be made easily accessible.
- ɔ E-tailers create personal contacts with their consumers to get their appropriate feedbacks accordingly, make it an excellent customer service tool.
- ɔ It also acts as an extensive display of options for customers and businesses to choose from for the reason that they offer more elastic paying and pricing systems.

8. RETAIL ENTREPRENEURSHIP

The retail industry is a big boom in this decade and also has bright future scope. The expansion rate is 15% and currently, it comprises 10% of India's GDP, these figures explain the colossal growth of the industry. Economy is literally becoming a global destination for many retail brands and a boon to consumerism. These brands want to invest and operate in the Indian market and uplift the lifestyle and status of the Indian population. There are many factors such as rising working population, increased disposable income, household income, enhanced lifestyle, demand, and government aids for businesses which are contributing largely to the boom of this industry.

2.7.1 <u>FRANCHISING</u>

Today Franchising has been emerging as an important scope for business development. In a franchise operation, the owner of the original business who is known as the franchisor will sell the rights to use his brand name to an entrepreneur called a franchisee. The franchisee will agree to follow the franchisor‘s business model and to pay royalties to franchisor as consideration. In the process of franchising, know-how, methodology, protected innovation, utilisation of plan of action, brand and rights to pitch marked items and administrations, are being licensed by franchisor to a franchisee. Consequently, the franchisee pays certain charges and agrees to confirm specific commitments, which are set out in a Franchise Agreement. Franchiser will utilize an established framework is an elective business development technique, contrasted with extension through corporate claimed outlets or "chain stores"

EXAMPLE: Fast food chains like- Mcdonald‘s, KFC, Pizza Hut etc are operated in various parts of the world including in India by Franchising.

- ➢ **FEATURES OF FRANCHISING**

The salient features of franchising are as follows:

1. The franchisor needs a patent or trademark which he allows the franchisee to use under a licence.
2. There is an agreement between the franchisor and the franchisee in which agreed terms and conditions are implemented.
3. The franchisee is a business owner and makes capital investments.
4. The franchisee will pay an initial amount rather than a regular fee for the licence. There may be an agreement to pay a percentage on sales revenue or profits on a monthly or annual basis to the franchisor.
5. The franchisee needs to follow the policies of the franchisor regarding modes of operation of business.
6. The franchisor can arrange for the training of employees for the franchisee. Example- in restaurants and fast food chains training given to workers.

- **BENEFITS OF FRANCHISING**

Franchising has the following benefits:

1. **CAPITAL:** The franchisor's capital requirements will be less required as the franchisee will provide the capital to open each franchised channel.
2. **BETTER MANAGEMENT**: Each franchised unit will be highly motivated to operate in a particular area. They run the franchise units as their own and that will frequently lead to higher scale of sales and profit levels**.**
3. **LESS EMPLOYEES**: The number of employees which a franchisor needs to operate a franchise network is much smaller as compared to they would need to run a network of company owned units.
4. **SPEED OF EXPANSION**: The franchise network can grow as fast as the franchisor can develop its infrastructure to recruit, train and support the business to the franchisees**.**
5. **RISKS AND ACCOUNTABILITY**: The capital risk of franchisors will not be there and need not have to sign lease agreements, employment agreements etc, all the burden will be on franchise.
6. **INCREASING BRAND FAIRNESS**: Leveraging off the assets of franchisees will help franchisors to improve their market share and brand equity more quickly and effectively.
7. **PUBLICITY AND SUPPORT:** Franchisors will reach the target customer more effectively through co-operative advertisement, promotion initiatives and working together.
8. **CONSUMER FAITHFULNESS**: Franchisors can use the power of franchising as a system to build customer loyalty and to catch the attention of more customer retention.
9. **WORLDWIDE GROWTH:** International expansion becomes easier and quicker, since the franchisee will access the local market knowledge better than franchisor.

2.7.2 BUSINESS PROCESS OUTSOURCING

When a businessman asks an outside agency to perform some activity on his behalf and the service provider is paid for the service and the receiver focuses on important activity or core activity. This is the new type of business activity developed back in the late 80s and mid-90s to cope up with rising work costs and an inexorably worldwide commercial centre.

According to Kotler and Armstrong, **—**A service is an activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything‖.

Under outsourcing the things are done from outside sources of the agency instead of doing them within the organization.

FOR EXAMPLE: Google outsourced support service for Google AdWords, ALIBABA outsourced website designing, whatsapp outsourced core development (specifically IOS development)

Now the companies hire on contract for those services which are regularly performed. According to the theory of C.K.Prahalad (renowned management consultant) a business enterprise should first identify what are its core competencies and focus only on them. It should concentrate on their core areas and outsource of everything else. The companies have now realized that getting things done from outside sources is economical. The outside service provider can take up these tasks with higher efficiency. The companies should concentrate on core activities like manufacturing, production management, marketing etc.

- **ADVANTAGES OF OUTSOURCING**

Outsourcing of activities is beneficial for companies in many ways as below:

1. **EXPERTISE SERVICES**

Outsourcing by an experienced and reputable vendor to take care of all such activities on the behalf of your company can actually result in detailed and accurate results. Outsourcing representatives get professional training and have education about different products. And these kind of hiring of the resources takes your business to heights.

2. **TIME SAVING**

There are a lot of activities which take plenty of time like data recording, bookkeeping, payrolls and more and when your resources get occupied in all these activities, the business profit get affected. However, your time gets saved when you choose to outsource these specific business tasks to the professionals. And this in return lets you be productive and have more profits in your hand.

3. **ENHANCED EMPLOYEE PRIVACY**

Many times employees may not be comfortable in talking with a co-worker about financial or health details or regarding financial matters. Outsourcing merits permit the employees to maintain a privacy which may also lead to less hostility in the premises.

4. **COST SAVING**

By using expert services a businessman will have to pay less as compared to if he chooses to perform tasks on his own because businessmen are not specialized in that particular task, but the agency providing outsourcing facilities is specialized and has minimum chances of wastage. In this way businessmen can save costs. That saved finance and time can be utilized elsewhere.

5. **FOCUS ON CORE AREAS**

Outsourcing of activities allows the businessman to concentrate on the core activities of the organisation. Now, more attention can be paid to the growth of the brand and increase of production. Research and development activities can be better concentrated on.

2.7.3 E-COMMERCE

E-Commerce is electronic commerce in which goods or services are delivered either electronically or in their tangible or intangible form. It is basically ‗doing business online'. E-commerce is the activity of buying, selling, dealing, ordering and paying of products using online services or over the Internet. Electronic commerce runs on technologies such as mobile commerce, electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems, which helps e-commerce.

E-Commerce can be defined as: *„It is a process of buying and selling of products, services and information over electronic networks, including the internet or mobile applications"*

- **TYPES OF E-COMMERCE:** Following are the most traditional types of e-commerce:

1. **BUSINESS TO CONSUMER (B2C):** B2C e-commerce is the most popularly used e-commerce model. Business to consumer means that the transaction is taking place between a business and a consumer, like when you buy a product from an online retailer.
2. **BUSINESS TO BUSINESS (B2B):** B2B e-commerce refers to a transaction between two business units i.e. business selling a good or service to another business, like a manufacturer and wholesaler, or a wholesaler and a retailer. Business to business e-commerce doesn‘t involve consumers, and usually involves products like raw materials, software, or products that are combined. When manufacturers sell directly to retailers it is also B2B e-commerce.
3. **DIRECT TO CONSUMER (D2C):** Direct to consumer e-commerce is the newly introduced model of e-commerce. D2C means that a brand is selling directly to their end customer without involving retailer, distributor, or wholesaler. Today social selling via platforms like InstaGram, Pinterest, Facebook, SnapChat, etc. are popular platforms for direct to consumer sales.
4. **CONSUMER TO CONSUMER (C2C):** C2C e-commerce refers to transaction between two customers were one customer sale goods or services to another consumer. C2C platforms like eBay, Etsy etc.
5. **CONSUMER TO BUSINESS (C2B):** Consumer to business is when a person sells their services or products to a business organization. C2B involves influencers offering exposure, photographers, consultants, freelance writers, etc.

➢ **SOME OF THE EXAMPLES OF TOP E-COMMERCE COMPANIES THAT ARE PERFORMING ONLINE BUSINESS:**

- **ALIBABA:** Alibaba is a Chinese company launched in 1999 is one of the world‘s most successful e-commerce company and retailer, providing the largest B2B (Alibaba.com), C2C (Taobao.com), and B2C (Tmall) marketplaces across the globe.
- **AMAZON:** Amazon is the largest e-commerce retailer in the United States, and has improved the face of retail so much.
- **WALMART:** Once the top retailer in the US, Walmart has focused mightily on their online business, with great results and offering traditional retail sales as well as grocery delivery to customers.
- **EBAY**: It is one of the first e-commerce sites which is still dominating the digital market space which is allowing for businesses and individuals to sell their products online.

➢ **BENEFITS OF E-COMMERCE**

Benefits derived from e-commerce business is as follow:

1. **CONVENIENCE**
   Online commerce makes purchases with more ease, simple, faster, and less time-consuming, allowing for 24-hour sales, quick delivery, and easy returns for customers.
2. **PERSONALIZATION AND CUSTOMER EXPERIENCE**
   E-commerce marketplaces are user friendly profiles that allow them to personalize the products offered and accept suggestions for other products that they might find interesting. This provides customers with personalized service and also promotes brand loyalty.
3. **GLOBAL MARKETPLACE**
   e-commerce companies are no longer restricted by geography or physical barriers and customers from around the world can easily access to these sites.
4. **MINIMIZED EXPENSES**
   Since brick and physical shops are no longer required, digital sellers can launch online stores with minimal startup and operating costs.

- **DISADVANTAGES OF E-COMMERCE:** The following are the important disadvantages of electronic commerce:

a) **E-COMMERCE LACKS THE PERSONAL TOUCH**: Tapping on "Purchase Now", flood up items in virtual shopping carts may provide a glimpse of the product. The interactivity aspect may provide a feeling of personal touch to the customers.

b) **SYSTEM AND DATA INTEGRITY:** A computer virus is a program that replicates itself when an injected piece of program code is installed. Data needs to be protected from the viruses that cause unnecessary delays and can clean up all stored information. The technical and human threats to web site security needs effective backup for smooth conduct of operations of the business.

c) **E-COMMERCE DELAYS GOODS**: E-commerce sites take much longer time to deliver the products into the customer's hands as compared to offline stopping. For this situation, an online business may really be quicker than getting products from a physical store. Moreover, the timely delivery of products is important for the customers.

2.8 ANSWER TO CHECK YOUR PROGRESS

2.8.1 WRITE A SHORT NOTE ON THE FOLLOWING

A. Skill India
B. Franchising
C. Retail Entrepreneurship
D. Women Safety
E. Startup India
F. Digital India

2.8.2 LONG ANSWER TYPE QUESTIONS

1. Explain the concept and process of innovation.
2. What do you mean by Business ethics? State the major components of business ethics?
3. Explain the term corporate responsibility? What are its different components?
4. What are the emerging trends in business?
5. What does E-Commerce mean? Explain its features .
6. Discuss the effect of _Make in India‘ on Indian Economy.

B. COM (Hons.)

SEMESTER I

COURSE: BUSINESS ORGANISATION AND MANAGEMENT

UNIT 3 - BUSINESS ORGANISATION

STRUCTURE

3.0 OBJECTIVES

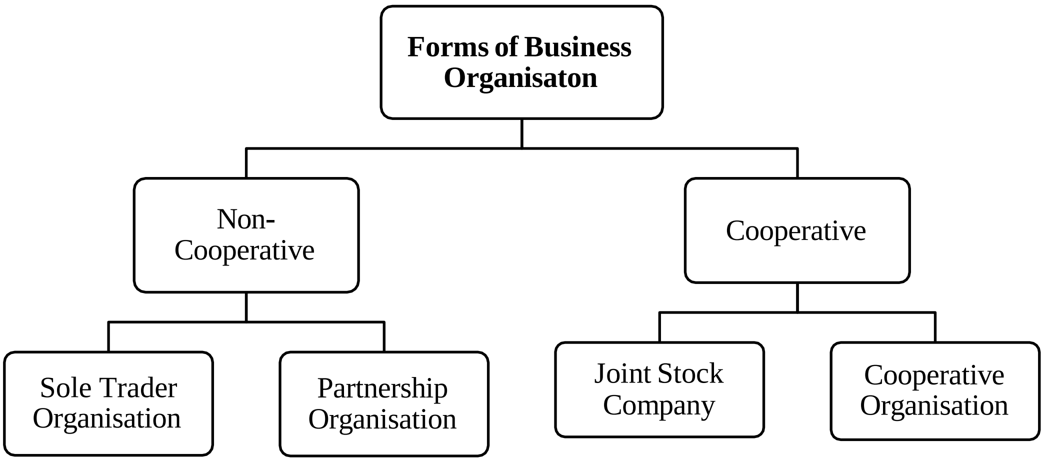
The study of this unit will help to bring knowledge about:

- Meaning of Business organization
- Various forms of business organisations

- Characteristics, merits and demerits of each business form
- Selection of best form of business organisation

3.1 INTRODUCTION

Business is an economic activity in which a person setup its own organization for profit motive. The activity can relate to producing of goods, providing of services and selling to customers. For this various resources are bring together in an enterprise and put on to work for commercial purposes. Thus, a business organisation is a structure of business designed for generating profits from producing goods or services. The owner is the person who initiate the business with the necessary funds and bears the risk. There are different categories of business organization on the basis of how they are established, owned and operated. Some business in managed single handedly like in sole proprietorship, whereas some business are managed by people collectively like in partnership. Also, when more people join together for a business then it can be in the form of joint stock company and cooperatives societies.



3.2 SOLE PROPRIETORSHIP

In the term sole proprietorship, the words are combined together wherein, sole means one and proprietor means owner. Sole proprietorship is the most common way in which a business is started as business is managed and controlled by single individual. This kind of ownership is suitable for small businesses and for providing personalized services.

‗Sole trader is a type of business unit where a person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of business'- **J.L. HANSEN**

‗The individual proprietorship is the form of business organization at the head of which stands an individual as one who is responsible, who directs its operations and who alone runs the risk of failure'**-L.H. Haney**

3.2.1 FEATURES

Sole proprietorship firms have the following features:

1. **FORMATION & CLOSURE:** The forming of a sole proprietorship form of business organisation is very easy as there are few legal requirements when compared to other forms of organisation. Also, there are no separate laws to look into for a single owner who runs the business. Thus, it becomes easy to close the business and sell the assets.
2. **UNLIMITED LIABILITY:** The sole proprietors have unlimited liability and they have to bear the losses from their personal income.
3. **SOLE RISK BEARER AND PROFIT RECIPIENT:** A sole proprietor has to bear all the risks solely and he is the recipient of all the direct rewards and profits.

4. **CONTROL:** A sole proprietor will have the entire control to run the business and make all decisions.
5. **NO SEPARATE ENTITY:** The business and business owner are considered to be one and the same person as they are not identified two different individuals by the law. Thus, business owners are responsible for all the activities of the business.
6. **LACK OF BUSINESS CONTINUITY:** The death, insanity, imprisonment, physical ailment or bankruptcy of the sole proprietor will have a direct and detrimental effect on the continuity of business and thus raises a question on the survival of the business.

3.2.2 MERITS

Sole proprietorship firms have some advantages over other forms of organisations, these are discussed as follows:

1. **QUICK DECISION-MAKING:** The owners being the sole decision makers in the organization can make a decision quickly. Thus, the business owners enjoy freedom while making decision and they can easily capitalize on opportunities.
2. **CONFIDENTIALITY OF INFORMATION:** Sole proprietorship is not bound by law to publish the books of accounts. Therefore, the confidentiality of information remains as the firm‘s accounts are not publicly available.
3. **DIRECT INCENTIVE:** The business person is the sole owner and the risk bearer thus doesn‘t need to share the profits of the business. Thus, the business owner will be the person getting maximum incentive out here.
4. **SENSE OF ACCOMPLISHMENT:** In sole proprietorship, there is a sense of accomplishment when the business reaches to a certain level. So, doing the work for self and achieving something gives the highest level personal satisfaction.
5. **EASY TO FORM & CLOSE:** This kind of business require minimal legal formalities thus it is easy to start and easy to close.

3.2.3 DEMERITS

Sole proprietorship suffer from some drawbacks, these are discussed as follows:

1. **LIMITED RESOURCES:**To start the business the owner has to use its personal savings as there are limited resources available while opening a sole proprietorship.
2. **LIMITED LIFE:** Sole proprietorship would have limited life because if there is death, illness or insolvency of the proprietor then the business has to be closed down.
3. **UNLIMITED LIABILITY:**The sole proprietors have to use their own personal savings as to pay off debts or losses. Thus, the proprietor has an unlimited liability and his belongings can be utilized.
4. **LIMITED MANAGERIAL ABILITY:** Initially, the sole proprietor has to do everything by himself because the business cannot afford to hire professionals who charge high prices. So when the proprietor is concentrating on so many things, he becomes ‗jack of all trades but master of none‘ and hence the managerial ability gets affected.

3.3 PARTNERSHIP

Partnership is when two or more people come together and decide to start a business together. Also, Partnership is an answer to sole proprietorship. As in sole proprietorship resources are limited but in partnerships capital investment will increase with number of partners. Each and every partners‘ varied skills and expertise can bring more solutions to business. In. partnership risk get divided among the number of partners. Thus, partnership has some advantages over sole proprietorship.

Partnership is the relation between persons competent to make contracts who have agreed to carry on a lawful business in common with a view to private gain – **L.H. Haney**
Partnership is the relation which subsists between persons who have agreed to combine their property, labour or skill in some business and to share the profits there from between them – **The Indian Contract Act**

3.3.1 FEATURES

Partnership firms have the following distinguished features:

1. **FORMATION & CLOSURE:** The formation of partnership require agreement which is all about profit sharing and manner of conducting business. In India, Indian Partnership Act, 1932 deals with partnership firms. And the existence of partnership is only when a legal contract is signed between partners.
2. **LIABILITY:** In partnership, partners have unlimited liability. So in case if the partners face losses and business comes to closure then the partners will have to sell their personal assets to fulfil liabilities. Also, partners are individually and collectively liable in the partnership firm.
3. **RISK BEARING:** Partners are joint risk takers and therefore they will together share every risk in business. The losses are shared in the same ratio as the profits in partnership.
4. **DECISION-MAKING & CONTROL:** Partners share all the responsibilities of decision making and control among themselves. The important decisions of firm are all done by mutual consents of all partners. Business is always run by joint efforts of all the partners.
5. **CONTINUITY:** The continuity of partnership business remains if any of the partner dies, retire, and become lunatic or insolvent.
6. **MEMBERSHIP:** To start a partnership minimum 2 partners are required. As per companies act, 2013 maximum 50 persons can form partnership.
7. **MUTUAL AGENCY:** Partnership is an agent & principal relationship. When an agent and principal are working, the agent represents the principal wherever he goes. Agent makes the decision on behalf of principal.

3.3.2 MERITS

Partnership firms have some advantages which are discussed as follows:

1. **EASE OF FORMATION & CLOSURE:** For formation of partnership firm it is required to get registered with the registrar under the Indian Partnership Act. And, similarly it is easy to close the business of partnership firm.
2. **BALANCED DECISION-MAKING:** As there are number of partners involved, they will come together and do brain-storming while making decisions. The decisions are made collectively in a balanced approach.
3. **RISK SHARING:** Risk is shared among partners individually and collectively. Thus, the partners remain confident while taking decisions.
4. **SECRECY:** Partnership accounts need not be published anywhere so secrecy is maintained in this way. The competitors never come to know about business motives and secrets.
5. **MORE FUNDS:** More the people, more the funds. As we know partners bring capital so in this way more funds can be arranged.

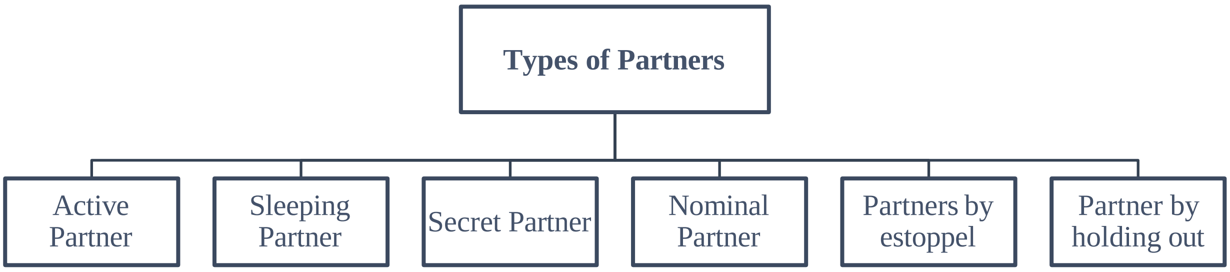
3.3.3 DEMERITS

Partnership firms may suffer from the following limitations:

1. **UNLIMITED LIABILITY:** The partners have unlimited liability and their personal assets will also be used to pay to the creditors for any money due to them.
2. **LIMITED RESOURCES:** The partnership business have limited resources for financing. The capitals invested by partners is the only source on which partners can rely. Getting loan from bank or other sources of finance is not an easy job for partners as collateral's will be required.
3. **POSSIBILITY OF CONFLICTS:** It is possible that partners have difference of opinions and conflict arises between them which may sometimes lead to dissolution of partnership.
4. **LACK OF CONTINUITY:** If a partner dies, no doubt the partnership can be continued. But to form a new partnership, old partnership has to get dissolved. Thus, there is lack of continuity when new partnership is formed out of dissolution of the old one.
5. **LACK OF PUBLIC CONFIDENCE:** As there is secrecy of accounts and the way business is performed indicates lack of public confidence. Thus, getting finances is a big demerit of partnership.

3.3.4 TYPES OF PARTNERS

The partners are classified into various types on the basis of participation in management, capital contributions, share in profits or losses and liability. The classification of partnership into various categories is shown as below:

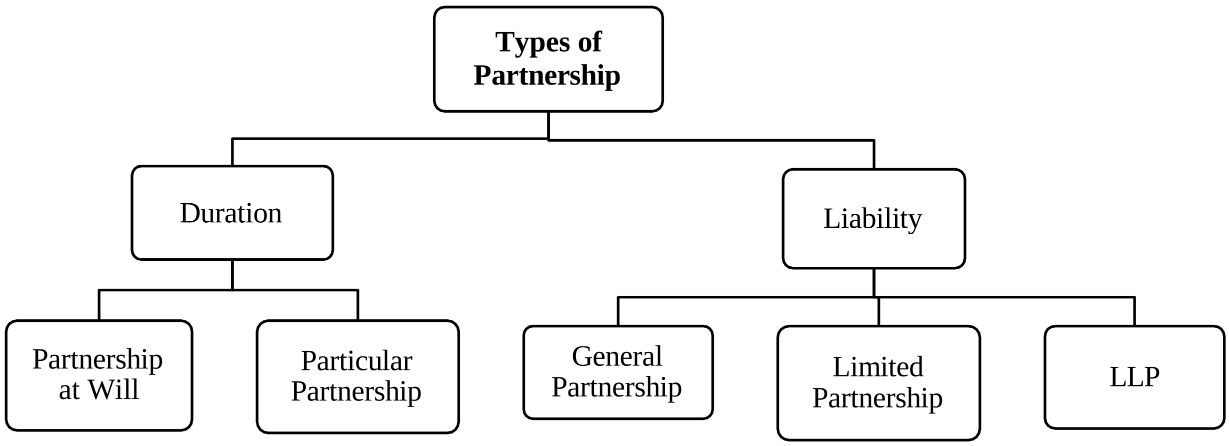


1. **ACTIVE PARTNER:** An active partner is the one who contributes in the capital , responsible for day to day management in partnership, having a certain share in profits/losses of the firm and will be having unlimited liability. So, an active partner is the face of the partnership who makes decision on regularly basis.
2. **SLEEPING OR DORMANT PARTNER:** A sleeping partner will contribute in the partnership without participating in management. The sleeping partner doesn‘t runs the business and will not attend the meetings of partnership. But the sleeping partner has a share in profit and losses with unlimited liability of business.
3. **SECRET PARTNER:** When a partner joins the partnership with a condition of keeping his name secret from public. That partners contribute in partnership in the same manner as other partner, participate in management, share profits/losses and will have an unlimited liability but with the secrecy of identification maintained.
4. **Nominal partner:** Nominal partner doesn‘t contribute any kind of capital and has no participation in the management. Nominal partners only give their name to partnership firm so that the partnership firm can enjoy the goodwill on name of

nominal partner. And they generally does not share profit or losses of the firm but they do have unlimited liability.

5. **Partners by estoppel:** This partner also doesn't contribute any capital and has no participation in the management. This person behave as a partner in the firm and attend all meetings as such showing that he is a partner. Basically here also the name and face of partner is used. But he does not have any share in profits or losses of firm although have unlimited liability in the partnership business.
6. **PARTNER BY HOLDING out:** The partner by holding out is when other partners start saying that he is a partner of the firm. This partner also has no contribution in capital, no share in profits or losses and have no participation in management but has unlimited liability.

3.3.5 TYPES OF PARTNERSHIP



1. **PARTNERSHIP AT WILL:** This is generally formed when the partners agree to form a partnership which can be dissolved when all the partners require it. The partnership at will is generally formed for a certain purpose and when the purpose gets completed, the partnership gets dissolved.
2. **PARTICULAR PARTNERSHIP:** This partnership is formed if there is a project to be done which requires expertise. Thus expertise come together as partners in particular partnership. Thus, once that particular project is over the partnership gets dissolved.
3. **GENERAL PARTNERSHIP:** The general partnership has all characteristics of a partnership as per Indian Partnership Act. A general partnership is when partners come together with capital contribution and doing business with unlimited liability and sharing of profits or losses. Thus, these all features are part of general partnership.
4. **LIMITED PARTNERSHIP:** In limited partnership, if partners want then one partner with unlimited liability can do partnership business with other partners having limited liability.
5. **LIMITED LIABILITY PARTNERSHIP:** LLP is formed with all the partners having limited liability. This is discussed separately in detail in the following topics.

3.3.6 PARTNERSHIP DEED

For starting partnership firm, partners have to enter into an agreement and sign a contract. The contract can be written or in oral form but it is desirable to have a written contract. Partnership deed is that written agreement which is advisable to have while entering into partnership. The deed document is duly stamped and registered with all the terms written to avoid any misunderstanding. Each partner is given a copy of the partnership deed. The particulars of partnership deed are:

- Name of the firm
- Nature of business & location of business
- Duration of business
- Investment made by each partner
- Distribution of profits & losses
- Duties and obligations of the partners
- Salary and withdrawals of the partners
- Terms governing admission, retirement and expulsion of a partner
- Interest on capital and interest on drawings
- Procedure for dissolution of the firm
- Preparation of accounts and their auditing
- Method of solving disputes

3.3.7 REGISTRATION OF PARTNERSHIP

As per the Indian Partnership Act, there is no compulsion for the registration but it is still desirable to get register to avoid all the limitations of unregistered firm. An application with all the details of partnership written and requisite fee is sent to the Registrar of Firms. The register of the firms are kept with the Registrar of Firms. The register contains the name of the partners, the partnership deed and other details of partnership firm.

There are many consequences of non-registration of a firm and they are:

- A partner of an unregistered firm cannot file a suit against the firm or other partners
- The firm cannot file a suit against third parties
- The firm cannot file a case against the partners

The procedure for registration is not much complex. There are certain prescribed forms which are being kept at the registrar office. The procedure to be registered as per Indian Partnership Act is explained as:

- Submission of application in the prescribed form
- Application to be signed by all partners
- Deposit of the required fees with the Registrar of Firms
- The Registrar after approval will make an entry in the register of firms and will subsequently issue a certificate of registration.

3.4 JOINT HINDU FAMILY FIRM

3.4.1 FEATURES

HUF‘s have the following unique features:

FORMATION

Joint Hindu Family kind of organization will only be found in India because it is based on ‗Hindu Succession Act‘. For this business minimum two members of the same family are required to form Hindu undivided family (HUF) or a Hindu family firm we can say. The need is that there has to be some ancestral property which would be required for forming the capital of the family business.

LIABILITY

When a Hindu undivided family is formed the eldest member of the family becomes the head of the family and when it comes to Hindu family business the eldest member is called as the ‗Karta‘. Karta would have unlimited liability towards the family business. The other people in the family will become ‗Coparceners' who would have limited liability to the extent of the capital they have contributed.

CONTROL

Karta being the eldest member has full control over the business. With control means, Karta is the person who starts the business, makes the business decision and will be having a final say in any decision.

CONTINUITY

Joint Hindu family business can be continued perpetually. Even after the death of Karta continuity exists in business as the next eldest member takes the place.

HINDU SUCCESSION (AMENDMENT) BILL 2004

This bill provides female heir the ability with regard to getting share in the ancestral property. Earlier, if a daughter gets married she will no longer be a part of the Hindu undivided family and even if she remains unmarried she will be the part of the family but she will never be able to become a Karta. Thus, earlier women had no say in the family. But then after the Hindu Succession Act the amendment was made wherein, the daughter had a say or a right in the ancestral property. So as now the law has changed, a woman can actually become ‗Karta' in the HUF if she is the eldest member in the family.

MINOR MEMBERS

In HUF the membership is by birth, so a minor member can easily become a member of a Hindu Undivided Family business.

DAYABHAGA SYSTEM

Dayabagha system is followed in West Bengal. This system prevailed even before the Succession Act came into forceand it allowed both the male and female members of family to be co-parceners. So, in Dayabagha system it was already the provision that both the male and female members had equal rights.

MITAKASHARA SYSTEM

Mitakashara System was followed in rest of the India except West Bengal. This system prevailed but hadn't provided equal rights for male and female. After the Hindu Succession (Amendment) Bill was passed, even the Mitakashara system gave equal rights to both male and female members of the family.

3.4.2 <u>MERITS</u>

Hindu undivided family have the following merits:

1. **EFFECTIVE CONTROL:** In HUF, Karta is having the absolute decision making power because he is the eldest member and controls the family business. Karta is able to make quick decisions as he doesn't have to consult to other members. Thus, if Karta sees any business opportunity, he can make a quick decision by himself.
2. **CONTINUED BUSINESS EXISTENCE:** Karta's death never affects the continuity of the business as the next eldest member becomes the Karta. Thus, if anything happens to Karta the family business never gets affected.
3. **LIMITED LIABILITY:** The liability of Co-parceners is limited and it is limited to the share in business only. Thus, if the business goes into insolvency their personal belongings doesn't get affected.

4. **INCREASED LOYALTY & COOPERATION:** In HUF, all the members belong to same family so there is greater coordination in sense of loyalty among the members. They share the pride of growing the business together as a family. Also, there is better cooperation among members because they have been staying together in one family since their birth.

3.4.3 DEMERITS

Hindu undivided family have the following demerits:

1. **LIMITED RESOURCES:** The resources available for capital investment in business are limited to their ancestral property. The capital is limited to the contribution of Karta and the Co-parceners.
2. **UNLIMITED LIABILITY OF KARTA:** If the business goes insolvent, the Karta will have to sell his personal assets to satisfy remaining obligations. Because of this, the Karta will not be interested in making bold decisions and will not take risky ventures which can give more profits.
3. **DOMINANCE OF KARTA:** Karta can misuse the power of controlling business and making decisions on his own. With this, there is a possibility of conflict among Karta and Co-parceners.
4. **LIMITED MANAGERIAL SKILLS:** Karta is the sole decision maker and he may not be an expert in doing so. Thus, if unwise decisions are made by Karta, the business gets affected.

3.5 JOINT STOCK COMPANY

While doing business on a large scale which has high risk, a large investment is needed. For such businesses, company form of organization is suitable. In company there are number of people who contributes in the capital, called as the shareholders. The company business gives the benefit of limited liability to its owners and freedom of come and go whenever they want. A joint stock company is an artificial person having a separate legal entity, perpetual succession and a common seal. A company is an association of persons and shareholders are the owners of the company. These shareholders elect the chief managing body or the Board of Directors for the managerial decisions. The company has a separate legal status from its shareholders, thus company on its own name can sue anybody and can be sued.

Joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership – **Prof. Haney**

Joint stock company is meant as an association of many persons who contribute money‘s worth to a common stock and employ it for some common purpose – **Justice Lindley**

Company means a company incorporated under this act or under any previous company law – **Section 2(20) Companies Act, 2013**

3.5.1 FEATURES

Joint stock company have the following distinguished features:

1. **ARTIFICIAL PERSON:** A company is an artificial person created by law. The existence is like a person, as in a company can buy or sell property, conduct a business, enter into contracts on its own name. But it has no body or soul which makes it an artificial person.
2. **SEPARATE LEGAL ENTITY:** The company has its own separate legal identification from its members. That means, anybody can sue the company and company can sue the person. The company is not bind by shareholders acts and thus

can file case on its own name. Also, the company is answerable to the law for any misconduct and the shareholders will not be punished in that case.

3. **PERPETUAL SUCCESSION:** The death, unsound mind, lunatic or insolvent situation of members doesn‘t affect the continuity of business in company. The member can leave anytime by selling their part of share. Members may come and go, but the company goes until it is legally dissolved. Thus, company has continuity in existence of business.
4. **FORMATION & INCORPORATION:** The formation of company takes time as there are many legal formalities which needs to be fulfilled. And, a company is incorporated only after registering under the Companies Act.
5. **CONTROL:** The control is in hands of Board of Directors elected by shareholders of the company. The right to manage the company is in the hands of elected representatives of shareholders. The board of directors takes all the decisions mutually for the company and control its business.
6. **LIABILITY OF MEMBERS:** Liability of members is limited to the extent of the capital which they have contributed. Liability may be limited by shares or guarantee depending on the type of company. But shareholders are never personally liable for the debt payments of the company.
7. **COMMON SEAL**: Company can itself sign the documents like any other person by way of common seal. This common seal is affixed when company enters into any contract and on all legal documents. Thus, common seal is just like signatures by the company.
8. **RISK BEARING:** Company has the capacity for the risk bearing dealings in business. As company is itself an artificial person, thus, it is solely responsible for all the liabilities and risks of contracts.

3.5.2 MERITS

Joint stock company have the following merits:

1. **LIMITED LIABILITY:** Shareholders have liability which is limited to the capital contribution. Thus, it is a win-win situation for the shareholders as they can contribute upto the risk bearing capacity they possess.
2. **TRANSFER OF INTEREST:** The transfer of interest is very easy for shareholders in any kind of company. A shareholder can easily transfer its interest through sell of shares to a person who is willing to buy the shares.
3. **PERPETUAL EXISTENCE:** The death and disability of members do not affects the continuity of business. Members may come or go, company goes on forever.
4. **SCOPE OF EXPANSION:** Company is a best form of organisation when business persons wants to spread their geographical limits and expand the business to different countries.
5. **PROFESSIONAL MANAGEMENT:** In companies, shareholders are large in number and capital contribution is quite huge. Because of that, company has the ability to appoint experts and hence the management of the company is in the hands of the professional people.

3.5.3 DEMERITS

Joint stock company have the following demerits:

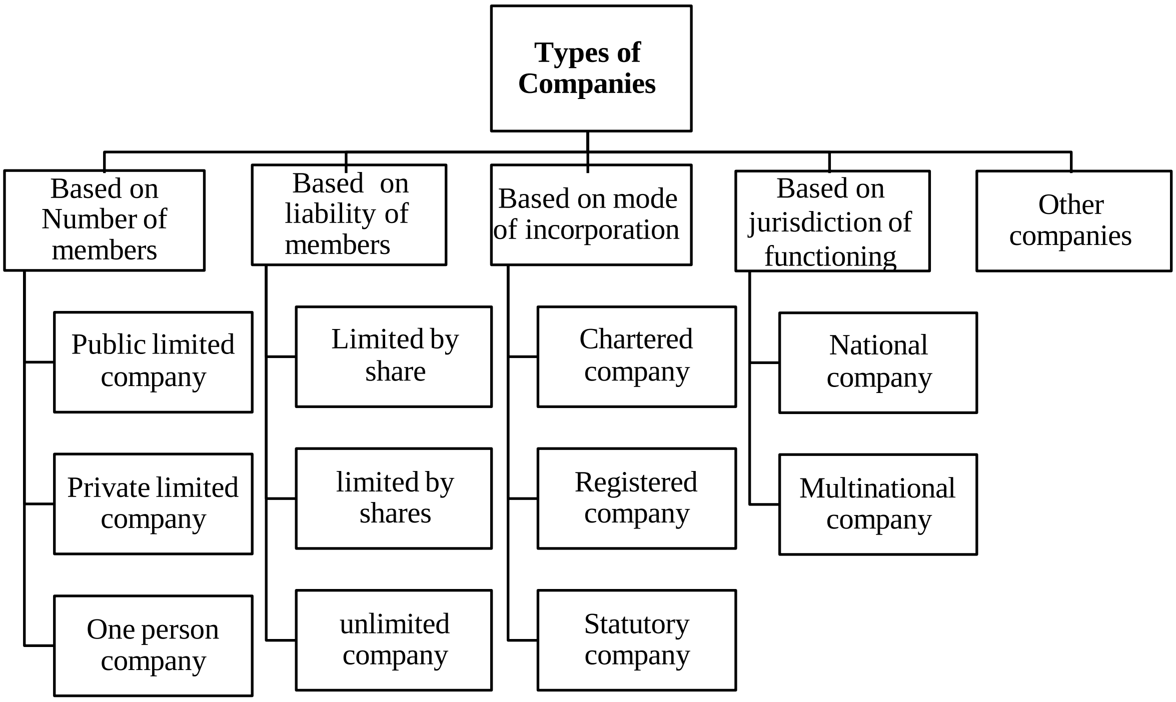
1. **COMPLEXITY IN FORMATION:** The forming of a company is a very lengthy procedure. It has lot of regulatory requirement to be followed. Hence, forming a company is a complicated process.

2. **LACK OF SECRECY:** Companies have to publish books of accounts. It is required from them to send annual reports to shareholders. Hence, there is lack of secrecy as the financial accounts are easily available on company's website.
3. **IMPERSONAL WORK ENVIRONMENT:** In companies, the work environment is professional and not personal which can lead to organisational politics and work issues. Individuals working together do not share any personal relations and thus sometimes conflicts arises.
4. **NUMEROUS REGULATIONS:** Company has to follow various rules and regulation on regular basis. Because company is taking capital from many shareholders so the company is answerable to law of land.
5. **DELAY IN DECISION MAKING:** The team of Board of Directors takes decision in a Company. While taking a decision, a hierarchy have to be followed for consultation which delays the decision making process. Because of this, some profitable business opportunity might get lost.
6. **OLIGARCHIC MANAGEMENT:** In a company, shareholders appoint Board of Directors in good faith for taking control of business. But when Board of Directors start operating for their own profits and ignore other objectives of company, then the exploitation of power starts. Thus, Oligarchic management is the demerit of the company as it give powers for controlling business in hands of few members of Board of Directors who keeps the social responsibility of business aside and start accumulating profits.
7. **CONFLICT IN INTEREST:** If the Board of Directors have conflict among themselves, the chances are that Board gets divided and then the company's interests are compromised. So, the conflict of interest affects the important decisions of the company.

3.5.4 TYPES OF COMPANIES

A. BASED ON NUMBER OF MEMBERS

1. **PUBLIC LIMITED COMPANY:** A public company is the one which do not restricts the right to transfer its shares. The minimum number of members required is 7 to form a public limited company, and there is no limit for the maximum members. The stocks of public company are traded publicly and it can invite public to subscribe for its shares and debentures.
2. **PRIVATE LIMITED COMPANY:** A private limited company is one which restricts the right to transfer its shares and its shares cannot by publicly traded in stock market. For the formation of private limited company, minimum two members are required which can exceed up to the maximum limit of 200 members. Such type of company faces fewer regulations than public company.
3. **ONE PERSON COMPANY:** In one person company, only one member hold the entire share capital of a company. The company can by limited by shares or limited by guarantee. One person company can be contrasted with private company as it gets all the benefits of a private limited company. In, the death of the member of such company, the nominee of the member gets all the rights.



B. BASED ON LIABILITY OF MEMBERS

1. **COMPANIES LIMITED BY SHARES:** In companies limited by shares, the liability of its members is limited upto the unpaid value of shares held by them as stated in memorandum of association of the company. A shareholder cannot be called to pay for more than the unpaid amount of shares held by him.
2. **COMPANIES LIMITED BY GUARANTEE:** In such companies, members give guarantee to pay for the debts of the company upto the limit of guarantee amount in addition to the amount of shares held by them. The limit of guarantee of members is stated in memorandum of association. A _pure‘ guarantee company does not have share capital, rather the liability is limited to the guarantee given by members to contribute in the event of winding up.
3. **UNLIMITED COMPANY:** In such companies, the liabilities of members are not limited. These companies are formed with or without share capital contribution. The debts of the company can be paid from the personal assets of members.

C. <u>BASED ON THE MODE OF INCORPORATION</u>

1. **CHARTERED COMPANY:** A company which is incorporated under the special royal charter and governed by the provisions of that charter, called as charter company. Examples are East India Company, Bank of England.
2. **REGISTERED COMPANY:** A company which is registered with the registrar of companies under the prevailing Companies Act. The company is said to be incorporated after being registered with the registrar.
3. **STATUTORY COMPANY:** A company which formed under the special act of parliament or by the state legislature. Such companies are formed for special purposes and are regulated by the government. Examples are Reserve Bank of India, Life Insurance Corporation of India.

D. <u>BASED ON JURISDICTION OF FUNCTIONING</u>

1. **NATIONAL COMPANY:** When the business operations are confined to national boundaries of the country in which it is registered, then such company is called national company.

2. **MULTINATIONAL COMPANY:** When the business operation is diversified beyond national boundaries, then such company is called multinational companies. In such situation, business is operated in other countries also rather can keeping it to the country in which it is registered.

E. OTHER COMPANIES

1. **GOVERNMENT COMPANY:** In a company , when the share capital is held by central government or state government or jointly by state and central government which is not less than 51% of paid up share capital, then that company is called as a government company.
2. **SMALL COMPANY:** A small company means a company, other than a public company, shall satisfies the conditions:
   a. It has paid up share capital of not more than 50 lakhs or such higher amount as may be prescribed which shall not be more than 10 crores; and
   b. It has annual turnover of not more than 2 crores or such higher amount as may be prescribed which shall not be more than 100 crores.

   To become a small company, a private company shall fulfill both of the above conditions. Further, a small company is not the one which is;
   a. A company registered under section 8;
   b. A holding or a subsidiary company;
   c. A company or body corporate governed by any special act
3. **HOLDING COMPANY:** When a company holds more than half of the nominal value of equity share capital of other company, then that company is said to be holding company. The holding company controls the composition of board of directors of that other company.
4. **SUBSIDIARY COMPANY:** The company on which control is exercised by holding company is called as the subsidiary company. Thus, a subsidiary company is owned and controlled by its holding company. When the holding company or parent company owns 100% of voting stock a company, then the company is called as wholly owned subsidiary.
5. **LISTED COMPANY:** The company which is listed on stock exchange for public trading is called as the listed company.
6. **UNLISTED COMPANY:** the company which is not listed in stock exchange for public trading is called as unlisted company.

3.6 CO-OPERATIVE SOCIETY

A society wherein members come together on cooperative basis with contribution of certain capital and doing activities for mutual benefits in long run. People voluntarily come together and form associations for such type of business activity. Members form such society to protect economic interests. To form a cooperative society member need to register themselves under the Cooperative Societies Act, 1912. Also, 10 adult members are required in the process of setting up a cooperative society. Capital is raised from its members by issue of shares by the cooperative society. This form of organization has distinct legal identity.

Cooperative is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of an economic interest for themselves. – **E.H. Calvert**

Cooperative organisation is a society which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles – **The Indian Cooperative Societies Act 1912**

3.6.1 FEATURES

Cooperative society have following special features:

1. **VOLUNTARILY MEMBERSHIP:** There is no compulsion on joining the society. Members can become part of society at their will and they are free to join and exit the membership of the society at any time.
2. **LEGAL STATUS:** Cooperative society is a distinct entity and will be considered a separate entity from its members. To get the benefits of cooperative society compulsory registration is required under the act prescribed.
3. **LIMITED LIABILITY:** The liability of members will be limited to the extent of the capital which they have contributed to the society.
4. **CONTROL:** The members of the society together select a managing committee who has its control in the society. This managing committee is responsible for all the day to day affairs of the society.
5. **SERVICE MOTIVE:** The motive of society is to earn profits and to focus on the mutual help and welfare of the members.

3.6.2 MERITS

Cooperative society have following merits:

1. **EQUALITY IN VOTING STATUS:** Everyone has equal voting right in cooperative society which says ‗one man one vote'.
2. **LIMITED LIABILITY:** Members of cooperative society have limited liability to the extent of contribution they have made. Thus, personal assets of members cannot be used.
3. **STABLE EXISTENCE OF CONTINUITY:** The existence of the society doesn't changes with the death, lunacy or bankruptcy of members. Thus, the continuity of business doesn't get affected even if any member become incapable of doing business.
4. **ECONOMY IN OPERATIONS:** Members in a cooperative society provide services on mutual agreement on honorary basis. Also, risk of bad debts is low in cooperative society.
5. **SUPPORT FROM GOVERNMENT:** Cooperative society gets support from government in form of lower taxes, subsidies and low interest rate on loans
6. **EASE OF FORMATION:** There are few legal formalities for the formation of cooperative society which make its formation easy.

3.6.3 DEMERITS

Cooperative society have following demerits:

1. **LIMITED RESOURCES:** Generally a cooperative society is formed by people who have limited resources. Also, cooperative society is formed with the objective of giving benefits to the members so the earnings will be very less. These lesser earnings discourage members to invest large amounts.
2. **INEFFICIENT MANAGEMENT:** Members of cooperative society are not capable to manage cooperative society and they do not have money to employ experts so inefficient management becomes a problem.
3. **LACK OF SECRECY:** The meetings of cooperative society are like an open discussion. Also, under section 7 of the Societies Act they need to disclose their books of accounts. So, there is no secrecy in cooperative society.
4. **GOVERNMENT CONTROL:** As government is giving so many benefits to cooperative society so they control these societies. For this regular reports are

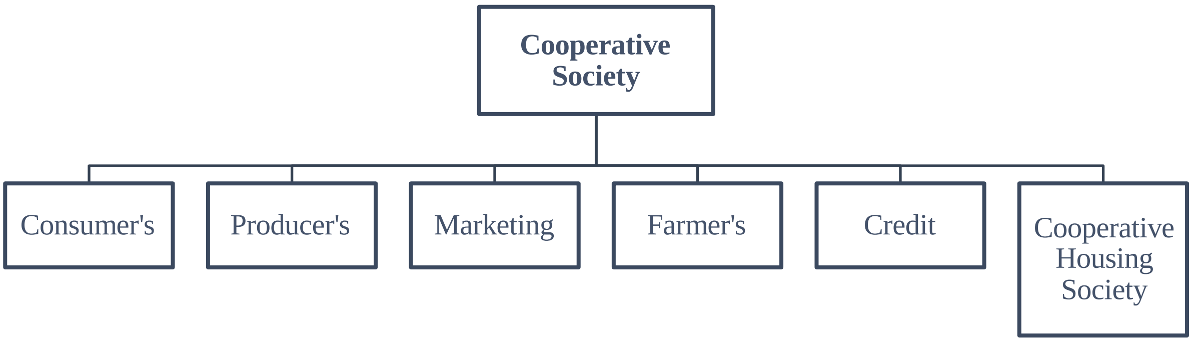
submitted to the registrar by the society. There is also interference from the government in the day to day activities of these societies.

5. **DIFFERENCE OF OPINION:** When the personal interest start dominating the welfare motive then conflict arises. The difference of opinion and conflicts in decision making may lead to disharmony among members.

3.6.4 TYPES OF CO-OPERATIVE SOCIETY

There are different types of Co-operative societies which are discussed as follows:

1. **CONSUMER"S SOCIETY:** These are generally formed by consumers together to eliminate the middleman and get the benefits of buying directly from the wholesalers or from the company itself.



2. **PRODUCER"S SOCIETY:** These are the people who will come together when they want to fight against the capitalist and they can sell the produce together to the people, the larger farmers or the dealers in the market at a good price. So when producers want a reasonable price for the production they form a cooperative society together.
3. **MARKETING SOCIETY:** When producers are producing on a small scale and the help is in form of marketing the products to the right consumer.
4. **FARMER"S SOCIETY:** When the farmers come together they help each other in the areas like, the inputs which are required for agriculture. Thus, the cooperative society helps farmers in getting the inputs like pesticides, seeds etc. at low cost rates
5. **CREDIT SOCIETY:** Credit cooperative societies provide credit to the members for a shorter duration to fulfil their business objectives.
6. **COOPERATIVE HOUSING SOCIETY:** This society is popularly formed wherein the people who have low income or the middle class people come together when they want to build houses.

3.7 LIMITED LIABILITY PARTNERSHIP

Limited Liability Partnership or LLP is formed and registered under the legislation Limited Liability Partnership (LLP) Act, 2008. LLP being a separate legal entity can enter into contract and legal actions in its own name. LLP has a same structure as a traditional partnership. The core difference between them lies in the partner's financial accountability. In a traditional partnership, the partners are fully liable for all of the business debts. In a LLP on the other hand, the partners are not liable for all the business debts but only up to the capital they initially invested into the business. The LLP agreement specifies each partner's duties, responsibilities, liabilities, allocations of profits, and terms of the dismissal, removal or addition of partners. It is therefore usually more attractive option for people going into business together than a traditional partnership.

3.7.1 FEATURES

Limited Liability Partnership have distinguished features as follows:

1. **SEPARATE LEGAL ENTITY:** Just like a company, LLP also has separate legal entity. It is create distinct from its members.
2. **MUTUAL AGENCY:** All the partners of LLP are its agents. The unauthorized actions of one partner do not bind other partners for the liability.
3. **LIMITS ON MEMBERS:** LLP must have atleast two partners and atleast two individuals as designated partners. And atleast one designated partner should be resident in India at anytime. There is no upper limit for the partners.
4. **LIMITED LIABILITY:** The liability of partners is limited to extent of their capital contribution. Thus, the partners are protected for their personal liability.
5. **CONVERSION OF ANY OTHER FORM INTO LLP:** Any type of small business, private and unlisted public companies can convert itself into LLP as per the relevant provisions.
6. **COMMON SEAL:** It is not mandatory for the LLP to have a common seal but the partners can decide to have a seal under the custody of responsible official. Also, the common seal can be affixed anywhere only in the presence of two designated partners of LLP.
7. **ARTIFICIAL LEGAL PERSON:** LLP is created by law and have all the rights as an individual. LLP is considered as an artificial legal person, like a company, for all the legal purposes.
8. **LLP AGREEMENT:** An agreement is signed between partners in which rights and duties of all partners are stated. The agreement can be made as per the choice of the partners.

3.8 CHOICE OF FORM OF ORGANISATION

As we have studied different types of business organisations, each of them having various varieties of features, merits and demerits. Because each kind of organization is different in characteristics, so it is difficult to decide the best form of business enterprise. Each business form will be suitable according to the need of business activities. While choosing a particular business form, the following factors a business man should keep in mind:

1. **NATURE OF BUSINESS:** The nature of business activities is an important factor for choosing the form of business. The selection of business depends upon the activities involved in it. If the business requires personal attention and direct control like in trading business then such business are managed by sole proprietors. Likewise in manufacturing business where more investment is required, it is preferred to operate as Joint Stock Company. Business requiring pooling of skills and funds are managed by partnership firms. The business involved in rendering services prefer cooperative organisations.
2. **EASE IN LEGAL REQUIREMENTS:** The relaxation from legal formalities and easy formation of business is best observed in case of sole proprietorship and partnership form of organisation. Whereas company and other form of business involves many legal formalities and expenses in formation.
3. **LIABILITY:** The owners‘ liability is an important factor for consideration. In companies and cooperative form of business the liability of members is limited whereas it is unlimited in case of sole proprietorship and partnership form of business.
4. **CAPITAL ARRANGEMENTS:** Capital is the life blood of business. Without raising funds business cannot be started. Company business requires huge amount of finance whereas less amount of finance requirement is in case of sole proprietorship and partnership organisation.

5. **DEGREE OF CONTROL:** If the owner wants complete control over business then the right choice of business form is sole proprietorship, whereas in partnership business control is shared among partners. In case of company business, the owners share control in the management of the company.
6. **MANAGEMENT ABILITY:** The business activities requiring efficient management and expertise should go for company form of business. Only company business can afford skilled managerial professionals to be hired and paid. On the other hand special experts and managerial are not required to be hired in case of sole proprietorship and partnership.
7. **FLEXIBILITY OF OPERATIONS:** Any business form would be considered an ideal form if it offers flexibility in working and adapting changes. In case of company, taking decisions takes a long time and adjustment according to changes is also not easy. But on the other hand business forms like sole proprietorship and partnership offer high degree of flexibility.
8. **CONTINUITY:** In sole proprietorship and partnership the formation and closure is easy and less funds are involved thus it can suit temporary business also. But in companies the closure is difficult as large funds are involved thus suitable for long term and continued business.
9. **GOVERNMENT REGULATIONS:** An organization is considered preferable when it attracts few government regulations. In company form of business the government regulations are more whereas they are comparatively few in case of sole proprietorship and company.

3.9 CONCLUSION

We have read the different forms of business enterprise, that are, sole proprietorship, partnership, joint stock company, limited liability partnership and cooperatives societies. All these organisations have their own merits and demerits. The nature of different business activities and various factors affecting these business activities decides the suitable form of organisation. It is difficult to decide that which is the best form of organisation. Different business ventures have their own need which will be the basis for selecting the suitable form of business organisation. Thus, in conclusion we can say that each for of enterprise is best in its own way if it suits the business needs of the owner and helps in accomplishing business goals.

3.10 ANSWER TO CHECK YOUR PROGRESS

3.10.1 WRITE A SHORT NOTE ON THE FOLLOWING

1) What do you mean by business organization?
2) What is sole proprietorship?
3) What is partnership firm?
4) What do you mean by joint stock company?
5) What are the different types of business organisation?
6) What are features of cooperative society?
7) What is Joint Hindu Family Firm?
8) What are different types of partnership?
9) What is holding and subsidiary company?
10) What are different types of company?
11) Which form of organization is best suitable?
12) What is limited liability partnership?
13) What is difference between secrete partner and sleeping partner?

14) What is a foreign company?

3.10.2 LONG ANSWER TYPE QUESTIONS

1) What do you mean by business enterprise? What are different forms of business enterprise?
2) What is sole proprietorship form of organisation? Why it is not suitable for large organizations?
3) How to choose a suitable form of organization?
4) What is limited liability partnership? How it is different from other partnership firm?
5) What are features of partnership firm? Explain different types of partnership firms.
6) What do you mean by joint stock company? What are various types of companies?
7) What is cooperative society? What are its various types?
8) What are advantages and disadvantages of each of following:
    i. Sole proprietorship
    ii. Partnership firm
    iii. Joint stock company
    iv. Cooperative society

B. COM (Hons.)

SEMESTER I

COURSE: BUSINESS ORGANISATION AND MANAGEMENT

UNIT 4 - GOVERNMENT-BUSINESSES INTERFACE

STRUCTURE

4.0 OBJECTIVES

After going through this unit, you will be able to:

- Understand the different factors which effect government-business interface.
- Describe the meaning and characteristics of public enterprise.
- Recognize different forms of public enterprises.
- Appraise the value of International business in today‘s world.
- Identify the various ways how a business can go global.
- Discriminate between international business and multinational corporations.

4.1 INTRODUCTION

Government plays a vital role in the development of the economy. From last few decades, we have witnessed various market economies. Broadly, there are three economic system; Capitalism, Socialism and mixed economies. Capitalism is an economic system where individuals have control over resources. Individual are free to conduct any type of business. Government has no or minimal control over these resources. In case of economy based on socialism, resources are owned by state and state owned institutions. This economy prioritises social values, economic stability and growth, whereas profit maximization is not prime goal. Mixed economy is the economy, which has characteristics of both capitalism and socialism. There is co-existence of private and public sectors. There is distribution of resources among both and mixed control over resources for achieving balanced economic development. Indian economy is mixed economy as indicated by the First Industrial Policy Resolution, 1948.

Government oversees the working of business enterprises and also controls the working of public enterprises. It can regulate public enterprises (PE) either by interfering in day-to-day decision making or by framing policies, rules, and regulations and by assigning duties to public enterprises. But it can provide full autonomy to the public enterprises due to various reasons. Because public enterprises are an important instruments for the implementation of public policies and these are generally large and power concentrated. Government has to maintain equilibrium between control and autonomy for matching its goals.

4.1.1 FACTORS AFFECTING GOVERNMENT-BUSINESS INTERFACE

Government and public enterprises relationship is of great important as public enterprises are highly dependent on the government for funds, resources and for numerous day to day clearances. In government and public enterprise interface, the extent of autonomy and control is affected by many factors including the performance of the public enterprises or profits earned by the public enterprises. Government shows relatively higher concern for the enterprises which are in losses as compared to profit making public enterprises. But profit-earning is not always the goal of the government owned public enterprises as compared to private sector organization where the prime purpose of their existence is profit. Government public enterprises focuses on social goals and balanced economic growth. Government public enterprises may have monopoly positions and still there are cases that particular public enterprise is not making profits just because government may not allow its public enterprise to raise price of its products/services after a certain limit due to social cause.

The second factor that affects the government and public enterprises relationship is the personality of chief executive of public enterprises, his past performance and his equation with the concerned government. It has been seen many a times that public enterprises of same commercial nature with similar environment enjoys greater autonomy as compared to another one just because of the personality of the chief executives.

Third main factor that limits the extent of autonomy to the public enterprises is type of decision making. There are number of important matters where prior approval of government is must. Generally these matters are specifically listed in the Article of Association of the government public enterprises. These matters includes decisions in case of capital expenditure, formation of a subsidiary, framing of rules governing employment funds, distribution of profits, collaborations etc.

4.2 PUBLIC ENTERPRISE

A public enterprise is autonomous or semi-autonomous corporations which are wholly or partly owned, managed and controlled by state government or central government or by both. The goal of the public enterprise is to maximise social welfare, protect public interest and balanced economic growth of the country. They come into existence for the service motive and maintaining state of ownership of industrial and commercial undertaking.

According to N.N. Mallya, ‖Public enterprises are autonomous or semi autonomous corporations and companies established, owned and controlled by the state and engaged in industrial and commercial activities.‖

Earlier, commercial activities and resources were left for private sector and government holds its share only in essential services such as railways, electricity etc. But private sector organizations are only interested in those areas which are less risky and profitable. Industries got concentrated in those regions which are economic and are having commercial advantages like nearness to supplier and market, skilled and cheap labour which resulted in imbalanced growth of country. They also did not take care of public interest as their prime goal is to earn profits. Industries and sectors which are less attractive due to some advantages like high investment, long gestation period, low profit margin and high vulnerability got underdeveloped. These reasons forced government to establish government corporations and companies for public interest. Some examples of public sector enterprises are Insurance Corporation of India, State Trading Corporations, and Steel Authority of India etc.

4.2.1 CHARACTERISTICS OF PUBLIC ENTERPRISES

As the public enterprises are owned, managed and controlled by government, the basic characteristics of public enterprises are:

1. **GOVERNMENT OWNERSHIP:** The basic nature of public enterprises is that they are owned and managed by central or state government or by both. Government may have full ownership or part. But the government owns at least 50% of the share of the corporation so that ownership and management remains with government.
2. **GOVERNMENT MANAGEMENT:** Public enterprises are autonomous bodies which are managed by government. Government appoints key personnel like chief executives, board of directors, chairman etc. in these enterprises that manages and controls the organization on the behalf of government.
3. **FINANCED FROM GOVERNMENT FUNDS:** Capital of public enterprises are raised from the funds of government. Funds can be provided by state government, central government or by the local authority.
4. **SERVICE MOTIVE:** Pubic enterprises generally concentrate on providing public utility services. The prime goal of the public enterprises is to provide services and products to the public at reasonable prices. They aim at balanced growth of the country and public welfare. Profit earning is not the main motive.
5. **PUBLIC ACCOUNTABILITY:** Public enterprises are owned by government so that these organizations are accountable to general public. This is the one of the reason for having control over public enterprises because government is responsible for their performance in the parliament.
6. **AUTONOMOUS:** Public enterprises are owned by the government but still these are autonomous bodies. Government does not interfere in day-to-day working of the organization.
7. **SEPARATE LEGAL ENTITY:** Similar to other organizations and companies, public enterprises also have a separate legal entity. It is established under the act and it has its own common seal. It can enter into contract on its own. It can sue in its own name and can be sued.
8. **EXCESSIVE FORMALITIES:** Before actual implementation of any project every decision making has to follow a lot of formalities due to government rules and regulations which causes delay in decisions.

4.2.2 RATIONALE OF PUBLIC ENTERPRISE

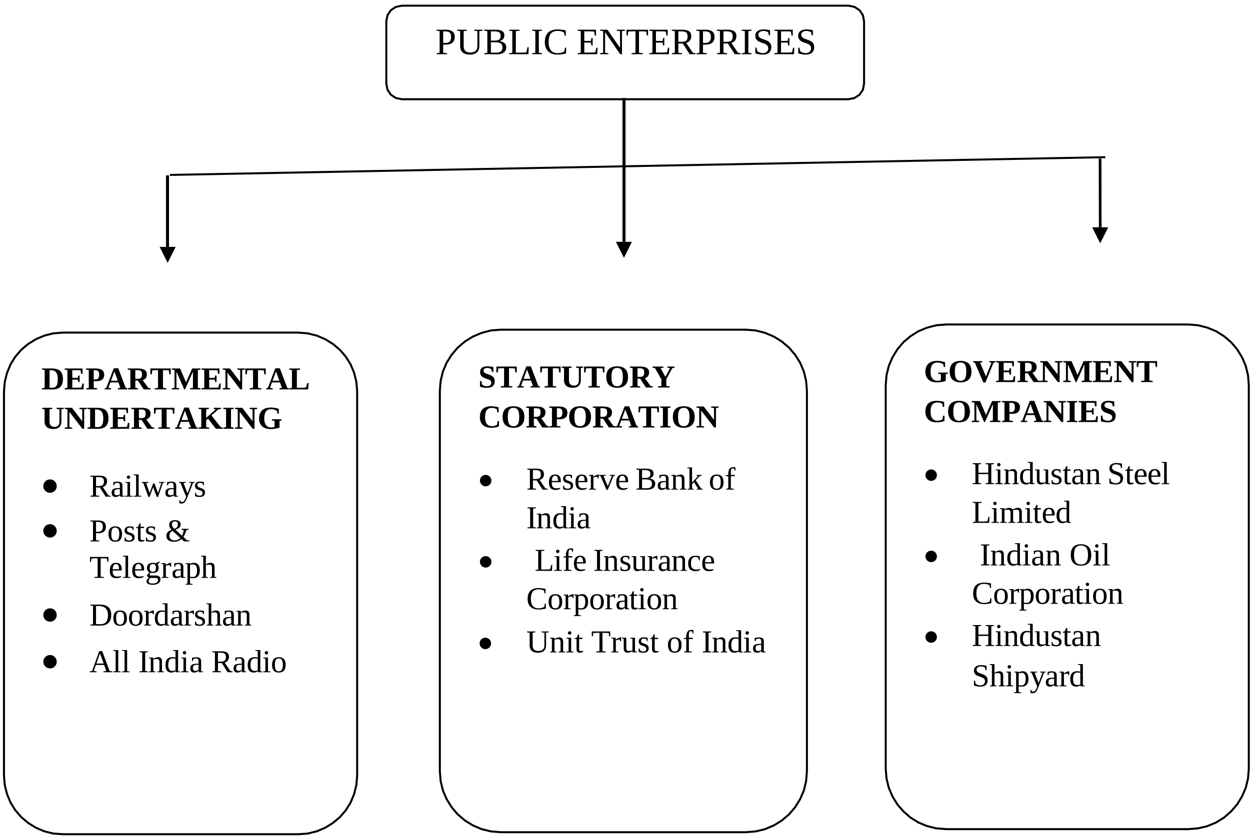
As discussed above, earlier government only focused on the essential services and products. Rest of the commercial activities were open for only private sector. But as the time passed, existence of public enterprises became important due to various reasons:

1. **PLANNED DEVELOPMENT:** Public enterprises are owned by government. Government aims to promote social and economic development of country as a whole. Public enterprises follow government's plans and policies for the development of the country in an efficient manner.
2. **BALANCED DEVELOPMENT:** Private sector always focuses on those areas which are economical to them. The aim of private sector is to earn profits. They gets concentrated where they have economical advantages like easy availability of raw material, cheap labour, easy market for output etc. causing regional imbalances in the country. Public enterprise tries to develop every region in harmonious ways. Public enterprises also invest in those commercial activities which are less attractive to the private sector like the projects with huge investment, long gestation period and risky projects etc.
3. **ECONOMIC GROWTH:** Economic growth of the country is always the priority of any country especially for developing countries like India. Public enterprise boosts the economic development of the country by investing capital in various projects as the capital can be easily arranged by the government.
4. **SOCIAL WELFARE:** Public enterprises not only aim at development of the country, they also come into existence for providing essential goods and services to general public. They help in reducing economic inequality. Public enterprises don't raise prices of its products/services in certain cases even though they are in losses just because they primarily aim for social goals.
5. **REDUCING ECONOMIC INEQUALITY:** Public enterprises also help in reducing economic inequality by investing in different regions of the country especially which is less attractive to the private sector. It helps in improving the living standard of the public.
6. **SUPPLY OF ESSENTIAL GOODS AND SERVICES:** Another rationale behind the public enterprise is to have commercial and organizational control over the supply of essential goods and services. So that it can provides goods and services to the general public at reasonable prices.

4.3 FORMS OF PUBLIC ENTERPRISES

Industrial Policy Resolutions of 1948 and 1956 aimed at Socialistic Pattern of the society which made the role of public sector significant in India for the economic development of country. Government of India has setup various public sector organisations like Reserve Bank of India, Unit Trust of India, Food Corporation of India, Railways etc.

There are three principle forms of public enterprises having different features having difference in flexibility of operations, autonomy, control and accountability. Form of organization shows the framework and interrelationship between government and organization. Choosing a particular form of organization will depends on the objectives and goals of the government. We will discuss the features of each one in detail:



4.3.1 <u>DEPARTMENTAL UNDERTAKING</u>

Departmental undertaking is the oldest form of managing and operating the public undertaking. These departments are managed, financed and controlled by the government. This form of public enterprise is most suitable for the administration of national services like railways, posts and telegraphs where control of the government is required for protecting public interest. A separate minister is appointed for the administration of each department. Some of the examples of departmental undertakings are Railways, Posts & Telegraph, All India Radio, Doordarshan etc.

4.3.1.1 <u>FEATURES OF DEPARTMENTAL UNDERTAKING</u>

The features of departmental undertakings are:

1. These organizations are fully financed by government funds and revenues from these undertakings are paid back to the government treasury.
2. Administration of the undertaking is headed by the minister in charge of the concerned department appointed by the government.
3. Government manages and controls the department through budget appropriations, accounting and audit controls.
4. Employees in these departments are recruited, promoted and governed through the rules and regulations of the government like other civil servants.
5. There is less flexibility in the decision making as compared to other forms which causes the delay in decisions.
6. Policies are discussed in parliament and the department is accountable to legislature for its performance.

4.3.1.2 <u>MERITS OF DEPARTMENTAL UNDERTAKING</u>

The merits of departmental undertakings are:

1. **ECONOMIC AND SOCIAL OBJECTIVE:** The main objective of public undertakings is to serve the society and the development of nation. It also provides more and more employment opportunities and provides goods to general public at reasonable prices. These undertakings can be earn profits but profit earning is not the prime goal of these organizations.
2. **ACCOUNTABILITY TO THE PARLIAMENT:** Though departmental undertakings are headed by the minister but still it has to be accountable in the parliament for their performance. It cannot take any decision against the public interest. If it harms the interest of any particular group of people, questions can be raised immediately in the parliament.
3. **SOURCE OF INCOME FOR GOVERNMENT:** The main objective of departmental undertaking is to serve the general public. But if any surplus is earned by the undertaking, that surplus adds to the income of government. Increased government income helps in meeting deficiency.
4. **IMPLEMENTATION OF GOVERNMENT POLICIES:** Departmental undertakings helps government in having control over the economic activities of the country which makes easy for the government in implementation of any social and economic policy in the country.
5. **CONTROL OVER THE ENTERPRISE:** In this form of public enterprise, government enjoys full control over the undertaking which helps the government in achieving its social goals. It also helps in avoiding misuse of funds of the government.

4.3.1.3. DEMERITS OF DEPARTMENTAL UNDERTAKING

The demerits of departmental undertakings are:

1. **DELAY IN DECISION MAKING:** Government have excessive control over the organization and it interferes in the day-to-day administration which results in delayed decisions. Delayed decisions may result in loosing opportunities and inefficiency which ultimately affects the performance of the organization.
2. **LACK OF PROFESSIONAL EXPERTISE:** Employees who manages the administration of the undertaking generally lack personal expertise and business experience. These are generally run by the political parties and ministers. Lack of knowledge and expertise leads to under utilisation of resources.
3. **BUREAUCRATIC INFLUENCE:** This form of public enterprise suffers from the influence of bureaucratic ills. Government permission is required for every decision making like expenditure, appointment, plans and policies. Every decision gets delayed due to a lot of bureaucratic formalities.
4. **INEFFICIENT FUNCTIONING:** Departmental undertaking generally runs in losses. Even after these losses, there is no attempt is made to improve their efficiency. They increase the burden on the government budget.
5. **LACK OF FLEXIBILITY:** Departmental undertakings lack flexibility due to a lot of formalities. Strict and rigid policies are not conducive to speedy action. Proper procedures have to be followed before any action or change.

4.3.2 STATUTORY CORPORATION

Statutory corporations are those public enterprises which are incorporated under the special act of parliament. That act defines its nature, area of activity, its functioning, powers, relation with government and extent of accountability etc. This type of public undertaking enjoys more autonomy than the departmental undertaking. They have more freedom in day-to-day decision making. The corporation cannot perform any act or enter into any contract which is not specified into the act before passing the resolution. The examples of statutory

corporations are Reserve Bank of India, Unit Trust of India, Employee State Insurance Corporation, Oil and Natural Gas Corporation etc.
According to F. D. Roosevelt, ―It is an autonomous form of organization clothed with the power of government, but possessed with the flexibility and initiative of private enterprise.‖

4.3.2.1 FEATURES OF STATUTORY CORPORATION

The features of statutory corporation are:

1. It is wholly owned and financed by government.
2. It has a separate legal entity. It can sue, can be sued and can enter into contract in its own name.
3. It is incorporated under special Act of parliament which specifies the objectives, powers, functions and relationship with government.
4. It is managed by the board of directors who are appointed by the government.
5. It enjoys the financial autonomy. It can raise funds from borrowings and it is also authorised to use its revenues.
6. The employees of the corporation are recruited under the terms and conditions framed by the board. These employees are generally not the government employees.
7. The prime objective of the corporation is to provide service than profit maximization.

4.3.2.2 MERITS OF STATUTORY CORPORATION

Statutory corporation has been considered as an appropriate instrument for establishment of government owned enterprises. The merits of statutory corporation are:

1. **AUTONOMY OF OPERATIONS:** Statutory corporation enjoys the internal autonomy in day to day operations. It is free from the direct influence of government which helps in speedy actions.
2. **ACCOUNTABILITY:** Statutory corporations are responsible and accountable to the parliament and general public for their operations. There becomes a responsibility of the board to be efficient.
3. **HIGHER FLEXIBILITY:** As there is autonomy to the management of operations, these corporations enjoy higher flexibility in their operations. Higher flexibility results in better performance and greater efficiency of management.
4. **MANAGEMENT EXPERTISE:** Board of directors appointed by the government generally possess the knowledge and business expertise. These corporations are run under the guidance of expert board.
5. **SOCIAL OBJECTIVE:** These corporations are run on the objective of social welfare and to promote the public interest. They provide services at reasonable prices to promote welfare.

4.3.2.3 DEMERITS OF STATUTORY CORPORATION

Statutory corporation has eliminated many limitations of departmental undertakings but still there are some limitations pertaining to statutory corporation. The demerits of statutory corporation are:

1. **RIGIDITY:** Statutory corporation faces rigidity in operations. Corporation is only authorised to do only these activities which are stated in its governing act. If it wants to do anything for which it is not authorised a resolution has to be passed in the parliament for the amendments.
2. **BUREAUCRATIC INTERFERENCE:** It is said that statutory corporations are free from government influence. But in reality, it is not true. It has to face government interference in various matters.

3. **UNDERUTILIZATION OF RESOURCES:** Statutory corporation generally have monopoly in their field of activity. Lack of competition can be a hurdle for the full motivation which causes underutilization of resources and ignorance of commercial principles.

4.3.3 GOVERNMENT COMPANIES

Companies Act, 2013 defines a government company as a company which is registered under Indian Companies Act, 2013 and in which government holds at least 51% of the equity capital. All the rules and regulations stated in the act for the registered companies are applicable to the government companies. There is no need of prior approval of parliament or state legislature for its incorporation. These companies enjoy higher managerial and operational autonomy and are incorporated in order to provide competition to the private sector. The government may have subscribed entire equity holdings or partly with the public. But government must have at least 51% of equity shares in order to make it a government company. For example Hindustan Steel Limited, Bharat Heavy Electricals Limited, Indian Oil Corporation, Hindustan Shipyard etc.

4.3.3.1 FEATURES OF A GOVERNMENT COMPANY

1. Government company is registered under the Companies Act, 2013 and it has almost all the features of a limited company.
2. It has its own Memorandum of Association and Article of Association which governs its functions, power and relationship with outside world.
3. Company is managed by the board of directors and directors are appointed by the government depending upon the extent of private participation of private capital.
4. It has a separate legal entity. It can sue, can be sued and can enter into contract in its own name.
5. Government holds whole or part of the equity of the company. It must have at least 51% of the equity shareholdings.
6. Employees recruited in company are not civil servants. These employees are governed under the policies mentioned in article of association.
7. Company is accountable to the government for its activities in the parliament but the revenues and expenditure are not mentioned in the budget of department.

4.3.3.2 MERITS OF GOVERNMENT COMPANIES

The merits of government companies are:

1. **EASY TO INCORPORATE:** A government company is easy to incorporate as compared to other public enterprises. There is no need to pass bill in the parliament. It can be easily incorporated just by following the procedure mentioned in Companies Act, 2013.
2. **AUTONOMY OF OPERATIONS:** This form of public enterprise enjoys greater autonomy of operations and management. Government does not interfere in day to day working of the company. Board is appointed by the government which manages its administration.
3. **COMMERCIAL APPROACH:** Board of directors appointed by the government are generally possessed with business expertise and knowledge. They run on the commercial principles. These are incorporated in order to provide competition to the private sector.
4. **GREATER EFFICIENCY:** Company is managed by the board of directors who are expert and experienced. They are also accountable to the government in the

parliament for its performance. Management has to work with the full efficiency and it also provides healthy competition private sector.

4.3.3.3 DEMERITS OF GOVERNMENT COMPANIES

Government companies faces following limitations:

1. Government companies are free from government audit which increases the risk of fraud.
2. Though government company is a separate entity but it still faces the influence of government and other shareholders.
3. Board of directors are generally appointed for fixed salary which results in lack of initiative and interest in the management.
4. Policies of government keeps on changing with the change in the government which is also a hindrance for their development.

4.4 DIFFERENCE BETWEEN THREE FORMS OF PUBLIC ENTERPRISES

After knowing about the features of different forms of public enterprise, let us compare each of them in a summarised form:

Basis	**Departmental Organisation**	**Public Corporation**	**Government Company**
1. Formation	Financed by government and headed by minister under a particular ministry.	Incorporated under the special act of parliament.	Incorporated under Companies Act, 2013.
2. Entity	It does not have a separate legal entity.	It has a separate legal entity.	It has a separate legal entity.
3. Capital	Fully financed by government out of government budget.	Fully subscribed by government.	At least 51% of shares are subscribed by government to be a government company.
4. Management	Managed by the concerned ministry which is headed by the minister.	Managed by board of directors appointed by government itself.	Managed by board of directors of the company. The members of board of directors are elected by government and other shareholders.
5. Private Participation	Zero private participation.	Zero private participation.	Private participation up to the shares held in private hands.
6.	Minister who heads the	Accountable to public	Accountable to public.

Accountability	ministry is accountable to the legislature for the performance of the organization.	for its performance through legislature.	
7. Operational Autonomy	This form of public enterprise enjoys least operational autonomy. There is a lot of government interference.	Enjoys more operational autonomy as compared to departmental organization. Government interference is exercised in case of important matters like those affairs which involves huge funds, investment etc.	It enjoys great operational autonomy as it runs on commercial principles.
8. Flexibility	Less flexibility as for every decision there are lengthy and time consuming procedures that are to be followed before actual implementation which makes it less flexible.	More flexible as compared to departmental undertaking but still there are some government restrictions.	Free from government control and flexible in decision making. This form is not subject to any control like budgetary control, accounting procedures.
9. Financing and Borrowing Powers	Funds are allotted in budget. It doesn‘t have powers to borrow funds from outside.	It enjoys powers to borrow and it can also use its revenues which departmental undertaking cannot.	This form of public undertaking arranges its funds at its own.
10. Staffing	Employees of departmental undertaking are civil servants.	Employees of Public corporation are not civil servants. They are governed by the terms and conditions of the corporation.	Employees of government company are not civil servants. These are governed by contract of service of the company.
11. Examples	Railways, Posts & Telegraph, All India Radio, Doordarshan etc.	Reserve Bank of India, Unit Trust of India, Employee State Insurance Corporation, Oil and Natural Gas Corporation etc.	Hindustan Steel Limited, Bharat Heavy Electricals Limited, Hindustan Shipyard etc.

4.5 INTERNATIONAL BUSINESS

International business refers to production or trade of goods or services, technology, capital or knowledge across the borders of the country and at global level. International business includes all commercial activities across national boundaries. According to International Business Journal, ―International business is a commercial enterprise that performs economical activity beyond of its location, has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between countries.‖ Due to globalisation, world is shifting towards interdependent and integrated global economy. Markets are becoming global; trade barriers across countries are reducing which offers greater opportunities for international business. International business helps organizations and countries to take the benefit of comparative advantage arising due to regional imbalances in countries. In other words, a country can export those products and services for which they are having economic advantage and can produce at cheaper cost. On the other hand, the country can import those products for which they have to incur high cost for in-house production. For example, India's comparative advantage is labour-intensive which means India can produce those products and services at cheaper rates which needs high labour as compared to US which is capital intensive country.

4.5.1 FEATURES OF INTERNATIONAL BUSINESS

There are some unique features of international business. These are discussed as follows:

1. **LARGE MARKET:** In international business, market for the output is not limited to the home market only. Markets become global and expanded which provides a lot of opportunities for the growth of business at a large scale. A business can have the advantage of economies of large scale which reduces the per cost unit of production and increases profits.
2. **INTEGRATION OF ECONOMIES:** With the globalisation, trade barriers are reducing and economies of countries are integrating. A business can have advantage of this integrity by importing and exporting land, labour and capital from the place where it is available at cheaper rates and can sell its products and services at a place where it can fetch higher prices.
3. **INCREASE IN STANDARD OF LIVING:** International business helps in improving standard of living of society. International business introduces a range of new products and services to the society. It also provides expertise and specialised services to under developed and developing countries which helps in improving their standard of living.
4. **BETTER UTILISATION OF RESOURCES:** International business increases competition in domestic markets and at international level. Increasing competition forces organizations to innovate new technologies to improve their efficiency and better utilisation of resources.
5. **EXPOSURE TO INTERNATIONAL FINANCE:** International business also helps in raising funds across borders. Funds can be raised from any country and also in different currencies. It reduces the limitation of domestic business for raising funds.
6. **INTERNATIONAL RESTRICTIONS:** Though international business helps in reducing trade barriers among countries. But still there are a lot restrictions related to inflow and outflow of goods, services, funds and resources etc. Many countries restrict the transfer of resources in order to protect the interest of public and nation.
7. **INCREASED COMPETITION:** International business increases competition both in the world market and also in domestic market which is threat to the small and medium business organisation to survive who lack resources for their expansion and to face that competition. Large MNCs are always in the better position to compete

because of expertise and having economies of scale at large. Thus international business is a threat to the domestic market.

International business provides a lot of opportunities for business organisations and countries. With these advantages, there are also a lot challenges that are faced in the international business like difference in laws, taxation, culture, language, taste & preferences and values etc. An international business has to analyse each and every aspect before entering to another market.

4.5.2 ADVANTAGES OF INTERNATIONAL BUSINESS

International business offer certain advantages as follows:

1. **HIGHER STANDARD OF LIVING:** When business goes global, customers can purchase more goods and service from around the globe. Customers will not get dependent on the limited range of goods and services within the country only.
2. **REDUCED RISK:** Both commercial and political risk gets reduced when business is spread in various countries. If there is worse situation in one country then it gets balanced with another.
3. **WIDER MARKETS:** In international business, the market size widens. It is not limited to one country only or a limited customer base.
4. **LARGE SCALE OF ECONOMIES:** International business gets benefits of economies of scale at large. Large scale of economies reduces per unit cost to the organisation. It also takes the benefit of expertise and specialisation.
5. **HIGHER PROFITS:** International business provides various opportunities which increase profits for the organisation like large scale economies, large markets, optimum resource utilisation etc.
6. **ADVANTAGES OF UNTAPPED MARKETS:** International business can explore those markets which are untapped and unexploited. The organisation can have the advantage of these markets by selling their products at higher price as compared to local market.
7. **OPTIMUM UTILISATION OF RESOURCES:** International business also helps in optimum utilisation of resources. International business increases competition in domestic markets and at international level. Increasing competition forces organizations to innovate new technologies to improve their efficiency and better utilisation of resources.

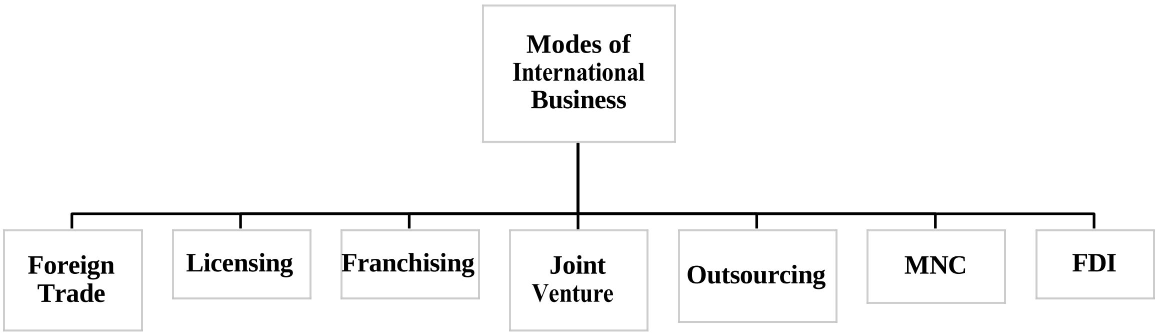
4.5.3 DISADVANTAGES OF INTERNATIONAL BUSINESS

Apart these advantages, there are also various disadvantages and challenges that are faced by the organisation at international level. These are:

1. There are a lot of political restrictions and formalities which discourages an organisation.
2. Fluctuations in foreign exchange rates.
3. Balance of payment of a country also gets affected.
4. There are a lot restrictions and requirements before entering into another country‘s market.
5. An organisation, which is going to enter global market has to face a lot competition from large multinational companies which is a great challenge for a new entrant of international business.

4.5.4 <u>MODES OF INTERNATIONAL BUSINESS</u>

Before going for international business, one should be aware of that what are various modes of conducting international business? A business can enter into global market through various ways. These are:



1. **FOREIGN TRADE:** Foreign trade is the simplest and oldest form of doing international business. Foreign trade means import (inflow) and export (outflow) of goods and services from one country to another.
2. **LICENSING:** Another easy mode of international business is licensing. This mode is most suitable where business lacks capital and knowledge about the market where it wants to expand its business. In this mode, it provides license to use its technology, patents, copyrights, trademarks to another. And in exchange of that, a fee is charged for using this license.
3. **FRANCHISING:** This is also an effective mode for expanding business at international level. In this mode, parent company allows another to carry business on the brand name of parent company. The company whose name is used is called franchiser and company who is using name is called franchisee. There are a lot of examples of franchising like Pizza Hut, KFC, Domino‘s, Subway etc.
4. **JOINT VENTURE:** Joint Venture is a type of partnership between international company and another business located in the country where it wants to expand its business. This mode is an agreement between two businesses which helps both organizations to take benefits of each others‘ comparative advantage.
5. **OUTSOURCING:** Outsourcing is a mode of international business, where contracts are provided to another company for performing a particular job. This mode is useful when the performing same task at its own being costly. In that case, these particular job tasks are contracted outside at cheaper rate from those who are having competitive advantage in that.
6. **MULTINATIONAL COMPANIES:** In this, companies conduct its own business in different countries. A multinational company is a company which operates in home country and also in other countries. Coca-Cola, Nestle, Microsoft and Apple Inc are the perfect examples of multinational companies. This mode is used where it wants to have full control over its business.
7. **FOREIGN DIRECT INVESTMENT:** When a company or an individual invests in business or companies in other country or countries, then it is called foreign direct investment. In this investor holds majority of equity holdings to make that company its subsidiary. But usually investing companies invests more than just capital. It introduces its technology, management and expertise etc. in which they

have comparative advantages. This is also an easy and simple mode to enter into international business.

These are the different modes through which a company, organization can go global after considering its pros and cons. Because each mode has certain merits and limitations as there are a lot factors that affects decisions for it like legal factors, economic forces, social factors etc.

4.6 MULTINATIONAL CORPORATIONS

Multinational corporation is an organization that owns assets at least one country other than its home country. A multinational corporation controls and manage production in more than one country. It operates its business in at least one country other than its home country. For example Apple, Coca-Cola, Microsoft, IBM, Toyota and Nestle etc.

According to Black‘s Law Dictionary, a company who derives 25% or more of its revenue from another country than its host country, that company is considered as multinational corporation. But the essential nature of a multinational corporation is that its headquarters are located in home country and it operates and carries its business in other countries also. Multinational corporations are also called multinational enterprise, transnational corporation and transnational enterprise etc. Leonard Gomes defined MNCs as ―a corporation that controls production facilities in more than one country and such facilities having been acquired through the process of foreign direct investment. Firms that participate in international business, however large, they may be, solely by exporting or by licensing technology are not multinational enterprises.‖

Multinational corporation can manage its operations in different countries through various modes like opening branches, subsidiaries, joint venture with another company and through franchising etc. With the advent of technology and globalisation, multinational corporations provide variety of opportunities and advantages to the organisation. MNCs enjoy the benefit of economies of scale at large scale and have advantage due to large market. Multinational corporations can also take the advantage of comparative advantage from different countries by performing some of its operations from the country which is economical. MNCs are also beneficial to the countries like India who are developing and under developed. Because they strengthens the market, helps in product innovation and transfers technologies from developed countries to developing countries to use and exploit resources in an efficient and profitable way.

Multinational corporation, being an overseas business, is influenced by various social, cultural and legal factors. An organization has to be very careful and aware of values, beliefs and attitude of target market before entering into that market. Otherwise it can prove a costly blunder. Each factor should be appreciated properly that how they are different from host country and how they can influence our business. Government policies, prevailing law and taxation policies also have direct influence on the operations objectives and profitability of the organization.

4.7 ANSWER TO CHECK YOUR PROGRESS

4.7.1 WRITE A SHORT NOTE ON THE FOLLOWING

1) What is government business interface?
2) What do you mean by public enterprise? Give examples.
3) What are the main features of public enterprise?
4) What are various features of a departmental undertaking?
5) Write a short note on statutory corporation.
6) How a government company is different from other companies?

7) What is international business?
8) How a company can go global?
9) What do you mean by multinational corporation?

4.7.2 LONG ANSWER TYPE QUESTIONS

1) What is public enterprise? State its features. Why public enterprises are necessary?
2) What are different forms of public enterprise? Explain in detail.
3) What is international business? Why international business is important?
4) Explain the meaning of multinational corporation? How a multinational corporation is different from international business?
5) What are the reasons for emergence of international business? How international business can be conducted?
6) What do mean by government companies? Explain its key features with merits and demerits.
7) What is government undertaking? Explain in detail.
8) What are the main features of statutory corporation? Explain merits and demerits.

B. COM (Hons.)

SEMESTER I

COURSE: BUSINESS ORGANISATION AND MANAGEMENT

UNIT 5 - MANAGEMENT AND ORGANISATION

STRUCTURE

5.0 Objectives

After going through this unit, you will be able to answer:

- Management and organisation.
- Concept of management.
- Functions of management.
- Planning
- Process of management.
- Strategy formulation.
- Decision making

5.1 INTRODUCTION

Human beings do not live in isolated world which means everyone is dependent on other in some manner to satisfy needs and demands. It is just like ecosystem of nature where every section is important to complete chain. An organisation does not comprise only of single person that is managers or directors rather it consists of different levels, positions, function and system. A rational human only think about managing people whenever he thinks about management .However, management is vast concept it includes managing and organising each and every aspect of entity. If people are left to themselves then nobody would be responsible to anyone. The basic unit of the community is human being but no individual can himself satisfy all his demands and desires. A person has to work in group of people Management and organisation are inseparable part. No organisation can run smoothly until and unless there is some kind of management. The presence of management can be felt at kitchen in home where we keep each and every spice or ingredients at proper place so that person would not face any difficulty in locating an object. An organisation is a group of people working together in order to achieve common goal. Management is required to plan, to organise, coordinate and control the affairs of business entity. Management is a force that brings human and matter together and motivates people to achieve set of targets and objectives.

5.2 DEFINITIONS OF MANAGEMENT

Different scholars have given a wide variety of definitions of management, here we are discussing a few as follows:

Mary Parker Follet , **—** Management is the art of getting things done through people **—**

Henry Fayol , —To manage is to forecast and to plan , to organise, to command , to coordinate and to control‖

Harold Koontz, "Management is the art of getting things done through others and with formally organised groups."

F.W. Taylor, "Managemen**t** is the art of knowing what you want to do and then seeing that they do it in the best and the cheapest may."

Donald J. Clough. **—**Management is the art and science of decision making and leadership‖

Rose Moore,‖ Management means decision making **—**

5.3 MANAGEMENT AND ORGANIZATIONS

In today's tough competitive world and unpredictable economy, a company needs strong managers to lead and motivates its workers toward accomplishing business goals and objectives. But managers are more than just leaders — they're problem solvers, cheerleaders, communicators and planners as well. Managers fulfil many roles and have many different responsibilities at each level of management within an organization. The role of the management is wide and is not confined to single role or duty.

Organizations exist in large number s in today's society. Groups of individuals constantly join forces and efforts to accomplish common goals. Sometimes the goals of these organizations are for profit, such as food chains or cloth outlets. Other times, the goals of some entities are more altruistic, such as non profit hospitals or public schools. But no matter what their aims and goals are , all these entities share two features in common: They comprise of people, and certain individuals are in charge of these people. Collective efforts are important to achieve certain tasks and goals. People do not live in isolated world they have to work together and in systematic way. Merely gathering of people does not define organisation, the role, duty, responsibility and relation of very person must be clearly defined and stated. In simple words, organising is the process of setting up of organisation structure to create different job position and create relationship between them.

Managers appear in every organization; The presence of management can be felt at least in organizations that want to succeed. These individuals have the sometimes unenviable task of making decisions, solving difficult problems, setting goals, planning strategies, and organising individuals. And those are just a few of their responsibilities. To be exact, managers administer and coordinate resources effectively and efficiently to achieve the goals of an organization. In essence, managers get the job done through other people.

No matter what type of organization they work in, managers are generally responsible for a group of individuals' performance. As leaders, managers must encourage this group to reach common business goals, such as bringing a new product to market in a timely fashion. To accomplish these goals, managers not only use their human resources, but they also take advantage of various material resources as well, such as technology.

Think of a team, for example. A manager may be in charge of a certain department whose task it is to develop a new product. The manager needs to coordinate the efforts of his department's team members, as well as give them the material tools they need to accomplish the job well. If the team fails, ultimately it is the manager who shoulders the responsibility. Two leaders may serve as managers within the same company but they may have different titles and purposes. Large organizations, in particular, may break down management into different levels because so many more people need to be managed. Typical management levels fall into the following categories:

- **TOP LEVEL:** Managers at this level ensure that major performance objectives are established and accomplished. Common job titles for top managers include chief executive officer (CEO), chief operating officer (COO), president and board of directors. These senior managers are considered executives, responsible for the performance of an organization as a whole or for one of its significant parts. The top level of management is concerned with setting up the goals and objects. And laying down the long term policies and short term plans to achieve the determined goals.
- **MIDDLE LEVEL:** Middle managers report to top managers and are in charge of relatively large departments or divisions consisting of several smaller units. Examples of middle managers include directors in companies; deans in universities; and division managers, plant managers, and branch sales managers in businesses. Middle managers develop and implement action plans consistent with company objectives, such as increasing market presence. Middle level also acts as link between top level and lower level which is very important for coordination between various departments and to increase cooperation among employees.
- **LOW LEVEL:** The initial management job that most people attain is typically a **first-line management** position, such as a team leader or supervisor — a person in charge of smaller work units composed of hands-on workers. Job titles for these first-line managers according to functions and duties of mangers but designations like department head, group leader, and unit leader falls under this category. First-line managers ensure that their work teams or units meet performance objectives, such as producing a set number of items at a given quality, that are consistent with the plans of middle and top management. The main task of lower department is to implement and execute policies and engage in field work.

5.4 Is <u>MANAGEMENT AN ART OR SCIENCE</u>

It is a debating issue for many experts and professionals to determine whether management is exact science or art. Therefore, it is crucial to understand real nature of management .If it is considered as art then it involves skill and experience that can be acquired through continuous practice. If management is considered as science then it involves formulation and understanding of principles. Earlier mangers had used their guess work, common sense and experience in managing the organisation. Yet, they were brilliant without undergoing professional training.

Management as an ART- Art demonstrates the way of doing a particular kind of job .It involves application of skill, knowledge and experience. Art cannot be defined in particular sense because every manager has its own way of dealing with situation, therefore it a personalised process. Art of doing work cannot be acquired by reading a books or journal .It is a continuous practice over long period of time.

Management as a Science- The principle of management are based on cause and effect relationship. Art as a science is systematic body of knowledge acquired by human beings through proper examination and observation. All the principles of management have universal applicability. The reliability of events can be ascertained to some degree by relying on and using these rules and principles.

Management is both science as well as art but it cannot be termed as exact science or pure art. Both science and art are complementary to each other. As Cossa has said, ―Science requires art, art requires science, each being complementary to each other.‖ It may be concluded that there is no hard and fast line between art and science of management. The former (science) will have to solve problems and establish principles which might be applied with benefit to the latter(art). In the words of Dean Stanely F. Teele, ―Management is the mixture of art and science....The present ratio is about 90% art and 10 % science. Though a very great deal of developments are presently increasing that proportion which can properly be called science. I am willing to venture a guess that by the end of another generation the ratio will be 80% art and perhaps 20% science‖

5.5 CONCEPT OF MANAGEMENT

The term management has widely used in different senses .Some of the important concepts related to management are discussed in detail-

- **MANAGEMENT AS A INNOVATIVE PROCESS:** It is creative process where continuous efforts are made to analyse all possible risk, opportunities and solutions to emerging problems .Challenges such as change in technology and increase in competition make managers to think wisely and take required action to solve these problems for smooth running of business. Management has to anticipate all emerging challenges and factors that can impair functioning of business entity .
- **MANAGEMENT IS UNIVERSAL:** Management is required in every type of organisation even if the motive is not to earn profit .Where there is human activity, there is management.

  Management of functions and operations is crucial for every entity. Moreover, the management is required at every level whether it is top level or lower level.
- **MANAGEMENT IS SOCIAL PROCESS:** Business entities cannot function in isolated world which means it require man force and labour. Business entities are inseparable part of society that create certain responsibilities toward community. Organisations use resources of community so in return they have to fulfil certain social responsibilities. Nowadays, the concept of social responsibility has gained recognition under Company Act 2013 and SEBI guidelines that impose liability on organisation to spend specific amount for welfare of community.
- **MANAGEMENT IS A FACTOR OF PRODUCTION:** Management is a binding force that brings all the factor of production together such as men, material and machinery so without management all other resources are useless. For example- machinery cannot operate itself, So the Management by hiring an operator makes it

work .Management organises resources in such a manner so that effective and maximum utilisation could be possible

- **MANAGEMENT AS AN ECONOMIC RESOURCE:** All the factors of production i.e land, labour, capital and entrepreneur cannot produce productive results until they are co-ordinated, arranged and managed by management.
- **MANAGEMENT AS A PROCESS:** It is continuous process that begins with setting up of objectives, its implementation, evaluation and take corrective steps to remove deficiencies. It is not a onetime action, it starts with planning and ends with controlling then again begins with planning. Management keeps on functioning till the existence of business and sometimes even after when business cease its operations. For example – Liquidator takeover the management of assets and liabilities during winding up process.
- **MANAGEMENT AS AN ART OF GETTING THINGS DONE:** It is an art of getting things done by others with co-ordination and cooperation. Management motivates employee by providing financial and non financial incentives .Managers influence behaviour and attitude of employees for getting things done in appropriate way.
- **MANAGEMENT IS AN ACTIVITY:** Management is an activity like other activities. It involves interaction with other people, making important decisions and providing information to stakeholders
- **MANAGEMENT AS A COMMUNICATION CHANNEL:** The management acts as an important link between top level and lower level. It receives vital information such regular reports, concerns and needs of employee, performance review from lower level and pass that information to administrative authorities. Management implements policies in the organisation and resolve the issues related to it by passing evaluation reports to top level
- **MANAGEMENT AS PROFESSION:** These days management is being taught in educational institutes as a separate subject. Many institutes and bodies have created management as distinct field of education and knowledge. Management is recognised as reputed profession because in order to carry out this profession, an individual has acquire knowledge and skills through regular practice. Like other profession like doctor, there are certain bodies which regulate this profession by issuing guidelines and code of conduct.

5.6 FUNCTIONS OF MANAGEMENT

Different authors and writers have defined management functions through various definition: According to Henry Fayol, ―to manage is to forecast and plan, to organise, to command and co-ordinate and to control‖.

Luther Gulick used the word POSDCORB to describe various functions. These words are described as (P) for Planning, (O) for Organising, (S) for Staffing, (D) for Directing, (CO) for Controlling, (R) for Reporting and (B) for Budgeting.

Koontz and O‗ Donnell have adopted the following functions:

1. Planning, 2. Organising, 3. Staffing, 4. Directing and 5. Controlling

Now, we discuss some of the important functions in detail:

5.6.1 PLANNING

Management begins its function by deciding the future course of action beforehand. It means thinking in advance and setting up of goals and objectives that a organisation wants to achieve in particular period of time. It deals with taking decision in advance what to do?, when to do?, how to do? and who will do a particular task?. It is concerned with mental work of manager that how he would achieve the desired goals. It is process of looking forward by collecting information, setting up objectives, developing planning premises, studying alternative courses of action, evaluation of action patterns, reviewing deficiencies and implementation of chosen plan.

In organisation there can be different types of plan such as short term plans, long term plans, standing plans and strategic plans. Planning is not an one time action. Once plans are designed, formulated and implemented then continuous evaluation is made to check effectiveness of plans. If things are not going as per as plans then managers take initiative to revise the plans.

According to **Terry**, "Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualisation and formulations of proposed activities believed necessary to achieve desired results"

According to **Louis A. Allen. ―**Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules andbudgets‖.

5.6.2 ORGANISING

Every organisation needs workforce to carry out and perform different functions. Organising means designing the structure in such a way so that each person can easily understands role, duty, status, position and relationship with other employees. Organising is to arrange and coordinate all the factors of production in organised manner to accomplish the objectives. Organising means diverting the energy towards right path by structuring the necessary framework. Designing the structure depends on need, size and nature of enterprise. There are several types of organisations but commonly used structures are:

1) Line organisation
2) Functional organisation
3) Line and staff organisation

Koontz and O' Donnel, "Organising is that part of managing that involves establishing and intentional structure of roles for people in an enterprise to fill".

5.6.3 STAFFING

The job positions which are created in organising stage are filled by recruiting required staff. A business entity requires workers for different functions, hiring these people is done under staffing function of management. Staffing is concerned with estimation and hiring of workers required in organisation and also placing right person at right place.

Koontz and O' Donnel, **―**staffing is filling and keeping filled positions in the organisation structure through defining work, force requirements, appraising, selecting, compensating and training'.

Steps involved in staffing:

1) Assessing need and requirement in terms of numbers and quality.
2) Recruitment , selection through interviews and tests and providing required training so that staff remain updated with knowledge to meet emerging challenges.
3) Placement of staff at vacant positions.
4) Promotion and development by regular assessment of performance and training.
5) Deciding the remuneration and salary.

5.6.4 DIRECTING

Directing means guiding ,training ,instructing ,encouraging, counselling, motivating people of organisation to achieve objectives of enterprise. Under directing stage, managers provide right direction and do continuous supervision of workers. The direction function of the management is same as film director who ensures that everything is going in right way.

In the words of **Massie**, ―Directing concerns the total manner in which a manager influences the actions of subordinates. It is the final action of a manager in getting others to act after all preparations have been completed‖.
The major function which are performed by management under directing are:
1) Leadership, 2) Communication, 3) Motivation, and 4) Supervision

5.6.4.1. LEADERSHIP

Leadership is the process of providing guidance, influencing the attitude of employees and directing their efforts in right direction so that goals and objectives of organisation can be achieved. Leadership is an inter-personal process in which a manager influences attitude of workers and provides guidance for realisation of goals. It denotes a few qualities to be present in a person which includes intelligence, maturity and personality. It is a group process which involves more than two or two people interacting with each other. Leadership is situation bound so there is no best style of leadership. It all depends upon tackling with the situations and circumstances because leaders not always face same type of problems. Leaders have to react and change their leadership style by taking into consideration different factors.

5.6.4.2 COMMUNICATION

The flow of information is crucial for the formulation of policies and taking appropriate decision. It is rightly said that information must be provided to right person at right place at right time. The flow of information is necessary in two ways i.e. from top to lower level and vice versa. Problems and difficulties which are being faced by employees must be conveyed to higher authorities and on other hand, manager by acting as a link between departments communicates information about policies, rules and regulation to lower departments for its implementation and application.

5.6.4.3 MOTIVATION

The motivation is originated from word ―Motive‖ which means desire, urge, need or want
The motivation is the process of convincing employees and keep them convinced.
Management undertake different measures so that employees consider the goals of firm as their own life goal. Management encourages workers put their efforts and full potential to increase overall productivity. Managers always trigger those factor that can positively influence behaviour of person. These stimulating factor can vary from person to person. For instance- earning money or getting promotion may be motivation for individual whereas other employee may feel motivated if he receive recognition of work done. Making employees willingly to put their maximum efforts while performing duties is motivation
Three stages in process of motivation
1) Realisation of need
2) A Stimulus in which needs have to be aroused
3) Satisfaction of need

5.6.4.4 SUPERVISION

The presence of management must be felt even if the management is not present in physical form. After intimating plans and policies, manager has to supervise the employees to ensure maximum utilisation of resources. Supervision is continuous interaction with employees to review their performance and work. Super vision may be required by law, regulation or due to provision of job or service. The main purpose of supervision is to solve complex situations wherein employees deal with social, ethical and moral dilemmas, to monitor performance for the purpose of staff development.

5.6.5 CO-ORDINATION AND CO-OPERATION

Every department in business organisation is linked with other department in some manner so the co-ordination is necessary for smooth functioning .For example ,production depends on demand and sale of product. If sales department would not provide any data to production department then there are chances that production department would produce excess quantity or low quantity of goods. Where as cooperation is defined as willingness of employees to contribute efforts.

5.6.6 CONTROLLING

It is the process of ascertaining what is accomplished and what is not. If management does not check whether the activities are going according to plans then whole management would collapse. Through controlling process mistakes can be detected and preventive measures can be taken to avoid repetition of mistakes ,therefore ,it provides basis for future actions. Controlling is the last function of management but it forms the foundation for future planning process.

5.7 PLANNING

Planning is deciding in advance what to do, when to do and how to do. It is the primary and basic managerial duty and function. Before doing something, the manager must look forward to form an opinion on how to work on a specific job. Hence, planning is firmly correlated with discovery and creativity. But the manager would first have to set goals and objectives. Planning is an essential step which is required at every stage and level. It needs holding on to the decisions since it includes selecting a choice from alternative ways of performance.

5.7.1 DEFINITION OF PLANNING

George Terry, **―**Planning is selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results‖.

Koontz and O‟Donnell, "The selection from among alternatives for future courses of action for the enterprise as a whole and each department with it‖.

Louis A. Allen, **―**Management planning involves the development of forecasts, objectives, policies, programmes, procedures, schedules and budgets‖.

Hart, "The determination in advance of a line of action by which certain results are to be achieved‖.

5.7.2 PLANNING PROCESS

Planning is not an one time action. It is a continuous activity that keeps on going till existence of business and its operation. As planning is an activity, there are certain reasonable measures for every manager to follow:

(1) SETTING OBJECTIVES AND IDENTIFYING THE NEED FOR ACTION

This is the primary step in the process of planning which specifies the objective of an organisation and define the purpose for which entity is established i.e., what an organisation wants to achieve. The planning process begins with the setting of objectives. Objectives are end results which the management wants to achieve by its operations. Objectives are always specific, realistic and are measurable in terms of units. Objectives are set for the organisation as a whole for all departments, and then departments set their further small goals within the framework of organisational objectives. Example: A phone company sets the objective to sell 1,00,000 units next year, which is double the current year sales. Before starting any project the benefits and negative aspects should be analysed and studied thoroughly. Economic and market demand, other parameters like demand, availability of resources, government policies must be looked in detail.

(2) GATHERING DATA

All important information must be collected before formulation of plans that can affect reasonable judgement or decisions. There are different sources from which data can be accessed. For example- information related to competitors, type of customers are to dealt, method of production and price of related goods is necessary before launching any new product in the market.

(3) DEVELOPING PLANNING PREMISES

Everything in planning is based on assumption and probability which can be turn true or wrong. Even if management takes into consideration every possible factor that can affect their performance adversely, no one could predict future and assure certainty of events. Planning is essentially focused on the future, and there are certain events which are expected to affect the policy formation. Such events are external in nature and affect the planning adversely if ignored. The understanding and fair assessment of assumptions are necessary for effective planning. Such events are the assumptions on the basis of which plans are drawn and are known as planning premises.

Assumptions are commonly made for following:

(a) Availability of resources such as raw material and labour.
(b) Economic policies and business laws of federal authorities.
(c) Different sources of funds such as banks and suppliers.
(d) Change in fashion, taste and consumer choices.
(e) Demand expectation.
(f) Entry of competitors in market and global business environment.

Example: The mobile manufacturing company has set the objective of 1,00,000 units sale on the basis of forecast done the basis of favourable Government policy towards digitization of transactions and banking system.

(4) IDENTIFYING ALTERNATIVE COURSES OF ACTION

Once objectives are set, assumptions are made. Then the next step is to act upon them. There may be many ways to act and achieve objectives. Management can find different ways of doing a same task. All the alternative courses of action should be identified. Example: The Mobile manufacturing company has many alternatives like reducing price, increasing advertising and promotion, after sale service etc for reaching its sale target or increasing sale. However, the viability of each option must be studied properly.

(5) EVALUATING ALTERNATIVE COURSE OF ACTION

In this step, the positive and negative aspects of each alternative need to be evaluated in the light of objectives to be achieved. Every alternative is evaluated in terms of lower cost, lower risks, and higher returns, within the planning premises and within the availability of capital. Example: The Mobile manufacturing company will evaluate all the alternatives and check its pros and cons. If Mobile manufacturing company tries to increase its sale figure by using predatory policy then at the same time the management has to check financial strength to absorb the losses until business entity reach its break-even point.

(6) SELECTING ONE BEST ALTERNATIVE

The best plan, which is the most profitable plan and with minimum negative effects, is adopted and implemented. In such cases, the manager‘s experience and judgement play an important role in selecting the best alternative. Example: Mobile manufacturing company decide to go with T.V advertisements and online marketing with great after sales service.

(7) IMPLEMENTING THE PLAN

This is the step where other managerial functions come into the picture. This step is concerned with ―doing what is required‖. In this step, managers communicate the plan to the employees clearly to convert the plans into action. This step involves allocating the resources, organising for labour and purchase of material or machinery. Effective implementation of plans is only possible if all the employees are communicated in advance and make them understand each and every part of plan clearly and precisely.

(8) DETERMINING SECONDARY PLANS

Once major plan is designed and formulated by management then secondary and supporting plans are required for successful implementation of principal plan.

(9) FOLLOW UP ACTION

Monitoring the plan and actions constantly and noting feedback at regular period of time is called follow-up. Monitoring of plans is very important to ensure that the plans are being implemented according to the schedule. Regular checks and comparisons of the results with set standards are done to ensure that objectives are achieved.

5.8 PROCESS OF MANAGEMENT

1. DETERMINING COURSES OF ACTION: The whole process of management starts with setting an organisation's goal and objective. In the first step management always tries to look forward and predict all possible consequences and results. Planning determines the action and function of every business entity. In simple words, planning grants a valid justification for formation of business entity. Entrepreneurs before initiating and activity always try to analyse opportunities and take all possible risks or threats into consideration.

2. COORDINATING ACTIVITIES AND GATHERING RESOURCES: After completing the mental task, the next step is to put idea and thoughts into reality. Management allocate funds from different sources and channelise these funds to productive areas. Management gather all required resources such as Men, Material, Money and Machinery and organise these resources in systematic manner for smooth functioning of operations. Also, a proper structuring is done so that every worker could understand his role and relationship among other employees.

- Where decision will be made?
- Who will perform what function?
- Who will work for whom?
- How resources would be arranged and assembled?

3. MANAGING AND MOTIVATING PEOPLE: Directing the effort of workers towards common goal is arduous task, therefore, good leadership is essential to motivate and encourage workers. This stage is basically concerned with implementation of plans and decisions. Guidance and supervision are two key roles that are played by management after planning and organisation. Management provide information and observe employees in the organisation so that their behaviour can be influenced to achieve desired goals.

The major functions involved in this stage are as follow:

a) Leadership, b) Communication, c) Motivation, d) Supervision

4. MONITORING AND EVALUATING ACTIVITIES: Finally, the management has to check whether everything is going as per as plan or not ,if there are any deficiencies then various initiatives are taken to remove it earliest. Under this stage employees are hold accountable for the responsibilities and duties assigned to them. Under this stage performance of different departments and people is assessed and then comparison of actual performance is made with standards to find out the variations. Lastly, management carry out changes and make revision in plans so that the goals which could not achieved previously can be attained next time.

5.9 STRATEGY FORMULATION

Strategy formulation is the development of long range plans for the effective management of environmental opportunities and threats in light of corporate strengths and weaknesses. It includes defining the corporate mission, specifying achievable objectives, developing strategies and setting policy guidelines. It begins with situational analysis. This phase involves four important steps, viz, (i) Determination of missions and objectives; (ii) Analysis of strengths and weaknesses of the firm and-the environmental opportunities and threats (SWOT Analysis); (iii) Generation of alternative strategies, and (iv) Choosing the most important strategy. Strategic management can be defined as the art and science of formulating implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives. And, strategy is a means to achieve these objectives. It is, thus quite obvious that determining the mission' (which influences objectives) and objectives is the first step in strategy formulation. The mission defines the broad social purpose and scope of the organization whereas objectives more specifically define the direction to achieve the mission. Objectives help translate the organizational mission into results. While objectives may be generic in their expression, goals set specific targets to be achieved within a time frame. In Strategic Management, the term strategic is used to mean ‗pertaining to the relation between the firm and its environment'. This indicates the role of SWOT Analysis in Strategic Management. The strengths and weaknesses of the firm and opportunities and threats in the environment will indicate the portfolio strategy and other strategies it should pursue. An organization should address questions such as what are the changes (including possible future changes) in the environment which can be exploited utilizing its strengths? What are the threats and does it have the strength to combat the threats? How can it mobilize its strength? What are its weaknesses? Can it overcome or minimize its weaknesses? Given the mission and objectives and having analyzed the strength and weaknesses of the firm and the environmental opportunities and threats, the strategists should proceed to generate possible alternative strategies. There may be different strategic options for accomplishing a particular objective. It is necessary to consider all possible alternatives to make the base for choice wide. The purpose of considering different strategic options is to adopt the most appropriate . This necessitates the evaluation of the strategic, alternatives with reference to certain criteria like suitability, feasibility and acceptability.

Henry Mintzberg after much research found that strategy formulation is typically not a regular, continuous process, ―It is small often an irregular, discontinuous process, proceeding in fits and starts. There are periods of stability in strategy development, but also there are periods of flux, of grouping of piecemeal changes and of global change.‖

Strategy formulation is as much an art as it is a science. In fact, it is the art of strategy formulation that drives fast growth and turn a firm into newer horizons. Leaders should develop skills and capabilities to sense and seek early opportunities and must be fast in making strategic moves.

5.9.1 <u>PROCESS OF STRATEGIC DECISION MAKING</u>

Strategy formulation may include the following steps:

1. SETTING ORGANIZATIONS" OBJECTIVE

The key element of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization and achievement of organizational objectives. Objectives put emphasis on the state of being there whereas Strategy put stress upon the process of reaching there or how to realise goals. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of utilisation and allocation of resources to achieve the objectives. While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

2. EVALUATING THE ORGANIZATIONAL ENVIRONMENT

The next step is to evaluate the general economic ,competitive and industrial environment in which the organization operates. It is essential to conduct a qualitative and quantitative review of an organizations existing product and services. The purpose of such a review is to make sure that the factors important for competitive success in the market can be analysed so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weakness. After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources. In this step all risks, opportunities and threats must be examined. Management must try to eliminate possible risk to maximum extent and take maximum out of available opportunities.

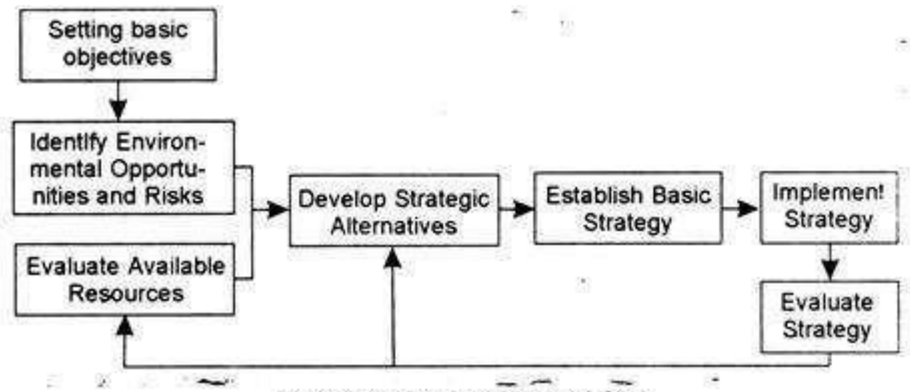


Fig.6.4 : Strategic Decision Making

3. EVALUATING AVAILABLE RESOURCES

In next step is to count available resources and to analyse the exact situation of the organisation. Management is concerned with all possible threats, risks and opportunities while analysing the available resources. Management also study how resources are committed in respect with time period. If an organisation blocks its capital in single projects then there would be less scope for further expansion. The professional knowledge, versatility and flexibility of staff also important for strategic change.

4. DEVELOP ALTERNATIVE STRATEGIES

An organisation has to formulate possible strategies and plans for the future of the business, specifically, how to use the potential and resources of the firm efficiently to exploit new or potential or favourable market opportunities by studying data regarding external environmental risks and opportunities with data associated with available internal resources. In the case of a going concern, one alternative is to keep doing what it is already going in business. This approach seems to be the best, but only for specific period of time. A corporation may eventually change its strategy because of the unavoidable changes in the external and internal environment. The development of strategic alternatives is a creative process that requires a vision and ability to look forward of the various possibilities for meeting the needs of the industry. One should have necessary courage to propose drastic changes in strategy, the accepted way of doing things. Some changes pose difficulties even in formulation plans because of traditional and comfortable patterns of thinking.

Some major strategic alternatives might include the following:

a) Continuation of present strategy, b) Diversification; c) Merger; and d) Amalgamation or Takeover

5. EVALUATING THESE ALTERNATIVES

The process of evaluating alternatives encompasses two things: (a) financial evaluation in the sense of trying to find out the relative profitability and other financial outcomes of different strategies, and (b) less quantifiable aspects of how they might affect the position and functioning of the company.

1.1.1.1 6. ESTABLISHING BASIC STRATEGY

Having evaluated the alternatives, a decision must be taken as to the strategy to be adopted and detailed plans must layout as to how to implement it. However, the decision as to which strategy to adopt is difficult and requires much subjective judgement.

The difficulty in making this choice arises from the three things:

(a) The vague nature of the problem,

(b) The existence of the uncertain that will become known in the near future, and

(c) The dearth of available information.

Individual managers also hold personal values, judgement and ambitions that inevitably affect strategy formulation and determination. One manager may wish to gain or hold a given share of the market. Another may emphasize on product specialization or social values or making huge profits. Whatever factors are included in the strategic decision, it is essential that such a decision be made and that it be made clear to employees of the organisation. Otherwise, the company‘s direction will remain vague and the management team will tend to move in diverse or in opposite directions. The strategy decision determines any changes to be made in the deployment and usage of company resources. If a new strategy is to be adapted, for instance, fixed assets are difficult to change and attempt to change may incur additional cost

Long Necker and Pringle have made a related point in this context. They have noted that

―Redeployment of assets concerns more than financial and physical assets. Management groups, for example, have educational and experimental backgrounds that are related to existing strategy. Modification of that strategy may require changes in the management staff.‖

1.1.1.2 7. IMPLEMENTING STRATEGY

In general, strategy is implemented as the organization develops specific plans to carry out the overall strategy. For example, If a firm decides to enter a regional market then somebody has to set up the distribution system or channel and see that it starts operation before long. Strategy is usually communicated by top level and normally implemented by middle and lower management. Even though overall strategy is formulated by top management, because of the fundamental importance of the decision, they need the strong support and active engagement of middle and lower management to make the strategy a success.

1.1.1.3 8. EVALUATING STRATEGY

Finally, no strategy is final and conclusive. There is need for periodic evaluation and updating of competitive strategy to avoid deterioration and obsolescence of the basic strategic approach. The environment changes takes place in different manners and continuing criticism or evaluation of existing strategy helps to find out weak points and flaws in it at the earliest possible moment. An evaluation process necessitates criteria and the firm‘s strategic goals should be formulated so that they can be used for evaluating the effectiveness of strategic decision with the passage of time.
Three most important parameter that may be used to evaluate strategic performance are:
1. Market-share goal.
2. Rate-of-growth goal.
3. Profit goal.
In each area, management might use its stated goal, previous performance, or the record of competitors and of the industry as a whole. A strategic goal might be stated in quantities as an increase in market share from 18% to 28% of the industry‘s sales.
A rate-of growth goal proposes a growth rate that is considered within the scope of company resources. However, achievement of these in initial two goals does not ensure achievement of the third goal that is profit goal. The profit goal may be stated in terms of return on investment, earnings per share and market value of shares.

5.10 DECISION MAKING

Decision making is the process of making choices by identifying a decision and options, gathering information, and examining alternative solutions and problems. Using a step-by-step decision-making process can help you make more deliberate, thoughtful decisions by organizing relevant information and defining alternatives. This approach increases the chances that you will choose the most satisfying option.

1.1.2 5.10.1 DEFINITION OF DECISION MAKING

According to the **Oxford Advanced Learner‟s Dictionary** the term decision making means - the process of deciding about something important, especially in a group of people or in an organization.
Trewatha & Newport defines decision making process as, ―Decision-making involves the selection of a course of action from among two or more possible alternatives in order to arrive at a solution for a given problem‖.
MacFarland, ―A decision is an act of choice wherein an executive forms a conclusion about what must be done in a given situation. A decision represents a course of behaviour chosen from a number of possible alternatives‖.
George Terry, ―Decision making is the selection based on some criteria from two or more possible alternatives‖.

5.10.2 <u>PROCESS OF DECISION MAKING</u>

The decision making process includes the following steps:

STEP 1: Identify or define the problem

The first step is to identity the problems that a manger wants to solve and realize a need or a requirement to make a decision. Finding out exact problem is difficult task, it requires examination of facts and figures and root cause. Failure to find a exact problem could influence the quality of decisions taken by management. If wrong decisions are taken by management then money and other resources would be wasted. Instead inappropriate decision can originate new problems. For example, it is important for doctor to detect ailment and its causes before starting any treatment. Effective steps can only be taken if manger is aware about the problem, from where and why it is emerged.

STEP 2: Gather relevant information

Collect some pertinent information before you make your decision: what type of information is required?, From where that information can be gathered, and how that information can be assessed?. There are basically two types of sources that are internal source and external source. Some information is available within the organisation that can be collected through a process of self-assessment. Other information can be found externally on government websites or at offices. In the words of Peter Drucker, ―To make a sound decision, as well as the degree of precision and rigidity that the proposed course of action can be taken‖.

STEP 3: Identify the alternatives

After collection of data or information, then identify several possible solutions. Different alternatives could be constructed through imagination, creativity or by using various strategies such as brainstorming. At last prepare a list all possible and desirable alternatives. If there is only single solution to problem then there is no need to begin decision making process, however, if there are many solution then management should prepare a list of all.

STEP 4: Weigh the evidence

Based on your information, think what would happen if management carry out each of the alternatives to last stage. Examine whether the need identified in Step 1 would be met or resolved through the implementation of each alternative. This is a difficult internal process, management need to select only those alternatives that seem to have a higher potential for reaching your goal and reject those alternatives which do not meet the purpose. Finally, place the alternatives in a priority order, based upon your own value judgement and system. In this stage, evaluation of each and every alternative should be made to find out advantages and disadvantages associated with them. Management has to weight the all possible solutions by taking into consideration the different factors.

STEP 5: Choose among alternatives

Determine which is the best solution to the problem among the alternatives placed on list prepared in step 4? Management has to consider different factors such as cost, benefit, quality, life and return and profit. Lastly management has to finalise a best solution that suits to need and problem in hand.

STEP 6: Experimentation

Experimentation helps in eliminating the risk element to some extent. Management does not rely on hit and trail methods. Management to examine the effectiveness of chosen plan, may implement it in limited area. For example, management may launch its new product in specific area to examine demand and response of customers. Experimentation is basically required to be done in scientific projects but sometimes management consider it as a part of decision making.

STEP 7: Take action

Now management has to take some positive action by implementing the alternative chosen in Step 5. The management must communicate its final decision to all the workers for effective application. If staff members remain uninformed then it can affect the coordination and cooperation required in business entity.

STEP 8: Review your decision & its consequences

In this final step, calculate the results of your decision and evaluate whether or not it has resolved the need you identified in Step 1. If the problem is not get solved by the decision which the management has made, management has to repeat certain steps of the process to make a new decision. For example, management has to gather more detailed or somewhat different information or explore additional alternatives.

5.11 ANSWER TO CHECK YOUR PROGRESS

5.11.1 WRITE A SHORT NOTE ON THE FOLLOWING:

1. Planning
2. Supervision
3. Direction
4. Control
5. Planning Process
6. Leadership
7. Strategy formulation
8. Follow up

5.11.2 LONG ANSWER TYPE QUESTIONS

1. ‗Management is a continuous process‖ Comment on the statement.
2. What is strategy formulation? What is the procedure to formulate strategies in business?
3. Define decision making and steps involved in decision making process?
4. ―The functions of management are comprehensive and wide‖. Explain nature and functions of management.
5. Define planning. Elaborate the various steps which are required to be followed while formulation of plans.
6. Is management an art or science? What is the exact nature of management?
7. Management is what management does. Discuss in detail the functions which are to be performed by managers?
8. What are different concepts of management?

UNIT-VI ORGANIZATION

STRUCTURE

6.0 OBJECTIVES

After going through this unit, you will be able to:

- Understand the different forms of organizations.
- Describe the meaning and characteristics of different forms of organizations.
- Recognize different steps involved in the process of organizing
- Define the various functions of organizations.
- Describe the principles considered while forming organizations.
- Distinguish between formal and informal organizations.

- Define the various forms of organization structure along with advantages and disadvantages of each.
- Explain the meaning of departmentaion.
- Elucidate the different methods of departmentation with merits and demerits of each method.

6.1 INTRODUCTION

Once the plans have been laid down and objectives specified therein, the next step is to organize resources in a manner which leads to the accomplishment of objectives. It is very crucial step of management in which a manager has to organize various factors of production like land, labor, capital, machinery etc. The process of organizing involves establishing an intentional structure of roles for the staff at all levels of management. It is the function of identifying the required activities, grouping them into jobs, assigning jobs to the experts, and creating a network of relationship among the various positions, so that the required functions can be completed effectively and efficiently. Present business scenario has become tough and complex due to throat-cut competition. So, a business unit must be run efficiently to survive and stay in this competitive world of business. The activities of an enterprise must be organized in such a manner that plans can be successfully implemented. For planning to be fruitful a number of considerations like collection of required resources, proper allocation and optimum utilization of these resources, translation of complete work into attainable tasks, empowering the workforce with proper authority etc. must be understood. A good organization looks after these elements and works upon them. It is evident from the way Wipro has organized itself in an efficient manner as customer orientation to dominate over other goals and diversified on the basis of product lines. It also modified the relationships within the management hierarchy to suit the goals. It is their organizing system that Wipro has been ranked the third fastest growing global IT services brand in 2019 in a study conducted by Brand Finance, the world‘s leading brand valuation firm. So, organizing plays a significant role in the growth of a business unit. It ensures that efforts are directed towards the attainment of goals laid down in the planning function in such a manner that resources are used optimally and people are able to work collectively and effectively for a common purpose. Thus, it is in the context of effective management organization function should be given a due importance. Without the organizing function it would be impossible to translate plans into action. From the above discussion, now it is clear that the organizing function leads to the creation of an organizational structure which includes the designing of roles to be filled with suitably skilled people and defining the inter relationship between these roles so that ambiguity in performance of duties can be eliminated.

6.2 MEANING OF ORGANIZING

Let us take an example to understand how organizing takes place. Have you ever paid attention to how, the college fete which you enjoy so much, actually takes place? What efforts are to be done in backstage to make it the desired reality you want? The whole activity is divided into task groups, each deal with a specific area like the food committee, the ticketing committee, the decoration committee, exhibition committee and so on. Coordinating relationships are established among the various groups to enable good communication and clarity about each group‘s contribution towards the event. All the above activities are a part of the organizing function. Organizing essentially implies a process which coordinates human efforts, assembles resources and integrates both into a unified whole and to be utilized for achieving specified objectives. Organizing can be defined as a process that initiates implementation of plans by clarifying jobs and working relationships and effectively deploying resources for attainment of identified and desired goals.

6.2.1 DEFINITIONS

Some important definitions can make the meaning of organizing more clear and easy to understand:

Organizing 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.‖ —Koonts O‘ Donnel

―Organizing is the establishing of effective behavioral relationship among persons so that they may work together effectively and gain personal satisfaction in doing selected tasks under given environmental conditions for the purpose of achieving some goal or objectives.‖
— Henry Fayol

6.3 STEPS IN THE PROCESS OF ORGANIZING

Organizing involves a series of steps that need to be taken in order to achieve the desired goal. Let us try and understand how organizing is carried out with the help of an example. Suppose some students are assigned the work of their college library. One afternoon they are told to unload a shipment of new releases, stock the bookshelves, and then dispose of all waste (packaging, paper etc). If all the students decide to do it in their own way, it will result in mass confusion. However, if one student supervises the work by grouping students, dividing the work, assigning each group their quota of work and developing reporting relationships among them, the job will be done faster and in a better manner. From the above example, it can be understood that organizing plays a pivotal role in attaining the pre-determined goals of an organization. The logical sequence of steps in organizing is mentioned below:

1. **CONSIDERATION OF PLANS AND GOALS**

Organizational plans and their goals affect organizing mechanism of a business. Organizational objectives determine what should be done in future. For sure, certain basic purposes and some general activities are likely to remain fairly constant in the long run. For example, from its very inception a business firm will endeavor for earning high profit by employing limited resources. But with the passage of time some plans will be foregone and replaced with the new ones. For instance, certain departments or divisions may be closed and some new departments may be created or set up. So, all these changes may emerge new hierarchical relationships among the organizational groups. Organizing always required an eye on business objectives and goals so that it can modify the inter-group relationships according to the need.

2. **DETERMINING THE ACTIVITIES REQUIRED**

It is necessary to determine those work activities which are necessary to accomplish organization objectives. First and foremost, it is absolutely essential to prepare a list of tasks to be done. For instance, in a manufacturing unit buying, storing, assembling, machining, inspecting, shipping, selling, advertising etc. might be some of the prominent tasks. Once managers come to know what tasks must be done, they are ready to classify and group those activities into manageable work units.

3. CLASSIFYING AND GROUPING ACTIVITIES

This stage demands three steps to be performed by managers: a) examine each activity identified to determine its general nature (marketing, production, finance, personnel, and etc. b) grouping those activities into interrelated functional areas, and c) establishing the basic department designs for the organization structure. In practice, the first two processes go hand in hand. True enough, selling, advertising, shipping and storing can be considered as marketing-related activities, and can be grouped under the broad heading ‗marketing‘ without any loss of generality. Likewise, assembling, cutting, machining, welding, painting and inspecting are treated as manufacturing process and can thus be grouped as production. In a similar way, activities like hiring, training, developing, recruiting and compensating can be grouped under personnel-related activities. The grouping of activities uses the guidelines of homogeneity based on specialization, where, it is considered that individuals who are specialists will perform the jobs more efficiently and effectively.

As soon as the tasks are classified and grouped into related work units (production, marketing, accounting and personnel) then, the third process, departmentation is being finalized. Departmentation is a decision being made on the basic organizational format or departmental structure for the enterprise. Groups, departments and divisions are being formed on the basis of the objectives of the organization. Management will choose a departmental type of organizational format from functional, geographic or territorial, customer, product line, or matrix options.

4. ASSIGNING WORK AND DELEGATING APPROPRIATE AUTHORITY

After identifying activities necessary to achieve objectives, classifying and grouping these into major operational areas, and selecting a departmental structure, management has to assign the activities to individuals who are simultaneously given the appropriate authority to accomplish the task. This step is a crucial one in both the initial and ongoing organizing processes because it is required to make a proper balance between authority and responsibility at every level of management. In simple words, if a work is assigned to a manager a proper combination of resources are also provided to complete that work.

5. DESIGNING A HIERARCHY OF RELATIONSHIPS

This final step necessitates the determination of both vertical and horizontal operating relationships of the organization as a whole. In effect this step is _putting it all together‘. At this level, a complete hierarchal job relation is set up and everyone is communicated about their roles and positions.

6.4 <u>FUNCTIONS OF ORGANIZATION</u>

The following are the important functions of organization:

1. **DETERMINATION OF ACTIVITIES:** It includes the deciding the main and crucial activities and division of those activities into required sub-parts to make activities more easy and understandable. The entire work is divided into various parts and sub parts so that enterprise can take the benefit of specialization of employees they earned into a specific job or activity.
2. **GROUPING OF ACTIVITIES:** Here, identical activities are grouped under one department. For instance, all the production related tasks are being assigned to the production department.
3. **ALLOTMENT OF DUTIES**: For the effective performance, the grouped activities are allotted to specified persons who are expert in those activities.
4. **DELEGATION OF AUTHORITY**: Assignment of duties should be followed by delegation of authority. It is difficult to perform the duties effectively, if there is no authority to do it. Delegation of authority is delivering the rights to take decisions regarding a job to the subordinate by the higher authorities.
5. **DEFINING RELATIONSHIP**: When a group of person is working together for a common goal, it is necessary to define the relationship among them in clear terms. It should be clear who will give their work reports to whom.

6. **CO-ORDINATION OF VARIOUS ACTIVITIES**: The delegated authority and responsibility should be co-ordinate by a responsible person. Generally, top level management handles this task.

6.5 PRINCIPLES OF ORGANIZATION

The following are the fundamental considerations which must be taken into account by management for the success of an organization.

1. **PRINCIPLE OF DEFINITION**: The duties, responsibilities and authority of each work should be clearly defined for each employee. In addition to that the organizational relationship of each employee with others must be clear cut. It should be crystal clear who will get orders from whom regarding a work.
2. **PRINCIPLE OF OBJECTIVES**: The main objective of an organization must be clearly defined and every department should be communicated about their desired contribution in achieving the main objectives of the organization. In addition, objectives of different departments should be harmonized in a directed way to achieve the main objective of the organization. In fact, every department finishes its work efficiently so that next department can continue its assigned part of the whole work without any delay.
3. **DIVISION OF WORK**: A work should be assigned to an employee as per his skills, educational qualifications, experience and interest. It will help him/her to attain specialization in that specific job area. Every department needs experts because they reduce the wastage of every resource and they maintain the quality standards of the product.
4. **PRINCIPLE OF CONTINUITY**: Plans and jobs should be reviewed continuously as re-adjustment of planning is needed for the development of future management. This process is taken over by every organization on quarterly, semi-annual or annually basis as per the need. As discussed earlier, every organization brings some changes in its goals and objectives to cope with the change in the business environment. So, to obtain new goals and objectives it becomes necessary to review the older plans and take remedial steps. For instance, in the Covid-19 pandemic a business requires to use E-banking and cash-less methods to perform financial activities and make a strategy to sell its products and services through on-line mode.
5. **PRINCIPLE OF SPAN OF CONTROL**: This principle determines the number of subordinates should be supervised by a superior. According to the experts a supervisor can observe five to six employees easily. Wider span of control may lead to inefficiency in the supervision. For example, a manager has limited time and ability, wider span of management may be a hindrance in effective communication and his guiding capacity on the job.
6. **PRINCIPLE OF EXCEPTION:** According to this principal all the routine decisions are taken by the subordinates and top managers will only deal with crucial and exceptional matters. It is known as management by exception. The idea behind it is that management's attention will be focused only on those areas where a big deviation is seen in the achievements. When they are notified of variance, managers can step in on that specific issue and let staff handle the rest of the activities as usual. If nothing is brought up, then management can assume everything is going according to plan. It saves the time and energy of top level management and with sufficient time top management can make better plans.
7. **PRINCIPLE OF FLEXIBILITY:** The organizational set up should be not rigid as inflexible system face problems to adjust to the changing environment of business.

It should be flexible and open to the changes for the betterment of the organization. Managers should set up a system that can deal with changes in technology, competitive pressure, consumer tastes, and various rules and regulations.

8. **PRINCIPLE OF UNITY OF DIRECTION**: This principle states ‗One Head One Plan'. It means that all the employees having same objective must be directed towards the achievement of the common goal and thus must have one head and one plan. This principle makes it necessary that there should be unity of action. There are different divisions in the organization for different activities and thus the efforts of the employees of one division having the common objective must be directed towards the achievement of these objectives, taking into account the threats, opportunities for that division. The application of this principle reduces the duplication of activities in the organization and thus helps in minimizing the wastage of resources.
9. **PRINCIPLE OF BALANCE**: There are several units functioning separately and individually under one organizational set up. So, it is essential that the sequence of work should be arranged in a proper way. Apart from this, this principle suggests that the assignment of work should be such that every person should be given only that much work which he can perform well. Some person is over worked and the other is under-worked, then the work will suffer in both the situations.
10. **THE SCALAR PRINCIPLE**: It is a system of hierarchy which explains to each and every person who is his superior and to whom he is answerable. Fayol defines scalar chain as the chain of superiors ranging from the ultimate authority to the lowest. Every orders, instructions, messages, requests, explanation etc. has to pass through Scalar chain. But, for the sake of convenience & urgency, this path can be cut shirt and this short cut is known as Gang Plank. Orders, guidelines, instructions etc. are passed from top to bottom side of hierarchy chain meanwhile requests, suggestions; grievances etc. are communicated by subordinates to their boss from bottom to top side.
11. **PRINCIPLE OF EFFICIENCY**: The work should be completed with limited resources within time and with the minimum or no wastage at all. In this technological world, consumers are more aware and they carefully weigh the benefits of buying one additional unit of a given item. It is evident that people are rational, choosing the cheaper product when comparing two of equal benefit, or the one with the most benefits if the items are priced equally. The efficiency principle, the idea of producing desired products at the lowest possible cost by using various cost reducing techniques.
12. **DELEGATION OF AUTHORITY**: Over centralization of powers and rights always creates disruption in a company, so, authority should be delegated to the subordinates in a balanced manner so that employees can complete their jobs successfully. For example, a project manager in a software company may ask senior developers to track their own issues and manage junior developers. Similarly marketing head has to concentrate on policy management and he hands over daily operations such as hiring and creating campaigns to the assistant marketing manager.
13. **PRINCIPLE OF RESPONSIBILITY**: Each person is responsible for the work completed by him. So the responsibility of the subordinates should be clearly defined. Authority and responsibility go side by side. When authority is delegated then some responsibility for getting the assigned task is also fixed. One can delegate authority but not responsibility. For example, if a person is given responsibility to produce 100 units in one week time and he is properly assigned with authority to

purchase the raw materials. If he could not complete this given task he cannot transfer his responsibility to other employees for his failure.

14. **PRINCIPLE OF UNIFORMITY**: The work distribution should be in such a manner that there should be an equity status. Equity status is distribution of equal authority and powers among the same line officers. Equality is the applicability of same rules and regulations for all employees in the organization irrespective of their religion, sex, caste, color, creed, language, nationality, grade, position etc. This principle is based on the basic thought that ―all employees of the organization are equal‖. This principle states that each and every employee in the organization should be treated with equality and in a just and fair manner. There should not be any discrimination on any ground with any employee of the organization. A boss must be fair and unbiased while dealing with his subordinates.
15. **SIMPLICITY AND ACCOUNTABILITY**: The structures of the organization should be simple and easy to understand because simple structure reduces the chances of confusion and disruptions in assigned duties. It has seen that many organizations fail not because of lack of resources but lack of proper communication with the subordinates in a simple way. Apart from this, the higher authorities remain always accountable for the acts of their subordinates. So, managers always try to get work done through and with their employees within stipulated time period. They seek proper co-operation and support from their subordinates in the activities to be done through involving them in decision making process.

6.6 CLASSIFICATION OF ORGANIZATION

An organization can be segregated mainly in two parts. First is formal organization while second is informal organization. These are discussed as follows:

6.6.1 **FORMAL ORGANIZATION**: It is an organizational structure which clearly defines the duties, responsibilities, authority and relationship as prescribed by the top management. It represents the classification of activities within the enterprise, indicates who reports to whom and explains the vertical flow of communications which connects the chief executive to the lower level management.

6.6.2 **INFORMAL ORGANIZATION:** This type of organization goes parallel with formal organization. It is an organizational structure which establishes the relationship on the basis of the likes and dislikes of officers without considering the rules, regulations and procedures. We can see the friendship, mutual understanding and confidence among the employees and they make a group or network which set up an informal organization.

6.6.3 DIFFERENCES BETWEEN FORMAL AND INFORMAL ORGANIZATION

FORMAL ORGANIZATION	INFORMAL ORGANIZATION
1.It is created deliberately	1. It is spontaneous and natural.
2.Authority flows from top to bottom	2. Informal authority may flow from top to bottom or horizontally.
3.It is created for achieving organizational objectives	3. It arises due to the natural urge of a human being to connect with other people

4.It is permanent and stable in nature	4. There is no such permanent nature and stability
5. It gives due importance to the authority and function	5. It gives importance to people and their relationship
6. Delegation of authority creates the formal relations	6. It arises due to social interaction of people
7.Duties and Responsibility are given in written form	7. No such written rules and duties
8. Formal organization may grow to maximum size	8. Due to uncertain rights and responsibility pattern generally it tend to be smaller

6.7 <u>ORGANIZATION STRUCTURE</u>

Organization is designed on the basis of principles of division of labor and span of management. The success of the organization depends upon the competence and efficiency of the officers. It is necessary to chalk out the plan of authority among the people working in an organization. A brief explanation of the important types of organizations is given below:

6.7.1 LINE ORGANIZATION

Under Line organization, each department is generally a complete self contained unit. In this type of organization, the line authority flows from top to bottom vertically. It clearly identifies authority, responsibility and accountability at each level; departmental heads are given full freedom to control their department. This type of organization is followed in the army on the same pattern. So, it is also called military organization.

6.7.1.1 FEATURES OF LINE ORGANIZATION

Line organizations may have following characteristics:

1. It consists of vertical direct relationship.
2. Authority flows from top to bottom.
3. Operation of this system is easy to understand.
4. It facilitates to know from whom one should get orders and to whom one should give orders.
5. Existence of direct relationship between superior and subordinates
6. Every officer will take decisions within the scope of his authority.

6.7.1.2 ADVANTAGES

The line organization has the following good points:

1. Line organization is simple to establish and there is no complexity in the organization because every person is accountable to only one boss.
2. Line organization helps in fixing authority and responsibility of each and every person in the organization. The authority always commensurate with the work assigned. So line organization enables the fixation of authority and responsibility in a proper way.
3. The general manager is in-charge of all the departments and he can easily co-ordinate the work of various departments.

4. There is a direct link between the superior and his subordinate, both can communicate properly among themselves.
5. Generally, line officers take their own decisions without looking to specialized personnel. This greatly reduces the establishment cost.
6. In line organization only departmental head is required to take decisions and he will not waste time in deciding things.
7. In line organization every person is under the command of one boss only. This also leads to the effective control and supervision as there is a direct link between superior and subordinates.
9. As under this type of system the departmental head is involved in taking and executing various decisions. This makes his task more challenging and he is expected to discharge his responsibility in an efficient way.

6.7.1.3 DISADVANTAGES

Line organization suffers from a number of drawbacks as given below:

1. In line organization too much is expected from executives and the work load of executives goes on increasing with the expansion and diversification of the unit.
2. Since line are to take decisions with regard to every aspect of business, the quality of decisions may suffer heavily and it makes him dependent on experts of a specific work.
3. All departmental heads try to run the departments in their own way this may become the reason for lack of co-ordination among different departments.
4. The line officers may become autocratic and start deciding things without consulting their subordinates and this lack of communication creates many problems for the smooth conduct of business.
5. In line organization final decision-making is done by the top management. The lower level officials avoid taking any type of initiative. It brings stagnation in the development of the organization.
6. There is a scope for favoritism in line organization. The officers work according to their whims and preferences.

6.7.2 LINE AND STAFF ORGANIZATION

In this type of organization Line officers have authority to take decisions and implement them, but the staff officers will assist them while taking decisions. Staff officers advise the line officers when they required the technical and professional knowledge of the work. They help line managers to take proper decisions. In the fast developing industrial world, the line officers are not in a position to acquire all the technical knowledge, which are necessary for taking right decisions. That gap may be bridged with the help of staff officers with their expertise in a particular field.

6.7.2.1 FEATURES OF LINE AND STAFF ORGANIZATION

Line and staff organizations may have following characteristics:

1. Authority flows from top to bottom.
2. Line Officers will take decisions on the basis of suggestions given by staff officers.
3. Staff officers have no power to take decisions and no control over subordinates.
4. The workers get the instructions only from the line officers.

6.7.2.2 ADVANTAGES OF LINE AND STAFF ORGANIZATION

The following points will explain the benefits of line and staff organization:

1. A line officer can take sound decisions on the basis of proper advice from the staff officer. Organizations can take benefit of synergic effect.
2. The work load of line officers would be reduced to some extent as staff officers help them in decision making.
3. It promotes the efficient and smooth functioning of the line officers.
4. The principles of unity of command are followed in the line and staff organization.
5. It provides the young blood with the right training. Trained and skilled employees contribute more in the growth of the organization.
6. Operation goes in a smooth way as decision making process is taken timely.
7. It enables the organization to effectively utilize the staff officer‘s experience and advice.

6.7.2.3 DISADVANTAGES OF LINE AND STAFF ORGANIZATION

There are some problems associated with line and staff organization such as:

1. If the power of authority is not clearly defined, it will lead to confusion though out the organization.
2. The line officers may reject the advice from staff officers as they consider the real doers of the job.
3. The staff officers may also under estimate the powers of line officers and consider them less capable it generates disharmony between these two sides.
4. The staff officers are not involved in the actual implementation of the planning.
5. The biggest drawback of this organization is that staff officers are not responsible if favorable results are not obtained.
6. The difference of opinion between line officers and staff officers will destroy the very purpose of specialization.

6.7.3 FUNCTIONAL ORGANIZATION

In this type of organizations, specialists are appointed in top position throughout the organization. Various activities of the enterprise are classified further according to functions and functional heads give directions related to the assigned functions to him. Workers, under functional organization, receive instructions from various specialists. A functional organizational structure is suitable for medium and small businesses as well as or companies that have either one or a few product lines. For example, a small business entity XY Company deals in the manufacturing of toys and has nearly one hundred employees. It has adopted a functional organizational structure and has created departments for finance, marketing, sales, research, production, administration, and human resources. All the subordinates report directly to the head of their department. When the company grows, it will start adding further heads and top management officers, but at the beginning, it is a perfect set-up for functional organizational structure.

6.7.3.1 CHARACTERISTICS OF FUNCTIONAL ORGANIZATION

Functional Organizations have following characteristics:

1. The work is divided according to specified functions.
2. Authority is given to specialists to give orders and instructions in relation to specific functions.
3. The executives and supervisors discharge the responsibilities of functional authority.

6.7.3.2 ADVANTAGES OF FUNCTIONAL ORGANIZATION

The following points will explain the benefits of functional organization:

1. Benefit of specialization: In this type of organization, each work is performed by a specialist. It helps to enhance the efficiency of the organization.
2. Reducing work load: Each person is expected to look after only one type of work. It reduces the unnecessary workload.
3. Relief to line executives: Under functional organization, the instructions are given by the specialists directly to the actual workers. Hence, the line executives do not have any problem regarding the routine work.
4. Large production: Large scale production can be achieved with the help of specialization and standardization.
5. Flexibility: Any change in the organization can be introduced without any difficulty.

6.7.3.3 DISADVANTAGES OF FUNCTIONAL ORGANIZATION

Main disadvantages of functional organization:

1. Each departmental head works according to his sweet will. For example, to establish its image, the production department may produce quality product ignoring the fact that market trend favors accepting medium quality product.

2. Departmental heads may work as per their own wish. No doubt this facilitates coordination within the department but it makes interdepartmental coordination difficult.

3. Sometimes departmental head wants to become a functional empire. To satisfy their ego every one demands maximum resources for their department. This situation leads to conflicts among the various departmental heads.

4. This system is a hurdle in the way of the complete development of the employees. Each employee specializes only in a small part of the whole job.

6.8 DEPARTMENTATION

Departmentation or Departmentalization is segregating or dividing the complete task into various single activities then grouping of similar nature activities into under a division or unit. In other words, it is a process of grouping activities of an organization into a number of separate units for the purpose of efficient functioning. According to Koontz and O‘Donnell, a department designates a distinct area, division or branch of an enterprise over which the manager has authority for performance of specified activities. Louis Allen states,
―Divisionalization is a means of dividing the large and monolithic functional organization into smaller flexible administrative units.‖ It refers to the classification of activities on operations of an undertaking into functionalized categories. It is created in product wise, process-wise or area wise. It ensures proper direction to and control on them. Let us observe some prominent definitions: ―Departmentation is the process of grouping activities into units for purposes of administration.‖ —William H. Newman
―Departmentation is the process of grouping the various activities into separate units.‖ —Theo Haimann
―Divisionalization is a means of dividing the large and monolithic functional organization into smaller, flexible administrative units.‖ —Louis A. Allen
―Departmentation is not an end in itself but it is simply a method of arranging activities to facilitate the accomplishment of enterprise objectives.‖ —Koontz and O‘Donnell
Departmentation, in short can be said to be a part of organization process. This process involves dividing and grouping of activities of an enterprise into viable divisions or departments for improving the performance in the organization.

6.8.1 PROCESS OF DEPARTMENTATION

1. Identification of work.
2. Analysis of details of each work.
3. Description of the function of the organization.
4. Entrusting the function to a separate person who has specialized in the respective field.
5. Fixing the scope of authority and responsibility of the departmental heads.

6.8.2 NEED AND IMPORTANCE OF DEPARTMENTATION

1. It increases the operating efficiency of the employees.
2. It makes the executive to be alert and efficient in his duties.
3. It increases the prestige and skill of the departmental heads.
4. Further expansion of the organization is possible.
5. It gives advantages like facilitating budget preparation, effective control of expenditure, attaining specialization, better coordination etc.

6.8.3 Methods of Departmentation

There are several bases of Departmentation. The following are the prominent bases of dividing responsibility within an organization structure:

1. Departmentation by Functions or Functional Departmentation

It refers to grouping the activities of an enterprise on the basis of functions such as production, sales, purchase, finance, personnel, etc. The actual number of departments in which an enterprise can be divided depends upon the size of establishment and its nature. To begin with, we may have three or four main departments. With the growth in the size of the business, more departments and sub-departments may be created. The enterprise may be divided into departments on the basis of functions like production, purchasing, sales, financing, personnel etc. This is the most popular basis of departmentation.

Figure 6.1 Departmentation by Functions

If necessary, a major function may be divided into sub-functions. For example, the activities in the production department may be classified into quality control, processing of materials, and repairs and maintenance.

ADVANTAGES

The advantages of functional departmentation include the following:

1. It is the most natural and logical form of departmentation.
2. It ensures the performance of all activities necessary for achieving the organizational objectives.
3. It provides professional specialization which makes optimum utilization of manpower.
4. It enables the top managers to exercise effective control over a limited number of functions and it also facilitates delegation of authority.
5. It eliminates repetition of activities.
6. It simplifies training because the trainees have to focus only a specific type of jobs.

DISADVANTAGES

There are some problems associated with functional departmentation such as:

1. There may be conflicts between departments.
2. The scope for management development is limited as the functional managers do not get training for the diverse and top level positions. There is over emphasis on specialization.
3. At often, departments only strive for achieving their own goals and they hardly show their concern to coordinate the activities of other departments in the organization. It leads the problem of disharmony among the departments.
4. There may be inflexibility and complexity of operations which is a hindrance in the development of an enterprise.

2. PROJECT OR MATRIX DEPARTMENTATION

This method may be called Combined or Composite Method also as in this method an enterprise combines two or more of the methods of departmentation to make best use of all of them. Project or matrix departmentation is a form of hybrid departmentation in which any two types of departmentation are conjoined to address a unique requirement. For example, the functional departmentation can be conjoined with product departmentation in a manner as shown in Figure 6.2 whereby personnel from different functional areas like mechanical engineering, electrical engineering, civil engineering, etc. are assigned to (say, new product development) projects to the experts.

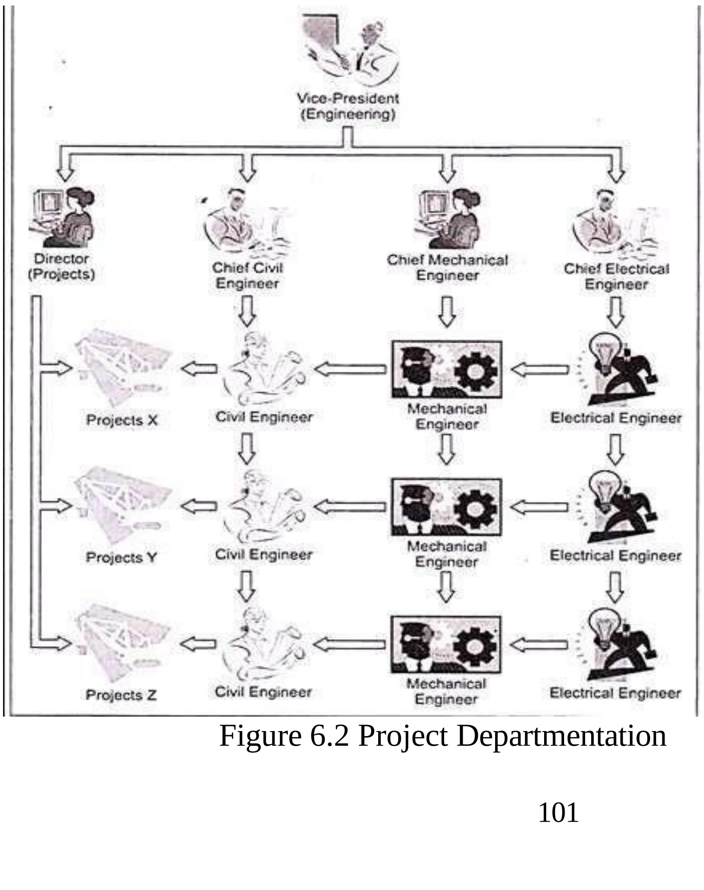


Figure 6.2 Project Departmentation

The personnel are either assigned to the projects on a full-time or part-time basis depending upon the extent of their involvement/requirement in the projects. During the period of their involvement in projects, such employees have dual reporting—to their functional head and the project head. From the above figure, it is notable that different projects same officials are handling the activities under the chief heads of a specific department. The extent of authority vested in the project head on such personnel deputed from functional departments can vary on a case to case basis. After the culmination of the project, such personnel are sent back to their respective departments to perform their routine duties.

ADVANTAGES

Some major advantages are given below:

i. It is an effective way of producing highly complex product system.
ii. Project departmentalization gets the right things done right because of a proper team work.
iii. In turbulent time or financial crisis this type of departmentalization is the most preferred one as it focuses on cost reduction of a specific project.
iv. Creativity is developed through a proper interaction with experts.

DISADVANTAGES

Major disadvantages are discussed below:

i. A deliberate conflict is arise between project manager and departmental manager because of overlapping of authority distribution,
ii. After completion of the project there is very likelihood of job insecurity among the employees.
iii. There always lurks and danger of over-specialization in the course of project involvement
iv. Rotation from project to project reduces employees' loyalty to the parent functional department.

3. NETWORK STRUCTURES

Network structures are relatively a new phenomenon whereby organizations have started making alliances and collaborations with their vendors, which extend beyond the conventional supplier-manufacturer relationships. The trust and confidence exhibited by organizations in treating their vendors as close partners has been the hallmark of recent times. A network structure is the one in which more than one organization combine to produce a good or provide a service. These organizations can either get into a partnership for a particular venture, or one organization can hire others to handle one or more of its functions (outsourcing), for example, marketing, productions, and sales and so on.

A network organization sounds complex, but it is at its core a simple concept. Take, for example, a T-shirt design company. Because the company leaders are mainly interested in design, they may not want to get too heavily involved in either manufacturing or retail; however, both aspects of the business are necessary to complete their operations. To maintain control of their product, they may rent retail space through their network and purchase production capabilities from a variety of partner organizations that have their own manufacturing facilities. While the core company focuses mainly on designing products and tracking finances, this network of partnerships enables it to be much more than just a design operation. We can depict this type of organization with the following figure:

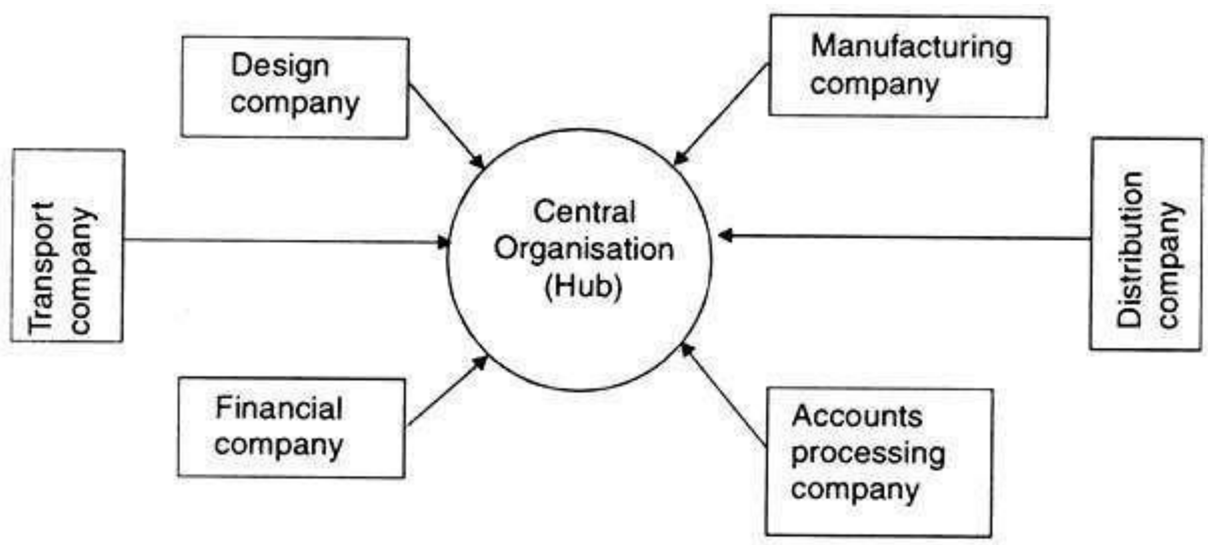


Figure 6.3: Network Organization

From the above diagram it is clear that in matrix networking organization, the hub organization has arrangements with large a number of business partners that it requires high degree of co-ordination with the partners and their co-ordination level determines their mutual growth.

Like other organizational structures, the network structure has its advantages and its disadvantages.

ADVANTAGES OF A NETWORK STRUCTURE

i. Proponents argue that the network structure is more agile compared to other structures (such as functional areas, divisions, or even some teams).
ii. Communication is less rigid and flows freely, possibly opening up more opportunities for innovation.
iii. Because the network structure is decentralized, it has fewer tiers in its organizational makeup, a wider span of control, and a bottom-up flow of decision making and ideas.
iv. A networking organization is one that is created around a central organization (called the hub organization) that has relationship and arrangement with some other companies or organizations, to perform functions like designing, manufacturing, marketing etc. for the hub organization, on a contractual basis.
v. This type of departmentation is a boon for the small firms as they can alliance with the big companies which can face the environmental challenges effectively.

DISADVANTAGES OF A NETWORK STRUCTURE

i. This structure can lead to a more complex set of relationships in the organization. For example, lines of accountability may be less clear, and reliance on external vendors can be quite high. These potentially unpredictable variables essentially reduce the core company‘s control over its operational success.
ii. Reliability makes this departmentation successful but how to ensure the reliability among the partnering firms is the main concern in the hub organization.
iii. In a networking organization, there is usually lack of close control over manufacturing and marketing operations etc. by the

management of hub organization. Hence, there may be poor operational performance in the networking organization, produced by the networking partners.

6.8.4 OTHER IMPORTANT METHODS OF DEPARTMENTALIZATION

1. Departmentation by Products.
2. Departmentation by Territory or Geographical Departmentation.
3. Departmentation by customers.
4. Departmentation by Functions or Equipments
5. Departmentation by Time and Numbers.

1. DEPARTMENTATION BY PRODUCTS

The grouping of activities on the basis of products is very popular with large organizations having distinct type of products. Under this method, all activities related to one type of product are put together under one department under the direction of a production manager. An electronic company, for instance, may have different departments dealing in television sets, radios and transistors, computers, agro-dairy instruments, etc. Product wise departmentation is also known as multi-functional product departmentation, because each product department handles all the functions concerning it.

In product departmentation, every major product is organized as a separate department. Each department looks after the production, sales and financing of one product. Product departmentation is useful when the expansion, diversification, manufacturing and marketing characteristics of each product are primarily significant. It is generally used when the production line is complex and diverse requiring specialized knowledge• and huge capital is required for plant, equipment and other facilities such as in automobile and electronic industries.

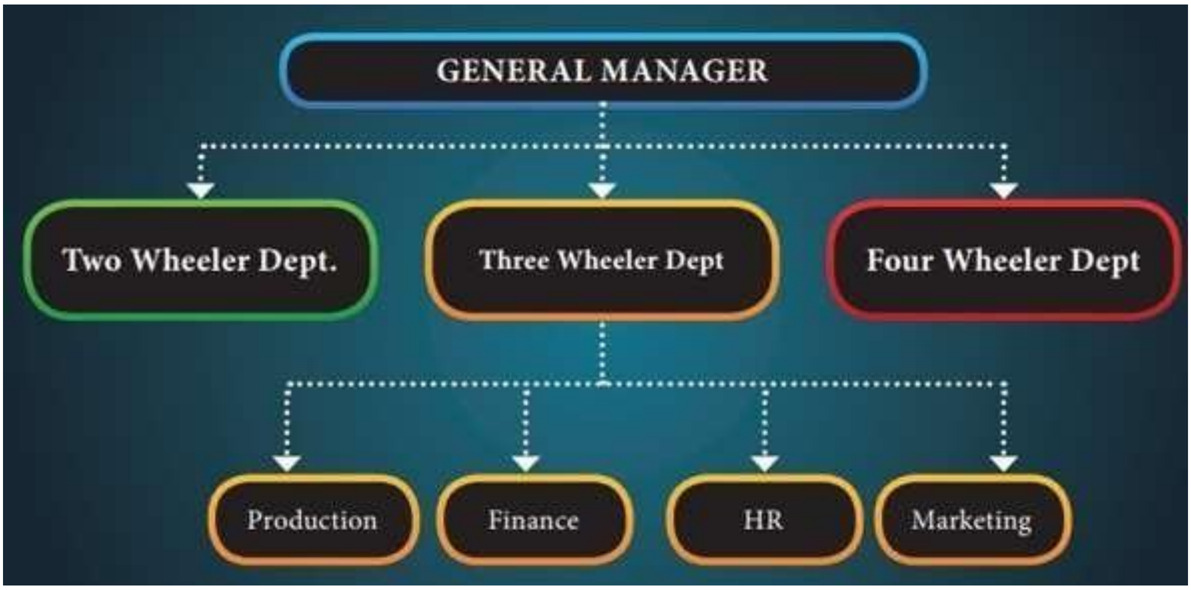


Figure 6.4 Departmentation by Product

In fact, many large companies are diversifying in different fields and they prefer product departmentation. For example, a big automobile company with a several product line may have three product divisions, one each for two-wheelers, three-wheelers, and four-wheelers. Each division may be sub-divided into production, sales, financing, and personnel activities.

ADVANTAGES

Product departmentation provides several advantages which may be stated as follows:

i. Product departmentation focuses individual attention to each product line which facilitates• the expansion and diversification of the products.

ii. It ensures full use of specialized production facilities. Personal skill and specialized knowledge of the production managers can be fully utilized.
iii. The production managers can be held accountable for the profitability of each product. Each product division is semi-autonomous and contains different functions. So, product departmentation provides an excellent training facility for the top managers.
iv. The performance of each product division and its contribution to total results can be easily evaluated.
v. It is more flexible and adaptable to change.

DISADVANTAGES

Product departmentation carries some problems with itself as follows:

i. It creates the problem of effective control over the product divisions by the top managers.
ii. Each production manager asserts his autonomy over the interests of the organization.
iii. The advantages of centralization of certain activities like financing, and accounting are not available.
iv. There is duplication of physical facilities and functions. Each product division maintains• its own professional and expert employees due to which operating costs tend to be high.
v. There may be under-utilization of plant capacity when the demand for a particular product is low.

2. DEPARTMENTATION BY TERRITORY

When several activities of an enterprise are geographically dispersed in different locations, territorial or geographical departmentation may be adopted. All activities relating to a particular area or zone may be grouped together under one zonal manager or head. Territorial or geographical departmentation is useful for the large business enterprises because its activities are widely dispersed. Banks, insurance• companies, transport companies, distribution agencies etc., are some examples of such enterprises, where all the activities of a given area of operations are grouped into zones, branches, divisions etc. In this type of organization it would be difficult for one functional manager to manage all the activities efficiently, so, it becomes the need of appointment of regional managers• for different regions.

Figure 6.5 Departmentation by Territory

ADVANTAGES

Territorial departmentation offers certain facilities in operation. These are pointed out below:

i. Every regional manager can specialize himself in the most significant problems of his region.

ii. It facilitates the expansion of business to various regions.
iii. It helps in achieving the benefits of local operations. The local managers are more familiar with the local customs, preferences, styles, fashion, etc. The enterprise can gain required and intimate knowledge of the conditions in the local markets.
iv. It results in savings in freight, rents, and labor costs. It also saves time.
v. There is better co-ordination of activities in a locality through setting up regional divisions.
vi. It provides adequate autonomy to each regional manager and opportunity to train him as he looks after the entire operation of a unit.

DISADVANTAGES

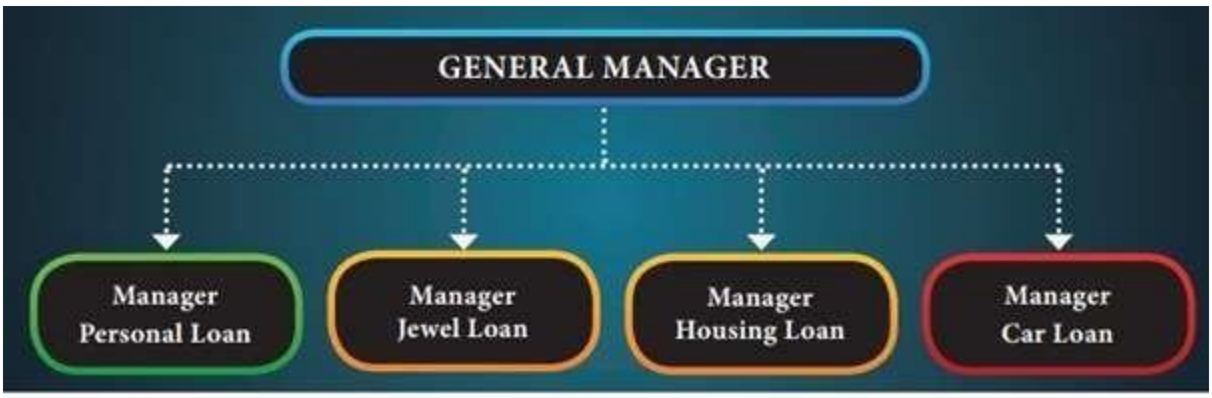
Territorial departmentation have the following problems:

i. There is the problem of effective communication among the different regional departments when needed. It also creates confusion and conflict situation between the regional managers.
ii. It requires more managers with general managerial abilities. Such managers may not be always available.
iii. Co-ordination and control of different branches from the head office become less effective.
iv. There is multiplication of personnel, accounting and other services at the regional level. Owing to duplication of physical facilities, costs of operation are usually high.

3. DEPARTMENTATION BY CUSTOMERS

A business house may be divided into a number of departments on the basis of customers it serves. There may be several types of customers for a specific services and products, for instance, small or large customers, industries and ultimate buyers, government and other customers. The peculiar advantage of customer wise departmentation is that it ensures full attention to different types of customer and their different needs, tastes and preferences can be read effectively.

In such method of departmentation, the activities are grouped according to the type of customers. For example, a large cloth store may be divided into wholesale, retail, and export divisions. This type of departmentation is useful for the enterprises which sell a product or service to a number of clearly defined customer groups. For instance, a large readymade garment store may have a separate department each for men, women, and children. A bank may have separate loan departments for large-scale and small- scale businessmen. The



organization chart of customer-oriented departmentation may appear as follows:

Figure 6.6 Departmentation by Customers

ADVANTAGES

The important advantages of customer departmentation are the following:

i. Special attention can be given to the particular tastes and requirements of each type of customers.
ii. Different types of customers can be satisfied, easily through specialized staff. Customers'- satisfaction enhances the goodwill and sale of the enterprise.
iii. The enterprise may acquire intimate knowledge of the needs of each category of customers and it also provides the benefits of specialization.

DISADVANTAGES

This method of departmentation may have certain disadvantages, especially when it is followed very rigidly. These are as follows:

i. Co-ordination between sales and other functions becomes difficult because this method can be followed only in marketing division.
ii. There may be under-utilization of facilities and manpower in some departments, particularly during the period of low demand.
iii. It may lead to duplication of activities and heavy overheads.
iv. The managers of customer departments may put pressures for special benefits and facilities.

4. DEPARTMENTATION BY PROCESS OR EQUIPMENT

An enterprise where production is carried through different processes may adopt process wise departmentation to enable continuous flow of production. Similarly, where work is carried on machines which are common, departments may be created on the basis of equipments. The main advantage of this method is that it avoids duplication of equipment in various activities. In such type or departmentation the activities are grouped on the basis of production processes involved or equipment used. This is generally used in manufacturing and distribution enterprises and at lower levels of organization. For instance, a textile mill may be organized into ginning, spinning, weaving, dyeing and finishing departments.

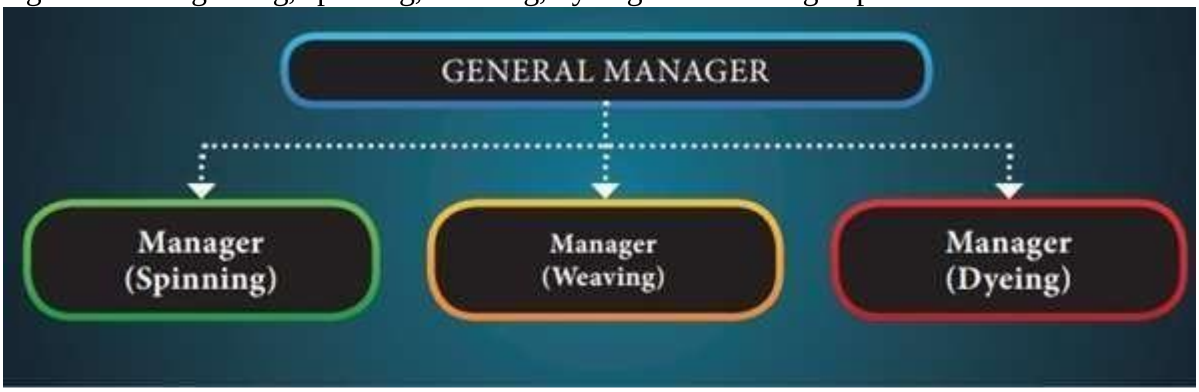


Figure 6.7 Departmentation by process or Equipment

ADVANTAGES

The basic object of such departmentation is to achieve efficiency and economy of operations. The processes are set in such a way that a series of operations is feasible making operations economic. Efficiency can be achieved if departments are created for each process as each one has its peculiarities. It provides the advantages of specialization required at each level of the total processes. The maintenance of plant can be done in better way and manpower can be utilized effectively.

DISADVANTAGES

In such departmentation, there may be difficulty in coordinating the different process-departments, because the work of each process depends fully on the preceding process. So, there are chances of conflicts among the managers looking after the different• processes. It cannot be used where manufacturing activity does not involve distinct processes.

5. DEPARTMENTATION BY TIME AND NUMBERS

Under this method of departmentation the activities are grouped on the basis of the time of their performance. For instance, a factory operating 24 hours may have three departments for three shifts—one for the morning, the second for the day, and the third for the night. In the case of departmentation by numbers, the activities are grouped on the basis of their performance by a certain number of persons. For instance, in the army, the soldiers are grouped into squads, companies, battalions, regiments and brigades on the basis of the number prescribed• for each unit. Such type of departmentation is useful where the work is repetitive, manpower is an important factor, group efforts are more significant than individual efforts, and group performance can be measured. It is used at the lowest level of organization.

ADVANTAGES

Main advantages are discussed as**:**

i. Time based departmentation follows division of work.
ii. This type of departmentation maintains good coordination by grouping employees into different shifts.
iii. Responsibility and authority is delegated to the shift head or in-charge.
iv. Time based departmentation make maximum utilization of resources.
v. There is no work burden for managers and employees.

DISADVANTAGES

Main disadvantages of time based departmentation are discussed below:

i. This is costly method of departmentation.
ii. Entire shift may face problem due to the problem of one shift.
iii. There is very difficult to maintain effective coordination and proper communication among different shift.
iv. Time based departmentation faces the problem of conflict between managers and employees of different shifts.

6.9 <u>ANSWER TO CHECK YOUR PROGRESS</u>

6.9.1 WRITE A SHORT NOTE ON THE FOLLOWING

1. Meaning of Organizing.
2. Importance of Organizing.
3. Steps in the Process of Organizing.
4. Define _organizing‘ as a function of management.
5. Enumerate any two basis of Departmentation in an organization.
6. Explain by giving any three reasons why organizing is considered as an important function of management.
7. Formal vs. Informal organization.
8. State any three principles of organizing.
9. What is the principle of management by exception?
10. Types of Organizing.
11. Scalar chain.
12. Division of work or Specialization.
13. Principle of Equity.
14. Functional organizing.
15. Line and staff organizing.

6.9.2 LONG ANSWER TYPE QUESTIONS

1. Organizing involves a series of steps that need to be taken in order to achieve the desired goals. Explain these steps.
2. State the steps in the organizing process.
3. ‗Organizing is the process of defining and grouping the activities of the enterprise and establishing the authority relationship among them.' In the light of this statement, explain the steps in the process of organizing.
4. ‗Organization is the harmonious adjustment of specialized parts for the accomplishment of some common purpose or purposes.' In the light of this statement, explain the points of importance of organizing.
5. Give the meaning of ‗organizing' as a function of management. Explain the steps in the process of organizing.
6. What basic elements and principles should be taken consideration while management is going through organizing process?
7. Discuss in brief the types of organizations on the basis of organizational structure.
8. What is line and staff organization? What type of staff is used in this organization? Define its advantages and disadvantages in detail.
9. What is meant by Departmentation? Discuss some important typologies/ methods of departmentation.
10. What is Functional Departmentation? Why this type of departmentation is widely used in an organization? Elaborate your answer by using a diagram and practical examples.
11. Why hybrid or matrix departmantion is more successful in today's scenario? How matrix department does work?
12. Elaborate the advantages and disadvantages of network departmentation. Draw an imaginary diagram of matrix departmenation and explain its working style.

Section - B

UNIT VII - DELEGATION & DECENRALISATION

STRUCTURE

7.0 OBJECTIVES

After going through this unit, you will be able to:

- Describe the meaning and need of delegation of authority.
- Understand different types of delegation.
- Outline the process and principle of effective delegation.
- Identify different barriers to the effective delegation.
- Elaborate the term decentralisation with its key features.
- Differentiate between delegation and decentralisation.
- Understand the concepts of group and team.
- Differentiate between group and team.

7.1 INTRODUCTION

Earlier, the size of businesses and organisations were small and confined. They used to serve the local market and these were generally headed by one person i.e. owner. As they were small in size, it was easy to run the organisation by one person efficiently and keeping all the powers with himself. But in case of large scale organisation, it is almost impossible to manage all the operations of the organisation by one person. In that case, there is a need to appoint one or more managers or subordinates who can share the powers and responsibilities of the operations of the organisation so that they can do their duties efficiently.

With the increase in modernisation, the size of organisations is increasing day by day where two or more people work together to achieve a common goal. Plans are made out and objectives are specified, the next step is to manage resources and structure activities in an efficient manner. Unlike small scale organisations, leader cannot do all the activities so there arise a need to delegate authority to the subordinates. Delegation is an indispensable part of any large scale organisation. Most of the leaders find it difficult to delegate authority due to various reasons like they prefer to do task at their own or not to share powers with others. But there should be sufficient magnitude and extent of delegation of authority in order to do tasks efficiently and effectively.

7.2 DELEGATION OF AUTHORITY

Before knowing about delegation of authority, one should be clear about ―what is authority?‖. Authority means power of a person to take decisions and to give orders/commands to subordinates in order to perform his duties. According to Koonts and O_Donnell, ―Authority is the power to command others to act or not to act in a manner deemed by the possessor of the authority to further enterprise or departmental purposes‖. Authority and responsibility goes hand by hand. If one person has the authority to do a particular task he/she is also responsible and accountable for the same to the higher authority. Authority always flows from top to bottom.

Delegation of authority means giving authority to others to act or to do some task on your behalf. Delegation means assigning duties to subordinates in order to get things done through them. The delegation of authority to the subordinates is subject to supervision and control, which means that the legal right of authority still belongs to delegator (who delegates the authority). Delegation of authority helps in reducing the work load from one person and allowing more people to participate in the activity for smooth and efficient working of the organisation.

7.2.1 FEATURES OF DELEGATION

Following are some features of the delegation:

1. Delegation is an on-going process which means tasks get delegated from top level to bottom level to achieve group objectives.
2. Delegation is an art not science which means managers can never get the same performance always or as they expect. Results depend upon the skills and competence of the delegatee (to whom authority has been delegated).
3. Delegation means transfer of authority but not the accountability. Manager can only delegate authority but he will still be accountable to his superior himself for results.
4. Delegation is an indispensable part of any organisation. A single person cannot perform all the operations himself. So the managers have to delegate authority to their subordinates in order to get things done through others.
5. Delegation can be of various types i.e. downward, sideward etc.

7.2.2 TYPES OF DELEGATION

Delegation can be of various types. These are:

1. **PERMANENT OR TEMPORARY DELEGATION:** Delegation can be permanent or temporary. Permanent delegation means duties are assigned forever until these are revoked under certain circumstances. On the other hand temporary delegation means assignment of duties for a particular time period or for accomplishment of a particular task. After that time period or after the accomplishment of that particular task, delegation comes to end.
2. **WRITTEN OR UNWRITTEN DELEGATION:** When authority is delegated in written, then it is called written delegation and other if it is delegated according custom or usage other than in written, then it is called unwritten delegation.
3. **FULL OR PARTIAL DELEGATION:** When delegation is such that the decision taken by the subordinate is subject to the prior approval of delegator, then it is partial delegation. When authority is delegated without any condition, then in that case there us full delegation. In full delegation the person, to whom authority is delegated, have full authority to make decisions.
4. **FORMAL OR INFORMAL DELEGATION:** Delegation is formal when duties and authority is assigned in the organizational structure framed by the top management of the organization. When a person has been delegated duties based on customs or convention and not by the top management, then it is informal delegation.
5. **DOWNWARD OR SIDEWARD DELEGATION:** When duties are assigned to the subordinate, then it is downward delegation. If the duties are assigned by the delegator to the person at same rank, then it is sideward delegation.
6. **CONDITIONAL OR UNCONDITIONAL DELEGATION:** Delegation is conditional when delegator reserves some rights or imposes some conditions on the use of authority on the person to whom authority is delegated. In case of unconditional delegation, no conditions are imposed by the delegator and he is free to act and use the authority delegated to him.

7.2.3 PROCESS OF DELEGATION

Delegation is not just assigning the tasks and authority. It is much more than just passing the authority. Delegation means lightening the work stress of delegator and also serves as source of motivation of subordinates.The process of delegation should be done very carefully at each step as there are series of steps to be followed for effective delegation. It requires clearly defined task, authority, support and continuous monitoring of the assigned task to make it effective. It starts from identifying the goals & tasks and ends with the reviewing results. There are following steps involved in process of delegation:

1. **IDENTIFY THE TASK:** The very first step of delegation process is to identify the task which is to be delegated to the subordinate. There should be a clear picture of the task to be assigned to the subordinate and why there is a need to delegate that task. Task can be of such type which is of less importance and which is better to be performed by someone else at lower pay.
2. **CHOOSING THE PERSON OR GROUP:** The next step is to identify the individual or group of individuals to whom the authority has to be delegated. Before choosing the individual, some questions are to be answered first that who is the best person for this task? Who is capable for doing this task? Who possess the required skills and knowledge? Or it can be that who has potential to learn the skills required for this task? The answer to these que will be the person to whom authority can be delegated. Delegator must also make sure that the person he is choosing for delegation

should also be interested in taking more responsibility and authority. He should be committed with his project and not be already work-stressed and over-burdened.

3. **EXPLAIN THE TASK:** Delegator should clearly define the task to the subordinate that there should be no ambiguity in his mind. He should also get informed with how they can perform that particular task and how they can get the desired results.

4. **DEFINE LEVEL OF AUTHORITY AND RESPONSIBILITY:** Once the task to be performed is explained, the next step is to define the level of authority and responsibility to the subordinates in the terms of task assigned to them. This will help in educating them that how they can discharge their duties and what is expected from them. Delegator can also ask them if they are comfortable with that level of authority and responsibility.
5. **INFORM ABOUT DESIRED RESULTS AND DEADLINE:** Delegation process doesn‘t end just by passing authority and responsibility. The subordinate must be aware of that what is expected from him? What are the desired outcomes of the delegator? It is the duty of delegator that he must inform the subordinate about the desired results. Written form should be preferred.There should be no misunderstanding or confusion. A deadline must also be agreed upon by the both subordinate and delegator for the completion of assigned task.
6. **MONITOR PROGRESS AND FEEDBACK:** There should be a clear communication between delegator and subordinate at the time of delegation as well as when the task is performed by the subordinate for periodic updates. Communication is needed in order to make sure that everything is going well and for queries of subordinate.
7. **GIVE CREDITS:** After the completion of task, delegator must give credits to the person for doing his job well. It motivates the employees and also results in employee loyalty and commitment.
8. **REVIEW:** Reviewing of results means learning from mistakes. If there is any shortcomings, learn from these mistakes and master yourself.

7.2.4 PRINCIPLES OF EFFECTIVE DELEGATION

A leader always fears and resists delegating authority to his subordinates. They prefer to do work themselves more often due to various reasons. But sharing authority can be a great motivator for others and also reduces burden of the leader. There are some principles that should be followed during delegation of duties in order to make delegation effective. These are:

1. **DELEGATION SHOULD BE CLEAR:** Authority should be delegated in clear manner so that the person to whom the duties have been assigned should be aware of duties, policies and procedures. There should be no ambiguity about his role.
2. **PARITY OF AUTHORITY AND RESPONSIBILITY:** Authority means right and powers to take decisions in order to accomplishment of assigned task and responsibility means obligation to perform assigned duties. Authority and responsibility should go hand in hand. Without authority one should not be able to perform his duties and responsibility. On the other hand, authority without responsibility does not serve the purpose.
3. **AUTHORITY SHOULD BE DEFINED:** It should always be clear that to what extent the authority have been delegated. He should also be cleared about the

limitations of delegation. Written manual should be preferred which clearly defines the powers and authority.

4. **FOLLOWING UP WITH DELEGATEES:** It should be clear to the delegator that what he is expecting from the subordinate and the subordinate should be free to use his discretion and authority to accomplish that particular ask in specified time. Delegator should keep an eye on the performance and progress of the task assigned.
5. **TOTAL RESPONSIBILITY OF THE SUPERIOR:** The delegator/superior may delegate his authority and responsibility to his subordinate but he himself is accountable to the top authority. He can avoid his overall responsibility and he have to be accountable to the top authority ultimately.
6. **UNITY OF COMMAND:** There should be unity of command which means one subordinate should be accountable to only one supervisor. And also he should receive commands from one supervisor. There should be direct relationship between supervisor and subordinate in order to remove confusion and ambiguity of role from multiple supervisors.
7. **OPEN COMMUNICATION:** Communication should be kept open between subordinate and delegator so that subordinate can consult to his delegator in case he needs help or guidance. Sufficient support must be provided. There should be a proper balance as too much support may send a wrong message to the delegate that his delegator don‘t trust him and little support may result in adverse performance.

These are the some guiding principles for the delegation of authority in better and efficient way. But still delegation is not an easy process; it should be done carefully according to situations.

7.2.5 BENEFITS OF DELEGATION

Delegation of authority is almost always beneficial to others. It benefits to organization, managers, customers and employees.

BENEFITS TO EMPLOYEES

Proper delegation gives the following benefits to the employees:

1. **IMPROVES MORALE:** When authority is delegated to employees they feel recognized, trusted and concerned. And when the assigned task is accomplished, they feel a sense of accomplishment and self confident which helps in improving their morale.
2. **ON THE JOB TRAINING:** When they are delegated authority and they exercise their skills and knowledge they get to know about their knowledge and competencies. With new challenges, they learn new things and new skills which help them in their further promotions.
3. **JOB CLARITY:** Formal delegation of duties help in clarification of job and role of employees in the organization. Job clarification helps in removing the ambiguity of tasks which reduces the job stress of employees.
4. **EMPLOYEE DEVELOPMENT:** With the delegation of authority, employees get a chance to utilize their ability and competence. It provides them opportunities to develop various tactics and skills to tackle with different complexities of decision making and performing tasks. It makes them better leader for future.
5. **ENHANCED JOB RESPONSIBILITIES:** Delegation helps in increasing job responsibilities apart from the repetitive workload of employees assigned to him. It helps in improving efficiency of employees and provides opportunities to prove them for upward promotion.

6. **LESS EMPLOYEE TURNOVER:** Delegation benefits employees in increased motivation and job satisfaction through recognized in the organization which ultimately reduces employee turnover.

BENEFITS TO ORGANIZATION

Delegation of authority increases the value of organisation in the following way:

1. **INCREASES EFFICIENCY:** With the delegation of authority, employees get to learn new skills which ultimately add to the overall efficiency of employees. Employees participate more in the task accomplishment and decision-making.
2. **CLEAR POLICIES AND PROCEDURES:** Delegation helps in framing out clear cut policies and procedures for its employees. Clear policies help in reducing ambiguity regarding role plays of employees and reduces conflicts among them.
3. It helps in fuller utilization of employees which add to the productivity of the organization.
4. Employees feel being recognized in the organization which adds to their job satisfaction and lower employees‘ turnover.
5. It builds a feeling of trust and teamwork among the employees to achieve goals of the organization.
6. Employees get on the job training and improve their competency under various situations which improves productivity of organization.

OTHER BENEFITS

Delegation of authority not only benefits employees or organization, it also helps customers and managers who delegate their duties in various ways:

1. Delegation helps in reducing stress on the higher authority. They can seek help of the employees for the accomplishment of various assignments.
2. After delegation of authority, management can give more attention to those tasks which they cannot delegate to others and specially meant for higher authority.
3. It promotes the feeling of sharing and trusts upon the employees by showing that organization is dependent upon them.
4. It helps managers for the long term planning of employees‘ development and it also helps the management to appraise its employees for future promotions.
5. Customers get benefit of improved efficiency of employees, consistency of services and more attention from the organization.

7.2.6 BARRIERS TO EFFECTIVE DELEGATION

Delegation is an important process of management as it is indispensable part of large organization. But there is always a fear aspect in the delegation as hey think that they may lose control over their subordinates. There are several other barriers in effective delegation of authority. These are:

1. **LACK OF CONFIDENCE:** Some managers fear to delegate authority to the subordinates just because they lack confidence in subordinates‘ capability for that task. They doubt the competence of the subordinates and prefer to do at their own. They also lack confidence in subordinate‘s sense of responsibility.
2. **FEAR OF LOSS OF POWER:** Manager may feel insecure and fear losing control over the job and their power. Due to these reasons, some managers are reluctant to delegate authority.

3. **LACK OF SELF-CONFIDENCE:** Sometimes there is lack of confidence among the managers to delegate authority to the subordinates. They are more conscious to their own competence than others. They prefer to do it at their own rather to reconcile the mistakes of subordinates later.
4. **RELUCTANT TO BEAR RESPONSIBILITY:** Some subordinates also fear to take responsibility. They prefer to take minimum responsibility and unwilling to take more.

5. **FEAR OF CRITICISM:** Subordinates are also reluctant to take responsibility due to fear of criticism in case of mistakes.
6. **LACK OF MOTIVATION:** Organizational climate also plays an important role in the delegation process. Employees with low level of motivation generally prevent authority.
7. **ACCOUNTABILITY OF SUPERIOR:** With delegation of authority, responsibility also passes to the subordinate. But the ultimate accountability will be of the delegator. Delegator will be held accountable to the top management though subordinate is responsible for the results.
8. **LACK OF COORDINATION:** For effective delegation, there must be proper communication and coordination among delegator and subordinate. Subordinate may need guidance and support. But if there is lack of coordination, delegation may not be effective.

7.3 DECENTRALISATION OF AUTHORITY

Decentralisation means delegation of authority to make decisions to the lowest possible level in organizational hierarchy except for which can only be exercised at central level. Decentralisation is the end result of effectively implementing delegation of authority in all departmental units. It refers to the situation which exists as a result of the systematic delegation of authority throughout the organisation. It is the delegation process which is extended to reach at decentralised organisation. Decentralisation decision is vital for all organisations but how much should be the degree of decentralisation that depends on various factors like size or entity, availability of competent managers, history of enterprise and many more. When the decision taking powers are systematically passed to middle level and lower level managers, the number of decision taking points increases. However, it is not necessary that the while decentralisation of authority, it is to be done in respect of all activities, rather it can also be done for specific function only by keeping other activities centralised. In any organisations, there cannot be absolute centralization or absolute decentralisation. Both have their own importance and relevance with varied degrees, thus it is the requirement of organisation that how they will systematically delegate the authorities.

7.3.1 DEFINITIONS

―Everything that goes to increase the importance of the subordinates' role is decentralisation and everything which goes to reduce it is centralization‖ – **Henry Fayol**

―Decentralisation is wide distribution of authority and responsibility to the smallest unit, that is practical throughout the organisation‖ – **Keith Davis**

―Decentralisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at central points‖ – **Louis A. Allen**

7.3.2 KEY FEATURES OF DECENTRALISATION

Decentralisation may have the following features:

1. Decentralisation is an expanded version of delegation of authority. In delegation, responsibility and authority is transferred from one individual to another whereas, in decentralisation the authority is scattered throughout the organisation.
2. Decentralisation increases the significance of the role of subordinates. It gives them the power to take decision and authority to fulfil obligations. Employees gain a feeling of confidence and motivation with the autonomy to take decisions.
3. Decentralisation reduces the workload of senior managers. Top level managers can focus on crucial matters of the organisations by handling over the responsibilities to middle level and lower level managers.
4. Decentralisation not only transfer the authority but also the accountability for the tasks assigned.
5. Decentralisation give the responsibility and power to take decisions for achievement of objectives to various departmental units who are going to implement them.

7.3.3 MERITS OF DECENTRALISATION

Decentralisation have the following merits:

1. **Motivation of subordinates:** Decentralisation improves the status, recognition and feeling of accomplishment among employees. The sense of greater responsibilities increases the satisfaction level of employees. Employees then work with high morale which results in increased rate of participation and productivity.
2. **Relief to top management:** Top management has much more responsibilities and are overburdened with the work of planning and crucial decision making. It is relief for top management when lower level managers can fulfill their obligations with responsibility. This can help top executives to pay attention to key policy matters.
3. **Improvement of work performance:** With systematic decentralisation, the decisions can be made timely and problems can be solved to their nearest point without any delay. The employees can work with greater productivity which will improve their performance level.
4. **Diversification:** For growth and diversification plans a company must exercise decentralisation. It is the decentralisation which helps to diversify business and helps in effectively implementing all growth plans.
5. **Management Development:** With the implementation of decentralisation, managers get the freedom to try out new innovative methods and techniques. Managers can explore new talent and get more experience with the assigned authority. Thus, there is a better scope for development of managers.

7.3.4 DEMERITS OF DECENTRALISATION

Decentralisation may suffer from drawbacks which are discussed here:

1. **LACK OF UNIFORMITY:** With decentralisation it is not possible to follow consistent policies. And these inconsistencies in the organisation make it difficult to follow uniform procedures in various departments.
2. **PROBLEM OF COORDINATION:** It is difficult to maintain coordination among various departments because of activities of different autonomous decision making units. The top management authority finds it difficult to coordinate among diverse goals and variety of functions performed by different divisions of the organisation.
3. **COSTLY:** Decentralisation is a costly affair as it increases the cost of operation. Managers are not only transferred with the authority but also equipped with required services and facilities which makes it costly.

4. **LIMITATION OF SCALE:** Decentralisation has not much scope in small organisation. The enterprise should be large enough with all the departments and divisions to implement decentralisation.

7.3.5 FACTORS DETERMINING DEGREE OF DECENTRALSATION

Before implementing decentralisation in any organisation, the following points must be kept in mind for effective decentralisation:

1. **SIZE OF ORGANISATION:** The size and complexity of organisation is an important factor to be considered for implementing decentralisation. The greater the size of business the more complex are the decisions. The need of decentralisation is felt in large organisations where departments are in large numbers and coordination is difficult. Decentralisation reduces the burden on top management as they shift their focus to more crucial matters. However, in small organisation it is usually costly to create autonomous units by implementing decentralisation.
2. **OUTLOOK OF TOP MANAGERS:** The character of top managers and the philosophy of their management will have an influence on the extent to which authority is decentralised. If the leaders have a broad vision and they believe in individual freedom, then it will bring high degree of decentralisation. So when the authority is not confined to few then this can help in big business work which will leave a lasting impact on the organisation. On the other hand, if top management is conservative and prefer to keep control in few hands only, then there is likely to be centralization of authority.
3. **AVAILABILITY OF COMPETENT MANAGERS:** When there is availability of competent managerial and experienced staff working at lower levels, then the organisation can successfully decentralise the authority. Trained managers can easily discharge their obligations delegated to them. On the other hand, the dearth of competent staff restricts the extent of decentralisation.
4. **DIVERSIFIED OPERATIONS:** When the business operations are performed on large scale and diversified in various territories then the decentralisation becomes necessary as well as beneficial. Dispersion of activities in large scale business makes communication difficult thus decentralised decision making is required.
5. **UNIFORMITY OF POLICY:** When the organisation desire to make their policies uniform then there should be consistency in the policies which is possible with limited decentralisation.
6. **COSTLINESS OF THE DECISIONS:** Decisions involving high risk and investment are will preferably be made by the top level managers. Thus, when high money value is involved, decisions are not delegated and kept with higher level of management. On the other hand, decisions which are related to routine purchases and do not involve high cost and risk are delegated to purchase departments.
7. **HISTORY OF THE ENTERPRISE:** The way an organisation has been established or built up is the factor on which extent of decentralisation of authority depends. If the organisation has given the powers to its various departmental heads to achieve the objectives then the organisation tends to be decentralised. Also, decentralisation can be observed in the organisations created through mergers and amalgamations especially when the units acquired are operating under profits. On the other hand, if the organisation is built under the directions of its owners then there tends to be minimal decentralisation.
8. **CONTROL TECHNIQUES:** With effective control techniques, well established system, improved accounting techniques and efficient business performance there

tend to be more decentralisation in organisations. Whereas poor and inefficient control system encourage centralization in the organisation.

9. **PACE OF CHANGE:** When the business is fast developing and facing problems of expansion, then the top managers generally focus on the crucial matters and decentralise the authorities for remaining decisions. Whereas, the centralised authority can be observed in slow moving organisations.

10. **ENVIRONMENTAL INFLUENCE:** There are many external factors which have an impact on the degree of decentralisation. Let‘s say tax policies, governmental control, national unionism etc. encourage centralization rather than decentralisation. Many of the industry problems like labour disputes and price fixation are also handled by higher level managers.

7.3.6 IMPORTANCE OF DECENTRALISATION

Decentralisation plays an important role in the growth of any firm in the following way:

1. **DEVELOPS INITIATIVE AMONG SUBORDINATES**

   Decentralisation develops the initiative among subordinates because it promotes self-reliance and confidence amongst the subordinates. The moment an employee is given with responsibility and the authority, the motivation for the employees to do the work increases. When lower managerial levels are given freedom to take their own decisions they learn to depend on their own judgment. If the entity do not follow decentralization, the decision making ability of employees keep on reducing and the employees depend on their superiors for each and every small thing. But if employees are given the power and authority, then they become free and hence they can make their own judgements in a better manner.

   Employees are kept in a state wherein they are constantly challenged and have to develop solutions for the various problems they encounter. So, when a subordinate is in a position where he will be challenged daily or whenever necessarily then he will learn how to develop solutions for those challenges. A decentralization policy helps to identify those executives who have the necessary potential to become dynamic leaders. Let‘s say when an assistant manager is given the report with the required authority then the top management can recognize from his work that if the assistant manager is dynamic leader or not and if he has the capability to get himself promoted or not.

2. **DEVELOP MANAGERIAL TALENT FOR FUTURE**

   Decentralisation helps in providing formal training along with experience of handling independent assignments which helps to create a reservoir of capable & qualified managers who can take up challenging positions in the upcoming ventures of organisation. Thus, decentralization is important because it helps to develop future leaders in the organisation.

3. **FACILITATES QUICK DECISION MAKING**

   With decentralisation decisions are taken at levels which are nearest to the points of action and there is no requirement for approval from many levels, the process is much faster as quick decisions are taken. When there is longer chain of command the message gets completely distorted thus decentralization helps in removing this problem. There are less chances of information getting distorted because it doesn‘t have to go through long channels.

4. **RELIEF TO TOP MANAGEMENT**

With decentralisation, top management doesn't have to take all the decisions and they can only focus on all the important tasks. Top management is then not bothered for each small thing, but giving supervision for getting the things done from the subordinates. Thus, decentralisation helps to reduce direct supervision required from top management by giving subordinates the freedom to take decisions. Decentralisation helps in reducing the workload of the superiors so that they can concentrate on policy matters. Thus, it helps in developing the organisation when top management is relived from day-to-day work which is required to run the organisation.

5. **FACILITATES GROWTH**

Because with decentralisation being effective in organisation, the top management is now concentrating on the policies which are important so the growth of the organisation is possible. Similarly, subordinates can grow in their role and take mature decisions as they are given extra responsibility along with the authority.

6. **BETTER CONTROL**

With decentralisation, as the authority has been given at the lowest level, the responsibility for ensuring the success of the project can be allocated. So, it results in better control in the organization as quick decisions are made and it becomes easy to make the person accountable for the work authorized to them.

7.4 RELATION BETWEEN DELEGATION AND DECENTRALISATION

- ✓ Delegation is the initiation of assigning authority whereas decentralisation is the end result of delegation in which authority is assigned to the lowest levels.
- ✓ Delegation is an essential part for every organisation whereas decentralisation is not necessity but advisory to follow.
- ✓ Organisation cannot work without delegation because individuals cannot work all alone without handling over some responsibility whereas it is possible to work without decentralisation.
- ✓ Delegation helps in achieving efficiency and effectiveness of work done whereas decentralisation helps in making the employee autonomous and self-sufficient.
- ✓ With delegation, that particular unit or department grows whereas with decentralisation the complete organisation shows growth and progress.

7.5 DIFFERENCE BETWEEN DELEGATION AND DECENTRALISATION

Sr.No.	**Points of Difference**	**Delegation**	**Decentralisation**
1.	Meaning	Delegation means assigning of authority and distributing functions from a managerial person to its subordinates.	Decentralisation refers to the systematic effort of performing delegation of all authority to the lowest level in an organized and consistent manner except which can only be exercised at central points.
2.	Scope/Parties involved	Delegation is narrow in scope as it is confined	Decentralisation is wider in scope because it

		to only two parties i.e., the manager and its subordinates. Because there is limited transfer of authority therefore, it hardly poses any problem of co-ordination between parties involved.	involves all the employees working at different levels. As extreme freedom of action is passed to employees working in different units, this creates a problem. Decentralisation means creating self-sufficient or autonomous units by pushing down the authority at every managerial level.
3.	Concept	Delegation concept is a technique of management.	Decentralisation concept is philosophy of management.
4.	Significance status	Delegation is important and performed as a routine function by managers who share everyday responsibilities of tasks with subordinates.	Decentralisation is more significant as all the responsibility vests with the decision taking units. It is a policy matter and one time decision to be taken.
5.	Accountability	Superiors are accountable for acts done by subordinates.	Respective department managers are accountable for the acts of concerned department.
6.	Responsibility	Delegation is the responsibility of manager working at each level.	Decentralisation is the responsibility of manager working at top level.
7.	Essential	Delegation is a compulsory act as no manager can perform all tasks alone. Thus, it is very necessary for all the organisations.	Decentralisation is not compulsory, rather it is an optional policy for the organisations. Organisations may or may not adopt this philosophy.
8.	Purpose	To reduce the burden of manager by handling over responsibility of tasks to subordinates.	To create self-sufficient and autonomous units and increase the role of subordinates by giving them more autonomy.
9.	Grant of authority	Authority is granted by superior to its	Authority is granted by top level. A substantial

		immediate subordinates. But subordinates do not have full liberty for action.	amount of liberty for decisions is passed to subordinates.
10.	Control	The ultimate controls vests in the hands of superior.	The top management delegates some routine control in the hands of departmental heads but keeping overall control to itself.
11.	Freedom of action	Delegation gives less power of action, also under the constant and continuous supervision of managers. Managers keep a regular check on activities performed by subordinates.	Decentralisation gives more freedom of action to the subordinates because authority is distributed systematically to the lowest levels. And there is no continuous supervision
12.	Withdrawal	Withdrawal of delegated authority is easy. Thus, once the authority is delegated it can be easily taken back	Withdrawal of decentralisation is not easy. It is a general policy matter and one time decision which is not an easy reversible action.

7.6 <u>GROUPS AND TEAMS</u>

7.6.1 WHAT IS A GROUP?

When two or more members with common interest and experience work together to complete a task then that is called as a Group. Groups are made of people with common interests, beliefs and experiences in same fields so that members can have better coordination with each other. One leader among group members delegates the task to group members and directs them in group coordination. The individuals who are part of group have separate goals and they are mutually independent. They work with their own specializations and fulfill their own goals. Therefore, each member is responsible for their own task which they perform with shared information and resources. The collaborative and combined work is missing from a group.

Several groups jointly can be a part of team in which group members help leaders in accomplishment of goals. The groups are of two kinds:

1. Formal Group – These groups are created by management or leadership to perform a particular task for an organization.
2. Informal Group – These groups are formed naturally in an organisation with employees satisfying their social or psychological needs. Generally, employees with common interest, social goal or identity form informal groups.

A work group is needed when there are any individual goals to accomplish quickly and efficiently. And there is only leader who will delegate the problem resolutions to individuals working together on a project which has no certain endpoint.

7.6.2 WHAT IS A TEAM?

A team is similar to a group, but unlike group a team works for collective purpose. When individuals with shared goals and responsibilities focus on a goal by working together then it is called as a Team. Team members put forth individual contributions as well as mutual contributions to achieve assigned responsibility. Thus it is based on the concept of ‗Synergy' which says whole is better than the sum of its parts. Team work is possible with mutual understanding between members. They work together and support in maximizing each other's strength and minimizing weakness. Their combined efforts are directly responsible for the outcome. With the help of each other in team, members are able to do more than the members would do on their own. When any group work with standardized workflow and mutual accountability then that group is actually a team. Thus, mutual commitment to the group's purpose is a key indicator of any group working as a team.
A work team is needed when there is a big project which has a set timeline to achieve one overall goal. In this, a long amount of time to work can be invested to solve the problems collectively. Also, a team has multiple leaders who ensure the coordination of work. A team has some of the advantages over group:

1. Team members have better communication
2. Collaboration and synergy of team members are much better than group members
3. Team members work for a common goal that ensures everyone is focused on the same cause.

7.6.3 KEY DIFFERENCE BETWEEN GROUP AND TEAM

Basis of Difference	Group	Team
Meaning	Collection of mutually independent individuals who work together for accomplishing a task	Group of persons who work together for collective purpose to accomplish a goal
Leadership	Only one leader who is strong and clearly focused	More than one leader because of shared leadership roles
Members	Members are independent	Members are interdependent
Process	Discuss, Decide and Delegate	Discuss, Decide and Do real work together
Work Products	Individual work-products	Collective work-products
Accountability	Individual accountability	Individual and mutual accountability
Focus	Accomplishing individual goals	Accomplishing team goals
Meetings	Runs efficient meeting	Encourages open ended discussions and active problem solving meetings

The two terms ‗Team' and ‗Group', both these terms are important in an organisation. But they are qualitatively different from each other. The group helps members to accomplish responsibility delegated by leader and to achieve individual objectives. It helps in developing a sense of conformity as the individuals are working together with some shared responsibilities. Group members learn to respect the group values. Working in a group is always better than working alone. Whereas, now discussing about team, a team stimulates the members to work for one another while accomplishing goals. A team plays an important role to work creatively and actively with one another on common goal. Thus, team work motivates the members to work collectively in accomplishing team goals.

7.7 CONCLUSION

We have read both the terms with its meaning, types, characteristics, benefits and limitations. Both Delegation and Decentralisation has their own importance and necessary for the organisation. Delegation is a compulsory process for organisation to follow and decentralisation is the end result of delegation. Decentralisation comes from delegation of authority, thus both complete each other. There is no competition between these terms as they both are required for a successful organisation. Both decentralization and delegation are indispensable part of large organization.

While following these two terminologies in practical sense, proper coordination among all the activities and a good leadership is required to maintain the health of organisation. Delegation and Decentralisation can be proved to be helpful in the success and progress of an organisation, if properly followed.

7.8 ANSWER TO CHECK YOUR PROGRESS

7.8.1 WRITE A SHORT NOTE ON THE FOLLOWING

1) What is delegation?
2) What do you mean by the term decentralization?
3) Why decentralization is important?
4) How delegation differs from decentralization?
5) What are the principles of effective delegation?
6) Why too much decentralization is not recommended?
7) What do mean by group?
8) What is a team?
9) Differentiate between teams and groups.
10) Why decentralization and delegation are necessary?

7.8.2 LONG ANSWER TYPE QUESTIONS

1) What is delegation? What are barriers to an effective delegation?
2) What are merits and demerits of delegation? How it can be effective?
3) Define decentralization. What are its characteristics?
4) What is decentralization? Why it is necessary for an organization?
5) What is difference between delegation and decentralization?
6) Briefly explain teams and groups. How groups and teams are different from each other?
7) Why decentralization is important for an organization? What are various factors that determine the degree of decentralization?
8) What is process of delegation? What are various principles for effective delegation?

B. COM (Hons.)

SEMESTER I

COURSE: BUSINESS ORGANISATION AND MANAGEMENT

UNIT -8 :LEADERSHIP:CONCEPT AND STYLES

STRUCTURE

Producers and managers are important, but leaders are vital to lasting organizational success.

Stephen Covey,Management Consultant

8.0 OBJECTIVES

- To understand the concept of leadership for directing the employees to attain organizational goals.
- To analyse various theories of leadership.
- To understand various leadership styles so that managers can adopt the suitable style of leadership.

1.1 INTRODUCTION

Leadership is a process through which a manager can guide,influence and modify the behaviour of his subordinates/followers towards the attainment of organizational goals. The response of the employees/followers to use of power varies from opposition to dedication. Any type of conduct inclined towards opposition reflects the hesitation ,while that inclined towards commitment indicates willingness and enthusiasm.The motive of leadership is to inspire employees to commit towards common goals.

Terry has defined leadership in the context of enthusiastic contribution.According to him:

"Leadership is essentially a continuous process of influencing behaviour. A leader breathes life into the group and motivates it towards goals. The lukewarm desires for achievement are transformed into a burning passion for accomplishment.‘‘

Tannebaum et al have defined leadership as follows:

‗‘Leadership is interpersonal influence exercised in a situation and directed through communication process, towards the attainment of a specified goal or goals.‘‘`

This definition emphasizes on inducing performance through communication. However, it does not highlight the zeal with which the communicatee will act.

An analysis of these definitions brings to the fore certain features of leadership which are as follows:

1. Leadership is a perpetual process of behaviour; it is not singular activity.
2. A leader tries to modify the behaviour of subordinates to achieve joint objectives.
3. Leadership may be interpreted in terms of relationship between a leader vis-vis , which arises out of their activities directed at common goals.
4. The followers work willingly and with zest to attain those objectives. Thus, there is no pressure which compels the subordinates/followers to work.
5. Leadership provides guidance and direction to the followers to achieve common goals. It happens when the leader values the individuals, gives them due recognition, and communicates them about the value of activities performed by them.

1.2 DIFFERENCE BETWEEN LEADERSHIP AND MANAGEMENT

The above definitions and characteristics of leadership denote that leadership and management are related but they are not essentially the same. A person can be a great leader,an effective manager, or, both , or neither. This is attributed to the fact that leadership differs from management in terms of the focus on-creating an agenda, developing a human network for achieving the agenda, implementing plans, and outcomes of activities. While leadership emphasises change in these activities, management believes in status quo. The difference between leadership and management is as follows:

- Leadership focusses on vision and mission with effectiveness and results.On the contrary, Management deals with establishing structure and systems as means to achieve the mission and vision by emphasizing on efficiency, input-output analysis, logistics, approaches, systems and policies.
- Leadership focuses on the top line; management focuses on the bottom line. Leadership derives its power from values and sound principles. Management organizes resources to serve selected objectives to produce the bottom line.
- Leadership motivates people to work in cohesion with a shared vision and intent. Management involves controlling results against plans, identifying deviations, and then planning and organizing to solve theproblems.
- Leadership focusses on the transformational aspect,as a result, transformational leadership emerges. Management,on the other hand, focuses on transactional aspect and, consequently transactional leadership emerges. Transformational leadership allows the leader to recognize the need for change, to create a vision to guide and to execute that change effectively. Transactional leadership involves routine, regimented activities- assigning work, evaluation of performance, making decisions etc.

Based on the above discussion, differences between leadership and management can be summarized as shown in Table1.

TABLE 1: DIFFERENCE BETWEEN LEADERSHIP AND MANAGEMENT

Factors		***Leadership***	***Management***
1.	Source of power	Personal abilities	Authority delegated
2.	Focus	Vision and purpose	Operating results
3.	Approach	Transformational	Transactional
4.	Process	Inspiration	Control
5.	Emphasis	Collectivity	Individualism
6.	Futurity	Proactive	Reactive
7.	Type	Formal and informal	Formal

1.3 IMPORTANCE OF LEADERSHIP

Effective leadership is a pre-requisite for ensuring the success of every organization. It has been seen since times immemorial that the difference between success and failure, be it a business, or a team game, a war, a political upheaval, , can be attributed largely to leadership.

- **MOTIVATING EMPLOYEES: M**otivation is the catalyst to get the desired work performance. Performance of the individuals is directly related to motivation.A successful effective leader, through his leadership, motivates the employees for high performance.
- **CREATING CONFIDENCE**. An effectual leader inspires confidence in his followers by directing and advising them, to attain the common goals in the organization. An individual with the direction of a leader,realizes his full potential and contributes efficiently .
- **BUILDING MORALE.** Morale is expressed as attitudes of employees towards organization, management and voluntary cooperation to offer their ability to the organization. Effective leadership in the organization increases the employees‘morale which boosts efficiency and organizational stability.

Thus, effective leadership is vital in all facets of managerial functions whether it be cultivation, communication, or direction. Successful leadership ensures success in the organisation, and unsatisfactory human performance in any organization can be primarily attributed to poor leadership.

1.3.1 SELF-CHECK EXERCISE 1:TRUE/FALSE

(i) Management and leadership are the same.

(ii) Leadership focusses on vision and mission while management focusses on establishing procedures and policies to achieve mission and vision.

(iii) Leadership is reactive while management is pro-active.

(iv) Leadership focusses on the transformational aspect whereas Management, emphasizes on transactional aspect.

1.4 THEORIES OF LEADERSHIP

Leadership has always been a very popular topic of research and discussion than any other topic in organisations. Inspite of all the attention given to it, leadership still remains quite an unpredictable phenomenon. It is known to exist and to have tremendous influence on human performance, but its inner mechanisms and precise magnitudes cannot be exactly ascertained.

1.4.1 CHARISMATIC LEADERSHIP THEORY

- A leader is born and is not made.This maxim suggests that charismatic leaders have very high levels of referent power and that some of that power comes from their need to influence others. The charismatic leader possesses very high levels of self-confidence, is domineering , and has a staunch belief in the virtue of his/her beliefs, or at least the ability to convince the followers that he/she possesses such confidence and conviction.

Leaders in general, and great leaders in particular, possess exceptional innate leadership talents which are conferred upon them by celestial power.As these qualities are inherent, these cannot be improved through education and training.These leadership qualities make a leader successful and situational factors do not have any influence.

However, there are two basic limitations of this theory. If there are specific intrinsic potentials of a great leader,then there is nothing that can be to develop leaders in the organizations. In fact, its converse is also true. Training and development programmers,can to a certain extent, polish the leadership skills but not make great leaders.Moreover, a charismatic leader may be unsuccessful in the altered milieu. For example, Winston Churchill, the late prime minister of Great Britain, was very effective during the World War II, but he failed afterwards. Thus, we can deduce that the situational variables play a significant role in determining leadership effectiveness.

1.4.2 TRAIT THEORY

The limitations of charismatic leadership theory paved the way for a more realistic approach to leadership.The researches of the behavioural psychology believed that leadership traits are not wholly inherent but can also be developed through learning and experience. Trait is defined as relatively enduring quality of an individual. The Trait approach seeks to determine the factors which make an effectual leader based on the leader's own intrinsic features. From the very beginning, people have stressed that a particular individual was a successful leader because of his certain talents or characteristics.Leaders of eminence were selected and their characteristics were studied. A quantum leap was possible when researchers began organizing traits around the Big Five personality framework They found that most of the traits that emerged as significant come under the ambit of the Big Five personality traits viz.extraversion, agreeableness, conscientiousness, emotional stability,and openness to experience. This approach resulted in consistent and strong support for traits as predictors of leadership. It was based on the premise that the persons possessing specific traits had more likelihood of becoming winning leaders.

Contemporary research indicates that emotional intelligence (EI) is a significant pre-requisite for effective leadership. It is the possession of the five components of EI—self-awareness, self-management, self-motivation, empathy, and social skills which are integral for successful leadership. A leader who lacks EI may have a highly analytical mind, futuristic vision, great ideas, still may not necessarily make a great leader. The fact that an individual possesses the traits and fellow employees look up to him as a leader does not necessarily mean that the leader is effective in attaining the organisational objectives.

Examples of Trait theory leadership are Azim Premji of Wipro and M.K.Gandhi The following traits have been considered essential for successful leaders:

- **PHYSICAL FEATURES.** Physical features in humans are a result of heredity factors. Fitness, weight, stature, figure and appearance are vital for leadership,to a certain extent.
- **INTELLIGENCE:** Higher intellect is pre-requisite for leadership. Intelligence generally manifests as acumen. Aptitude largely, is an inborn quality in the individuals because it is directly related with brain.

Acquirable Qualities of leadership are those qualities which can be practised through various processes. In fact, when a child is born, he imbibes social conduct through social demeanour and exploration processes. Such behavioral patterns translate into traits in a child with the passage of time. A large number of these traits can be polished through training programmes.The following qualities are pre-requisites for leadership:

- **EMOTIONAL STABILITY.** A leader should possess great degree of emotional maturity. He should be free from prejudice , bias, unswerving in action, and have control on anger and other negative emotions

- **HUMAN RELATIONS.** A successful leader should have adequate knowledge and sensitivity while dealing with human relations.An integral component of leader‘s task is to develop people and get their voluntary collaboration for achieving work.Moreover,he should have indepth knowledge of interpersonal relations.
- **EMPATHY.** Empathy relates to observing the things or situations by stepping into the shoes of another. The ability to look at things without any subjectivity but with understanding them from other's view is a significant aspect of successful leadership, which enables leaders to get sensitized to the emotions of humans.
- **OBJECTIVITY.** Objectivity implies freedom from any bias,prejudice and pre-conceived notions. The actions of a leader should be based on relevant facts, data, logic and information.
- **MOTIVATING SKILLS.** The leader can play a dynamic role in stimulating these inner drives of his followers. He can act as a catalyst by stimulating his followers to reach the zenith of success.
- **TECHNICAL SKILLS.** The process of guiding people necessitates compliance to explicit values which must be comprehended for greater achievement. The capability to plan, systematise, delegate, evaluate, seek opinion, decide, manage with mutuality constitute technical proficiency of leadership.
- **COMMUNICATIVE SKILLS.** A successful leader knows how to communicate effectively. Communication provides momentum in getting the acceptance from the communicatees. A leaders uses communication deftly for convincing, informing and stimulating the followers for better performance.
- **SOCIAL SKILLS.** Social etiquettes are a must for a successful leader . He has the ability to capitalize the strengths of people and conducts himself to gain their confidence and loyalty.

However, the theory suffers from universalisation of traits and their application. There cannot be any universal generalisation of traits for a successful leader. This has been seen observed in various researches conducted on leadership traits.

There is no evidence about the degree of the various traits because people have different traits with varying degrees.It is difficult to evaluate the traits and concrete conclusion cannot be reached at.

APPLICABILITY OF TRAITS: Leadership as a process is the outcome of leader's behaviour and not necessarily his traits. There have been many persons possessing so called leadership traits, but actually they could not become effectual leaders. The reason attributed to this is lack of direct relationship between a trait of a person and his conduct . The trait may be only one of the factors shaping behaviour ;sometimes they get over-shadowed by situational variables. These situational variables are not considered in trait theory.

1.4.3 BEHAVIOURAL THEORY

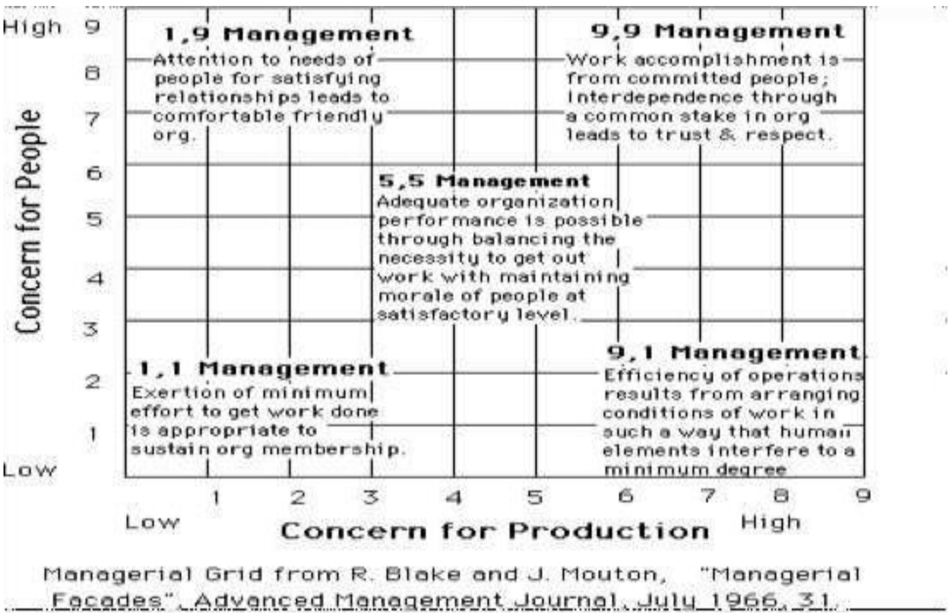
Behavioural theory of leadership is based on the assumption that strong leadership is the outcome of efficient role behaviour . Leadership is reflected in the actions of a person rather than by his traits. Researchers have found that to operate successfully, team leaders have to perform work-related functions and team perpetuation functions. Work-related functions, or problem-solving functions, deal with finding panacea for the tribulations faced by the group, in executing tasks and activities. Team perpetuation functions, or social functions are concerned with resolving disputes and ensuring that individuals feel cherished and valued by the group. An effective leader has to perform both the roles to emerge victorious in his endeavours.

The Ohio State studies found two dimensions of leader‘s behavior to be of paramount importance- initiating structure and consideration. Initiating configuration is concerned with the level to which a leader will define and model his or her role and the roles of employees in order to achieve goals.In addition,efforts to arrange work, work relationships, and goals are also essential. Consideration implies the likelihood that a leader will develop job relationships based on mutual trust and respect for employees‘ views and feelings. A leader who is high in consideration is concerned for followers‘ comfort, well-being, status, and satisfaction. These two roles may necessitate two divergent styles of conduct from the leader, known as leadership styles.

Research at the University of Michigan, referred to as ―the Michigan studies‘‘ developed two significant dimensions of leadership behaviour :employee-oriented and production-oriented. The thrust of Employee-oriented leaders is on interpersonal relations. Production-oriented leaders, in contrast, focuses on the technicalities of the job. They are mainly concerned with ensuring the achievement of group tasks by group members.

Blake and Mouton developed a graphic portrayal of a two-dimensional view of leadership style. They developed a Leadership Grid based on the styles of ―concern for people‖ and ―concern for production,‖ which essentially represent the Ohio State dimensions of consideration and initiating structure, or the Michigan dimensions of employee orientation and production orientation.

The grid, shown in Figure , has 9 possible positions along each axis,creating 81 different positions in which the leader‘s style may fall, but emphasis has been placed on 5: impoverished management (1,1); authority-obedience management (9,1);middle-of-the-road management (5,5); country club management (1,9); and team management (9,9). The grid shows the dominating factors in a leader‘s thinking with respect to how to get results from people.



THE MANAGERIAL GRID OF LEADERSHIP FIG.1

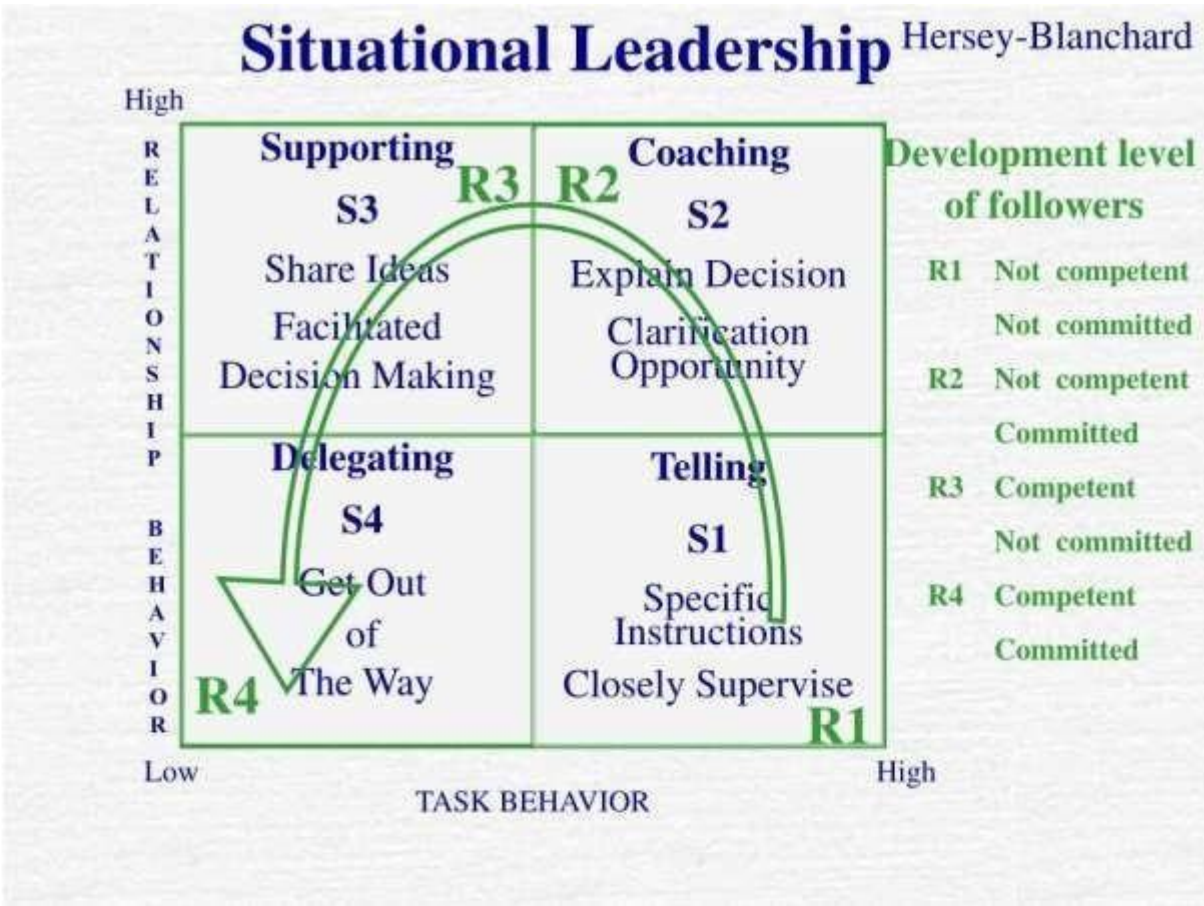
Dr Kiran Shaw Mazumdar, Chairperson of Biocon, Cricketer M.S. Dhoni are examples of this style of leaders.

Behavioural theory of leadership has significant implications for leaders and managers. They can mould their behaviour which appears to be operational

and abandon the behaviour which appears to be dysfunctional. Researchers who have relied on behavioural theory for analysing leadership behaviour have approved various leadership styles which may be relevant in guiding the people in organisations. However,this theory suffers from two basic shortcomings. First, a particular behaviour may be operational at a point of time but it may be inoperative at another point of time. As such, the time component will be crucial in the effectiveness of the behaviour and not the behaviour itself. Secondly, efficacy of leadership behaviour is affected by a multitude of s factors which are not present in the leader but external to him, like character of followers, and how the leader conducts himself under diverse situations. These factors need to be given due weightage. As such, the theory lacks a comprehensive explanation of leadership phenomenon.

1.4.4 SITUATIONAL THEORY

Situational leadership approach was developed by Ken Blanchard and Paul Hersey in 1969, under the notion that there is no _'one size fits all'' leadership style. In the corporate organisations, leadership researches focussed on the situations bordering the exercise of leadership since early 1950s. Fig.2



Source:https//www.slideserve.com

According to this theory, the leader-follower relationship is akin to that of a parent and child. Hersey and Blanchard have identified four specific leader behaviours—from extremely commanding to extremely laissez-faire. The most effectual behaviour depends on a follower's capability and morale. As illustrated in Figure-2, if a follower lacks the ability and resolve to do a task, the leader needs to be highly directive. If a follower lacks the capability but is determined, the leader has to balance the follower‘s lack of ability by greater orientation and focus to get the follower to work according to the leader‘s action plan. If the follower is capable and reluctant, the leader to be helpful and encourage participation. Finally, if the employee has the will and ability, the leader‘s job is minimal,as such, a laissez-faire approach will work. The thrust of situational theory of leadership, also known as contingency theory, is the situation in which leadership is exercised. Therefore, success of leadership will be related to the factors associated with the leader and factors associated with the situation. Leaders need to adapt to the circumstances, using cues such as nature of group, kind of task etc. The various factors affecting leadership effectiveness may broadly be classified as: leader's deportment and situational factors.The efficacy of leadership will be determined by the amalgamation of these factors. The factors and their impact on leadership effectiveness are discussed as:

- **LEADER'S BEHAVIOUR:** Leader's behaviour is affected by leader's characteristics and his hierarchical position in the organisation.

  (i)LEADER'S CHARACTERISTICS:The behavior of an individual is the culmination of intellect,calibre, his qualities , attitudes, interest, motivation, and external features,viz. age, sex, and physical features. Thus, the demeanour of the leader is a reflection of all these factors, which are intrinsic to the leader.

  - **(ii)LEADER'S HIERARCHICAL POSITION**: Leader's hierarchical position in the organisation is of prime importance as Managers at higher levels are more concerned with long-term complicated problems needing greater involvement in decision making. Managers at lower levels are more concerned with short term problems involving the routine operations which do need greater participation.
  - **SITUATIONAL FACTORS**

The effectiveness of leadership is also the outcome of situational factors as these factors influence the leader's behaviour. A leader who rises to the situation and acts accordingly can only emerge as an effective guide.

The diverse situational factors may be classified as: leader's situation, subordinate's characteristics, team/group factors, and organizational factors.

(i) **LEADER'S SITUATION**. The leader's situation regarding his subordinates an important factor affecting leadership effectiveness. There are two main determinants of the leader's situation: leader's position power and leader subordinate relation. Leader's position power helps or hinders in influencing others. Thus, high position power makes the leader's task of influencing others very smooth, while low position power makes the leader's job arduous. The other factor, i.e. leader subordinate relation is based on two way influence in a social relationship. Thus, diligent followers need to succeed in their own jobs with the support of the leader while helping their leader to succeed at his. Thus, if the leader has harmonious relations with subordinates, he is likely to be more effectual.

(ii) **SUBORDINATE'S CHARACTERISTICS:** The diverse factors influence an individual's behaviour are relevant for the subordinate too.

(iii) **GROUP/TEAM FACTORS:** The different group factors like, team composition, team norms, work plan, team cohesion and peer group relationship affect leadership effectiveness and performance. If these factors are conducive, the leader will be successful.

(iv) **Organisational Factors:** Organisational factors like organizational climate and organizational culture are highly conducive to leadership effectiveness.

IMPLICATIONS OF THE THEORY

Situational theory is very significant for leaders/managers as that it offers insights into the reasons why a manager who is successful in one situation, fails when there is change in the situation. Therefore, the managers may fare well by adopting management practices including leadership which are in tandem with the situational variables. Consequently, the systems and contingency approach has been accepted in management and leadership.

This theory, however, should not be taken as the last word in leadership. The theory but becomes quite complicated in practice due to multiple contingent factors. However, managers can overcome this problem by identifying them suitably,which is possible with experience.

1.4.5 Self-check exercise 2: Distinguish between Trait theory and Charismatic theory of Leadership.

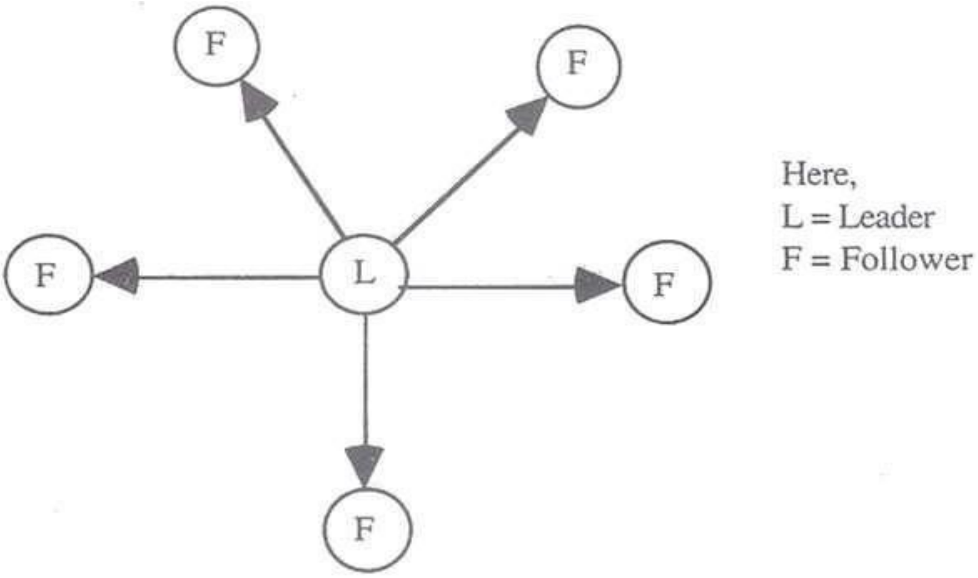
1.5 LEADERSHIP STYLES

Leadership styles are the forms of conduct which a leader adopts in influencing the demeanour of his followers/subordinates in the organizational context. These patterns appear in the leader as he responds in the same manner under similar conditions; he develops habitual actions which become predictable with his associates. Numerous researchers have advocated divergent leadership styles. Some of the important theories/ models prescribing leadership styles are given below.

POWER ORIENTATION: Power orientation approach of leadership styles is based on the extent of authority a leader uses in moulding the conduct of his subordinates/followers.There are three leadership styles, based on the degree of use of power:

1. Autocratic leadership
2. Participative leadership
3. Free-rein leadership

1.5.1 AUTOCRATIC LEADERSHIP: Autocratic leadership is also known as authoritarian, dictatorial or monothetic style. In autocratic leadership style, decision making power is centralized in the manager in himself as shown in Fig.3



AUTOCRATIC LEADERSHIP

- **STRICT AUTOCRAT**. He follows autocratic style in a very stern sense. His _method of moulding the conduct of subordinates/followers is through negative motivation,i.e. by criticizing subordinates, levying fine etc.
- **BENEVOLENT AUTOCRAT.** He also centralizes decision making power in him, but his motivation style is positive.
- **INCOMPETENT AUTOCRAT.** Sometimes, superiors adopt autocratic leadership style just to conceal their incompetence, because in other forms,they may be exposed before their subordinates. However, this façade of incompetence is short-lived and cannot be used for a long time.

The main advantages of autocratic style are as follows:

- There are many subordinates in the organisation who prefer to work under centralised authority structure and strict discipline. They derive satisfaction from this style.
- It enables swift decisions as most of the decisions are taken by a single person.
- It provides strong motivation and reward to a manager practising this style.
- Less competent subordinates also have scope to work in the organisation under this leadership style as they do negligible planning, organization and decision making.

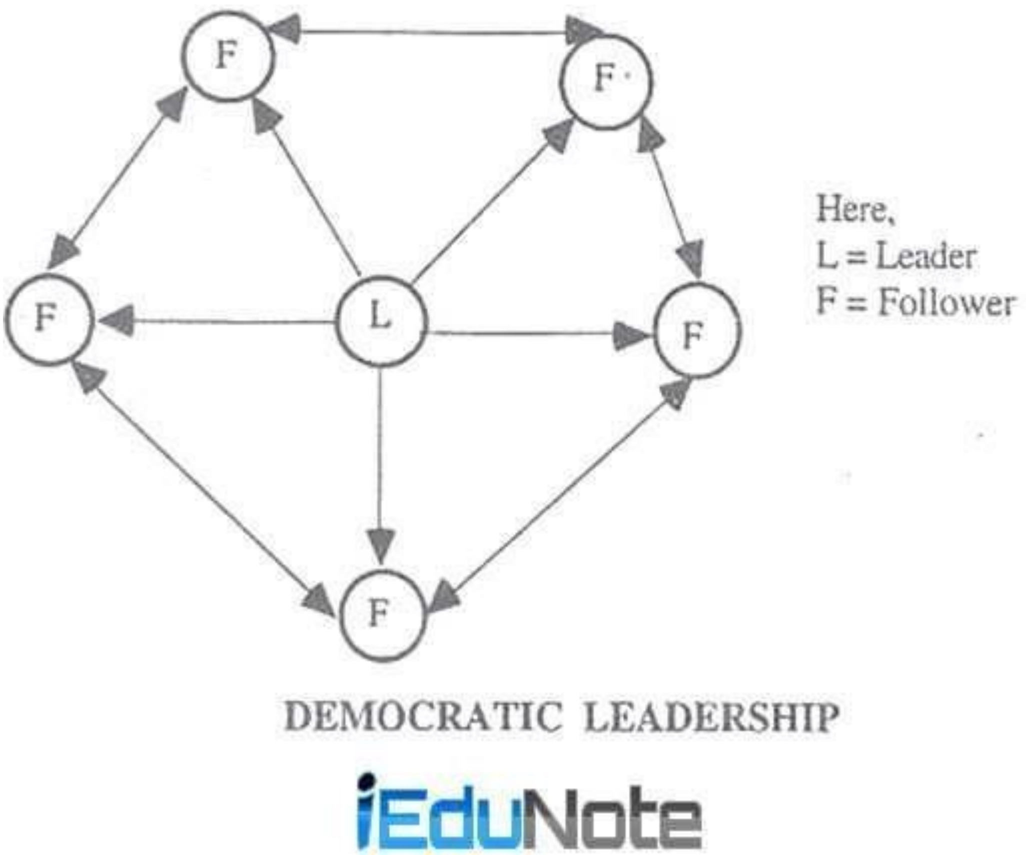
There are many disadvantages of autocratic leadership which are as follows:

- People in the organisation dislike it especially when it is strict and style is negative.
- Employees lack motivation ,hence frustration, low morale, and conflict develop in the organisation.

Autocratic leadership can be successful when subordinates are incompetent and inexperienced and the leader is pro-active and dominant in decision-making. The company endorses fear and punishment for disciplinary techniques. There is a little room for error in final accomplishment. Moreover, under pressure situations, this style ensures great speed and efficiency through uniformity and consistency in decision-making.

1.5.2 PARTICIPATIVE LEADERSHIP:-

This style is also known democratic, consultative, or ideographic. A participative leadership involves mental and emotional engrossment of a person in a group situation which encourages him to contribute to group goals and share responsibility in them. A participative manager decentralises his decision-making process.He focusses on consultation and involvement of his subordinates, in lieu of taking unilateral decision as shown in Fig 4.



- It is a highly motivational for employees as they feel elated when their ideas and suggestions are given due consideration in decision making.
- The employees‘ productivity is enhanced because they are party to the decision.
- They share the responsibility with the superior and try to safeguard him also.

However, this style suffers from certain limitations which are as follows:

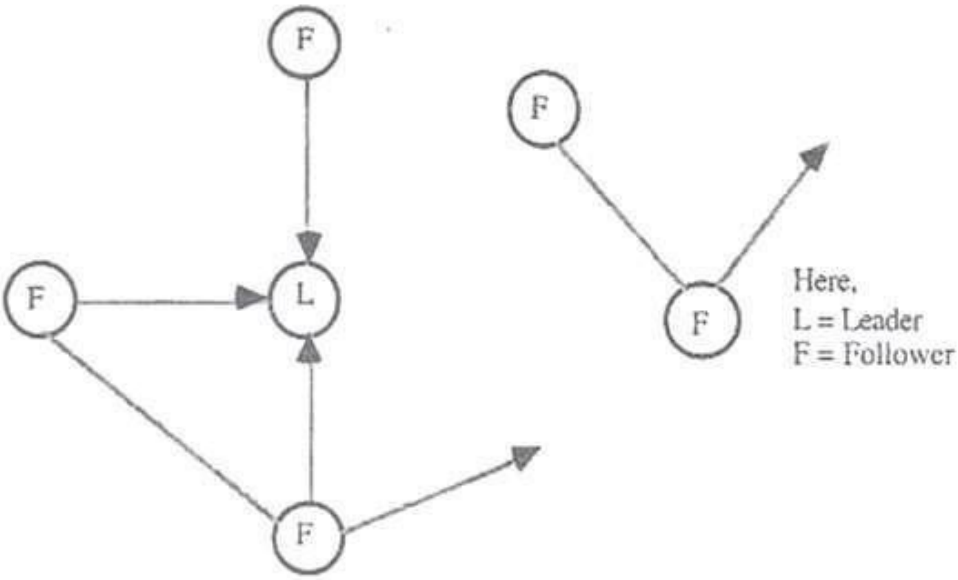
- Complex nature of organisation requires a thorough understanding of its problems which lower, level employees may not be able to comprehend. As such, participation does not remain meaningful.
- Some people in the organisation want minimum interaction with their superiors or associates. For them, participation technique is discouraging instead of encouraging.

- Participation can be used covertly to manipulate employees. Thus, some employee may prefer the open tyranny of an autocrat as compared to covert tyranny of a group.

Democratic style is most appropriate when subordinates are competent and experienced, and the leader prefers participative decision-making process,when rewards and participation are effective motivators.

1.5.3 FREE REIN

Free rein or laissez-faire style gives complete autonomy to subordinates. In this style, manager once determines policy, programmes and limitations for action and the entire process is left to subordinates as shown in Fig 5. There is no role of any leader . The group members enjoy full autonomy as regards goal-setting and performing towards it. Hence, there is utter pandemonium and misinterpretation of group goals. However, laissez faire leadership is suitable where the subordinates are well-trained, capable and the leader/manager delegates the powers of decision-making and action to the subordinates.However,this style is not much popular as it may lead to mismanagement and disorder.



FREE REIN LEADERSHIP

iEduNote

This type of style is suitable to certain situations where the manager can leave a choice to his group. This helps subordinates to develop independent personality. However, the contribution of manager is almost negligible. It allows different units of an organisation to proceed at mutually conflicting purposes and can create confusion. Hence, this style is seldom used in corporate organisations.

1.5.4 SELF-CHECK EXERCISE 3:

(i) The style of leadership which ensures consultation and involvement is ……………

(ii) The style of leadership which is most suitable when subordinates are incompetent and inexperienced is………………….

(iii) The contribution of the leader/manage is negligible in… ....style of leadership.

1.6 CONCLUSION

Leaders have always been needed both in the political and management fields. The success of every organization is attributed to the dynamism and magnetism of the leader. The leader is the pilot who has to steer the employees, followers towards the accomplishment of the organizational goals. Leadership is the test of patience, skills coupled with the adaptability of the leader to the changing environment and related challenges.There is no fixed mantra for successful leadership .Effective Leadership is a blend of the traits,charisma and flexibility of the leader/manager to adjust to the dynamic situations.The contemporary styles of leadership involve the participation of employees/followers for better performance of followers as they are motivated when given due importance.

1.7 KEYWORDS

TRAIT: A quality that forms part of a person‘s character or disposition

CHARISMA: A personal magic of leadership due to a special magnetic charm or appeal

PARTICIPATIVE LEADERSHIP: A participative leadership involves mental and emotional involvement of a person in a group situation which encourages him to contribute to group goals and share responsibility in them.

FREE-REIN LEADERSHIP: Free rein or laissez-faire style means giving complete freedom to subordinates.

AUTOCRATIC LEADERSHIP: In autocratic leadership style, decision making power is centralized in the manager in himself and subordinates have no say in decisions.

1.8 ANSWERS TO SELF-CHECK EXERCISES

Self-check Exercise1: (i)False(ii)True(iii)False(iv)True

Self-check Exercise2: Refer Paras 1.5.1 and 1.5.2

Self-check Exercise3(i)Participative/Democratic(ii)Autocratic(iii)Laissez-faire

1.9 RECOMMENDED READINGS

Organisational Behaviour by Stephen P.Robbins

Principles and Practice of Management by L.M.Prasad

Organisational Behaviour-An Evidence Based Approach by Fred Luthans.

1.10 QUESTIONS FOR EXERCISE

1.Explain the different styles of leadership**.**

2.Discuss the theories of leadership.

3.Compare and contrast Autocratic and Participative styles of leadership**.**

4.Critically analyse the Situational theory of leadership with examples.

B.COM (Hons.)

SEMESTER- I

COURSE: BUSINESS ORGANISATION AND MANAGEMENT

UNIT 9 MOTIVATION AND ITS THEORIES

STRUCTURE:

9.1 OBJECTIVES

After studying this unit, you should be able to

- Discuss the meaning and concept of motivation.
- Identify the importance and characteristics of motivation.
- Describe the techniques of motivation.
- Critically examine the Maslow theory of motivation.
- Analyse and explain Herzberg theory of motivation.

9.2 INTRODUCTION

Every management tries to coordinate various factors of production in such a way that their contribution is maximum in achieving organizational goals. The performance of non-human factors like machines, etc. will depend upon the level of technology and the competence of those who use them. To improve the overall performance in a business it becomes essential to increase the efficiency of human beings. The performance of person depends upon two factors i.e. ability of work and motivation. Both the factors increase efficiency of human beings. In organizations, managers are responsible to achieve determined goals and perform tasks. An individual manager certainly needs other personnel and executives so that they may assist him in efficiently performing the function. Therefore, a manager must motivate his subordinates and it is also challenge of motivation that people can show their potential and perform more than expected. Organizational effectiveness becomes to some degree a question of manager‘s efficiency to motivate people in the organization. Motivation refers to the forces either within or external to a person that arouse enthusiasm and persistence to pursue a certain course of action. Employee motivation affects productivity, and part of manager‘s job is to channel motivation toward the accomplishment of organizational goals. Motivation helps managers understand what prompts people to initiate action, what influence their choice of action, and why they persist in action over time. The following are the features of motivation:

- Motivation is an act of managers
- Motivation is a continuous as well as goal-oriented process
- Motivation can be positive or negative.
- Motivation is system-oriented and complex in nature.
- Motivation is an art and it is different from job satisfaction.

9.3 MOTIVATION AND PRODUCTIVITY

In Organisations, managers are responsible to achieve determined goals and perform tasks. Can you imagine an individual manager who can perform all the tasks? An individual manager certainly needs other personnel and executives so that they may assist him in efficiently performing the functions. The goals can‘t be achieved unless the people of the organization are motivated. Therefore, a manager must motivate his subordinate. It is the Challenge of motivation that people can show their potentials and perform more than they are expected. Organizational effectiveness becomes to some degree a question of manager‘s efficiency to motivate people in the Organization. In the words of Likert and Rensis, ―It is the core of management which shows that every human being earnestly seeks a secure, friendly and supportive relationship which gives him a sense of worth in face-to-face groups which are most important to him‖. Motivation makes a person feel that he can do something, he can do better and he must do something valuable. The goals of individual as well as organization can be achieved through productive performance, the result of motivation.

9.4 MEANING AND DEFINITION OF MOTIVATION

The term motivation is derived from the Latin word **„movere‟** which means **„to move‟**. Motivation encourages people to take better initiative and interest in the work assigned. Motivation of a person influences his own behaviour. It is the duty of the manager to motivate employees to achieve goals of an organization and at the same time satisfy needs of the employees. Motivation is the inner phycological forces in an individual which induces him to act or not to act in a particular way. Thus, it is an art of getting things done willingly from others. Motivation avoids clashes and non-cooperation and brings harmony, unity and cooperative outlook among employees. Motivation means ―any emotion or desire which so conditions one‘s will that the individual is propelled into action.‖

―Motivation is the act of stimulating someone or oneself to get a desired course of action to push the right button to get desired results.‖ Michael J. Jucius

―Motivation refers to the way in which urges, derives, desires, aspiration, striving, needs direct control or explain the behaviour of human beings.‖ McFarland

―Motivation is the willingness to exert high level of effort to reach organizational goals, conditional by the effort‘s ability to satisfy some individual needs.‖ Robbins and Coulter

9.5 CHARACTERISTICS OF MOTIVATION

Various characteristics of motivation are as follows: -

1. **BENEFICIAL TO EMPLOYEES AND MANAGEMENT –** Motivation offers benefits to both employees as well as organization as it reduces clashes and encourages cooperative outlook among employees. Motivation leads to collaborative relations between labour and management. It provides more profit to management and better welfare for its employees.

2. **PSYCHOLOGICAL PROCESS –** Motivation is a psychological process which is useful for encouraging employees to take more interest and initiative in the work assigned to them. It relates to better and healthy human relations within the organisation.

3. **GOAL-ORIENTED PROCESS –** Motivation directs human behaviour towards achievement of certain goals. Attainment of organizational and individual goals depends on the motivational plans. As soon as the goals are achieved, employee would be no longer interested in work. Therefore, a new set of goals should be set so that the employee is motivated again to work with enthusiasm.

4. **ESSENCE OF MANAGEMENT PROCESS –** Motivation is an essential function to be performed by a manager. He has to motivate his subordinates for achieving organizational objectives. Motivated labour force works an asset for business unit as motivated employees bring growth, stability and prosperity to a business organisation.

5. **INITIATIVE BY MANAGER** – The manager has to take initiative for motivation by offering guidance and also by other methods like appreciation of good work or offering incentives for better performance.

6. **CONTINUOUS ACTIVITY –** Subordinates need motivation in a continuous manner as their needs and expectations change from time to time. A manager has toanalyse the needs of his subordinates and use the suitable technique of motivation accordingly.

7. **VARIOUS WAYS AVAILABLE FOR MOTIVATION –** Manager can offer various monetary and non-monetary incentives to motivate his employees to perform in a better way. Attractive wages, welfare facilties, job satisfaction, proper work environment, appreciation of good work, encouragement to self-development, job security and fair treatment are the some of the ways which can be used for motivating employees.

8. **MOTIVATION IS DIFFERENT FROM SATISFACTION** – Motivation implies a drive towards achievement of a result while satisfaction involves result already experienced and achieved. When desire is satisfied, the employee is satisfied.

9. **MOTIVATION IS A BROAD CONCEPT** – Motivation is a comprehensive concept which includes needs, human relations and satisfaction of employees. For the motivation of employees, various monetary and other incentives need to be offered.

10. **MOTIVATION IS RELATED TO A PERSON IN TOTALITY** – An employee is motivated in totality and not in part. Employee‘s basic needs are interrelated. Management must fulfill all the needs through monetary and non-monetary incentives.

11. **COMPLEX PROCESS** – Motivation is a complex process because first it relates to human psychological behaviour. Second it cannot be measured easily. Since it is a hypothetical concept, it can not be seen.

12. **INTERNAL FEELING** – Motivation is an Internal feeling which may vary from person to person. It is an inner state which stimulates a person towards goals.

9.6 IMPORTANCE OF MOTIVATION

Motivation is the important function to be performed by manager to get the initiative or loyalty to work from his subordinates. Importance of motivation can be explained by the following points :-

1. **STIMULATING EMPLOYEES-** Motivation is needed in order to stimulate employees to improve the performance. It is needed for optimum utilization of energy of employees so as to achieve the business objectives.

2. **BUILDING HIGH MORALE** – Motivation is very useful in building high moral of the subordinates. Subordinates with high morale put their maximum efforts in order to achieve the organization‘s objectives.

3. **FACILITATES CHANGE** – Motivation is the important factor which help organization to overcome from the problem of resistance to change. Resistance to change is well tackled by motivation. Satisfied workers are more receptive to changes. They willingly work to achieve objectives of the business.

4. **REDUCES ABSENTEEISM AND LABOUR TURNOVER** – When employees are motivated, they report for work on time. Job security and better amenities motivate employees thereby reducing labour turnover.

5. **SECURING EMPLOYEE COOPERATION** – Motivation is needed for securing cooperation and willing participation of employees in the work assigned. It is also needed for creating efficient, stable and cooperative labour force, which is the real asset of a business.

6. **MAINTAINING HUMAN RELATIONS** – Motivation is needed in order to tackle the human relation problems, which the management faces from time to time. Motivation helps in creating healthy relations between management and employees.

7. **DEVELOP POSITIVE ATTITUDE** – Motivated employees develop positive attitude towards work and life. They keep away from destructive activities. It is a direct gain to the employees.

8. **RAISING PRODUCTIVITY AND EFFICIENCY** – By motivating the employees, organization can be able to increase its productivity and efficiency. Motivated employees can use their skills and organizational resources more efficiently and effectively.

9. **EFFICIENT UTILIZATION OF RESOURCES** – Motivated employees of the organization always try to minimize the wastage of the resources and prevent them from being used in unproductive work. In this way, they help in efficiently utilization of the organization.

10. **INCREASED PERFORMANCE** – Motivation and performance go hand in hand. Demotivated people do not feel inclined to engage themselves in work. However, performance depends on various factors but motivation plays a key role in higher performance.

11. **ACCEPTANCE OF ORGANIZATIONAL CHANGES** – As the technology, value system, society change, organizations also change. When these changes are introduced in the organizations, employees should attend these. If people are properly motivated, they will not resist these changes and welcome them.

9.7 TYPES OF MOTIVATION

For getting more work from his subordinates a manager has to motivate them and offer him incentives for improving their performance. He may also instill fear in them or use force for getting the desired work. The following are the types of motivation:

- **POSITIVE MOTIVATION**: It is based on the rewards and in this type of motivation the workers are offered incentives for the desired goals. Such type of incentives may be in shape of more pay, promotion, recognition of work etc. Positive motivation is achieved by the co-operation of employees that brings a feeling of happiness among them.

- **NEGATIVE MOTIVATION**: It is based on force or fear which cause employees to act in a certain way which cause anger and frustration. The fear acts as a push mechanism where employees do not willingly co-operate, rather than want to avoid punishment.

9.8 TECHNIQUES OF MOTIVATION

Every management tries several techniques to motivate the employees so as to improve their performance which can be further classified into two categories i.e. monetary factors and non-monetary factors that can be described as follows:

I. MONETARY FACTORS:

(i) Salaries or wages: Salaries or wages must be paid on time which is one of the most important motivational factors. While fixing salaries the organization must consider such as :

- Cost of living
- Company ability to pay
- Capability of company to pay etc,

(ii) Bonus: It refers to extra payment to employee over and above salary given as an incentive. The employees are satisfied when they are given adequate rate of bonus.

(iii) Incentives: The additional incentives such as medical allowance, educational allowance, HRA, Allowance, etc. must be provided by organization.

(iv) Special individual incentives: The company may provide special individual incentives as valuable suggestions given to those deserve the same.

II. NON-MONETARY FACTORS:

(i) Status or job title: Every employee prefers and proud of higher designations. The Employer must focus on providing a higher status or designations that motivate the employee.

(ii) Appreciation and recognition: Employees must be appreciated for their services and that kind of praise should not come from immediate superior but also from higher authorities.

(iii) Delegation of authority: Delegation of authority motivates a subordinate to perform the tasks with dedication and commitment because the subordinate knows that his superior has placed faith and trust in him.

(iv) Working Conditions: Provision for better working conditions such as air-conditioned rooms, proper plant layout, proper sanitation, equipment, machines etc, motivates the employees.

(v) Job security: Guarantee of job security or lack of fear dismissal, etc can also be a good way to motivate the employees. Employees who normally remains temporarily for very longer duration may be frustrated hence, may leave the organization.

(vi) Job enrichment: Job enrichment means more challenging tasks & responsibilities. For example, an executive who remains involved in the preparation and presentation of performance reports is also asked to frame plans.

(vii) Workers participation: It means to Invite the employee to be quality circle Member, or a committee Member, or any other form of employee participation also motivates the work-force.

(viii) Cordial relations: It strives on existence of Good and healthy relations throughout the organization. This definitely motivates the employees.

(ix) Good superiors: The Subordinates want that their superiors should be intelligent, experienced, matured, and having a good personality. In fact, the superior needs to have superior knowledge and skills as compared to that of his subordinates. Presence of superiors always motivate the subordinates.

(x) Other factors: There are several other factors of motivating the employees:

- Providing training to the employees.
- Proper job placements.
- Proper promotions and transfers.
- Proper performance feed-back.
- Proper welfare facilities.
- Flexible working hours.

9.9 MOTIVATIONAL THEORIES

9.9.1 MASLOW"S-HIERARCHY OF NEEDS THEORY: This theory was suggested by Abraham Maslow and is based on the ideology that people get motivated by five universal needs. These needs arranged in hierarchy of their importance and priority. He concluded that when one set of needs is satisfied, it ceases to be a motivating factor. Thereafter, the next set of needs in the hierarchy takes its position. Maslow has noted the following assumption:

I. Man is a wanting being, i.e. his wants are growing continuously even when some are satisfied.

II. A satisfied need is not a motivator.

III. Needs have a definite hierarchy of occurrences.

- **PHYSIOLOGICAL NEEDS**: These needs are deemed to be the lowest- level needs. These needs include the needs such as food & water. So long as physiological needs are unsatisfied, they exist as a driving or motivating force in a person's life. A hungry person has a felt need which cause tensions that manifest themselves in behaviors directed at reducing those tensions (getting something to eat). At this point (assuming that other physiological requirements are also satisfied) the next higher order need becomes the motivating need
- **SAFETY NEEDS**: The needs for shelter and security which become the motivators of human behavior. Safety needs include a desire for security, stability, dependency, protection, freedom from fear and anxiety, and a need for structure, order, and law. These needs cannot be fired on a whim because in the workplace these needs translates into a need for at least a minimal degree of employment security; the knowledge and that appropriate levels of effort and productivity will ensure continued employment.
- **SOCIAL NEEDS**: Generally, as gregarious creatures, human have a need to belong and the need focuses the need for belongingness and love. In the workplace, this need may be satisfied by an ability to interact with one's co-workers and perhaps to be able to work collaboratively with these colleagues.
- **EGO AND ESTEEM NEEDS**: Esteem needs include the desires for self-respect, self-esteem, and the others esteem. When focused on external environment, these needs also include the desire for appreciation, reputation, status, fame, glory, dominance, recognition, attention and importance. These needs give the individuals a sense of self-worth and ego satisfaction.

- **SELF-ACTUALIZATION**: After all other needs fulfilled, a man has the desire for personal achievement. The person wants to do something which is challenging and since this challenge gives him enough push and initiative to work that is also beneficial for him as well as for society. The highest need in Maslow's hierarchy is self-actualization, self-realization, continuous self-development, and the process to becomes all that a person is capable to become.

  CRITICAL ANALYSIS OF THEORY:

  Maslow theory has been widely appreciated but it has been criticised by many on the grounds:

  1. Researchers have proved that there is lack of hierarchical structure of needs as suggested by Maslow, though every individual has some ordering for his need satisfaction. Some people may be deprived of their lower level needs but may strive for self-actualisation needs. The example of MAHATMA GANDHI is one of the most important.
  2. Another problem is that there is a lack of direct cause and effect relationship between need and behaviour. One particular need may cause different type of behaviour in different persons. On the other hand, as a particular individual behaviour may be due to the result of different needs. Thus, need hierarchy is not as simple as it appears to be.
  3. Need and satisfaction of needs is a psychological feeling. Sometimes even the person may not be aware about his own needs. How can the managers come to know about these needs?
  4. Some people say that hierarchy of need simply does not exist. At all levels needs are present at given time. An individual motivated by self-actualisation needs cannot afford to forget his food. But this criticism is solved by Maslow by saying that needs are independent.
  5. Another problem with this theory is the operationalisation of some of his concepts which makes it difficult for the researchers to test his theory. For instance, how does one measure self-actualisation?

9.9.2. HERZBERG'S TWO FACTOR THEORY: This theory is also known as the Motivation-Hygiene Theory and it is derived from the study designed to test the concept that people have two sets of needs namely hygiene or maintenance factors and the motivating factors. He concluded that when hygiene factors are absent, it increases dissatisfaction but their presence is not motivating but only prevent dissatisfaction.

1) **SATISFACTION (MOTIVATION):** Five factors stood out as strong determiners of job satisfaction. They create positive and a longer lasting effect on employee‘s performance and are related to work itself. Such factors called as _satisfiers _make people happy with their jobs which also leads to psychological growth.

- Achievement
- Recognition
- Work itself
- Responsibility
- Advancement

The last three factors were found to be most important for bringing about lasting changes of attitude. It should be noted, that recognition refers to recognition for achievement as opposed to recognition in the human relations sense.

2) **DISSATISFACTION (HYGIENE):** The hygiene factors meet man‘s needs to avoid unpleasantness but do not motivate them to take more interest in the work. These factors are related to the conditions of work than with the work itself. Company policy

- Administrative policies
- Supervision
- Salary and status
- Interpersonal relations with superiors, co-workers and subordinates.
- Working conditions
- Job security and Personal Life

According to Herzberg, the factors leading to Job satisfaction are separate and distinct form those that lead to job dissatisfaction. Respondents who felt good about their work tended to attribute intrinsic factors, such as work itself, responsibility and achievement seem to be related to job satisfaction. On the other dissatisfied respondents tended to cite extrinsic factors such as supervision, pay, company policies and working condition. Herzberg proposed a dual continuum that is based on his findings indicated the existence of: the opposite of ―satisfaction‖ is ―No satisfaction‖ and the opposite of ―Dissatisfaction‖ is ―No

Dissatisfaction. Therefore, managers who seek to eliminate factors that can create job dissatisfaction may bring about peace but not necessarily motivation

CRITICAL ANALYSIS OF THEORY:

Herzberg‘s theory is appreciated on the ground that it provides an insight into the task of motivation by drawing attention to the job factors which are often overlooked. It shows the value of job enrichment in motivation. Thus, theory has solved the problems of managers who were wondering why their policies failed to motivate the employees adequately. This theory has not gone unchallenged and also criticised on some grounds:

- **NOT CONCLUSIVE**: Herzberg study was limited to the engineers and accounts. The general workers are motivated by pay and other benefits and the professionals or white-collar workers may like responsibility and challenging jobs. The effect of hygiene and motivational factors may totally be reverse on some other categories of people.
- **METHODOLOGY**: Another criticism of this theory is directed at the method of research and data collection. The interviewers were asked to report exceptionally good or bad job experience. This defective information will always be subjective and biased.
- **JOB ENRICHMENT**: This theory has given too much emphasis on job enrichment and totally ignored job satisfaction of the workers. He did not attach much importance to pay, status or interpersonal relationship which are generally held as great motivators.

9.10 LET SUM UP

- Motivation is very much needed for employees in an organisation to be productive, and management or leadership style has an important role to play. Motivation is not always based on financial rewards, but non-financial rewards methods can also be used to derive the best out of employees. Although individuals have their expectations, it is the leadership‘s responsibility to develop and align with theories that are suitable to bring job satisfaction to their employees. However, there is no single reliable theory to be used, a mixture of them can be utilized. In terms of empowering workforce, employees should be encouraged and given a platform to voice out their concerns on how they can be motivated. Rewards and promotions following performance appraisals maybe used to boost employee‘s moral as well as feedback. All employees should understand the company‘s vision and goals and work together towards those. Employees perform their duties diligently if they are inspired and motivated as the results will always be positive with efficient production. Organizations which are results oriented will go all the way to motivate their employees for them to reach their goals. A further qualitative research on motivation strategies and theories is recommended. T

9.11 KEY WORDS:

- Motivation: is a process that initiates guides and maintain goal-oriented behaviour.
- Reimbursement: a sum paid to cover money that has been spent or lost.
- Quality of working life: describes a person‘s broader employment related experience.
- Reinforcement: the process of encouraging or establishing a belief or pattern of behaviour.
- Social learning: Learning through the observation of people‘s behaviours.

9.12 TERMINAL QUESTIONS

I. Explain the concept of Motivation and its process. Which motivational factors influence the most the behaviour of individuals?

II. Explain the Motivational Theories with examples.

III. What is the concept of motivation? How does it affect behaviour? What happens when a person is not able to satisfy his needs?

IV. Explain Herzberg‟s two factor theory and differentiate it from Maslow‟s theory.

Write short notes on:

- **What is meant by negative motivation?**
- **Monetary factors of motivation.**
- **What are the motivators?**

UNIT X - MARKETING MANAGEMENT

STRUCTURE

10.4 Answer To Check Your Progress

10.4.1 Short Answer Type Questions

10.4.2 Long Answer Type Questions

10.0 OBJECTIVES

After going through this unit, you will be able to:

- Understand the different functional areas of management.
- Describe the term market and marketing.
- Explain the seven steps in the marketing process
- Elucidate the concepts and functions of marketing.
- Define the different types of marketing.
- Discriminate between traditional marketing and E-marketing
- Explain the term marketing mix and its components.
- Describe the stages of product life cycle
- Understand the pricing policies and practices.
- Identify the strategies for new and established products.
- Recognize different types of intermediaries.
- Appraise the factors considered for promotion mix.
- Identify the various channels of distribution and their importance.

10.1 INTRODUCTION

Functional areas of management are all those areas where management is used in an organization to achieve the goals of the organization. Every organization has their own functional areas depends on their goals but generally there are four functional areas of management i.e. Human Resource Management, Financial Management, Marketing Management and Production Management. Production is the vital activity of all the organizations on which remaining three activities revolve around production. In production activity, final goods and services are created. Marketing activity helps to create awareness about that product in the market. Finance and accounting deals with procurement and allocation of funds of the business. The HR area deals with employees associated with the organization, recruitment process, training process, how to retain employees and keep satisfied. It is important to understand these functional areas individually:

1. **PRODUCTION MANAGEMENT**: It is the management of production process where set of inputs like manpower, materials, machinery, capital, information and energy gets converted into some desired output and produce efficiently the goods and services required by the customers. Here, all the managerial functions are performed for the production and manufacturing process in the organization. Production management includes the following operations**.**
   a) **PRODUCT DESIGNING:** Top management decides the product to be produced by the firm but designing of product and functioning is to be done by production management. In design production management decides about the appearance, shape and size required while functioning deals with the working of the product.
   b) **PRODUCTION SYSTEM DESIGNING:** Production system is the structure where the conversion of inputs into output occurs. The suitability of a production system will depend upon the kind of product to be produced and the scale of production carried on by the firm.
   c) **PRODUCTION PLANNING AND CONTROL:** Here production manager establishes the exact sequence of operation of each individual item, part or

assembly and lays down the schedule of its completion. After this, in production control deviations are figured out by comparing actual performance with the predetermined standards.

d) **SELECTION OF LOCATION:** Here location of the plant is decided where production and distribution costs are the minimum that includes cost of land, rental value, transportation costs, labour cost, cost of water and power. Government policy, availability of site, personal, etc also plays an important role.
e) **LAYOUT OF PLANT:** Arrangement of machines and facilities should be efficient to achieve economy and efficiency in operations of the production department that allows materials to move through the necessary operations speedily and in the most direct way possible.
f) **RESEARCH AND DEVELOPMENT:** Research means to acquire new knowledge and to get immediate solutions to practical problems. Development involves design and manufacturing of new products and then testing its utility keeping in view the needs and demands of customers.

2. **MARKETING MANAGEMENT:** Marketing includes all the activities from knowing the needs of the consumers to their satisfaction. Marketing management is ―planning, organizing, controlling and executing marketing programme, policies, strategies designed to create and satisfy the demand for the firms' product offerings or services with the motive of generating profit.‖ Sub areas of marketing management are:
   a) **ADVERTISEMENT**: It helps to make aware customers about the products of the organization and induce them to purchase a new line of product or an enhanced line of existing product. This can be possible by using mass media like electronic media or advertising campaigns etc.
   b) **SALES MANAGEMENT**: This deals with actual transferring of products to the customer after completing certain formalities and also providing after sales services.
   c) **MARKETING RESEARCH**: Data related to performance of product in the market and preference of customers is collected.

3. **FINANCIAL MANAGEMENT:** Financial management makes sure the availability of the right amount and right type of funds to business at the right time and at a reasonable cost. It means managing the financial activities such as procurement of funds and to make the best utilization of funds. The various functions in financial management are discussed below:
   a) **OBJECTIVE FORMULATION:** The function of the finance department is the formulation of financial objectives which helps in the fulfillment of goals of the organization also it is necessary to have coordination with other various functional departments.
   b) **ESTIMATION OF CAPITAL REQUIREMENTS:** A finance manager has to make adequate estimation of capital requirements of the company which increases the earning capacity of enterprise. This estimation depends upon expected costs and profits and future programme and policies of a concern.
   c) **DETERMINATION OF CAPITAL STRUCTURE:** Here proportion of short-term and long-term debt equity in capital is decided**.**
   d) **CHOICE OF SOURCES OF FUNDS:** Additional funds for a company can be raised by issue of shares and debentures, loans from banks and financial

institutions, public deposits etc after analyzing the merits and demerits of each source and period of financing.

e) **INVESTMENT OF FUNDS:** The finance manager has to invest funds into profitable ventures guided by three important principles-safety, profitability and liquidity and ensure regular returns so as to optimize the return on investment.
f) **DISPOSAL OF SURPLUS:** Financial manager has to decide whether to distribute net profit among shareholders in the form of dividend or to retain profit for future expansion, innovation and diversification plans of the company.
g) **FINANCIAL CONTROLS:** Along with planning and utilizing funds financial managers also have to exercise control over finances through techniques like ratio analysis, financial forecasting, cost and profit control, etc.

4. **<u>HUMAN RESOURCE MANAGEMENT</u>:** It is also known as personnel management**.** Edwin B. Flippo has defined personnel management as that area of management which deals with planning the activities, maintaining and utilizing the workforce in the enterprise to help in the achievement of its objectives. HRM deals with making the effective utilization of human resources in the organization. Functions of HRM are as follow:
   a) **MANPOWER OR HUMAN RESOURCE PLANNING:** Management forecasts the need of the workforce to ensure the right number of people and the right kinds of people at the right place at the right time doing the right things.
   b) **RECRUITMENT:** It is a positive process of searching the prospective employees and stimulating them to apply for vacancies in the organization.
   c) **SELECTION:** Selection is a negative process that involves rejection of not suitable candidates and selecting the best by conducting various interviews and tests.
   d) **TRAINING AND DEVELOPMENT:** Training helps to increase the knowledge and skills of an employee for doing a particular job but development involves growth of an employee in all respects. It denotes the process by which the employees enhance their capabilities for managing higher jobs in the future.
   e) **APPRAISAL:** Performance appraisal is the systematic, periodic and an unbiased rating of an employee‘s capabilities regarding present job and of his potentialities for a better job.
   f) **COMPENSATION AND PROMOTION:** Compensation is what employees receive in return for their services provided, plus the many kind of perks that organisations provide to their employees. Promotion is the progress of an employee to a better job in terms of greater responsibilities, more status, greater skill, and higher scale of pay.
   g) **PERSONNEL RECORD:** Personnel department keeps full records about training, achievements, transfer, promotions, absenteeism etc of employees working in the organization.

There can be various other functional areas of management other than the above mentioned depends upon the need and type of organization, which are as follow:

5. **OFFICE MANAGEMENT**: Office means a place for where the different activities of the organization are planned and a place from where the employees are given

instructions and supervised. To run this place in a planned manner is called office management.

6. **MAINTENANCE MANAGEMENT:** This functional area of management keeps the organization in working condition by maintaining building and the machines of the factory in proper condition and improving the efficiency of the employees.
7. **PURCHASE MANAGEMENT:** Purchase management plans and control purchase for production. This department determines what goods are to be purchased, where to purchase from, when to purchase etc.
8. **CUSTOMER SERVICE MANAGEMENT:** Today, the customer is the king of the market therefore many organizations have set a group specialized in assisting customers that is customer service staff or a customer service department where trained staff handles inquiries and complaints positively and professionally.

One of the functional areas, i.e., marketing management is defined in detail in this chapter and other two parts are covered in next chapters.

10.2 MARKETING MANAGEMENT

To understand the concept of marketing, the students must know the meaning of market and marketing.

10.2.1 MARKET

A market consists of people, buyers and sellers, with purchasing power and the authority to buy. A market consists of people; whether they are consumers, procurement officers for local, state, or federal governments, or the purchasing department of a nearby plant. But people do not make a market. One may desire to buy a new Porsche 944 Turbo, but only a few have the funds needed to buy.

10.2.1.1 CONSUMER AND INDUSTRIAL MARKETS

Markets can be classified by the types of products they deal with. The two major categories of products are consumer and industrial goods. Consumer goods are those goods and services purchased by the consumer for their personal use. Most of the products you buy—wheat flour, toothpaste, shoes, and hamburger are few examples of consumer goods. Industrial goods are products purchased to be used in the production of other goods for resale. Iron ore, heavy machinery and steel are industrial products. Sometimes the product has different uses, creating a categorization dilemma. The bottle of ketchup purchased by the home shopper at the supermarket clearly is classified as a consumer good; yet ketchup purchased by McDonald‘s is considered an industrial good. Proper classification of products should be based on the purchaser and the motive for buying the item. A calculator purchased by a student for study is a consumer good, but a calculator used by the manager of the bank or industry is an industrial good. Marketers must be familiar with a market‘s buying patterns and the purchasing behavior of those involved. This knowledge is very significant when marketers deal with consumer and industrial goods and services.

10.2.2 MARKETING

Marketing is indeed an ancient art and used since the days of Adam and Eve. Today, it has become the most important function in the world of business. Marketing is the business function that identifies unfulfilled needs and wants, define and measures their magnitude, determines which target market the organization can best serve, decides on appropriate products, services and programme to serve these markets, and calls upon everyone in the organization to think and serve the customer. Marketing is the force that tie together a nation‘s industrial capacity to meet the society‘s material wants. It uplift the standard of living of people in society. Marketing is not the art of selling what you make but knowing what to make. It is the art of identifying and knowing customer needs and creating solutions that deliver satisfaction to the customers, profit to the producers, and benefits for the stakeholders. Market leadership is gained by creating customer satisfaction through product innovation, product quality, and customer satisfaction.

According to the Peter Drucker, ―Marketing is so basic that it cannot be considered as separate function. It is the whole business seen from the point of view of its final result, that is, from the customer‘s point of view‖.

William Davidow observed, ―While great devices are invented in the laboratory, great products are invented in the marketing department‖. Too many wonderful laboratory products are greeted with yawns or laughs. The job of marketers is to ‗think customer‘ and to guide companies to develop offers that are meaningful and attractive to target customers. Already sea changes have been taking place in the global economy. Old business road maps cannot be trusted. Companies are learning that it is hard to build a reputation and easy to lose it. The companies that best satisfy their customers will be the winners. It is the special responsibility of marketers to understand the needs and wants of the market place and to help their companies to translate them into solutions that win customers approval. Today‘s smart companies are not merely looking for sales rather they are investing in long term, mutually satisfying customer relationships based on delivering quality, service and value.

10.2.2.1 <u>DEFINITIONS AND TERMINOLOGY</u>

Marketing management is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value. Marketing has been defined by different authors in different ways:

The American Marketing Association has defined the concept of marketing in 1948 as ―The performance of business activities directed toward and incident to, the flow of goods and services from producer to consumer or user‖.

Note that the above definition focuses on the distribution aspect of marketing and doesn‘t include the ‗Four P‘s, i.e., Product, price, promotion, place (distribution). But, later on in 1985, the AMA has emphasized on products in their revised definition of marketing as ―the process ofplanning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives‖.

CUSTOMER- ORIENTED DEFINITION

Here the emphasis of definition is on customers and their satisfaction. In the words of Philip Kotler, ―Marketing is the human activity directed at satisfying needs and wants through an exchange process.‖

VALUE ORIENTED DEFINITION (MODERN DEFINITION)

In 2004 the American Marketing Association defined ―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 benefit the organization and its stakeholders‖.

10.2.3 THE SEVEN STEPS IN THE MARKETING PROCESS

There are seven steps in the process of marketing. This process may not be always followed, but it is important for marketing students to understand the steps that must be taken into consideration to succeed in a marketing effort. The marketing process can be portrayed in the following seven steps:

1. To recognize the market wants or needs of interest
2. Based on relative size and needs of the market, select certain segments of the market that are of the most concern to you and your organization.
3. Thoroughly describe these segments based on their individual needs.
4. Create a product or service that will meet the specific needs identified.
5. Communicate the concept of the product or service to the targeted customer in a way that makes sense to the customer.
6. Deliver the product or service to the targeted customer in a way that will be convenient to the customer.
7. Solicit feedback from the customer about how your product or service could be improved to meet the customers‘ needs even better.

It is obvious from the above definitions of marketing that marketing has been viewed from different perspective. Now it is imperative to discuss the important terms on which definition of marketing rests: needs, wants, and demands; products; value, cost, and satisfaction; exchange, transactions and relationships; markets; and marketers. These terms are also known as the core concepts in marketing.

10.2.4 MARKETING CONCEPTS

Firms vary in their perceptions about business, and their approach to the market place. This has led to the appearance of many different concepts of marketing. Marketing activities should be carried out under some well-thought out philosophy of efficient, effective, and responsible marketing. There are six competing concepts under which organizations carry out their marketing activity.

1. **EXCHANGE CONCEPTS**: The exchange concept of marketing, as the very name indicates, holds that the exchange of a product between the seller and the buyer is the central idea of marketing. Marketing is much broader than exchange. Exchange, at best, covers the distribution aspect and the price mechanism. The other important aspects of marketing, such

as, concern for the customer, generation of value satisfactions, creative selling and integrated action for serving customer, are completely overshadowed in exchange concept.

2. **PRODUCTION CONCEPTS**: The production concept holds that customers will favour those products that are widely available and low in cost. Managers of production-oriented organizations concentrate on achieving high production efficiency and wide distribution coverage. The assumption that consumers are primarily interested in product availability and low price holds in at least two types of situations. The first is where the demand for a product exceeds supply. Here consumers are more interested in obtaining the product than the quality of product. The suppliers will concentrate on finding ways to increase production. The second situation is where the product‘s cost is high and has to be brought down through increased productivity or with high technology to expand the market.

3. **THE PRODUCT CONCEPTS**: The product concept holds that consumers will prefer those products that offer quality or high performance. Managers in these product-oriented organisations focus their energy on making quality products and improving them over time. These managers assume that buyers purchase the well-made product and can appraise product quality and performance.

4. **THE SELLING CONCEPTS**: The selling concept assume that consumers, if left alone, will ordinarily not buy enough of the organization‘s products. The organization must therefore have an aggressive selling and promotion effort. The concept assumes that consumers typically show resistance to buying and have to be persuaded to buy more and more and that the company have a whole battery of effective selling and promotion tools to stimulate more buying. Most firms practice the selling concept when they have capacity to produce more than the demand. Their aim is to sell what they make rather than make what they can sell. Thus selling, to be effective, must be preceded by several marketing activities such as identifying needs, marketing research, product development, pricing, and distribution. If the marketer does a good job of identifying consumer needs, developing appropriate products, and pricing, distributing, and promoting them effectively, the producer can sell whatever he produces.

5. **THE MARKETING CONCEPT**: The marketing concept conveys that the key factor to achieving organizational goals includes determining the needs and wants of target markets and delivering the required satisfactions more effectively and efficiently than their competitors. Theodore Levitt drew a perceptive contrast between the selling and marketing concepts. Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller‘s need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.

6. **THE SOCIETAL MARKETING CONCEPT**: In recent times, some people have issues whether the marketing concept is appropriate organizational philosophy during the present age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social services. The important question is whether companies that do a brilliant job of sensing,serving, and satisfying individual consumer wants are necessarily acting in the best long-run interests of consumers and society. The societal marketing concept holds that the organization‘s task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and

efficiently than competitors in a way that preserves or enhances the well beings of consumer‘s and the society. The societal marketing concept calls upon marketers to balance three considerations in setting their marketing policies, i.e., company profits, and consumer satisfaction, and public interest. Originally, companies based their marketing decisions mainly on immediate company profits. Then they began to identify the long-run importance of satisfying consumer wants, and this introduced the marketing concept. Now they are launching to factor in society‘s interests in their decision-making. The societal marketing concept calls for balancing all three considerations. Now the companies have achieved extraordinary sales and profit gains through adopting and practicing the societal marketing concept.

10.2.5 FUNCTIONS OF MARKETING

Marketing involves a lot more than just advertising and selling, it is the whole range of business from conception to consumption. The neophyte thinks of marketing as beginning with the product they want to produce and sell. However, thinking from that point of thought generally leads to failure, because marketing actually needs to being with the consumer and becomes a multifaceted activity that reaches into many aspects of an organization. Marketing actually involves eight functions: buying, selling, transporting, storing, standardization and grading, financing, risk taking, and market information. These eight marketing functions add to the utility created by marketing with some performed by manufacturers, some by wholesalers, and others by retailers. These functions are grouped as exchange functions, physical distribution functions, and facilitating functions.

1. **EXCHANGE FUNCTIONS**: Exchange functions of marketing comprises of buying and selling of products. Buying is vital as marketers study purchasing habits of consumers for goods and services. To know the consumer purchasing behavior is critical to a firm‘s success because the firm is able to best decide how to meet the expectations of their customers. Retail outlets will buy for the fall season in March and the Christmas season in July. This amount of lead time requires that they have an understanding of their buyers to make their own purchase decisions.

2. **PHYSICAL DISTRIBUTION FUNCTIONS**: These functions include transportation and storing of goods. Physically moving the product from manufacturer to retail outlet is transportation. This can occur at all levels of productivity; from primary producer (farmer) to secondary producer (food processor); from secondary producer to tertiary producer (retail outlet). In industrial production the retailer cannot store all of the production, so warehousing of goods until the retail consumer/ultimate consumer will take the goods becomes a factor. Storing is accomplished at all three levels of productivity.

3. **FACILITATING FUNCTIONS**: It is a term that is used to portray those acts that facilitate the market place. Facilitating functions include financing, risk taking, securing market information, standardization and grading. These functions support the market place perform the exchange function and the physical distribution function.

(a) **FINANCING FUNCTIONS**: Providing credit to consumers, wholesalers, and retailers is the financing function. Sales increase the ability to produce more goods and services. When the manufacturer receives funds from the wholesaler then the manufacturer can produce additional goods. When retailers extend credit to their customers, they may increase total sales through credit arrangements.

(b) **RISK TAKING**: It deals with the uncertainties of future market forces and consumer behavior. Farmers grow soy beans without the guarantee that there will be a market for their crop and with the anticipation that their crop will be able to be harvested without damage or loss. Wholesalers and retailers obtain inventory for resale on the basis of their research of what retail consumers will buy. This act removes the manufacturer‘s risk and gives it to marketing intermediaries. There is no guarantee for the automobile industry that their new car model will sell in sufficient number or as rapidly as they manufacture. Manufacturers accept risk when they schedule production of a product speculatively before consumers have planned their orders.

(c) **STANDARDIZATION AND GRADING**: It deals with standardizing of the products in terms of use, size and form. Many industries standardize their products with amendments to differentiate their product from the competition. There are many different manufacturers of tyres from which one may select the same size, shape and functionality of tyre for an automobile. Grading standards deals with the quality of the product.

(d) **MARKET INFORMATION**: Marketers collect and analyze market information to determine what will be sold and who will buy it. Marketers are concerned with the buyer behavior and consumer patterns. Organizations that focus on discovering consumer needs and then developing goods and services to fill those needs have adopted a managerial approach referred to as the marketing concept.

10.2.6 TYPES OF MARKETING

In the modern times new concepts of marketing have been developed. These are discussed as follows:

1. **GREEN MARKETING:** According to the American Marketing Association, green marketing is the marketing of products that are presumed to be environmentally safe. Hence, green marketing includes a broad range of activities, including product modification, changes to the production process, packaging changes, as well as adapt innovative advertising. Green marketing refers to the process of selling products and services based on their environmental benefits. Such a product or service may be environment friendly in itself or produced or packaged in an environment friendly way.
2. **SOCIAL MARKETING**: Social Marketing is the systematic application of marketing concepts to achieve specific behavioral goals for a social well beings. Social marketing can be applied to promote valuable goods, or to aware the society to avoid unhealthy goods and thus to promote society‘s well being as a whole. For example, this may include asking people not to smoke in public areas, asking them to use seat belts, asking the general public to keep social distancing and wash hands regularly or prompting to make them follow speed limits.
3. **RELATIONSHIP MARKETING:** This concept of marketing was developed from direct response marketing campaigns which emphasizes customer retention and satisfaction, rather than a focus on sales promotion. Relationship Marketing differs from other forms of marketing as it recognizes the long term value of customer

relationships and extends communication to increase the loyalty of customers. Relationship Marketing refers to a long-term understanding where both the buyer and seller have an interest in providing a more satisfying exchange. This approach attempts to rise above the simple purchase-exchange process with a customer to make more meaningful and healthy contact by providing a more holistic, personalized purchase, and employs the experience to create stronger ties beyond intrusive advertising and sales promotional message.

4. **NICHE MARKETING**: A niche market is more focused, targetable and specific portion of a market. Niche Marketing is all about identifying smaller segment of a market and creating a product or a service for that market. In general a niche is a very targeted and focused market. An example of a market is pets, whereas an example of a niche market could be tropical aquarium fish or Golden Retriever dogs. One of the most effective niche market strategies involves starting small.
5. **E-MAIL MARKETING**: It is a form of direct marketing which uses electronic mail as a means of communicating commercial or appealing messages to an audience. In the broader sense, every e-mail sent to a potential or current customer could be considered as an e-mail marketing. However, the term is usually used to refer to:

   (a) Sending e-mail messages with the purpose of enhancing the relationship of a merchant with its current or previous customers, to promote customer loyalty and repeat business,

   (b) Sending e-mail messages with the intention of acquiring new customers or persuading current customers to purchase something immediately,

   (c) Adding advertisements and flyers to e-mail messages sent by other companies to their customers, and

   (d) Sending e-mail messages over the Internet, as e-mail did and does exist outside the Internet.

6. **INTERNET MARKETING**: It refers to the marketing of products or services by using the internet technology. Nowadays internet has been used for promotion of products or services. It is also known as digital marketing, web marketing, on-line marketing, search marketing or e-marketing. I-Marketing is used as an abbreviated form for Internet Marketing.

   Internet marketing is considered to be broader in scope because it not only includes marketing through the Internet, but also includes marketing done via e-mail and wireless media. Digital customer data and electronic customer relationship management (ECRM) systems are also frequently grouped together under internet marketing. Internet marketing ties together the creative and technical aspects of the Internet, including design of product and flyers, development, advertising, and sales. Internet marketing also refers to the placement of media alongwith many different stages of the customer engagement cycle through search engine marketing (SEM), search engine optimization (SEO), banner ads on specific websites, e-mail marketing, and mobile advertising.

10.2.7 TRADITIONAL MARKETING VS E- MARKETING

Marketing has much been around in everyone‘s life forever in one form or another. Ever since the humans first started trading whatever it was that they first traded, marketing was there. Marketing was the stories they used to induce other humans to trade. The methods of marketing have changed and improved over the years, and we have become a lot more efficient in conveying our stories and getting our marketing messages to reach the target group. E-Marketing is the combination modern communication technologies and the age-old marketing principles that humans have always applied.

10.2.7.1 THE BENEFITS OF E-MARKETING OVER TRADITIONAL MARKETING

E-marketing have an edge over the traditional marketing, the benefits associated with the e-marketing have been discussed as follows:

1. **REACH**: The nature of the internet means businesses have a truly global reach. Due to the cost constraints the traditional media limit this kind of reach to huge multinationals, e-Marketing opens up new avenues for smaller businesses, on a much smaller budget, to access potential consumers from all over the world. Now Indian spices, tastes and designs are popular all over the world with the help of E-Marketing.

2. **SCOPE**: Internet marketing permits the marketer to get in touch with consumers in a wide range of ways and enables them to offer a wide range of products and services. E-Marketing includes, among other things, information management, public relations, customer service and sales. With the range of new technologies becoming available to larger population all the time, the scope of E-Marketing can grow further.

3. **INTERACTIVITY**: Traditional marketing is largely about communicating a brand‘s message to the public whereas E-Marketing facilitates healthy conversations between companies and consumers. With a two-way communication channel, companies can feed off of the responses of their consumers, making them more dynamic and adaptive. Firms may improve their products according to the preferences of consumers.

4. **IMMEDIACY**: Internet marketing can provide an immediate impact which can never be imagined before. Imagine you are sitting in your lawn and reading your favorite magazine. You see a advertisement for some new product or service, may be Samsung or Apple‘s latest iPod. With the presence of traditional media, it‘s not that easy for you to take the step from knowing about a product to actual acquisition. With E-Marketing, it‘s easy to make that step within few minutes, meaning that by making a few short clicks you could have ordered the iPod. And all this can happen regardless of normal office hours. Effectively, Internet marketing extends business hours 24 hours per day, 7 days per week for every week of the year. By closing the gap between providing information and elicits a consumer reaction, the consumer‘s buying cycle is speed up and advertising spend can go much further in creating immediate leads.

5. **DEMOGRAPHICS AND TARGETING**: The demographics of the Internet are generally considered as a marketer‘s dream. Internet users, considered as a group, have greater buying power and could be considered as a population group consisting mostly of middle-class population. The nature of the Internet is such that its users will tend to organise themselves into far more focussed groupings. Innovative savvy marketers can quite easily find access to the niche markets they wish to target. Marketing messages are most effective when they are

presented directly to the interested audience. The Internet generate the perfect environment for niche marketing to targeted groups.

6. **ADAPTIVITY AND CLOSED LOOP MARKETING**: Closed Loop Marketing requires the constant monitoring and analysis of the results of marketing initiatives. The response and effectiveness of a campaign can be tracked continuously by the marketer with the help of E-Marketing to identify the consumers' wants and needs. It can be more dynamic in adapting to the changing environment. With E-Marketing, responses can be analyzed in real-time, campaigns can be tweaked continuously and products can be modified as per the consumer expectations.

Maximum marketing efficiency from e-Marketing creates new opportunities to seize strategic competitive advantages with the immediacy of the Internet as a medium and minimum advertising cost. The combination of all these factors results in an better ROI and ultimately, more customers, satisfied customers and an improved bottom line.

10.3 MARKETING MIX

In the words of Philip Kotler, ―Marketing Mix is the set of controllable variables and their levels that the firm uses to influence the target market‖. Marketing mix is a combination of various elements, namely, Product, Price, Place (replaced by Physical Distribution) and Promotion. (*see figure*)

Fig: Components of Marketing Mix

The various important elements of marketing mix are briefly discussed as follows:
PRODUCT: Product may be defined as the bunch of value the marketer offers to potential customers. It possess the utility to consumers. Nowadays manufacturers are realizing that customer require more than just the basic product. Therefore the product must satisfy the consumer's needs. The manufacturer identifies the consumer needs and then decides the type, shape, design, brand, package etc. of the goods to be produced. The product is a marketer's primary vehicle for delivering satisfaction to the ultimate customer.

PRICE: It is the amount of money required to be paid in exchange of product. It must be reasonable so as to enable the consumer to pay for the product. The price of a product can be fixed by management after considering certain factors such as cost, ability of the consumers, competition, discount, allowances, margin of profit etc.

PLACE (PHYSICAL DISTRIBUTION): It is the delivery of products at the right time and at the right place. It is the combination of decision regarding channel of distribution (wholesalers, retailers etc.), transportation, warehousing and inventory control.

PROMOTION: It includes all the activities aimed at inducing and motivating customers to buy the product. The selection of alternatives determines the success of marketing efforts. Some firms may use advertising, some others personal selling or sales promotion. Thus promotion includes advertising public relations, personal selling and sales promotion.
Recently Packaging and People are two more elements of marketing mix that have been emerged. These are discussed as follows.

PACKAGING: Packaging can be defined as the art, science and technology of preparing goods for transport, sale and exchange. A well designed pack is invaluable in building brand loyalty with the customer. Packaging must be such that a customer is impressed at the very moment he or she sees the product.

PEOPLE: It consists mainly of the people to whom goods are sold (consumer) and the people through whom goods are sold (sales people, wholesalers, retailers etc.) people include competitors also. This factor will be the reason as well as resources for success in marketing. Four important variables have been discussed in detail in the following pages:

10.3.1 PRODUCT

A product can be defined as a collection of physical, service and symbolic attributes which yield satisfaction or benefits to a user or buyer. A product is a combination of physical attributes say, size and shape; and subjective attributes say image or quality. A customer purchases on both dimensions. According to Jobber, ―A product is anything that has the ability to satisfy a consumer need‖. In the words of Dibb, ―A product is anything, favourable and unfavourable that is received in exchange.‖

10.3.1.1 CLASSIFICATION OF PRODUCTS

Products can be classified in two broad classes based on the types of consumers that use them:
(1) Consumer Product
(2) Industrial Product

1. CONSUMER PRODUCT:- Product bought by final consumer for personal consumption.
Consumer products divided into four classes.
Convenience product
Shopping Product
Specially Products
Unsought Product

i) **CONVENIENCE PRODUCT**: Consumer product that the customer usually buys frequently, immediately, and with a minimum of comparison and buying effort consumer products can be divided further into staples, impulse products, and emergency products. *Staples* Products are those product that consumers buy on a regular basis, such as ketchup, tooth path etc., *Impulse* products are those product that purchased with little planning or search effort, such as Candy bar, and magazine, *Emergency* product is those when consumer need is urgent, e.g. umbrellas during a rainstorm etc.

ii) **SHOPPING PRODUCT**: Consumer good that the consumer, in the process of selection and purchase, characteristically compares as such bases as suitability, quality, price, and style. Example: Furniture, clothing, used cars, major appliances and hotel and motel services.

ii) **SPECIALTY PRODUCTS**: Consumer product with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. e.g., Specific brands and types of cars, high-priced photographic equipment, designer clothes etc.

iv) **UNSOUGHT PRODUCTS**: Unsought products are consumer products that the consumer either does not knows about or knows about but does not normally think of buying. Most major new inventions are unsought until the consumer become aware of them through advertising. e.g., Amazon Echo Show and Bose Audio Sunglasses.

2. INDUSTRIAL PRODUCT: It is meant for use in the production of other goods or for some business or institutional purposes. Industrial goods are classified into four- production facilities and equipment, production materials, production supplies and management materials.

10.3.1.2 NEW PRODUCT DEVELOPMENT

New product development tends to happen in stages. Although firms often move between these idealized stages, the following sequence is illustrative only for the development of a new product:

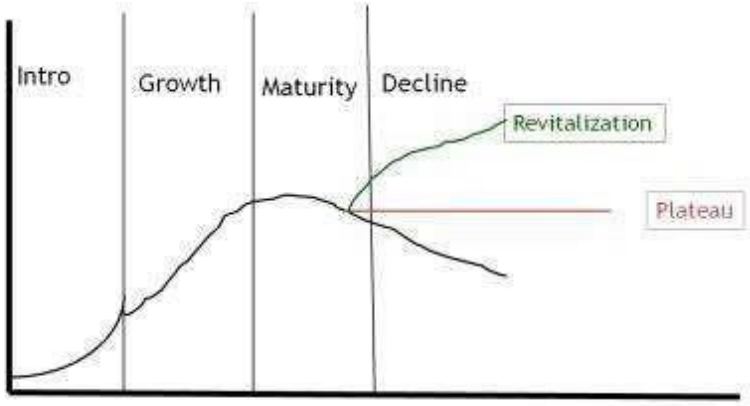
1. **NEW PRODUCT STRATEGY DEVELOPMENT:** Different firms will have different strategies with respect to the introduction of new products. Some firms have stockholders who want to minimize risk and avoid investing in too many new innovations. Some firms can only survive if they innovate frequently and have stockholders who are willing to take this risk. For example, Samsung and Apple has to constantly invent new products since competitors learn to work around its patents and will be able to manufacture the products at a lower cost.
2. **IDEA GENERATION:** Firms may consult the customers, employees, consultants, or engineers to get an idea about the qualities and price of new products. Many firms receive a large number of ideas each year and can only invest in some of them. At this stage firms identify the avenues available in the market.
3. **SCREENING AND EVALUATION**: After the identification of ideas, management evaluate the alternatives regarding the viability and feasibility of products. During screening and evaluation, some products are clearly not feasible or are not consistent with the core competencies of the firm, those are eliminated.
4. **BUSINESS ANALYSIS:** Ideas are now exposed to more rigorous and in-depth analysis. Profit projections, risks, market size, and competitive response are considered. If promising, then the product may be further processed for market research.
5. **DEVELOPMENT**: If the market research gave positive nod then the product is designed and manufacturing facilities are planned.
6. **MARKET TESTING**: Firms may try to test the product in one region to see whether it will sell in reality before it is released nationally and internationally. There is a

lesser risk if the firm commits money to advertising and other marketing efforts in one region. If it has been demonstrated that the product sold well in one region then the retailers will also be more receptive in other parts of the country and world. The firm may also experiment with different prices for the product during market testing.

7. **COMMERCIALIZATION:** To meet the demand of product the firm start manufacturing the product on a larger scale and the firm starts a national marketing campaign and distribution effort by inviting the distributor and wholesalers with incentives.

10.3.1.3 <u>THE PRODUCT LIFE CYCLE</u>

Products often go through a *life cycle.* Initially, a product is introduced.



Since the product is not well known and is usually expensive (e.g., as microwave ovens were in the late 1970s), sales are usually limited. Eventually, however, many products reach a *growth* phase— sales increase dramatically. More firms enter with their models of the product. Frequently, unfortunately, the product will reach a *maturity* stage where little growth will be seen. At the end of maturity stage, there is *plateau,* means a level of little change or no change in sales. For example, in the United States, almost every household has at least one color TV set. Some products may also reach a *decline* stage, usually because the product category is being replaced by something better. For example, typewriters experienced declining sales as more consumers switched to computers or other word processing equipment. At this stage companies should change their product with new innovations, otherwise product cannot sustain in the market such as Nokia mobile phones are almost eliminated from the market. If the companies cannot revitalize their products at this stage then the products are bound to be extinguished from the market. The product life cycle is tied to the phenomenon of diffusion of innovation. When a new product comes out, it is likely to first be adopted by consumers who are more innovative than others— they are willing to pay a premium price for the new product and take a risk on unproven technology. This is how Samsung company introduces their products and become market leader. It is important to be on the good side of innovators since many other later adopters will tend to rely for advice on the innovators who are thought to be more knowledgeable about new products for advice. At later phases of the PLC, the firm may need to modify its market strategy.

PRODUCT INTRODUCTION/ DEVELOPMENT STAGE

This is the first stage in product life cycle. A product should be created before entering the market place. The various phases involved in this stage include generation of idea, designing of the new product, engineering of its details, and the whole manufacturing process. This is the phase where the product is named and given a complete brand identity that will differentiate it from the others, particularly the competitors. Once all the tasks necessary to develop the product is complete, market promotion will follow and the product will be introduced to the consumers. Product development is a continuous process that is essential in maintaining the product‘s quality and value to consumers. This means that companies need to continuously develop or innovate their products to eliminate new and existing competitors.

PRODUCT GROWTH STAGE

This is a period where sales and revenue growth is increasing at rapid speed. However, growth can be achieved when more and more consumers will accept the value and benefits of a certain product. In most cases, growth takes several years to happen, and in some instances, the product just eventually died without achieving any rise in demand at all. Hence, it is important that while the product is still in the development and introduction stages, a sound marketing plan should be put in place and a market and primary demand should be established.

PRODUCT MATURITY AND SATURATION STAGE

In the maturity stage, the product reaches its full market potential and business becomes more profitable. In the early part of this stage, one of the most likely market scenarios that every business should prepare for the fierce competition. As business move to snatch competitor‘s customers, marketing pressures will become relatively high. This will be characterized by extensive promotions and competitive advertising, which are aimed at persuading customer to switch and encouraging distributors to continue sell the product. In the middle and late phases of the maturity stage, the rate of growth will start to slow down and new competitors will attempt to take control of the market. In most cases, many businesses falls and lose money in these stages as they focus more on increasing advertising spending in hope of maintaining their grip of the market.

PRODUCT DECLINE STAGE

The decline stage is the last phase of the product life cycle. This unwanted phase will take place if companies have failed to revitalize and extend the life cycle of their products during the maturity stage‘s early part. Once already in this phase, it is very likely that the product may never again recover or experience any growth, eventually dying down and be forgotten.

10.3.2 PRICING

Fixing the right price is an important part of effective marketing. It is the only part of the marketing mix that generates revenue (product, promotion and place are all about marketing costs). Price is only marketing variable that can be changed most quickly, perhaps in response to a competitor price change.

“Price is the amount of money or goods for which a thing is bought or sold”.

The price of a product may be seen as a financial expression of the value of that product. Price is the monetary expression of the value to be enjoyed/benefits of purchasing a product by the consumer. The concept of value can therefore be expressed as:

(perceived) VALUE = (perceived) BENEFITS – (perceived) COSTS

A customer‘s motivation to purchase a product comes firstly from a need and a want: e.g.

• Need: I need to eat
• Want: I would like to go out for a dinner tonight

The second motivation comes from a perceptual experience of the value of a product in satisfying that need/want (e.g. "I really fancy a Dominos").

The perceptual experience of the value of a product varies from customer to customer, because perceptions of benefits and costs vary. Perceived benefits are frequently dependent on personal taste (e.g. spicy versus sweet, or red versus black). In order to obtain the maximum possible value from the available market, businesses try to ‗segment‘ the market –

that is to divide up the market into groups of consumers whose preferences are broadly similar – and to adapt their products to attract these customers. In general, a products perceived value may be enhanced by increasing the benefits that the product will deliver or by reducing the cost.

10.3.2.1 TYPES OF PRICING POLICIES

There are numerous ways to fix the **price of** a product. Let's have a look at some of them and try to understand the best policy in different situations.

A. **COST BASED PRICING POLICIES**: Setting price on the basis of the total cost per unit. There are four methods as follows:

1. **COST PLUS PRICING*:*** under this method the price includes the cost plus a percentage of profit.

2. **TARGET PRICING:** in this method price is cost plus a pre determined target rate of return.

3. **MARGINAL COST PRICING:** according to this method, cost is bifurcated in fixed and variable costs and then price is fixed to cover the variable cost. If the market allows then the price includes the variable component and fixed component of cost.

4. **BREAK-EVEN PRICING:** price is fixed according to break-even point i.e., where total sales=total cost (no profit, no loss point)

B. **DEMAND BASED PRICING POLICIES:** Setting price on the basis of the demand for the product. There are two methods as follows:

1. **PREMIUM PRICING:** Use a high price where there is uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such high prices are charged for brand image, e.g. the price of different variants of newly launched apple mobile sets.

2. **DIFFERENTIAL PRICING:** Same product is sold at different prices to different consumers.

C. **COMPETITION BASED PRICING POLICIES:** Setting price on the basis of the competition available for the product. There are three methods as follows:

1. **GOING RATE PRICING:** Many business firms perceive that lowering prices to be more competitive can be disastrous for them (customers may have inferiority about product) and so instead, they prefer to fix price that is very close to their competitors.

2. **CUSTOMARY PRICING:** Prices for certain products get fixed because they have prevailed over a long period of time.

3. **SEALED BID PRICING:** Firms have to quote less price than that of competitors to enter the new market. For example, tenders, winning contracts etc.

D. **VALUE BASED PRICING POLICIES:** It is based on value perceived by the customer. The following are the pricing method based on customer value.

1. **PERCEIVED-VALUE PRICING:** Under this method the product's demand may be expected on the basis of value perceived by the consumer. In this method the price is fixed on the basis of value perceived by the buyer of the product rather than the seller's cost.

2. **VALUE OF MONEY PRICING:** Price is based on the value that the consumers may get from the product they buy. It is used as a competitive marketing strategy.

10.3.2.2 <u>OTHER IMPORTANT PRICING CONCEPTS</u>

1. SKIMMING PRICING

This is done with the basis idea of gaining a premium from those buyers who always ready to pay a much higher price than others. It refers to the high initial price charged when a new product is introduced in the market. For example, mobile phones which when introduced were highly priced.

Charging a high price have a substantial competitive advantage, however, the advantage is not sustainable. The high price tends to appeal new competitors into the market, and the price necessarily falls due to increased supply. Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented. Same happens with DTH, the cost of DTH was around Rs. 1,50,000 but now the installation is almost free of cost.

2. PENETRATION PRICING

The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by Reliance Communication to enter in competitive mobile communication sector.

3. COMPETITIVE PRICING

The producer of a new product may decide to fix the price at a level comparable with the competitors. This is used when market is highly competitive and the product is not distinguished significantly from the competitive products.

4. PREDATORY PRICING

When a firm sets a very low price for one or more of its products with the purpose of eliminating its competitors out of business. Large scale firms often used such strategic pricing.

5. ECONOMY PRICING

This is a no frills low price. The cost of marketing and manufacture are kept at a minimum to expand consumer base. Garment industry often have economy brands for different categories of customers.

6. PSYCHOLOGICAL PRICING

This approach is used when the marketer wants the consumer to react on an emotional, rather than rational basis. For example price point perspective 99 rupees not one hundred rupees.

7. PRODUCT LINE PRICING

Where there is a range of product or services the pricing reflect the benefits of parts of the range. For example service station used different packages for car washes e.g., basic wash could be Rs. 200, wash and wax Rs. 400, and the whole package Rs. 600. Beauty saloons also offer such type of pricing.

8. OPTIONAL PRODUCT PRICING

Companies will endeavor to increase the amount customer spend once they start to buy. Optional extras enhance the overall price of the product or service. For example airlines will charge for optional extras such as luggage deposit without waiting, guaranteeing a window seat or reserving a row of seats next to each other.hotel industry also used such type of pricing by offering taxi service for sight seeing, cruise tickets, DJ arrangement etc.

9. CAPTIVE PRODUCT PRICING

Where products have complements, companies will charge a premium price where the consumer is captured. For example a razor manufacturer will charge a low price and recoup its margin (and more) from the sale of the only design of blades which fit the razor. Automobile companies also recover higher margin from accessories or spare parts.

10. PRODUCT BUNDLE PRICING

Here sellers combine several products in the same package. This also serves to sell lower demand products or old stock. You can see such bundles (pack of 3 or more) in confectionery shops containing different chocolates and snacks. Videos and CDs are often sold using the bundle approach.

11. PROMOTIONAL PRICING

Pricing is most important strategy to promote a product. Nowadays you find BOGOF (Buy One Get One Free) in every mall or departmental store. Great Indian Festival sale by Amazon is also a promotional pricing tactic to increase sale.

12. GEOGRAPHICAL PRICING

Geographical pricing is evident where there are variations in price in different parts of the world. For example rarity value, or where shipping costs increase price. Multinational companies such as Samsung, Apple, Harley Davidson, BMW, Sony charge different prices for their products in different countries.

13. VALUE PRICING

Firms used such pricing where external factors such as recession or increased competition force companies to provide value products and services to retain sales e.g. value meals at Dominos or McDonalds.

10.3.2.3 <u>FACTORS INFLUENCING PRICING POLICIES</u>

The factors that businesses must kept in mind for determining pricing policy can be summarized in four categories:

(1) COST

Cost is the most significant factor in setting the price of any product. To make a profit, a business firm should ensure that its products are priced above their total average cost. In the short-term, firms may fix the price below total cost if this price exceeds the marginal cost of production, because the sale still produces a positive contribution to fixed costs.

(2) COMPETITORS

If the firm is operating as monopolist, then it can fix any price. At the other extreme, if a firm operates under conditions of perfect competition, it has no choice and must accept the market price. In reality the situation is somewhere in between. In such cases the selected price needs to be very carefully considered relative to those of close competitors.

(3) CUSTOMERS
The expectations of customer about price must be addressed properly. A business firm should attempt to quantify its demand curve to estimate what amount of sales will be achieved at given prices, so that the desired profit can be attained.

(4) BUSINESS OBJECTIVES
Possible pricing objectives include:
• To maximize profits
• To attain a target return on investment
• To attain a target sales figure
• To attain a target market share
• To sustain in the market, rather than lead the market

10.3.2.4 STRATEGIES FOR NEW AND ESTABLISHED PRODUCTS

The pricing strategies of any product depend on the stage a product or service is in its life cycle; means new products often require different pricing strategies than established products or mature products

1. NEW PRODUCT PRICING STRATEGY
New entrants often rely on pricing strategies that permit them to capture market share quickly. When there are several competitors in a market, entrants commonly use lower pricing to change consumer spending habits and acquire market share. To appeal to customers effectively, entrants generally apply a simple or transparent pricing structure, which enables customers to compare prices easily and understand that the entrants have lower prices than established companies.
Complex pricing arrangements, however, prevent lower pricing from being a successful strategy in that customers cannot readily compare prices with hidden and contingent costs. For example in the computer industry, Dell, HP, Sony and many others personal computer makers offer bundles of products that make it more difficult for consumers to sort out the true differences among these competitors.

2. ESTABLISHED PRODUCT PRICING STRATEGY
Established companies need not adjust their prices in response to entrants and their lower prices, because customers frequently are willing to pay more for the products or services of an established and tested company to avoid perceived risks associated with switching products or services. If the established companies do not have this advantage, they must implement other pricing strategies to maintain their market share and profits. When entrants are involved, established companies attempt to hide their actual prices by embedding them in complex prices. This tactic makes it hard for customers to compare prices, which is advantageous to established companies competing with entrants that have lower prices.

10.3.2.5 STRATEGIC IMPLICATIONS OF PRODUCT LIFE CYCLE

According to the product life cycle a product passes through four stages, these are:

1. **INTRODUCTION**: When the product has been just introduced to the market, the price should be at the higher end;

2. **Growth**: This is the stage in which a product sales increases rapidly, at this stage the price is set high to skim the market;

3. **MATURITY & SATURATION**: Here the product reached optimal sales and during this stage the price is gradually reduced to maintain market share and encounter the threat of competition;

4. **DECLINE**: The product is likely to loose the popularity due to a variety of reasons and in this phase the price cutting is in full swing to make sure that all inventory is exhausted before market demand dries out, a type of harvesting the market.

The significance of the product life cycle in pricing cannot be understated. The pricing strategies at the different stages should differ to ensure that profits are maximized.

10.3.2.6 PRICING PRACTICES

1. PRODUCT POSITIONING

It is a very essential concept in setting the price of the product. It is clearly very foolish to position a product as a high quality exclusive item, and then price it too low. Price is one of the distinct signals that the customer has about the value of the product being offered. So there should always be a close and reasonable relationship between the product and the price.

2. COMPETITION AND POTENTIAL COMPETITION

Although the product has been well positioned there will always be competitors and the firms should consider the threat of the competition very carefully. If the situation is highly competitive then it is important to note that competing purely on price is counter productive. The business should check all elements of the marketing mix and how they interact to create demand and value for the product should be kept in mind while setting the overall competing strategy. Some firms may launch new products at high prices only to find that they have made the market attractive to competitors who will launch similar products at much lower prices. A lower launch price might make diffusion in the market quicker and allow for greater experience and the margin for a competition to entering the market will be reduced.

3. COSTS

Another key variable in pricing is cost. This is not only the business cost to produce a unit but also the cost to competitors. There are number of cost concepts but the two main concepts are marginal cost pricing and full absorption costing. The conventional economists model of product pricing indicates that pricing should be set at the point where marginal cost is equal to marginal revenues i.e. where the cost of producing an additional unit is equal to the additional income earned. The theory is undisputed but considers only variable price. In the real world there are many more variables than only price. In practice the cost of production renders key guidelines to many businesses in setting price. This is called the ‗cost plus method‗ of pricing where a fixed mark up is added to the price.

4. CHANNELS OF DISTRIBUTION

The modular product pricing theory does not provide insight to what should be one's policy toward the margin of distributors. The distributor plays a number of functions on behalf of the supplier which enables the exchange transaction between the producer and the customer. There are a number of strategies available for compensating the trade intermediaries, most of which take the form of discounts granted on the retail selling price to the ultimate customer.

i) **TRADE DISCOUNT:** This is the discount made on the list price for services performed by the intermediaries, e.g. holding inventory, bulk buying, redistribution etc.

ii) **QUANTITY DISCOUNT:** A quantity discount is given to intermediaries for ordering in large lots.

iii) **PROMOTIONAL DISCOUNT:** This offer is given to distributors to encourage them to share in the promotion of the products involved.

iv) **CASH DISCOUNT:** To encourage prompt payments of accounts, a small cash discount on sales price can be offered.

10.3.2.7 GAINING COMPETITIVE ADVANTAGE

Generally price has been used as a strategic marketing tool. The aspects of gaining competitiveness have been listed below:

Customers are often willing to pay a considerably higher initial price for a product with significantly lower post-purchase cost.

Expand value through functional redesign, e.g., a product that increases customers production capacity, product that improves quality of the customers product, product that improve end-use flexibility.

Expand incremental value by developing associated intangibles, e.g., service, financing, prestige factors etc.

10.3.2.8 PREPARING THE PRODUCT PRICING PLAN

We have considered some of the factors that affect the pricing decision. We now have to amalgamate all these decisions to create one framework for pricing. It has been demonstrated that as a firm develops expertise in producing a particular product the cumulative cost of producing every additional unit falls. There are in principle only two main pricing policies they are skimming policy and penetration policy. The factors that should be considered before implementing either policy are given below.

THE FACTORS THAT FAVOUR A PRICE SKIMMING POLICY WHERE:

1. the demand is likely to be price inelastic;
2. there are likely to be different price market segments, thereby appealing to those buyers first who have a capacity to pay higher range of prices.
3. the little is known about the cost and marketing of the product

THE VARIABLES THAT FAVOUR A PRICE PENETRATION POLICY WHERE:

1. the demand is likely to be price elastic;
2. the competitors are likely to enter the market quickly;
3. there is no distinct price-market segments;
4. there is possibility of large savings in production and marketing costs if large sales volumes can be generated.

10.3.3 PHYSICAL DISTRIBUTION

Creating a customer is a significant task of marketing but delivering the goods to the customer is the most critical activity. Physical distribution is a marketing activity that deals with the handling and the movement of goods. It is a major ingredient of marketing mix and cost area of business. In the words of Phillip Kotler, ―Physical distribution involves planning, implementing and controlling the physical flow of materials, and final goods from the point of origin of use to meet customer needs at a profit‖. According to the definition it involves the coordination of activities to move the right quantity of right goods at the desired place and time as expected by the consumers to earn required return. There are two broad objectives of physical distribution, namely, consumer satisfaction and profit maximization. Physical distribution is not only a cost but a powerful tool of competitive marketing.

10.3.3.1 CHANNEL OF DISTRIBUTION

A channel of distribution is an specially designed network or system of agencies and institutions, which, in combination, perform all the activities required to create a link of producers with users and users with producers to accomplish the marketing task.

According to Phillip Kotler, ―It is a set of independent organizations involved in the process of making a product or service available for use or consumption.‖ Thus, a channel of distribution is a path way ensuring the flow of goods and services from producers to consumers composed of intermediaries with attainment of the mutual objectives.

DIFFERENCE BETWEEN PHYSICAL DISTRIBUTION AND CHANNEL OF DISTRIBUTION

These are the two elements of the distribution system. Physical distribution is a broader concept, it includes channel of distribution. Physical distribution is encompassing the transportation, storage, warehousing, etc, where as channel of distribution relates to the process or intermediaries through which goods move from the producer to the consumer.

10.3.3.2 ROLE/IMPORTANCE OF PHYSICAL DISTRIBUTION SYSTEM

The physical distribution system has played an crucial role. It provides a new direction to marketing. The following points will reveal the role of physical distribution system:

1. **CREATION OF UTILITIES:** Creation of utility is addition of value to a product. The major elements of physical distribution are transportation and warehousing. Transport system creates place utility, making goods more useful by transferring the goods from the places where they are not needed to the place where that is needed most. Warehousing system helps to maintain goods for future and also known for creating time utility.

2. **IMPROVED CONSUMER SERVICES:** For providing better customer service physical distribution system consists of supplying products at the time and location corresponding to the customer needs. Customer satisfaction can be increased through a feasible distribution system that takes into account the factors such as time, dependability, communication etc.

3. **CUT IN DISTRIBUTION cost**: Price paid by the customer for any product consist of production costs and delivery cost. Delivery cost can be reduced by systematic planning in material handling, adequate level of inventory, transportation schedule and adequate modes, warehousing location and operation, material handling, order processing and communication.

4. **INCREASED MARKET SHARE:** There are numerous ways in which an efficient physical distribution system can contribute towards increasing the market share. It is possible

with the help of decentralizing its warehousing operations, formulate the combination of efficient and economic means of transport, planning the inventory operations to avoid stock outs etc.

5. **PRICE STABILIZATION**: It can contribute substantially to the attainment of price stabilization. With the proper use of available transport and warehousing facilities balance can be created between the demand for and supply of goods to prevent price fluctuations.

10.3.3.3 LEVELS OF CHANNEL

Level of channels indicate the number of intermediaries between the manufactures and ultimate consumers. Broadly there are four channel levels. These are:

1. **ZERO LEVEL CHANNEL**: Goods move directly from producer to consumer and no intermediary is involved. This channel is generally used by manufactures of industrial and consumer durable goods.

2. **ONE LEVEL CHANNEL**: Here, only one sales intermediary is available between manufacturer and consumer i.e., retailer. This is the most frequent channel in case of consumer durable such as bakery products, shoes, ready made garments etc.

3. **TWO LEVEL CHANNEL**: In this type, two intermediaries are available, namely wholesaler and retailer. The firms producing consumer non durable items generally prefer this level.

4. **THREE LEVEL CHANNEL**: This comprises three intermediaries and goods move from manufacture to agent and agent to wholesalers and from wholesalers to retailers and finally from retailers to consumers. It is the longest indirect channel option.

10.3.3.4 FACTORS DETERMINING THE LENGTH OF THE CHANNEL

The following factors that may determine the length of the channel of distribution:

1. **SIZE OF THE MARKET:** If the size of market is large then longer will be the channel. Other way for smaller size market, smaller will be the channel.

2. **ORDER LOT SIZE:** If the average order lot size by customers is small, it is better to have a longer channel and vice-versa.

3. **SERVICE REQUIREMENTS**: If the product and market require a regular service of goods, and it a leading factor in the buying decision, then it‘s better to keep a shorter channel.

4. **PRODUCT VARIETY**: If variety of the same type of product are available in the market, then it is recommended to select a wider channel.

10.3.3.5 TYPES OF INTERMEDIARIES

Marketing intermediaries are the persons and the organizations that execute various functions to connect the producers with the end users. These middlemen are classified into three categories:

1. Merchant middlemen, who acquire title to the goods and services and resell them.

2. Agent middlemen, who do not acquire title of the goods and services but help in identifying potential customers and help in negotiation also.
3. Facilitators, to facilitate the flow of goods and services from the producer to the consumer, without acquiring a title to them. e.g., Transport and logistic companies.

In the following section, merchant middlemen, i.e. wholesalers and retailers will be discussed in detail.

MERCHANT MIDDLEMEN

Merchant middlemen are the individuals who acquire title to the goods and transfer the goods from previous step to the next step with a view to making profit. They buy and sell goods in their own risk and the reward for their effort is profit. They act as intermediaries between producers and consumers. These merchant middlemen are broadly classified into wholesalers and retailers.

WHOLESALERS

Wholesaler is a trader who deals in bulk quantities. He purchases goods from the manufacturer in bulk quantity and sell it to the retailers in small quantity. According to American Management Association, ―wholesalers sells to retailers or other merchants and/or individual, institutional and commercial users but they do not sell in significant amounts to ultimate consumers.‖

FUNCTIONS OF WHOLESALERS

Wholesalers generally performs the following functions:

1. **ASSEMBLING AND BUYING**: It means bringing together goods and products of different manufactures producing same line of goods, and making purchases in case of seasonal goods.

2. **WAREHOUSING**: They purchase the goods in bulk and then store these goods for supplying to retailers in smaller quantities. Thus, the warehousing function relieves both the producers and the retailers from the problem of storage.

3. **TRANSPORTING**: The process of assembling and warehousing is possible with the help of transportation of goods form producers to their warehouse and back to retailers

4. **FINANCING**: Wholesalers grant credit to retailers on liberal terms and taking early delivery of stock from the manufacturers to reduce their financial burden.

5. **RISK BEARING:** They bear the risk of loss of evaporation, change in price, deterioration of quality, pilferage, theft, fire etc.

6. **GRADING**, **PACKING AND PACKAGING**: Here, they sort out the stocks in terms of different size, quality and shape for grading and then pack in the required form to supply to customers.

7. **DISPERSING AND SELLING:** Dispersing means the supply of goods already stored with them to the retailers.

8. **MARKET INFORMATION**: Finally providing the market information to the manufactures, so that they can plan their future production.

SERVICES OF WHOLESALERS

Wholesalers provide a variety of services to the manufacturer and retailers. These are discussed as follows:

A. SERVICES TO MANUFACTURERS

1. The wholesaler assists the manufacture to get the benefit of economies of large scale production.
2. Wholesalers assist the manufactures to save his time and trouble by collecting orders from large number of retailers on behalf of the manufactures.
3. The wholesaler provides accurate information about market to the manufactures which will be useful to the manufacturer to make modifications in his product.
4. The wholesalers make the order in large quantities and keeps the goods in their warehouses. This relieves the manufacturer the risk of storage and obsolescence.
5. The wholesales helps to maintain the prices stagnant for the product by buying the product when the prices are low and selling when the prices are high.

B. SERVICES TO RETAILERS

1. He gives valuable advice to the retailers on his business related matters.
2. He assists the retailer to get the goods very easily and quickly.
3. He provides the financial assistance to the retailer by granting credit facilities.
4. The wholesalers generally bears the risk associated with storage and distribution of goods to certain extent.
5. The wholesaler helps the retailers to keep price steady.

RETAILERS

The term retail implies delivery of goods for final consumption. A retailer is the last connection between final user and the wholesaler or the manufacturer. According to Professor William Standton, ―retailing includes all activities directly related to the sale of goods and services to the ultimate consumers for personal or non business use.‖ In other words retailer is one whose main task is to sell consumers a wide variety of goods which are assembled at his shop or office as per the needs of final consumers. In India, retail outlets are frequently owner managed and have few or no sales assistant.

FUNCTIONS OF RETAILERS

Retailers generally do the following activities:

1. **BUYING AND ASSEMBLING**:- A retailer acquire goods from the best and most dependable wholesalers and assemble the goods on demand in a single shop.
2. **WAREHOUSING**: It helps the retailer to assure adequate and uninterrupted supply of goods
3. **SELLING**: A retailer sells the products to the consumers in small quantities.
4. **RISK BEARING:** It is the responsibility of a retailer to bear the risk arising out of physical deterioration and changes in prices.
5. **SALES PROMOTION**: Retailer is directly communicating with ultimate consumers so he undertakes some sales promotion through displaying of goods in the shop, distribution of sales literature and introduction of new product.

6. **FINANCING:** A retailer granting credit to the consumer in liberal terms and it helps the consumers a lot to purchase the required goods.
7. **SUPPLY OF MARKET INFORMATION**: As being in close and constant touch with the consumers, a retailer can furnish the market related accurate information to the wholesalers and manufactures at the earliest.
8. **GRADING AND PACKING**: Retailers undertake second round grading and packing (as required by consumers) activities left by the manufacturers and wholesalers.

SERVICES RENDERED BY RETAILERS

A retailer renders a number of services to the manufacturers, wholesalers and to the final users. These services are outlined below:

A. SERVICES TO THE MANUFACTURES AND WHOLESALERS

(1) **PROVIDING INFORMATION**: Retailers provide the exact information about the latest consumer movements and expectations to the wholesalers and manufactures and it helps the manufactures to produce goods according to the needs of consumers.
(2) **LOOKS AFTER THE DISTRIBUTION PROCESS**: A retailer generally looks after the entire distribution process to he ground level and it helps the manufactures to concentrate on production.
(3) **CREATION OF DEMAND**: By giving favourable words and display of goods, retailers helps to create demand for the goods.
(4) **A BIG RELIEF**: A retailer provides a relief to the manufacturers and wholesalers from the problem of selling goods in small quantities.

B. SERVICES TO THE CONSUMERS

(1) **NO NEED TO STORE GOODS**: A retailer holds goods on behalf of the customers at a convenient place and in convenient lot to supply at the required time. Hence, the consumer need not buy and stock in large quantity.
(2) **LARGEST CHOICE**: Retailers pile up products of different manufactures and it enables the consumers to have a wide variety of choice at cost, quality and so on.
(3) **PROVIDING INFORMATION**: A retailer provides information about the introduction of a new product in the market and its main features.
(4) **GRANTING CREDIT**: Most of the retailers often give credit facilities to regular customers.
(5) **AFTER SALE SERVICES**: In certain cases a retailer renders after sales services to the ultimate consumers to increase the customers shop loyalty.

TYPES OF RETAILERS

The retailers can be classified in small scale retailers and large scale retailers:

1. **SMALL SCALE RETAILERS**: It includes
(a) **UNIT STORES**: These retail stores are run on proprietary basis dealing in general stores or single line stores.
(b) **STREET TRADERS**: They are the retailers who exhibit their stock on foot paths or the side walks of the busy street.
(c) **MARKET TRADERS**: These retailers operate their shops on particular days or dates in specified areas. The time interval may be week, or a month.

(d) **HAWKERS AND PEDLARS:** This type of retailers sell goods in streets or mohallas and does not have any fixed place of business. They carry goods from one place to another with the help of cycle, motor cycle or tractors. They keep on moving from locality to locality.
(e) **CHEAP-JACKS**: Cheap jacks is a retailer who has fixed place of business in a locality but may change his place to exploit the market opportunities.

2. **LARGE SCALE RETAILERS**: It includes
(a) **DEPARTMENTAL STORES**: A departmental stores includes several product line, invariably all that is required by a typical house hold. It includes food, durable goods, clothing, appliances, other house hold goods, furnishings and gifts etc. It is a central location and a unified control.
(b) **MULTIPLE SHOPS**: It is a chain of retail store dealing in identical and generally restricted range of articles operating in different localities under single and central ownership and control. It works on the principles of centralized buying and administration and decentralized selling. It is also known as chain store.
(c) **MAIL ORDER HOUSES**: Here, the customers do not personally visit the seller‘s premises and there is no physical inspection of goods before the purchase. Orders are received from customers through post and the goods are also sold and delivered through post.
(d) **CONSUMER CO-OPERATIVES**: These are the stores owned by a group of consumers themselves on cooperative basis. The store purchased the goods in bulk quantity and sells it to the consumers at a reasonable price. It is formed to eliminate the exploitation of middlemen.
(e) **SUPER MARKETS**: These are large, low cost, high volume, low margin and self service operation designed to serve customer‘s need for food, laundry and other house hold products. The wide range of product mix carried by these stores make them a favorite retail outlet.
(f) **DISCOUNT STORES**: Discount stores are generally the factory outlets that sell standard merchandise at lower price than conventional merchants by accepting lower margins but pushing for higher sales volume.
(g) **CONVENIENCE STORE**: These food stores are much smaller in size than in supermarkets. They are conveniently located in residential areas. Due to a high degree of personalized service and home delivery by store clerk, these stores fulfill the need of a house wife.
(h) **SPECIALITY STORE**: These are ones that carry a smaller product line with a deep assortment within that line. According to some marketing thinkers, the future scenario belongs to super speciality store as they provide increasing opportunities for market segmentation, focused marketing, and creation of brand equity. For example, IKEA starts the furniture store in India

10.3.3.6 FACTORS INFLUENCING CHOICE OF DISTRIBUTION CHANNEL

It is very crucial to select a channel for the distribution of goods and services to the consumers in an effective way. The marketer has to choose the most suitable channel. While selecting the channel of distribution, the marketer has to consider the following factors:
1. **NATURE OF PRODUCT**: The selected channel must cope up with the shelf life of the product. If a commodity is perishable, the producer prefer to employs few middlemen. For durable and standardized goods, longer and diversified channel may be required. If the unit value is low, intensive distribution is suggested. If the product is highly technical, manufacture is bound to sell directly, if it is not highly technical, intensive distribution can be selected. Seasonal products are marketed through wholesalers.

2. **NATURE OF MARKET**: If the market is a consumer market, then retailer is essential. For industrial market, firms may avoid retailer. If the consumers are widely scattered, then large number of middlemen is required. If the products are purchased frequently by consumers, then more buyer seller interactions are required and middlemen are suggested.

3. **COMPETITORS‟ CHANNEL**: Sometimes the distribution channel used by the competitors will also influence the channel selection. There is nothing wrong in adopting the channel strategy of the competitor if it is suitable and right one.

4. **THE FINANCIAL ABILITY OF CHANNEL MEMBERS**: For selecting the channel, the manufacture has to consider about the financial soundness of the channel members. In most of the case financial assistance are needed to the channel members in the form of liberal credit facilities and direct financing.

5. **THE COMPANY‟S FINANCIAL POSITION**: If the company have a strong financial background then it can develop its own channel structure. In that case there is no need to depend on other channel intermediaries to market their product.

6. **COST OF CHANNEL:** The cost of each channel may also influence the decision of selection of channel. Cost of channel may be estimated on the basis of unit sale. The best type of channel which gives a low unit cost of marketing may be selected.

7. **ECONOMIC FACTORS**: The economic conditions prevalent in the country also have bearing on the decision of channel selection. During the period of boom, it is better to rely on channels directly. During the deflation period direct contact with the consumers are desirable.

8. **THE LEGAL RESTRICTIONS**: Firms have to consider the existing legal provisions of the various Acts before finalizing the channel of distribution. For e.g. MRTP Act prevent channel arrangements that promotes monopoly, tend to lessen competition and are against the very public interest.

9. **MARKETING POLICY OF THE COMPANY**: The marketing policy of the company may have a impact on the choice of distribution channel. The marketing policies relating to channels of distribution are methods of advertising, sales promotion policies, delivery of products, after sale service and pricing. If the company has a heavy budget for advertising and sales promotion, the channel selected is bound to be direct as it requires a few layers of people at different levels to push the product otherwise the firm may have intermediaries.

10.3.4 PROMOTION

Promotion is a term taken from Latin word ‗promovere' which means ‗move towards'. In marketing, promotion means the tools and techniques that a marketer uses to move his product from the factory to the customer and it may involve advertising, sales promotion, personal selling, and public relation. It is necessary to communicate the information about the product from the producer to the consumer either along with the product or well in advance of the introduction of the product. This role is played by promotion.
In the words of Masson and Ruth, ―Promotion consists of those activities that are designed to bring a company's goods or services to the favorable attention of customers‖.

10.3.4.1 IMPORTANCE OF PROMOTION

It may be studied in the following heads:

1. **IMPORTANCE TO BUSINESS**:- In the competitive environment, it is very necessary to flow information regarding quality, features, price uses etc. regarding the product to the present and potential customers. Only then the consumers will be able to select the product from a wide range of competing products. Nowadays the firms cannot survive in the long run without performing promotion function effectively.

2. **ECONOMIC IMPORTANCE**: It helps to generate employment opportunities to thousands of people in different activities. As a result of promotion activities sales will increase and it brings economies of scale in the production process and it reduces the per unit cost of product.

3. **SOCIAL IMPORTANCE**: Promotion has also played an important role in the campaign to achieve some socially oriented objectives. For e.g., advertisements against social evils (dowry and female foeticide), appeals against smoking, drinking etc. It also helpful to provide informative and educational service to the society

4. **IMPORTANCE TO NON BUSINESS ORGANIZATIONS**: The non business organizations like govt. Agencies (appeal for filing income tax return), religious institutions (promotion of brotherhood), educational institutions (social welfare activities) etc also realized the importance of promotion and they are using the various elements of promotion mix very widely.

10.3.4.2 PROMOTION MIX

Firms select a mixture of promotional tools to effectively communicate with their target customer group. The different elements of this group are:

1. Advertising
2. Personal selling
3. Sales Promotion
4. Public relations and
5. Direct Marketing

10.3.4.3 FACTORS TO BE CONSIDERED WHILE SELECTING A PROMOTION MIX

1. **NATURE OF THE PRODUCT**: The nature of product is important for selection of promotion mix. The product may be consumer product or industrial product, convenient goods or specialty goods, simple or technical goods etc. For each product, the promotion mix element may vary.

2. **OVERALL MARKETING STRATEGY**: The marketing strategy also determine the elements of promotion mix. Whether the firm wishes to ―push‖ the product or create ―pull‖ for the product, the strategy of promotion mix will vary.

3. **BUYER READINESS STAGE:** The choice of different elements of promotion mix also depends on the buyer‘s readiness and awareness of the brand.

4. **PRODUCT LIFE CYCLE STAGES**: Different elements of promotion mix may be used in different stages of product life cycle.

5. **MARKET SIZE**: the size of market may influence the decision of promotion mix. For smaller markets, direct marketing is more effective and for a market having large number of buyers the promotion tool is mainly advertising.

6. **COST OF PROMOTION ELEMENTS**: The cost of different tools is very important while selecting the promotion mix.

10.4 ANSWER TO CHECK YOUR PROGRESS

10.4.1 SHORT ANSWER TYPE QUESTIONS

1. What is Market?
2. Distinguish between consumer market and industrial market.
3. Define marketing
4. Define e-marketing
5. Green marketing
6. Relationship marketing
7. Niche marketing

10.4.2 LONG ANSWER TYPE QUESTIONS

1. Define marketing and discuss in brief the various concepts of marketing.
2. ―Marketing starts with consumers and ends with consumers‖. Explain.
3. Elaborate the concept of marketing mix or 4 P‘s of marketing.
4. Explain in detail various functions of marketing.
5. Explain the following terms:
• Need, wants and demand
• Product
• Value, cost and satisfaction
• Exchange, transaction and relationships
6. Does the marketing concept imply that marketers should confine themselves only to those needs and wants that consumers say they want to satisfy?
7. Elaborate the environment in which marketing decisions have to be taken by the company.
8. Compare and contrast the traditional marketing with e-marketing.
9. Define Marketing Mix. What are the components of a marketing mix?
10. Explain Product. What are the various types of products?
11. Illustrate the sequence of activities required for the development of a new product.
12. Explain the component of pricing. Describe the various types of pricing policies
13. Discuss the factors influencing the pricing policies adopted by organizations.
14. Describe the strategies for new and established products.
15. Explain the role and importance of physical distribution system.
16. Discuss the various types of intermediaries available for physical distribution of goods and discuss their functions also.
17. Explain the various types of retailers.
18. Define promotion and discuss its importance in marketing mix.
19. Describe the various factors influencing choice of distribution channel.
20. Discuss the various factors considered for the promotion mix decision.
21. Elaborate the importance of promotion mix in marketing.

B. COM (Hons.)

SEMESTER I

COURSE: BUSINESS ORGANISATION AND MANAGEMENT

UNIT – 11 FINANCIAL MANAGEMENT – AN INTRODUCTION

CONTENTS

11.0 OBJECTIVES

Main objectives of this chapter are:

(i) To define finance, Business Finance and Financial Management.
(ii) To explain importance and scope of Financial Management.
(iii) To give the functions of Financial Management.
(iv) To specify the goals of Financial Management
(v) To elaborate various sources of Finance .

11.1 INTRODUCTION

Financial management refers to that part of the management activity which is concerned with the planning and controlling of firm's financial resources. It deals with arranging various sources for raising funds for the firm. The financial manager should select the sources which are suitable and economical for the needs of the business. The most appropriate use of such funds also forms a part of financial management. Earlier financial management was stidied as a branch of economics but recently it has emerged as an independent separate discipline. However, it draws heavily on the economics for its theoretical concepts.

The subject of financial management is of immense interest to both academicians and practicing managers because the subject is still developing practicing managers. Among the most crucial decisions of the firm are those which relate to finance and an understanding of the theory of financial management provides them with analytical insights to make those decisions skillfully.

11.2 BUSINESS FINANCE:

Finance is defined as the provision of money at the time when it is required. Every enterprise, irrespective of its size, needs finance to carry on its operations and to achieve its targets. In fact, finance is so indispensable today that it is rightly said to be the life blood of an enterprise. Without adequate finance, no enterprise can possibly accomplish its objective. The subject of finance can be classified into two classes:

(i) Public Finance
(ii) Private Finance

Public Finance deals with the requirements, receipts and disbursements of funds in the government institutions like states, local and central government.

Private finance deals with requirement, receipts and allocation of funds in case of an individual a profit seeking business organization and a non-profit organization.

Personal finance deals with the analysis of principles and practices involved in managing one's own daily requirements of funds. The study of principles, practices, procedures and problems concerning financial management of profit making organizations engaged in the field of industry, trade and commerce is undertaken under the discipline of business finance. The finance of non-profit organization is concerned with the issues involved in financial management of charitable, religious, educational, social and other similar organizations.

'Business Finance' denotes finance of business activities. It is composed of two words 'business' and 'finance'. The word 'business' means a 'state of being busy'. All creative human activities relating to the production and distribution of goods and services for satisfying human wants are known as business. It includes industry, trade and commerce.Finance refers to the management of flows of money through an organization. It concerns with the application of skills, use and control of money.

Thus we can define business finance as an activity or a process which is concerned with acquisition of funds, use of funds and distribution of profits by a firm. Thus business finance usually deals with financial planning, acquisition of funds, use and allocation of funds and financial controls.

Business Finance can be further sub classified into three categories:

(i) Sole Proprietary
(ii) Partnership Firms
(iii) Company

I. SELF CHECK EXERCISE

(a) Define Business Finance.

(b) Define Financial Management

11.3 FINANCE FUNCTIONS:

Finance Functions are of two types:

1. Managerial Functions; and
2. Routine Functions

Managerial finance functions are so-called because they require skillful planning, control and execution of financial activities. Routine finance functions, on the other hand do not require a great deals of managerial ability to carry them out. They are chiefly clerical in nature and are incidental to effective handling of the managerial finance functions.

There are four important managerial finance functions:

1. Investment Decision
2. Finance Decision
3. Dividend Policy or Profit Allocation Decision
4. Liquidity or short-term asset-mix Decision.

While performing finance functions, the financial manager should strive to maximize the market value of shares.

INVESTMENT DECISION:

The investment decision is related to the selection of assets in which funds will be invested by the firm. The assets which can be acquired fall into two broad groups (i) Long-term assets which yield return over a period of time in future, and (ii) short term of current assets defined as these assets which in normal course of business are convertible into cash usually within a year. Current assets-mix decision will be, separately covered in the fourth point. The decision as to investment of funds in long-term assets in known as capital budgeting. It is the most crucial financial decision of the firm. It relates to the firm. It relates to the selection of an asset or course of action whose benefits are likely to be available in future over the life time of the project. Future benefits are difficult to measure and cannot be predicted with certainty. Due to this uncertainty, capital budgeting decision involves risk, investment proposals, therefore, be evaluated in terms of both expected return and risk. Besides the decisions to commit funds in new investment proposals, capital budgeting also involves the question recommitting funds when an old asset becomes less productive on non-profitable.

Other major aspects of capital budgeting relates to the selection of a standing rate against which the expected return can be assessed.

FINANCIAL DECISION:

Financial Decision is the second important function to be performed by the finance manager. Broadly he must decide when, where and how to require funds to meet the firm's investment needs. He is to decide the proportion of equity and debt. This mix of debt and equity is called capital structure. The financial manager must strive to obtain the best financing mix or optimum capital structure. The firm's capital structure is optimum when the market value of its share is maximized. The use of debt affects the return and risk. When the shareholder's return is maximized with minimum risk, the market value per share will be maximized and the firm's capital best combination of debt and equity, he must raise the appropriated amount through best available sources.

DIVIDEND DECISION:

Dividend decision is the third financial decision. The finance manager must decide whether the firm should distribute all profits or retain them or distribute a portion and retain the balance. Dividend Policy should be determined in term of its impact on shareholders value. The optimum dividend policy is one which maximized the market value of the firm‘s shares. Thus, if shareholders are not indifferent of the firm's dividend policy, the financial manager must determine the optimum dividend payment ratio. The dividend payment ratio is equal to the percentage of dividend distributed to earnings, available to shareholders. The value if any, of a dividend to investors must be balanced against the opportunity cost of the retained earnings lost as mean of equity financing. The financial manager should also consider the question of dividend stability, bonus shares and cash dividend.

LIQUIDITY DECISION:

The aspect of financial decision-making related to current assets is known as working capital management. Investment in current assets affects firm's profitability, liquidity and risk. A conflict exists between profitability and liquidity. If a firm does not have adequate working capital, it may become illiquid and consequently may be unable to meet its current obligation and thus, invite the risk of bankruptcy. If the current assets are too large, the profitability is adversely affected. There fire, a trade-off between profitability and liquidity is one major dimension of working capital management. Besides this, individual current assets would be efficiently managed so that neither inadequate nor unnecessary funds are locked up.

For the effective execution of the managerial finance function routine functions have to be performed. These decisions concern procedures and systems and involve a lot of paper work and time. Some of the important routine finance functions are:-

1. Supervision of cash receipts and payments and safeguarding of cash balances.
2. Custody and safeguarding of securities, Insurance policies and other valuable papers.
3. Taking care of the mechanical details of new outside financing.
4. Record keeping and reporting.

The finance manager in the modern enterprises is mainly involved in the managerial finance functions, the routine finance functions are carried out by the people at lower levels. His involvement in the routine functions is to the extent of setting up rules of procedure, selecting forms to be used establishing standards for the employment of competent personnel and to check up the performance to see that the rules are observed and forms properly used.

11.4. IMPORTANCE OF FINANCIAL MANAGEMENT

1. It is a significant part of business management.
2. The liquidity and profitability of business depends on financial management.
3. Financial management can influence the value of the firm through its decisions.
4. Financial management is an integral part of top management and thereby plays an active role in the determination of financial objectives, policy making, financial planning, financial control and coordination.
5. The knowledge of financial management helps the investors purchase or not purchase the shares of a particular company.
6. It is very important in corporate enterprises because of wide distribution of ownership and separation of ownership and management.

11.5 OBJECTIVES OF FINANCIAL MANAGEMENT:

Firm's financial decisions are continuous. In order to make them rationally, the firm must have an objective or goal. The objectives provide a framework for optimum financial decision-making. Objective or goal is used in the sense of decision criterion of the decision involved in financial management. It is a base for analysis. The objective of the firms is to create value for its shareholder. Value is represented by the market price of the company's common stock, which in turn, is reflection of the firm's investment, financing and dividend decisions. The idea is to acquire assets whose accepted return exceeds their cost, to finance with those instruments where there is particular advantage tax or otherwise, and to undertake meaningful dividend policy for share holders.

1.5.1 PROFIT MAXIMIZATION:

The first frequently stated decision criterion for financial management is the profit maximization objective or goal. According to this objective, action that increases profit should be undertaken and that decrease that the investment, financing and dividend policy decision of a firm should be maximization of profits, the term profits is used in two senses. In the first sense, profit means total profits, i.e. the amount paid to the owners of business. In the second sense, it means profitability. Profitability is a situation where output exceeds input. Today it is used in the second sense.

The rationale behind profitability maximization is that first profit is a test of economic efficiency. It leads to efficient allocation of resources. It ensures maximum social welfare. It is a yardstick for measuring performance.

However, the profit maximization criterion has been criticized on several counts. It is argued that profit maximization, as business was self-financing characterized by private property and single entrepreneurship. The only aim of single owner was to enhance is individual wealth and personal power, which could be easily done by profit maximization objectives. The modern business is characterized by limited liability and divorce between management and ownership. Today business by owners as well outsiders. There are other interested parties connected with the business such as customers, employees, government and society. Thus in this new environment, profit maximization is regarded as unrealistic, difficult, inappropriate and immoral.

It is also feared that profit maximization objective in a market economy may tend to produce goals and services that are wasteful and unnecessary from society's point of view. It might lead to inequality of income and wealth. Thus, the profit maximization behavior is doubtful to lead to the optimum social welfare.

Apart from the aforesaid objections, profit maximization fails to serve as an operational criterion for maximizing the owner's economic welfare. It fails to provide an operationally feasible measure for ranking alternative courses of action in term of their economic efficiency. It surfers from the following limitations:

1. IT IS VAGUE:

Profit is a vague and ambiguous concept. It has no precise connection. It is akin to different interpretations by different people. Profit may be shot-term or long term, it may be total profit or rate of profit, it may be before-tax or after-tax, it may be return on total capital employed or total assets or shareholders equity and so on, Question arises, which of these variants of profit should a firm try to maximize? If we adopt maximizing earnings per share as financial objectives of firms, it will not ensure the maximizing of owners; since it ignores timing and risk of expect benefits.

2. Because money received today has a higher value than money received next year, a profit seeking organization must consider the timing of cash flows and profits. Profit maximization objective ignores the time value of money and does not consider the magnitude and timings of earnings. It treats all earnings as equal though they occur in different periods.

3. IT IGNORES RISK:

More certain the expected return, the higher the quality if benefits. An uncertain and fluctuating return implies risk to the investors. But investors are risk averters. They have preference for return which is more certain than the higher return with uncertainty.

1.5.2 <u>WEALTH MAXIMIZATION:</u>

This is also known as value maximization or net present worth maximization. It is universally recognized decision criterion as it satisfies all the three requirements, namely, exactness, timing of benefits and risk. Wealth maximization criterion is based on the concept of cash flows generated by the business rather than accounting profit which is the basis for measurement of benefits in the case of profit maximization criterion. Cash flow is a precise concept in contract to accounting profit, which is vague. This criterion considers both quantity and risk o benefits. It also considers the time value of money as already said, wealth maximization means maximizing the worth to the ordinary shareholders. A financial action which has a positive net present value should be accepted and negative net present, value should be rejected. Among a number of desirable mutually exclusive projects, the one with the highest net present value should be adopted.

$$W = \frac{A1}{(1+K)} + \frac{A2}{(1 + K)^2} + \ldots\ldots\ldots\ldots \frac{An}{(1+K)0} \; Co$$

$$\sum^{n} \frac{At}{\cdots\cdots} - Co$$

1 -1   (1 + K) t

Where A_1A_2 represent the stream of benefits expected to occur if a course of action is adopted. Co. is the cost of that action and K is the appropriate discount rate reflecting both timing and risk of benefits. 'W' is the net present worth or wealth which is the difference between the present worth of the stream of benefits and the initial cost of investment. The firm should adopt a course of action only when 'W' is positive.

Because of the three characteristics mention above, wealth maximization is superior to the profit maximization as an operational objective.

1.6 SCOPE OF FINANCIAL MANAGEMENT:

The main objective of financial management is to arrange sufficient finance for meeting short term and long term needs. These funds are procured at minimum costs so that profitability of the business is maximized. With these things in mind, a financial manager will have to concentrate on the following areas of finances function:

1. ESTIMATING FINANCIAL REQUIREMENTS:

The foremost task of financial manager is to estimate short-term and long-term financial requirements of the business. For this purpose, he will prepare a financial plan for present as well as for future. The amount required for purchasing fixed assets as well as needs of funds for working capital will have to be estimated.

2. DECIDING CAPITAL STRUCTURE:

Capital structure refers to the kind and proportion of different securities for raising funds. After deciding abount the quantum of funds required it should be decided which type of securities should be raised. It is always better to finance fixed assets through long term debts. Even here if gestation period is longer, then share capital may be most suitable. Long term funds may be employed to finance working capital also, if not wholly than partially. Entirely depending upon over draft and cash credits for meeting working capital needs may not be suitable.

3. SELECTING SOURCES OF FINANCE:

After preparing capital structure, an appropriate source of finance is selected. Various sources from which finance may be raised, include, share capital, debentures, financial institutions, commercial banks, public deposits etc. The need, purpose, object and cost involved may be the factors influencing the selection of a suitable source of financing.

4. SELECTING A PATTERN OF INVESTMENT :

When funds have been procured then a decision about investment pattern is to be taken. The selection of an investment pattern is related to the allocation of funds. A decision will have to be taken as to which assets are to be purchased? The funds will have to be spent first on fixed assets and then an appropriate portion will be retained for working capital.

5. PROPER CASH MANAGEMENT

Cash management is also an important task of finance manager. He has to assess various cash needs at different times and then make arrangements for arranging cash. The cash management should be such that neither there is a shortage of it and nor it is idle. The idle cash with the business will mean that it is not properly used and any shortage of cash will damage the credit worthiness of the enterprise.

6. IMPLEMENTING FINANCIAL CONTROLS:

An efficient system of financial management necessitates the use of various control devices. Financial control devices generally used are: Return on investment, Budgetary control, Break even Analysis, cost control, Ratio analysis, cost and internal audit.

7. PROPER USE OF SURPLUSES: The utilization of profits or surpluses is also an important area of financial management. A judicious use of surpluses is essential for expansion and diversification plan and also in protecting the interests of shareholders. The plunging back of profits is the best policy of further financing but it clashes with the interests of shareholders. A balance should be struck in using funds for paying dividend and retaining earning for financing expansion plans etc.

II SELF CHECK EXERCISE

(a) Profit Maximization

(b) Scope Of Financial Management

1.7 SOURCES OF FINANCE

Every business rely on different sources of finance to acquire funds for their activities. The money needed to run the business activities is known as business funds. A business can only run smoothly when they have sufficient funds, without sufficient funds it cannot function properly. There is a continuous requirement of funds in business and these funds are raised through various sources of finance. Choosing the correct source of finance is one of the most important functions of financial manager. Having known that there are many alternatives to finance or capital, a company can choose from. Choosing the right source and the right mix of finance is a key challenge for every finance manager. The process of selecting the right source of finance involves in-depth analysis of each and every source of fund. For analyzing and comparing the sources, it needs the understanding of all the characteristics of the financing sources. So every organization should consider all aspects before deciding about the source from which they want to raise funds. Some important sources from which business can raise capital are as under

1. EQUITY SHARES:

A company can issue various types of shares as equity shares, preference shares and deferred shares. Equity shares are the most important source for raising permanent or long term capital. Essentially, this means that each equity share represents a unit of part ownership in the company. Equity shares are long-term source for financing any business. These shares are issued to general public and are non-redeemable in nature. Holders of equity shares have the right to vote, share profit and claim on the assets of the business. The equity share-holders are the real owners of the company and they also receive dividend from the company. . Dividend payments to equity shareholders are not fixed and can vary based on the performance of the firm and contingent on it meeting certain goals. Thus, while equity shareholders are eligible to receive dividend payments, these payments are not guaranteed. Various kinds of equity share capital issued by companies are authorized, issued, subscribed, paid up, rights, bonus, sweat equity etc. The value of equity shares can be expressed in terms of face value or par value, issue price, book value, market value, intrinsic value, stock market value etc.

2. DEBENTURES:

If a company needs funds for extension and development purpose without increasing its share capital, it can borrow from the general public by issuing certificates for a fixed period of time and at a fixed rate of interest. Such a loan certificate is called a debenture. Debentures are offered to the public for subscription in the same way as for issue of equity shares. Debenture is issued under the common seal of the company acknowledging the receipt of money. Debentures are debt instruments issued by companies for medium to a long term of period to raise funds. Companies issue debentures when they need to borrow the money at a fixed rate of interest for its expansion. These are offered by both large companies and the government. Companies issue debentures when they seek to borrow money from the public at a predetermined rate of interest. Debenture holders are the creditors of the company carrying a fixed rate of interest and Interest is payable even if there is a loss. The debentures are generally given a floating charge on the assets of the company. When the debentures are secured they are paid on priority to other creditors. The debentures may be of various kinds such as secured or unsecured debentures, redeemable debentures, irredeemable debentures convertible debentures and non-convertible debentures. They are very well suited to cautious investors as interest on debentures have to be paid on certain pre-determined intervals and also debentures get priority on repayment at the time of liquidation. The firm issuing debenture also enjoys a number of benefits such as trading on equity, retention of control, text benifits etc.

Debenture holders do not enjoy any voting right like equity shareholders.

3. VENTURE CAPITAL

The term Venture Capital comprises of two words ‗Venture' and ‗Capital'. Venture means proceeding associated with risk, the outcome of which is uncertain and capital means resources to start the enterprise .In a narrower sense venture capital is understood as the capital which is available for financing new venture. Broadly, it can be interpreted as the investment of long-term equity finance where the venture capitalist earns his return from the capital gain. The nature of financing i.e. long term equity, implies that the investor bears the risk of venture, but would earn a return commensurate with its success. Thus, the return for the investor is not through a steady dividend or interest yield but through capital gain. The focus of venture capital in India is on providing seed capital and financing for high technology. In fact, the venture capital mechanism in India should be used for fostering the growth and development of enterprise, and need not be confined only to technology financing. Business enterprises in various sectors need venture capital for financing various stages of development. This broad approach would even help the venture capital firms to diversify their investment across various enterprises- some high tech, some low-tech, and thus spread their risks. It does not make a business sense to expect venture capital firms to invest in high tech, high risk start-ups only.

4. LEASE FINANCING

Lease financing is one of the important sources of medium and long-term financing. It is an easy way of financing the use of such assets without actually having to buy them outright. Leasing is a process in which a party owning an asset (lessor) provides the asset for use to another the right to use the asset to the user (lessee), over a certain period of time, for consideration in form of periodic payment (rentals).At the end of the period of contract, the asset reverts back to the lesser unless there is a provision for the renewal of the contract. Leasing essentially involves the divorce of ownership from economic use of an asset. The lease transaction may be broadly equated to an installment credit being extended to the person using the asset by the owner of the asset, but without transferring the title of ownership.

1.8 LET US SUM UP :

Financial Management is applicable to every type of organization, irrespective of its size, kind or nature. Where there is use of finance, financial management is helpful. Every management aims to utilize its funds in a best possible and profitable way. Financial Management deals with decision-making on asset mix, capital mix and profit allocation etc. The investment decisions of a finance manager deals with selection of viable and profitable investment alternatives and allocation of funds to it. The finance decision deals with procurement and judicious use of funds whereas the dividend decision decision emphasizes on distribution of profits and retention policies. The divorce of ownership and management in corporates reduces the importance of profit maximization objective. The wealth maximization objective emphasizes on maximization of shareholders wealth in the form of dividend and capital gains. The scope of financial management is so wide as to cover the financial activities of a business enterprise right from its inception to its growth and expansion and in some cases to its winding up also.

11.9 GLOSSARY:

1. **Finance:** It is defined as the provision of money at the time when it is required.
2. **Business Finance:** It is an activity or a process which is concerned with acquisition of funds, use of funds and distribution of projects by a business firm.
3. **Financial Management:** It refers to that part of the management activity which is concerned with the planning and controlling of firm's financial resources.

11.10 EXERCISE QUESTIONS:

1. What are the major types of financial management decisions that business firms make? Describe each.
2. "The wealth maximization objective provides an operationally appropriate decision criterion" Comment.
3. "Financial management has changed substantially in scope and complexity in recent decades", explain and show the relationship of finance with other areas.

11.11 SUGGESTED READINGS:

Hampton, John J : Financial Decisions-making, Prentice - Hall of India Private Limited, New Delhi 1989.

Pandey I.M. : Financial Management, vikas Publishing House Pvt. Ltd., New Delhi, 1998.

Van Horn, J.C. : Financial Management and Policy, Practical Hall of India Private Limited, New Delhi, 1991

11.12 ANSWER TO SELF CHECK EXERCISE

I (a) See Para 1.2

(b) See Para 1.1

II (a) See Para 1.6.1

(b) See Para 1.7

SEMESTER- I

COURSE: BUSINESS ORGANIZATION AND MANAGEMENT

UNIT 12 HUMAN RESOURCE MANAGEMENT

STRUCTURE

12.0 OBJECTIVES

After studying this unit, you should be able to:

- Discuss the concept of human resources
- Discuss the concept of human resource management

- Identify the importance of human resource management
- Describe the functions of human resource management
- Explain the basic dynamics of employer-employee relations
- Analyse the basic features of employer-employee relations

12.1 INTRODUCTION

Every organization, large or small, utilises an assortment of capital to make the business work. Capital incorporates cash, valuables, assets or goods used to generate income for a business. For example, a retail store utilizes registers and inventory, while a consulting firm may have proprietary software or buildings. No matter the industry, all companies have one thing in common: they should have individuals (Human Resources) to make their capital work for them. Behind production of every product or service there is a human mind, effort and man hours (working hours). No product or service can be produced without the help of a human being. Human beings tend to be the fundamental resource for making or construction of anything. Every organisation regardless of their type, desires to have skilled and competent people to make their organisation, competent and best; therefore, acquiring their services, developing their skills, motivating them to higher levels of performance and ensuring that they continue to maintain their commitment to the organization is essential to achieve organisational objectives. As the most important asset of the organization is its employees, so the prime responsibility of management is to manage human resource in effective manner.

12.2 MEANING AND DEFINITION OF HUMAN RESOURCES

Human resources of an organisation consist of all employees working at different levels in the organisation and are also identified by other terms like ‗personnel', ‗people at work' ‗human assets' and ‗human capital.

Different management experts have defined human resources differently.

According to Michael J. Jucius, human resources basically refer to ―a whole consisting of inter-related, inter-dependent and interacting physiological, psychological, sociological and ethical components‖.

According to Leon C. Megginson ―From the national point of view human resources are knowledge, skills, creative abilities, talents, and attitudes obtained in the population; whereas From the view-point of the individual enterprise, they represent the total of the inherent abilities, acquired knowledge and skills as exemplified in the talents and aptitude of its employees‖.

12.3 HUMAN RESOURCE MANAGEMENT

Human Resource Management is made up of three words namely- Human, which refers to the skilled workforce in an organization; Resource, which refers to the limited availability or scarce; Management, which means how to optimize and make best use of such limited or scarce resource so as to meet the organization goals and objectives. HRM is the process of employing, recruiting, selecting, inducting employees, providing orientation, imparting training and development, appraising the performance of employees, deciding compensation and providing benefits, motivating employees, developing policies relating to them, developing strategies to retain them, maintaining proper relations with employees and their trade unions, ensuring employees safety, welfare and healthy measures in compliance with labour laws. It basically helps in bringing people and organization together so that the goals of each are met and tries to secure the best from people by winning their whole-hearted cooperation. Apart from this, HRM also deals with the development and integration of strategies which are integrated with corporate strategies and ensure that the culture, values, and structure of the organizations and the quality, motivation and commitment of its members contribute to the achievement of its goals.

A number of eminent authors and management thinkers have given various definitions of Human Resource Management:-

EDWIN FLIPPO DEFINES- Human Resource Management as ―planning, organizing, directing, controlling of procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organizational and social objectives are achieved.‖

BYARS AND RUE – ―Human resource management encompasses those activities designed to provide for and coordinate the human resources of an organization. Human resource functions refer to those tasks and duties performed in organizations to provide for and coordinate human resources‖.

IVANCEVICH AND GLUECK – ―Human resource management is the function performed in organizations' that facilitate the most effective use of people (employees) to achieve organizational and individual goals‖.

FRENCH WENDELL – ―Human Resource Management is the recruitment, selection, development, utilisation of, and accommodation to human resources by organisations.‖

ACCORDING TO GARY DESSLER – ―Human Resource Management is the process of acquiring, training, appraising, and compensating employees, and attending to their labour relations, health, safety and fairness concerns.‖

ACCORDING TO PULAPA SUBBA RAO, ―Human resources management (HRM) is managing (planning, organising, directing and controlling) the functions of employing, developing, compensating and utilising human resources, resulting in the creation and development of human and industrial relations which would shape the future policies and practices of human resource management, with a view to contribute proportionately (due to them) to the organisational, individual and social goals‖.

THE NATIONAL INSTITUTE OF PERSONAL MANAGEMENT (NIPM) of India has defined human resource management as ―that part of management which is concerned with people at work and with their relationship within an enterprise. Its aim is to bring together and develop into an effective organization of the men and women who make up enterprise and having regard for the well – being of the individuals and of working groups, to enable them to make their best contribution to its success‖.

Thus, Human Resource Management on the whole can be defined as a process of procuring, developing, utilising and maintaining competent human resources in the organisation so that the goals and objectives of an organisation are achieved in an effective and efficient manner. In short, Human Resource Management is an art of managing people at work in such a manner that they give their best to the organisation for achieving its set goals.

12.4 IMPORTANCE OF HUMAN RESOURCE MANAGEMENT

1. Help the organization achieve its goals by providing and maintaining productive employees.
2. Efficiently make use of the skills and abilities of each employee.

3. Make sure employees have or receive the proper training.
4. Build and maintain a positive employee experience with high satisfaction and quality of life, so that employees can contribute their best efforts to their work.
5. Effectively communicate relevant company policies, procedures, rules and regulations to employees.
6. Maintaining ethical, legal and socially responsible policies and behaviours in the workplace.
7. Effectively manage change to external factors that may affect employees within the organization.

12.5 FUNCTIONS OF HUMAN RESOURCE MANAGEMENT

Human Resource Management functions can be broadly classified into two categories:-

1. Managerial Functions
2. Operative Functions

12.5.1 MANAGERIAL FUNCTIONS:

1. Planning- Planning is the foremost and basic function to be performed by management. Everything depends upon planning as it is a process of thinking about things before they happen and to make preparations in-advance to deal with them. Poor planning results in failure and effects overall system**. Designing plans and forecasting techniques** as a part of **Human resource planning** is required to avoid any shortfall of workforce so as to avoid impact on the output of the organisation, to draw the estimation of workforce exactly needed for the organisation and to plan for attracting talented candidates. In this function of Human Resource Management , the number and type of employees needed to accomplish organizational goals is determined. Research is an important part of this function, information is collected and analyzed to identify current and future human resource needs and to forecast changing values, attitude, and behaviour of employees and their impact on organization.
2. **ORGANISING-** HR managers should be well aware of organizing everything related to human resources of any organisation as organizing is the process of making and arranging everything in the proper manner in order to avoid any confusion and conflicts. In an organization, tasks are allocated among its members, relationships are identified, and activities are integrated towards a common objective. In this Human

Resource Management function, relationships are established among the employees by **giving each member a specific task** to finish overall objectives of the job, so that they can collectively contribute to achieve the organizational goal. It also involves **establishing departments and divisions** required as per the nature of jobs and works in order to improve the efficiency, expertise and speedup the work, delegating authority to employees which makes them more responsible towards the organisation and **establishing channels of authority and communication**.

3. **STAFFING-** Staffing is one of the important functions of human resource management as it is the process of employing right people, providing suitable training and placing them in the right job by paying them accordingly and satisfactorily**.** **Recruiting prospective employees and selecting the best ones** from them is one of the primary functions of human resource management. It includes inviting people who are willing to join the organisation and selecting best out of them by conducting various selection tests. This Human Resource Management function also includes various other activities such as d**etermining the type of people to be appointed, compensation of the employees**, s**etting performance targets, measuring and evaluating their performance along with counselling the employees.**
4. **DIRECTING-** This Human Resource Management function on the part of HR manager involves **getting work done through subordinates** so as to meet the organisation's goals and objectives, e**nsuring effective two-way communication for the exchange of information with the subordinates** in order to effectively communicate the goals and objectives of the organisation. As it plays key role in understanding what kind of expectations the organisation is having from its employees. It also includes m**otivating subordinates to strive for better performance** by way of providing employee recognition, rewards, intrinsic benefits, paid vacations, increments in salary, gifts, any social security benefits to employees, m**aintaining the group morale** by way of fair treatment among employees, being ethical and generous towards employees, being loyal to its employees and giving priority to employee concerns.
5. **CONTROLLING-** The controlling function of Human Resource Management involves establishment of standard performance so as to measure the actual performance of the employees by conducting performance evaluation for appraisals, comparison of actual performance with the established performance standards of employees for finding out gaps in employee performance, comparison of actual

performance with the standard one to find the deviation for initiation of corrective actions, if there are any deviations. Corrective actions include giving proper and suitable training to such employees or withholding of increments in payments until performance gaps are removed. Demotion of employee, suspension and discharge from job is initiated when serious deviations are identified.

12.5.2 OPERATIVE FUNCTIONS

1. Job Analysis and Design - Job analysis is the process of describing the nature of a job and specifying the human requirements like qualification, skills, and work experience to perform that job. According to **Harry L. Wylie** "Job analysis deals with the anatomy of the job. This is the complete study of the job embodying every known and determinable factor, including the duties and responsibilities involved in its performance; the conditions under which performance is carried on; the nature of the task; the qualifications required in the worker; and the conditions of employment such as pay, hours, opportunities and privileges. Job design, on the other hand, aims at outlining and organizing tasks, duties, and responsibilities into a single unit of work for the achievement of certain objectives. *It aims at* reducing the physical burden on the worker by structuring physical work environment around the way the human body works.

2. Recruitment and Selection –Recruitment and selection of the human resources for an organisation is the major and basic function of human resource management. Human resources planning and recruiting precede the actual selection of people for positions in an organisation. Recruiting is the process of inviting qualified job seekers by using different platforms like issuing notification in regular newspapers or employment newspapers which are exclusively meant for employment news and notifications, television media, online and on social networking websites which have become mostly used resources for recruitment and hiring people. There are two major source of recruitment of employees, one is recruitment through internal sources and the other is recruitment through external sources. Internal recruitment is the process of inviting or giving chance to the people relating to concern organisation or to the people relating to the existing employees or directly giving opportunity to the existing employees. External recruitment is the process of inviting job seekers who do not belong to or anyway related with the organisation, which simply means inviting outside candidates.

Subsequently, selection of right person form the pool of candidates by administering various selection tests like preliminarily screening, written tests, oral tests and interviews etc.

3. **INDUCTION AND ORIENTATION-** Induction of Employee is the first step towards gaining an employees' commitment, Induction is aimed at introducing the job and organization to the new employee and him or her to the organization. In a nutshell, it covers the organization's history, philosophy, mission and vision, and the managerial style of the organization. Inform the financial benefits and different taxation policies offered. Addresses trainings offered, performance expectations, and the work schedules of the organization. Educate new employees on the laws, regulations and company policies that apply to their role. Highlight the different safety and security aspects related to the work environment.

   Orientation is the planned introduction of new employees to their jobs, co-workers, and the organization so as to alien an employee with their job role.

4. **TRAINING AND DEVELOPMENT** - This function of human resource management helps the employees to acquire skills and knowledge to perform their jobs effectively. Training and development programs are organized for both new and existing employees to prepare them for higher level responsibilities. It is provided in following ways:-

   Executive development refers to developing the skills and competencies of those that will have executive positions in organisations.

   Employee training and development develop is the subsystem of an organization and core function of human resource management. It ensures continuous skill development of employees working in organisation and habituates process of learning for developing knowledge to work. Imparting **Training and Development** to employees through various methods is the foundation for obtaining quality output from employees.

   Employee training methods can be divided in two categories:

   a. **On-the-job training methods:** job rotation, coaching, job instruction, committee assignments, apprenticeship and internship
   b. **Of the job training methods:** classroom lecture method, audiovisual training method, simulation, vestibule training, case studies, role playing and the programmed instruction method.

5. Wage and Salary Administration- Human resource management determines what is to be paid for different type of job and decides employee‘s compensation which includes wage administration, salary administration, incentives, bonuses, fringe benefits etc. Wages for workers or salary for employees is the basic and primary thing for which employee's work for an organisation. Its administration of salaries by HR managers is very important function as financial implications and legal compliance is involved. Any deviations in payment of salaries will lead to immediate dissatisfaction of employees and affects their morale and any failure in payment of salaries, statutory contributions by employee and statutory deductions from salary of an employee in accordance with the employment laws will invite unnecessary complications and will be liable for serious action by the court of law. Hence it is lookout of the Human resource management department to avoid such costly mistakes which also effects the organisation's reputation.
6. Performance Appraisal - Human resource professionals are required to perform this function to ensure that the performance of employee is at acceptable level. **Performance appraisal** is also known as **performance evaluation of employees**. Human Resource Managers adopt various methods for assessing the performance of the employees in order to take decisions with regard to compensating and rewarding employees, training of employees, if there are deviations in their performance and it would take corrective actions concerning employees whose performance is not up to the mark. In order to evaluate the performance of employees, HR managers first set up performance standards for comparing with actual performance of employees to find out gaps of employee performance. Performance evaluation or appraising performance of employees is the core and major task when compared with other human resource management functions.

CHECK YOUR PROGRESS A

1) What do you mean by human resources?

2) What is human resource management?

3) Elucidate five most important functions of human resource management?

12.6 <u>BASIC DYNAMICS OF EMPLOYER-EMPLOYEE RELATIONS</u>

Employer-employee relations mean the relationships between employers and employees in industrial organisations. According to Dale Yoder, ―the term employer-employee relations refer to the whole field of relationship among people, human relationship that exist because of the necessary collaboration of men and women in the employment process of modern industry‖. Employer-employee relations include both individual relations as well as collective relations with an increasing emphasis on the relationship between managers and their team members. Individual relations imply relations between employer and employees. Collective relations refer to relations between employers‘ associations and trade unions as well as the role of the State in regulating these relations. It involves the study of how people get along together at their work, what difficulties arise between them, how relations among them are regulated and what organisations are set up to protect different interests.

The term _employer-employee relations‘ is also used to highlight the efforts a company and the efforts of HR department in managing that relationship. These efforts are usually formalized in an employee relations policy or program and cover all the contractual, practical, as well as the physical and emotional dimensions of the employee-employer relationship. It is a crucial factor when it comes to overall organizational performance because good employee relationship management translates into increased employee wellbeing (and performance).

Government has come to play an increasing role in employer- employee relations to protect the interests of both employers and employees. The Government of India has enacted procedural as well as substantive laws to regulate employer-employee relations in the country by setting up wage boards, labour courts, tribunals and other bipartite and tripartite bodies to maintain healthy relationship between both the parties.

12.7 BASIC FEATURES OF EMPLOYER-EMPLOYEE RELATIONS

1. The concept of employer-employee relations is complex and multi-dimensional. The concept is not limited to relations between trade unions and employer but also extends to the general web of relationships between employers, employees and the Government. It covers regulated as well as unregulated, institutionalised as well as individual relations. These multi-pronged relationships may be in organised or unorganised sector.
2. An employer-employee relation is a dynamic and developing concept. It undergoes change with changing structure and environment of industry. It is not a static concept. It flourishes or stagnates or decays along with the economic and social institutions that exist in a society. The institutional forces give content and shape to employer-employee relations in a country.

3. Employer-employee relations do not function in a vacuum. These are rather the composite result of the attitudes and approaches of employers and employees towards each other.
4. Employer-employee relations are an integral part of social relations in a country. This system is conditioned by economic and institutional factors. Economic factors include economic organisations (capitalist, socialist, individual ownership, company ownership, and Government ownership), capital structure and technology, nature and composition of labour force, demand and supply of labour. Institutional factors refer to state policy, labour legislation, employers' organisations, trade unions, social institutions (community, caste, joint family, and religions), attitudes to work, power and status systems, motivation and influence, etc.
5. Several parties are involved in the employer-employee relations system. The main parties are employers and their associations, employees and their unions, and the Government. These three groups interact within the economic and social environment to shape the employer-employee relations system.
6. The main purpose of employer-employee relations is to maintain harmonious relationships between management and labour. The focus in these relationships is on accommodation. The parties involved develop skills and methods of adjusting to or cooperating with each other. They also attempt to solve their problems through collective bargaining. Every employer-employee relations system creates a complex set of rules, regulations and procedures to govern the workplace.

CHECK YOUR PROGRESS B

1) What does employer-employee relations constitute?
2) Elucidate the two main features of employer-employee relations?

12.8 LET US SUM UP

Human resources are considered to be the most important assets of any and every organisation irrespective of its type. No product or service can be produced without the help of a human being. Human beings tend to be the fundamental resource for making or construction of anything. Every organisation regardless of their type, desires to have skilled and competent people to make their organisation, competent and best; therefore, *acquiring their services, developing their skills, motivating them to higher levels of performance and ensuring that they continue to maintain their commitment to the organization is essential to achieve organisational objectives.*

Human Resource Management, on the other hand, is an art of managing people at work in such a manner that they give their best to the organisation for achieving its set goals.

It basically deals in procuring, developing, utilising and maintaining competent human resources in the organisation so that the goals and objectives of an organisation are achieved in an effective and efficient manner. It also helps in the development and integration of strategies which are integrated with corporate strategies and ensure that the culture, values, and structure of the organizations and the quality, motivation and commitment of its members contribute to the overall attainment of the organisational objectives. A multitude of managerial as well as operative functions are undertaken by the human resource manager to select the most suitable candidate to perform the job and keep their performance under check.

Employer-employee relations include both individual relations as well as collective relations with an increasing emphasis on the relationship between managers and their team members. Individual relations imply relations between employer and employees. Collective relations refer to relations between employers' associations and trade unions as well as the role of the State in regulating these relations. It involves the study of how people get along together at their work, what difficulties arise between them, how relations among them are regulated and what organisations are set up to protect different interests.

12.9 <u>KEY WORDS</u>

HRM : Human Resource Management

Human Resources : Refers to the employees working at different levels in the organisation.

Human Resource Management : It encompasses all those activities that are designed Provide for, and co-ordinate the human resources of An organisation.

Human Resource Functions : Comprises of all the tasks and duties performed by the human resource manager to provide for and co-ordinate the activities of workforce in the organisation.

Employer-Employee relations : Refers to the relationship between employers and employees in industrial organisations.

12.10 TERMINAL QUESTIONS:

1) What do you mean by Human Resource Management? Explain the importance of Human Resource Management?
2) Discuss in detail the functions of Human Resource Management.
3) Explain the term _Employer-Employee‘ relations and the basic dynamics of employer-employee relations.
4) Elucidate the features of employer-employee relations.
5) Write Short Notes:

(i) On the Job Training (ii) Performance Appraisal

(iii) Staffing