Reg No ………………………….

[17CMU102 / 17BPU102]

KARPAGAM UNIVERSITY

(Established Under Sec.3 of UGC Act, 1956)

Eachanari Post, Coimbatore – 641021

(for candidates admitted from 2017 onwards)

DEPARTMENT OF COMMERCE

FIRST INTERNAL EXAMINATION, JULY 2017

I B.COM / BPS – FIRST SEMESTER

BUSINESS ORGANIZATION AND MANAGEMENT

Time: 2 Hours **Max. Mark: 50**

Date:

PART - A (20X 1 = 20 Marks)

CHOOSE THE CORRECT ANSWER

1. Who can start a business____________

    a.Only highly educated person b.Only an uneducated person

    c.Only rich person d.Any one of the above

2. _______ include agriculture,fortestry and mining products.

    a. Production b.Wholesaling c.Sales d.Marketing

3. Manufacturing Industries are engaged in the conversion or transformation of ______into finished goods.

    a.Work-in-progress b.Raw material

    c.Semi-finished Products d.Industry Goods

4. _______ Industries various ingredients are put together and combined in manufacturing.

    a.Processing b.Synthetic c.Assembly line d.Analytical

5. Who said that the "only one social responsibility of business is to increase profits"

    a. Edward Freeman b.Milton Friedman c.Michael Porter d.Michael Freeman

6. Removing barriers or restrictions set by the government is called:

    (a). Liberalisation (b) Investment (c) Favourable trade (d) Free trade

7..TRIMS means trade related ________

a.Intellectual measure b.Investment measure c.Intermediate measure d.Intiative measure

8. The emerging area of _____ offers a potentially huge increase companies.

A.Internet B.Web C.E-Commerce D.Internation

9. Small Industry enterprise defined as an enterprise and the plant should not exceed

a. 5 crores b. 3 crores c. 2 crores d. 6 crores

10. Globalisation has led to higher standards of living of:

A. Well-off consumers b. Poor consumers c.Big producers d.Small producers

11. Insurance companies are under __________ enterprises

A. Production b. Service c.Manufaturing d.Sales

12. Which of the following is not linked with outsourced production?

a. Manufacturing under licence b. Production in a low-cost country

c. Subcontracted manufacturing for a well-known brand d. Franchising

13. Who is responsible for financing the construction of the property?

a. Mayor b.Franchisee c.Private Investor d.owner

14.One of the claimed advantages of a sole trader business is that:

a. Owners have limited liability b. Shares can be sold to raise capital

c. Decisions and responsibilities can be shared d. The owner has independence

15. Which of the following is probably the most important reason for incorporating as a company?

a. Limited liability of shareholders b.More money for investment

c.Increased flexibility d.Shared management

16.A ___________________ provides the greatest degree of continuity.

b.Partnership b.Sole Proprietorship c.Joint Stock Company d. Cooperative

17.The most effective form of business organization for raising capital is the ________.

a.Joint venture b. Partnership c.Corporation d.Proprietorship

18.The karta in a joint hindu family business has _________ liability.

a.Limited liability b.Unlimited liability

c.Partly limited liability d.Partly unlimited liability

19. In a cooperative society, principle followed is ___________

a.One man one vote b.One share one vote c.No vote d.Multiple votes

20.The board of directors of a joint stock company are elected by _________

a.Employees b.Shareholders c.Generalpublic d.Government

PART –B (3*2=6)

Answer All the Questions

21. Define Manufacturing and Service sector as per MSME Act.

22. What do you mean by Globalization and Liberalization?

23. Define Partnership Firm and Joint Stock Company.

PART – C (3*8=24)

ANSWER ALL THE QUESTIONS

24.a) Explain the characteristics of Business.

(or)

b) Write a brief note on problems faced by the MSME.

25.a) Define Globalization. Explain about the stages of globalization.

(or)

b) What are the types of Business Ethics?

26. a) Write a brief note on forms of business organization.

(or)

b) What are the types of partnership firm?

Reg No ………………………….

[17CMU102 / 17BPU102]

KARPAGAM UNIVERSITY
(Established Under Sec.3 of UGC Act, 1956)
Coimbatore – 641021
(For the candidates admitted from 2017 onwards)
DEPARTMENT OF COMMERCE

SECOND INTERNAL EXAMINATION, AUGUST 2017

I B.Com / I B.Com BPS – FIRST SEMESTER

BUSINESS ORGANIZATION AND MANAGEMENT

Time: 2 Hours **Max. Mark: 50**

Date:

PART - A (20X 1 = 20 Marks)

CHOOSE THE CORRECT ANSWER

1. The simplest form of business ownership is a

   a. Partnership b.sole proprietorship c. joint stock company d. cooperative

2. A______________partner is an owner who has unlimited liability and is active in managing the firm

   a. senior partner b.general partner c.silent partner d.limited partner

3. A ____________________ provides the greatest degree of continuity

   a. Partnership b.sole proprietorship c.joint stock company d.cooperative

4. One of the claimed advantages of a sole trader business is that_______

   a.Owners have limited liability b.Shares can be sold to raise capital

   d.Decisions and responsibilities can be share d. The owner has independence

5. The maximum number of partners allowed in non-banking business is ____________

   a. 10 b.20 c.15 d. 50

6. MNC stands for ____________________

   a. Multinational Cooperation b. Multination company

   c.Multinational corporation d.multi nation collaboration

7. Outsourcing of business and concentrating on marketing operations in international business is called ___________

   a. Licensing b.Franchising c.Contract manufacturing d.Joint venture

8. The membership of a joint Hindu family business is acquired by __________

   a. Birth b. Contract c. Buying their shares d. Joint venture

9. The Karta in a joint Hindu family business has __________ liability

   a. Limited liability b.Unlimited liability

   c. Partly limited liability d.Partly unlimited liability

10. Dissolution of Partnership takes place when

    a. partner misbehaves b. partner becomes irresponsible

    c. business is running at a loss d.partner dies

11. ________________ form of business is suitable for heavy industries like ship building, engineering firms etc

    a. Partnership b.sole proprietorship c.joint stock company d.cooperative

12. MoA stands for _________________________

    a. Memo of Articles b. Memorandum of Understanding

    c. Mergers and Acquisitions d. Memorandum of Association

13. Specific and detailed guide to action is called_______________

    a. rule b. procedure c. policy d. strategy

14. The number of persons reporting directly to a superior person is called____________

    a. communicating b. coordinating c. span of control d. Directing

15. The major advantage of the virtual organization is its.

    a. control b. predictability c. flexibility d. empowerment

16. Vertical levels of management and where control is sought through

    a. ownership b. teams c. imposing limits d. directives

17. ____________ is a form of organization in which the owner maintains complete control over the business and is personally liable for business debts

    a. partnership b. sole proprietorship c. joint stock company d. cooperative

18. _____________ is a form of business organization in which there are general partners and limited liability partners

    a. general partnership b. sole proprietorship

    c. limited liability partnership d. cooperative

19. The power to take decisions in cooperative society lies in the hands of ___________

    a.Boss b. managing committee c. marketing manager d.karta

20. The membership of a Joint Hindu Family business is acquired by ___________

    a.birth b.contract c. buying their shares d.joint venture

PART –B (3*2=6)

Answer All the Questions

21. Write a short note on cooperative society?

22. Write a note on planning

23. Write a short note on Decision Making

PART – C (3*8=24)

ANSWER ALL THE QUESTIONS

24. a) What is partnership? Describe the contents in partnership deed.

(Or)

b) Explain about International business and multinational corporations.

25.a) Briefly describe the types of cooperative societies.

(Or)

b) Write a note on the operations of Joint Hindu Family Business and its features.

26. a) Write about planning and concept of planning.

(Or)

b) Discuss the process of management.

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KARPAGAM UNIVERSITY
Karpagam Academy of Higher Education
(Established Under Sec.3 of UGC Act, 1956)
Coimbatore – 641021
(For the candidates admitted from 2017 onwards)
DEPARTMENT OF COMMERCE

THIRD INTERNAL EXAMINATION, SEPTEMBER 2017

I B.Com / I B.Com BPS – FIRST SEMESTER

BUSINESS ORGANIZATION AND MANAGEMENT

Time: 2 Hours **Maximum: 50Marks**

Date:

PART - A (20X 1 = 20 Marks)

CHOOSE THE CORRECT ANSWER

1. The definition of communication implies that
    a. communication is mostly verbal b. communication is mostly written
    c. most communication is in a vertical direction
    d. understanding must occur to have communication
2. Communication begins with
    a. Encoding b.Idea generation c.Decoding d.Channel selection
3. The control measures for taking corrective action while any programme meets any obstacle in this activities is called __________
    a. feedback control b.concurrent control
    b. feed forward control d. feed backward control
4. Which of the management tasks is the most important for a supervisory manager?
    a. Planning b.Organizing c. Directing d. Controlling
5. Motivation is related to____
    a. Planning b.Controlling c. Leading d. Tactical decisions
6. Grapevine is a type of ____
    a. Informal communication b. Formal communication
    c. Written communication d. Pictorial
7. ______ isolate characteristics that differentiate leaders from non-leaders
    a. Trait theories b. Behavioral theories c. Contingency theories d.Transactional theories

8. Which one of the following is not an element of communication process?

a. encoding b. channel c. receiver d. feelings

9. The least used communication channel in an organisation is usually

a.upward b.downward c.diagonal d. horizontal

10. According to Abraham Maslow, the most basic type of need is

a.safety b.esteem c.self actualisation d.physiological

11. SEBI stands for ______

b. Stock Exchange Bank of India b. Stock exchange Board of India

c. Securities Exchange Board of India d. Security Exchange bank of India

12. Which is the source of mid-term finance?

a. Micro Credit b. Specialized Financial Institution

c. Collect Advances from Purchasers d. Discounting the Bills Receivable

13. Procedures in HRM provide for an important element of consistency in managerial?

a. Direction b. Strategy c. Recruitment d. Decision-making

14. Which of the following gets priority when repayment happens during the winding up of company?

a. Equity shares b. Preference shares c. Class shares d. Bonus shares

15. Marketing converts demand into _______ demand.

a. Effective b. Ineffective c. both a and b d. Efficient

16. The process of marketing are the soul of _________

a. Marketing mechanism b. Marketing structure

c. Facilitating marketing d. Facilitating mechanism

17. The focus of human resource management around is

a. Machine b. money c. man d. land

18. An employee is terminated due to dishonesty means

a. discharge b. dismissal c. suspend d. layoff

19. Factors influencing market concept are _______

a. five b. six c. seven d.four

20. Marketing should be a total system of interacting ______ activities.

a. Physical b. Mental c. Business d. human

PART –B (3*2=6)

ANSWER ALL THE QUESTIONS

21. Write a short note on styles of leadership.

22. What is encoding?

23. Write short note on marketing management.

PART – C (3*8=24)

ANSWER ALL THE QUESTIONS

24. a) Elucidate Maslow's need hierarchy theory of motivation

(Or)

b) Explain the process of communication

25.a) Discuss the barriers of communication.

(Or)

b) Describe about securities market and role of SEBI

26. a) Clarify the objectives of financial management.

(Or)

b) Explain the different stages in product life cycle and pricing policies.

KARPAGAM ACADEMY OF HIGHER EDUCATION
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COIMBATORE – 641021
(For the candidates admitted from 2017 onwards)
I B. Com/ I B.Com (BPS)
I Internal Examination
Business Organization Management- Answer Key

Part-A

1. Any of the above
2. Production
3. Raw material
4. Synthetic
5. Milton Friedman
6. Liberalization
7. Intellectual measure
8. E-Commerce
9. 5crores
10. Well of consumers
11. Service
12. Franchising
13. Franchisee
14. The owner has independence
15. Limited liability of shareholders
16. Joint stock company
17. Corporation
18. Unlimited liability
19. One man one vote
20. Shareholders

Part-B

21. Manufacturing enterprises

    The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The manufacturing enterprises are defined in terms of investment in plant and machinery

    Service enterprises

    The enterprises engaged in providing or rendering of services and defined in terms of investment in equipment

22. **GLOBALIZATION**

The tem Globalization was first coined in 1980s . But even before this there were interaction among nations. But in the modern days Globalization has launched all spheres of life such as economy, education, technology , cultural phenomenon , social aspects etc……the term global village is also frequently used to high light the significance of the Globalization . “ Globalization of production refers to the integration of economic activities by units of private capital on awaked scale

LIBERALIZATION

The term “liberalization” in this context implies economic liberalization. “economic liberalization” constitutes one of the basic elements of the new Economic policy (NEP) which the Indian Government launched in the middle of the year 1991. The other important aspects of the policy are –Privatization of the public sector, Globalization and market friendly state.

23. Partnership.

According to Indian partnership act 1932 section 4 “the relationship between persons, who have agreed to share the profit of a business carried on by all or any of them acting for all”

Joint stock company

Prof H.Haney “A joint stock company is a voluntary association of individual for profit having its capital divided into transferable shares, the ownership of which is the condition of membership”

Part-C

24. A)Characteristics of Business:

(i) **An economic activity:** Business is considered to be an economic activity because it is undertaken with the object of earning money or livelihood and not because of love, affection, sympathy or any other sentimental reason. It may be mentioned here that this activity can be undertaken either at small and individual level, e.g. (purchase and sale by a shopkeeper) or on large scale in a more formal and organised level (purchase and sale by a cooperative society or company).

(ii) **Production or procurement of goods and services**: Before goods are offered to people for consumption, these must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or it acquires them from producers, to be further sold to consumers or users. Goods may consist of consumable items of daily use such as sugar, ghee, pen, notebook, etc. or capital goods like machinery, furniture, etc. Services may include facilities offered to consumers, business firms and organisations in the form of transportation, banking, electricity, etc.

(iii) **Sale or exchange of goods and services**: Directly or indirectly, business involves transfer or exchange of goods and services for value. If goods are produced not for the purpose of sale but say for personal consumption, it cannot be called a business activity. Cooking food at home for the family is not business, but cooking food and selling it to others in a restaurant is business. Thus, one essential characteristic of business is that there should be sale or exchange of goods or services between the seller and the buyer.

(iv) **Dealings in goods and services on a regular basis:** Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business. Thus, for example, if a person sells his/her domestic radio set even at a profit, it will not be considered a business activity. But if he/she sells radio sets regularly either through a shop or from his/herresidence, it will be regarded as a business activity.

(v) **Profit earning:** One of the main purpose of business is to earn income by way of profit. No business can survive for long without earning profit. That is why businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.

(vi) **Uncertainty of return**: Uncertainty of return refers to the lack of knowledge relating to the amount of money that the business is going to earn in a given period. Every business invests money (capital) to run its activities with the objective of earning profit. But it is not certain as to what amount of profit will be earned. Also, there is always a possibility of losses being incurred, in spite of the best efforts put into the business.

(vii) **Element of risk:** Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavourable or undesirable event. The risks are related with certain factors like changes in consumer tastes and fashions, changes in methods of production, strike or lockout in the work place, increased competition in the market, fire, theft, accidents, natural calamities, etc. No business can altogether do away with risks.

B). Small and Medium Enterprises

Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output, 40% of exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. SME’s Contribution towards GDP in 2011 was 17% which is expected to increase to 22% by 2012. There are approximately 30 million MSME Units in India and 12 million persons are expected to join the workforce in the next 3 years.

Despite of the importance of the MSMEs in Indian economic growth, the sector is facing challenges and does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporates which is proving to be a hurdle in the growth path of the MSMEs. The list of the problems that are faced by existing/new companies in SME sector are as under:

1. Absence of adequate and timely banking finance
2. Limited capital and knowledge
3. Non-availability of suitable technology
4. Low production capacity
5. Ineffective marketing strategy
6. Constraints on modernisation& expansions
7. Non availability of skilled labour at affordable cost
8. Follow up with various government agencies to resolve problems due to lack of man power and knowledge etc

25. a)**GLOBALIZATION**

Globalization represent one of the aspects of the new economic policy lunched in the decades of 1980 and 1990s. The new economic policy has also maid the economy out wardly oriented such that its activities are now to be governed both by domestic market and the world market. The general usages of the terms Globalization can be follows ,

- Interaction and interdependence among countries
- Integration of world economy

The tem Globalization was first coined in 1980s . But even before this there were interaction among nations. But in the modern days Globalization has launched all spheres of life such as economy, education, technology , cultural phenomenon , social aspects etc……the term global village is also frequently used to high light the significance of the Globalization . " Globalization of production refers to the integration of economic activities by units of private capital on awaked scale ."S.K Misra and V.K Pury "stated that in simple terms Globalization means integrating economy of a country with the world economy."

In simple words" Globalization is refers to a process of increasing economic integration and growing economic interdependence between countries in the world economy"

The word Globalization is now used to sum contemporary world order. But the influence of the Globalization of directly visible in the economic field and hence the term is very often taken to me economic Globalization of market. The Globalization defined as the process whereby there is social, cultural, technological, exchange across the border.

Stage of globalization

First stage

The first stage is the arm’s length service activity of essentially domestic company, which moves into new market overseas by linking up with local dealers and distributors.

Second stage

In the stage two the company takes over these activities on its own.

Third stage

In the next stage the domestic based company begins to carry out its own manufacturing marketing and sales in the key foreign market

Fourth stage

In the stage four, the company moves to a full insider position in these market supported by a complete business system including R & D and engineering .this stage calls on the managers to replicate in a new environment the hardware system and operational approaches that have worked so well at home.

Fifth stage

In the fifth stage the company moves toward a genuinely mode of operation

B)

Personal responsibility
Representative or official responsibility
Personal loyalties
Corporate responsibilities.
Organizational loyalties.
Economic responsibilities
Technical morality
Legal responsibility.
Personal Responsibility

It refers to a man's personal code of ethics. If a man behaves in honesty, he will behave in a very honest and straight forward manner. According to Walton, "A morally responsible executive is one who knows the various kinds of value systems that may be employed in a particular situation and has a rather clear idea of what values hold ascendancy (precedence or priority) over others in a conflict ". This definition of Walton is rather an over-simplification. A business man may think he is acting ethically but others may not consider his behaviour as ethical.

Representative or Official Responsibility

A manager's action often represents the position he holds or the office he occupies rather than his personal beliefs. This is so because the manager represents the business. He has to follow the rules and regulations of the business, e.g. a manager may want to do something but the regulations may forbid him from doing it and therefore his hands are tied and he may not do it.

Personal Loyalties

Sometimes personal loyalties are so strong that ethical standards may not be applied when acting towards a particular individual. Personal loyalties include the loyalties of a subordinate to his superior and superior's loyalty towards his subordinate.

Loyalties of a subordinate to his superior: If a subordinate has strong personal loyalty towards their superior, they turn a blind eye towards the blunders committed by their superiors and attempt to defend their omissions and commissions. For example, if the branch manager of a bank is sanctioning loan without any security and this act on his part may bring disastrous financial troubles to the organization, his subordinates who were men of high moral character and who had close connections with the head office did not inform them of the financial irregularities because of strong personal loyalty towards their branch manager.

Superior's loyalty towards his subordinate: If a superior has strong personal loyalty towards their subordinates, they turn a blind eye towards the mistakes committed by their subordinates. This is done because the superior does not want to hurt the feeling of his subordinates because of their close personal contact. For example, if the subordinates who are close to the manager do not do their work properly, the manager may not reprimand (rebuke or scold) them for their poor performance. He may rather defend their poor quality work with his superiors because of his personal attachment towards his subordinates.

Corporate Responsibilities: Every individual living in society has a moral obligation towards it. Corporations are entities which are "artificial persons", therefore they too have moral responsibilities towards the society. There moral responsibilities are not necessarily identical with the personal moral codes of the executives who run them. Every corporation must have moral codes which help it in deciding matters connected with shareholders, employees, creditors, customers, government and society.

Organizational Loyalties: Some employees have a deep sense of loyalty to the organization. Their loyalties to their organization are so strong that they even neglect their own self interest for the sake of the organization.

Economic Responsibility: According to Milton Fried man, "there is one and only one social responsibility of business – to use its resources efficiently and engage in activities designed to increase profits without deception or fraud". Therefore, every business must contribute to the general welfare of the society by making efficient and economical use of resource at their command. This type of morality guides individual action towards economy in the use of resources put at his disposal.

Technical Morality: In any country, the state of technology plays an important role in determining what products and services will be produced. Technological environment influences organizations in terms of investment in technology, consistent application of technology and the effects of technology. A manager having technical morality will refuse to compromise with quality. Every organization which is actively engaged in technological advancement will create more challenging situations for the organizations because they are not prepared to accept lower standards.

Legal Responsibility: Legal environment provides the framework with in which the business is to function. The viability of business depends upon the ability with which a business can meet the challenges arising out of the legal framework.

26 A) Different Forms of Business Organization India – Basic Guide

The selection of a suitable form of ownership organisation is an important entrepreneurial decision because it influences the success and growth of a business — e.g., it determines the decision of profits, the risk associated with business, and so on. As discussed earlier, the different forms of private ownership organisation differ from each other in respect of division of profit, control, risk, legal formalities, flexibility, etc.

Therefore, a thoughtful consideration should be given to this problem and only that form of ownership should be chosen. Since the need for the selection of ownership organisation arises both initially, while starting a business, and at a later stage for meeting the needs of growth and expansion, it is desirable to discuss this question at both these levels.

For a new or proposed business, the selection of a suitable form of ownership organisation is generally governed by the following factors:

1. Nature of business activity:
This is an important factor having a direct bearing on the choice of a form of ownership. In small trading businesses, professions, and personal service trades, sole-proprietorship is predominant.

Examples are Laundromats, beauty parlours, repair shops, consulting agencies, small retail stores, medicine, dentist accounting concerns, boarding-house, restaurants, speciality ships, jobbing builders, painters, decorators, bakers, confectioners, tailoring shops, small scale shoe repairers and manufactures, etc. The partnership is suitable in all those cases where sole proprietorship is suitable, provided the business is to be carried on a slightly bigger scale.

Besides, partnership is also advantageous in case of manufacturing activities on a modest scale. The finance, insurance, and real estate industries seem to be suited to partnership form of organisation. Some of the financial businesses that find this form advantageous are tax, accounting, and stockbrokerage firms, and consulting agencies.

Service enterprises like hotels and lodging places; trading enterprises, such as wholesale trade, large scale retail houses; manufacturing enterprises, such as small drug manufacturers, etc. can be undertaken in the form of partnership. Manufacturing contains the highest percentage of companies among all industries. Similarly large chain stores, multiple shops, super-bazaars, engineering companies are in the form of companies.

2. Scale of operations:

The second factor that affects the form of ownership organisation is the scale of operations. If the scale of operations of business activities is small, sole proprietorship is suitable; if this scale of operations is modest — neither too small nor too large — partnership is preferable; whereas, in case of large scale of operations, the company form is advantageous.

The scale of business operations depends upon the size of the market area served, which, in turn, depends upon the size of demand for goods and services. If the market area is small, local, sole-proprietorship or partnership is opted. If the demand originates from a large area, partnership or company may be adopted.

3. Capital requirements:

Capital is one of the most crucial factors affecting the choice of a particular form of ownership organisation. Requirement of capital is closely related to the type of business and scale of operations. Enterprises requiring heavy investment (like iron and steel plants, medicinal plants, etc.) should be organised as joint stock companies.

Enterprises requiring small investment (like retail business stores, personal service enterprises, etc.) can be best organised as sole proprietorships. Apart from the initial capital required to start a business, the future capital requirements—to meet modernisation, expansion, and diversification plans —also affect the choice of form of ownership organisation.

In sole proprietorship, the owner may raise additional capital by borrowing, by purchasing on credit, and by investing additional amounts himself. Banks and suppliers, however, will look closely at the proprietor's individual financial resources before sanctioning loans or advances.

Partnerships can often raise funds with greater ease, since the resources and credit of all partners are combined in a single enterprise. Companies are usually best able to attract capital because investors are assured that their liability will be limited.

4. Degree of control and management:

The degree of control and management that an entrepreneur desires to have over business affects the choice of ownership organisation. In sole proprietorship, ownership, management, and control are completely fused, and therefore, the entrepreneur has complete control over business. In partnership, management and control of business is jointly shared by partners.

They have equal voice in the management of partnership business except to the extent that they agree to divide among themselves the business responsibilities.

Even then, they are legally accountable to each other. In a company, however, there is divorce between ownership and management. The management and control of company business is entrusted to the elected representatives of shareholders.

Thus, a person wishing to have complete and direct control of business prefers proprietary organisation rather than partnership or company. If he is prepared to share it with others, he will choose partnership. But, if he is just not bothered about it, he will go in for company.

5. Degree of risk and liability:

The size of risk and the willingness of owners to bear it is an important consideration in the selection of a legal form of ownership organisation. The amount of risk involved in a business depends, among other, on the nature and size of business. Smaller the size of business, smaller the amount of risk.

Thus, a sole proprietary business carries small amount of risk with it as compared to partnership or company. However, the sole proprietor is personally liable for all the debts of the business to the extent of his entire property. Likewise, in partnership, partners are individually and jointly responsible for the liabilities of the partnership firm.

Companies have a real advantage, as far as the risk goes, over other forms of ownership. Creditors can force payment on their claims only to the limit of the company's assets. Thus, while a shareholder may lose the entire money he put into the company, he cannot be forced to contribute additional funds out of his own pocket to satisfy business debts.

6. Stability of business:

Stability of business is yet another factor that governs the choice of an ownership organisation. A stable business is preferred by the owners insofar as it helps him in attracting suppliers of capital who look for safety of investment and regular return, and also helps in getting competent workers and managers who look for security of service and opportunities of advancement. From this point of view, sole proprietorships are not stable, although no time limit is placed on them by law.

The illness of owner may derange the business and his death cause the demise of the business. Partnerships are also unstable, since they are terminated by the death, insolvency, insanity, or withdrawal of one of the partners. Companies have the most permanent legal structure. The life of the company is not dependent upon the life of this member. Members may come, members may go, but the company goes on forever.

7. Flexibility of administration:

As far as possible, the form of organisation chosen should allow flexibility of administration. The flexibility of administration is closely related to the internal organisation of a business, i.e., the manner in which organisational activities are structured into departments, sections, and units with a clear definition of authority and responsibility.

The internal organisation of a sole proprietary business, for instance, is very simple, and therefore, any change in its administration can be effected with least inconvenience and loss. To a large extent, the same is true of a partnership business also. In a company organisation, however, administration is not that flexible because its activities are conducted on a large scale and they are quite rigidly structured.

Any substantial change in the existing line of business activity — say from cotton textiles to sugar manufacturing — may not be permitted by law if such a provision is not made in the ‘objects clause’ of the Memorandum of Association of the company.

Even when it is permitted by the Memorandum, it might have to be endorsed by the shareholders at the general meeting of the company. Thus, from flexibility point of view, sole proprietorship has a distinct edge over other forms.

8. Division of profit:

Profit is the guiding force of private business and it has a tremendous influence on the selection of a particular form of ownership organisation. An entrepreneur desiring to pocket all the profits of business will naturally prefer sole proprietorship.

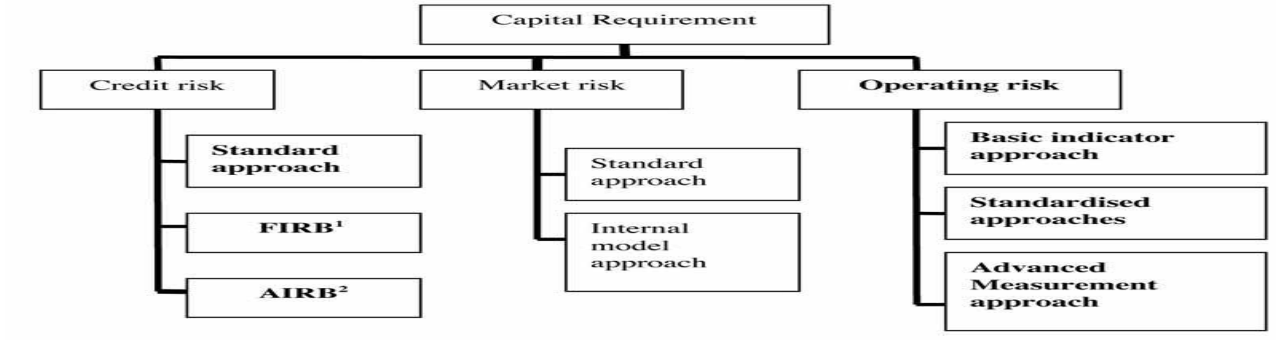

Image Courtesy : epress.anu.edu.au/agenda/016/01/images/Terry_fig_1.jpg

Of course, in sole proprietorship, the personal liability is also unlimited. But, if he is willing to share the profits partnership is best. In company organisation, however, the profits (whenever the Board of Directors decides) are distributed among shareholders in proportion to their shareholding, but the liability is also limited. The rate of dividend is generally quite low.

9. Costs, procedure, and government regulation:
This is also an important factor that should be taken into account while choosing a particular form of organisation. Different forms of organisation involve different procedure for establishment, and are governed by different laws which affect the immediate and long-term functioning of a business enterprise. From this point of view, sole proprietorships are the easiest and cheapest to get started. There is no government regulation. What is necessary is the technical competence and the business acumen of the owner.

B)

A partnership is a business with several individuals, each of whom owns part of the business. The relationship between the partners and the duties of partners are clarified in the partnership agreement.

In any partnership, each partner must "buy in" or invest in the partnership. Usually, each partner's share of the partnership profits and losses is based on his or her percentage share of ownership.

The term "partnership" has changed over the years, as business people have come to add new features to the old business form. These new partnership types are intended to help mitigate the liability issues with partnerships. The three most used partnership types are listed here, with their features, to help you decide which type you might want to use.

General Partnership

A general partnership is a partnership with only general partners. Each general partner takes part in the management of the business and also takes responsibility for the liabilities of the business. If one partner is sued, all partners are held liable. General partnerships are the least desirable for this reason.

Limited Partnerships

A limited partnership includes both general partners and limited partners. A limited partner does not participate in the day-to-day management of the partnership and his/her liability is limited.

In many cases, the limited partners are merely investors who do not wish to participate in the partnership other than to provide an investment and to receive a share of the profits.

Limited Liability Partnerships

A limited liability partnership (LLP) is different from a limited partnership or a general partnership but is closer to a limited liability company (LLC).

In the LLP, all partners have limited liability.

An LLP combines characteristics of partnerships and corporations. As in a corporation, all partners in an LLP have limited liability, from errors, omissions, negligence, incompetence, or malpractice committed by other partners or by employees. Of course, any partners involved in wrongful or negligent acts are still personally liable, but other partners are protected from liability for those acts.

LLC or Partnership

In recent years, the limited liability company has supplanted the general partnership and the limited partnership, because of the limits of liability. But there are still cases in professional practices in which some partners want to be limited in scope of duties and they just want to invest, having the liability protection.

You might have also considered setting up your multiple-person business as an LLC. While a multiple-member (owner) LLC is taxed like a partnership, there are differences in liability and in other ownership provisions

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II Internal Examination
Business Organization Management- Answer Key

Part-A

1. Sole proprietorship
2. General partner
3. Joint stock company
4. The owner has independence
5. 20
6. Multinational corporation
7. Franchising
8. Birth
9. Unlimited liability
10. Partners dies
11. Joint stock company
12. Memorandum of association
13. Policy
14. Span of control
15. Flexibility
16. Teams
17. Sole proprietorship
18. Limited liability partnership
19. Managing committee
20. Birth

Part-B

21. A co-operative society is a voluntary association of persons. Person hailing from the same locality voluntarily join together to achieve a common economic objective. Any person can join the society. There is no compulsion to become a member of a society. A person can join the society whenever he likes and leaves it whenever he wishes.
22. Planning :

    Planning means setting objectives and targets and formulating an action plan to achieve them .It is concerned with both ends & means . i.e what is to done & how it is to be done. Planning seeks to bridge the gap between where we are and where we want to go

23. DECISION MAKING

Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions. 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 alternative possible.

Part – C

24 .A)

Partnership

A partnership is a non-incorporated business that is created between two or more people. In a partnership, your financial resources are combined with those of your business partner(s), and put into the business. You and your partner(s) would then share in the profits of the business according to any legal agreement you have drawn up.

Contents in partnership deed

1. Name of the firm.
2. Nature of the business
3. Place where the business is carried out
4. Details of the amount or capital contributed by each partners
5. Detail of sharing profit and loss
6. Loan an advances of partners and interest payable on them
7. Amount that can be withdrawn
8. Duties and powers of partner
9. Maintenance of accounts
10. Salary if any payable to partners
11. Valuation of goodwill
12. Arrangement for the payment of retiring partner
13. Settlement in case of dissolution of partnership
14. Arrangement in case of partners become insolvent

B).International business

Arrangement in case of International Business conducts business transactions all over the world. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries. International business involves exports and imports.

An international business has many options for doing business, it includes,

1. Exporting goods and services.
2. Giving license to produce goods in the host country.
3. Starting a joint venture with a company.
4. Opening a branch for producing & distributing goods in the host country.
5. Providing managerial services to companies in the host country.

Features of International Business

The nature and **characteristics** or features of international business are:-

1. **Large scale operations** : In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.
2. **Intergration of economies** : International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labour from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.
3. **Dominated by developed countries and MNCs** : International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. This is because they have large financial and other resources. They also have the best technology and research and development (R & D). They have highly skilled employees and managers because they give very high salaries and other benefits. Therefore, they produce good quality goods and services at low prices. This helps them to capture and dominate the world market.
4. **Benefits to participating countries** : International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.
5. **Keen competition** : International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favourable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.
6. **Special role of science and technology** : International business gives a lot of importance to science and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global business. International business helps them to transfer such top high-end technologies to the developing countries.

7. **International restrictions** : International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.
8. **Sensitive nature** : The international business is very sensitive in nature. Any changes in the economic policies, technology, political environment, etc. has a huge impact on it. Therefore, international business must conduct marketing research to find out and study these changes. They must adjust their business activities and adapt accordingly to survive changes.

MULTINATIONAL CORPORATION

Meaning of Multinational Companies (MNCs):

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country.

It must be emphasized that the headquarters of a multinational company are located in the home country.

Neil H. Jacoby defines a multinational company as follows:

"A multinational corporation owns and manages business in two or more countries."

Features of Multinational Corporations (MNCs):

(i) Huge Assets and Turnover:

Because of operations on a global basis, MNCs have huge physical and financial assets. This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.

(ii) International Operations Through a Network of Branches:

MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries.

(iii) Unity of Control:

MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Managements of branches operate within the policy framework of the parent corporation.

(iv) Mighty Economic Power:

MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of companies, in host countries.

(v) Advanced and Sophisticated Technology:
Generally, a MNC has at its command advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

(vi) Professional Management:
A MNC employs professionally trained managers to handle huge funds, advanced technology and international business operations.

(vii)Aggressive Advertising and Marketing:
MNCs spend huge sums of money on advertising and marketing to secure international business. This is, perhaps, the biggest strategy of success of MNCs. Because of this strategy, they are able to sell whatever products/services, they produce/generate.

(viii) Better Quality of Products:
A MNC has to compete on the world level. It, therefore, has to pay special attention to the quality of its products.

25 A)

The main types of cooperative societies are given below:

1. Consumers cooperative societies:

Consumers' cooperatives are formed by the consumers to obtain their daily requirements at reasonable prices. Such a society buys goods directly from manufacturers and wholesalers to eliminate the profits of middlemen.

These societies protect lower and middle class people from the exploitation of profit hungry businessmen. The profits of the society are distributed among members in the ratio of purchases made by them during the year.

Consumer's cooperatives or cooperative stores are working mainly in urban areas in India. Super Bazar working under the control of Government is an example of consumers' cooperative society.

2. Producers cooperatives:

Producers or industrial cooperatives are voluntary associations of small producers and artisans who join hands to face competition and increase production. These societies are of two types.

(a) **Industrial service cooperatives:**

In this type, the producers work independently and sell their industrial output to the cooperative society. The society undertakes to supply raw materials, tools and machinery to the members. The output of members is marketed by the society.

(b) **Manufacturing cooperatives:**

In this type, producer members are treated as employees of the society and are paid wages for their work. The society provides raw material and equipment to every member.

The members produce goods at a common place or in their houses. The society sells the output in the market and its profits are distributed among the members.

3. Marketing Cooperatives:

These are voluntary associations of independent producers who want to sell their output at remunerative prices. The output of different members is pooled and sold through a centralised agency to eliminate middlemen. The sale proceeds are distributed among the members in the ratio of their outputs.

As a central sales agency, the society may also perform important marketing functions such as processing, grading and packaging the output, advertising and exporting products, warehousing and transportation, etc.

Marketing societies are set up generally by farmers, artisans and small producers who find it difficult to face competition in the market and to perform necessary marketing functions individually. The National Agricultural Cooperative Marketing Federation (NAFED) is an example of marketing cooperative in India.

4. Cooperative Farming Societies:

These are voluntary associations of small farmers who join together to obtain the economies of large scale farming. In India farmers are economically weak and their land-holdings are small.

In their individual capacity, they are unable to use modern tools, seeds, fertilizers, etc. They pool their lands and do farming collectively with the help of modern technology to maximum agricultural output.

5. Housing Cooperatives:

These societies are formed by low and middle income group people in urban areas to have a house of their own. Housing cooperatives are of different types. Some societies acquire land and give the plots to the members for constructing their own houses.

They also arrange loans from financial institutions and Government agencies. Other societies themselves construct houses and allot them to the members who make payment in instalments.

6. Credit Cooperatives:

These societies are formed by poor people to provide financial help and to develop the habit of savings among members. They help to protect members from exploitation of money lenders who charge exorbitant interest from borrowers.

Credit cooperatives are found in both urban and rural areas. In rural areas, agricultural credit societies provide loans to members mainly for agricultural activities. In urban areas, non-agricultural societies or urban banks offer credit facilities to the members for household needs.

B)

The features of Joint Hindu Family Business are as follows:-

(1) Formation: Joint Hindu Family cannot be formed or created by any contract or agreement because this organization came into existence by the operation of the "Hindu Law". It is not formed by any agreement like partnership firm. Whenever, there is Hindu Undivided Family, there is the scope for Joint Hindu Family Business.

(2) Registration: It is not at all compulsory to register this organization because it is the result of Hindu Law.

(3)) Membership: There are two types of members i.e Karta and Co-parceners. Karta is the elder male member of the family who controls and manages the business. The other family members are called as the co-parceners. There is no limit on membership because the membership is by birth.

(4) Management: The head of the family has full responsibility of the management of Joint Hindu Family Business. He is free to take any decision without any interference of any co-parceners but he can take advice and help from the family members.

(5) Liability: The liability of Karta is unlimited because he is the only deciding authority whereas the liability of co-parceners is limited up to their share in the capital of the family.

(6) Sharing of Profits and Losses: According to Hindu Succession Act, 1956, all the members of Hindu Undivided Family have equal rights to share the profits as well as losses of the business.

(7) Legal Status: Any organization gets separate legal status only after its registration with appropriate authorities. In case of Joint Hindu Family firm registration is not at all compulsory; hence it does not enjoy any legal status.

Though, Joint Hindu Family Business is enlarged form of sole trading concern and it has got due recognition by Income Tax Act, 1961, and Joint Hindu Succession Act, 1956, then also it does not enjoy separate legal status because of Joint Hindu Family firm and its members are one and the same that is inseparable.

(8) Partition: As Joint Hindu Family Business is totally controlled by Karta, and co-parceners do not have the right to interfere in the decisions of Karta. But, as per Hindu Law any member who is unsatisfied with the decision of Karta can demand partition.

(9) Continuity and Stability: This organization enjoys a long and stable life as it is not affected due to death, insolvency, insanity of any of its member. In other words, if Karta dies or becomes incapable of managing the business then the succeeding co-parceners will act as Karta.
(10) Conduct of Business: A Joint Hindu Family business is generally run by a senior member of the family called as Karta or the Manager, and he had the full authority to conduct the business activities and business operations.

(11) Rights of Karta: The Karta can give receipts, make contracts and draw bills, but he cannot give up debts already due to the Joint Hindu Family Business. He had the authority to sale or mortgages the property of Joint Hindu Family while conducting the business of the firm.

(12) Dissolution: If the family business becomes insolvent, the adult co-parceners and the manager will be adjudged insolvent, although their share in the family property can be used to pay off the debts of the Joint Hindu Family Business.

(13) Flexibility: There is a great deal of flexibility in business operation. The Karta can expand or change the line of business or he can even close down the business. The co-parceners normally agree with the decisions taken by Karta in the conduct of business.

(14) Business Secrecy: There is a great deal of business secrecy in this organization. The business secrets are known to co-parceners in general and Karta in particular. It is not obligatory for them to publish their accounts which results in great deal of privacy and secrecy.

(15) Credit Standing: This type of business enjoys greater credit in the market specially because of unlimited liability on Karta

26 A)Planning

Planning means setting objectives and targets and formulating an action plan to achieve them .It is concerned with both ends & means . i.e what is to done & how it is to be done. Planning seeks to bridge the gap between where we are and where we want to go

PLANNING PROCESS-

1. Setting Objectives

   Every organisation operates to achieve certain objectives. Objectives specify what the organisation wants to achieve. Therefore, the first step in planning is to define and describe clearly the objectives of the organisation and each department, or unit within the organisation. Once decided, these objectives should be communicated to all the units and employees.

2. Developing Premises

   Planning is concerned with future, which is uncertain and every planner is using conjecture about what might happen in future.Therefore, the manager is required to make certain assumptions about future. These assumptions are known as premises. Premises are the base, upon which plans are drawn. They may be forecasts, existing plans or past information.

3. Identifying Alternative Courses of Action

   Once the objectives and planning premises are established, it becomes necessary to discover the various courses of action, which may be used to achieve the established objectives.These alternatives may be routine or innovative. If the project is an important one, more alternatives should be identified.

4. Evaluating Alternative Courses

   The next step is to weigh the pros and cons of each alternative. It is necessary to evaluate the positive and negative aspect of each alternative in the light of the objectives to be achieved.

This might involve a number of calculations to measure the cost and benefits related to an alternative.
5 Selecting an Alternative

This is the real point of decision-making. The best plan has to be adopted and implemented. An ideal plan would be the one which is most profitable, most feasible and has the least negative consequences. Such judgement will depend upon the experience and intuition of the manager.

5. Implementing the Plan

This step is concerned with putting the plan into action and doing what is required. The managers start communicating the plans to employees and initiate them to carry out the activities according to the specifications of plans.

6. Follow-up Action

Planning is a continuous process, so the managers keep on following up the plans to see that activities are performed as per the schedule or not. Monitoring the plans is important to ensure achievement of objectives.

B) All risk management processes follow the same basic steps, although sometimes different jargon is used to describe these steps. Together these 5 risk management process steps combine to deliver a simple and effective risk management process.

Step 1: Identify the Risk. You and your team uncover, recognize and describe risks that might affect your project or its outcomes. There are a number of techniques you can use to find project risks. During this step you start to prepare your Project Risk Register.

Step 2: Analyze the risk. Once risks are identified you determine the likelihood and consequence of each risk. You develop an understanding of the nature of the risk and its potential to affect project goals and objectives. This information is also input to your Project Risk Register.

Step 3: Evaluate or Rank the Risk. You evaluate or rank the risk by determining the risk magnitude, which is the combination of likelihood and consequence. You make decisions about whether the risk is acceptable or whether it is serious enough to warrant treatment. These risk rankings are also added to your Project Risk Register.

Step 4: Treat the Risk. This is also referred to as Risk Response Planning. During this step you assess your highest ranked risks and set out a plan to treat or modify these risks to achieve acceptable risk levels. How can you minimize the probability of the negative risks as well as enhancing the opportunities? You create risk mitigation strategies, preventive plans and contingency plans in this step. And you add the risk treatment measures for the highest ranking or most serious risks to your Project Risk Register.

Step 5: Monitor and Review the risk. This is the step where you take your Project Risk Register and use it to monitor, track and review risks

Risk is about uncertainty. If you put a framework around that uncertainty, then you effectively de-risk your project. And that means you can move much more confidently to achieve your project goals. By identifying and managing a comprehensive list of project risks, unpleasant surprises and barriers can be reduced and golden opportunities discovered. The risk management process also helps to resolve problems when they occur, because those problems have been envisaged, and plans to treat them have already been developed and agreed. You avoid impulsive reactions and going into “fire-fighting” mode to rectify problems that could have been anticipated. This makes for happier, less stressed project teams and stakeholders. The end result is that you minimize the impacts of project threats and capture the opportunities that occur.

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III Internal Examination
Business Organization Management- Answer Key

Part-A

1. Understanding must occur to have communication
2. Idea generation
3. Concurrent control
4. Controlling
5. Leading
6. Informal communication
7. Trait theories
8. Feelings
9. Horizontal
10. Physiological
11. Securities exchange board of India
12. Specialized financial institution
13. Decision making
14. Preference shares
15. Effective
16. Marketing mechanism
17. Man
18. Discharge
19. Six
20. Human

Part-B

21. Laissez-Faire

A laissez-faire leader lacks direct supervision of employees and fails to provide regular feedback to those under his supervision

Autocratic

The autocratic leadership style allows managers to make decisions alone without the input of others. Managers possess total authority and impose their will on employees. No one challenges the decisions of autocratic leaders

Participative

Often called the democratic leadership style, participative leadership values the input of team members and peers, but the responsibility of making the final decision rests with the participative leader.

22. Encoding

Encoding means converting or translation the idea into perceivable form that can be communicated to others.

23. **Marketing management** is the organizational discipline which focuses on the practical application of marketing orientation, techniques and methods inside enterprises and organizations and on the management of a firm's marketing resources and activities.

Marketing management facilitates the activities and functions which are involved in the distribution of goods and services.

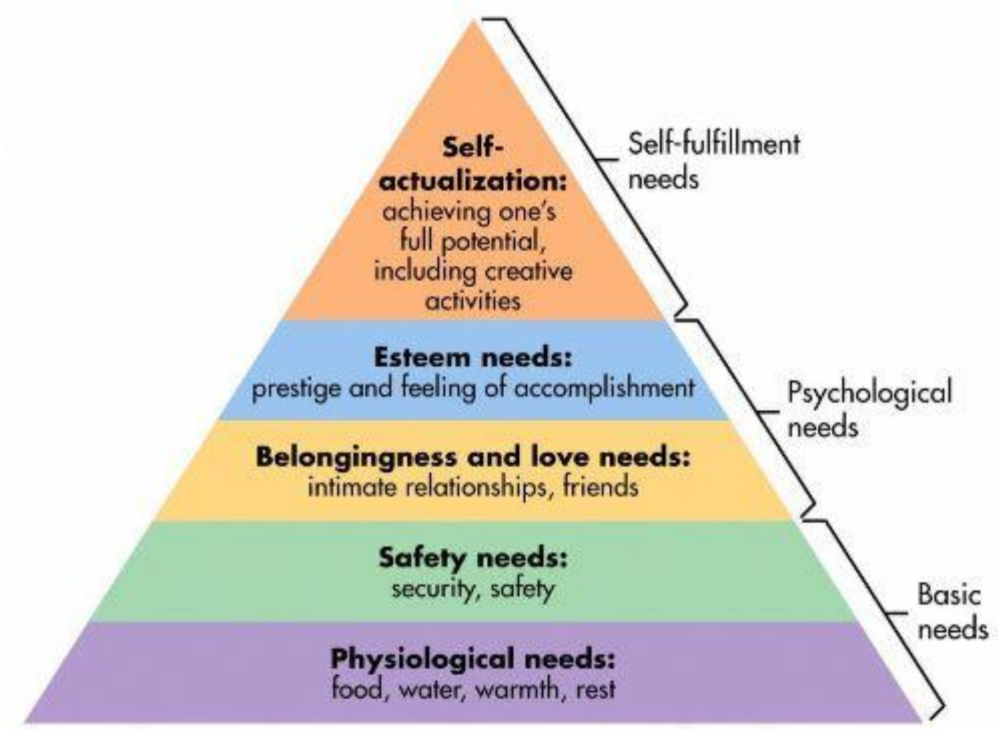
According to Philip Kotler, "Marketing management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target markets for the purpose of achieving organisational objectives

Part –B

24.a) **MASLOW'S *HIERARCHY OF NEEDS***

Maslow's (1943, 1954) *hierarchy of needs* is a motivational theory in psychology comprising a five tier model of human needs, often depicted as hierarchical levels within a pyramid.

Maslow stated that people are motivated to achieve certain needs and that some needs take precedence over others. Our most basic need is for physical survival, and this will be the first thing that motivates our behaviour. Once that level is fulfilled the next level up is what motivates us, and so on.



This five stage model can be divided into deficiency needs and growth needs. The first four levels are often referred to as deficiency needs (*D-needs*), and the top level is known as growth or being needs (*B-needs*).

The deficiency needs are said to motivate people when they are unmet. Also, the need to fulfil such needs will become stronger the longer the duration they are denied. For example, the longer a person goes without food, the more hungry they will become.

One must satisfy lower level deficit needs before progressing on to meet higher level growth needs. When a deficit need has been satisfied it will go away, and our activities become habitually directed towards meeting the next set of needs that we have yet to satisfy. These then become our salient needs. However, growth needs continue to be felt and may even become stronger once they have been engaged. Once these growth needs have been reasonably satisfied, one may be able to reach the highest level called self-actualization.

Every person is capable and has the desire to move up the hierarchy toward a level of self-actualization. Unfortunately, progress is often disrupted by a failure to meet lower level needs. Life experiences, including divorce and loss of a job may cause an individual to fluctuate between levels of the hierarchy. Therefore, not everyone will move through the hierarchy in a uni-directional manner but may move back and forth between the different types of needs.

Maslow noted only one in a hundred people become fully self-actualized because our society rewards motivation primarily based on esteem, love and other social needs.

The original hierarchy of needs five-stage model includes:

1. Biological and Physiological needs - air, food, drink, shelter, warmth, sex, sleep.

2. Safety needs - protection from elements, security, order, law, stability, freedom from fear.

3. Love and belongingness needs - friendship, intimacy, trust and acceptance, receiving and giving affection and love. Affiliating, being part of a group (family, friends, work).

4. Esteem needs - achievement, mastery, independence, status, dominance, prestige, self-respect, respect from others.

5. Self-Actualization needs - realizing personal potential, self-fulfillment, seeking personal growth and peak experiences.

Maslow posited that human needs are arranged in a hierarchy:

Physiological needs are those needs required for human survival such as air, food, water, shelter, clothing and sleep. As a manager, you can account for physiological needs of your employees by providing comfortable working conditions, reasonable work hours and the necessary breaks to use the bathroom and eat and/or drink.

Safety needs include those needs that provide a person with a sense of security and well-being. Personal security, financial security, good health and protection from accidents, harm and their adverse affects are all included in safety needs. As a manager, you can account for the safety needs of your employees by providing safe working conditions, secure compensation (such as a salary) and job security, which is especially important in a bad economy.

Social needs, also called **love and belonging**, refer to the need to feel a sense of belonging and acceptance. Social needs are important to humans so that they do not feel alone, isolated and depressed. Friendships, family and intimacy all work to fulfill social needs. As a manager, you can account for the social needs of your employees by making sure each of your employees know one another, encouraging cooperative teamwork, being an accessible and kind supervisor and promoting a good work-life balance.

Esteem needs refer to the need for self-esteem and respect, with self-respect being slightly more important than gaining respect and admiration from others. As a manager, you can account for the esteem needs of your employees by offering praise and recognition when the employee does well, and offering promotions and additional responsibility to reflect your belief that they are a valued employee.

Self-actualization needs describe a person's need to reach his or her full potential. The need to become what one is capable of is something that is highly personal. While I might have the need to be a good parent, you might have the need to hold an executive-level position within your organization. Because this need is individualized, as a manager, you can account for this need by providing challenging work, inviting employees to participate in decision-making and giving them flexibility and autonomy in their jobs.

As the name of the theory indicates, Maslow believed that these needs exist in a hierarchical order. This **progression principle** suggests that lower-level needs must be met before higher-level needs. The **deficit principle** claims that once a need is satisfied, it is no longer a motivator because an individual will take action only to satisfy unmet needs. If you look at this pyramid you can see how Maslow's needs are organized with basic physiological needs, such as air, food, water and sleep, at the bottom and the idea of self-actualization, or when a person reaches the full potential in life, at the top. Again, according to Maslow, before a person can take action to satisfy a need at any level on this pyramid the needs below it must already be satisfied.

B). **COMMUNICATION**

- **Communication is an exchange of facts, ideas, opinions or emotions by two or more persons.**

  - W.H. Newman & C. F.Summer Jr

- **Communication is a process by which information is transmitted between individuals and/or organisations so that an understanding response results.**

  - Peter Little

Nature of Communication:

The exchange of information or passing of information, ideas or thought from one person to the other or from one end to the other is communication. According to McFarland communication is, “a process of meaningful interaction among human beings. More specifically, it is the process by which meanings are perceived and understandings are reached among human beings.” Newman and summer defined communication as “an exchange of facts, ideas, opinions or emotions by two or more persons.”**Communication** is the process of conveying information between two or more people. The **communication process** is the steps we take in order to achieve a successful communication.

Communication Process

The communication process consists of several components. Let's take a look.

A **sender** is the party that sends a message. Lindsey, of course, will be the sender. She'll also need the **message**, which is the information to be conveyed. Lindsey will also need to **encode** her message, which is transforming her thoughts of the information to be conveyed into a form that can be sent, such as words.

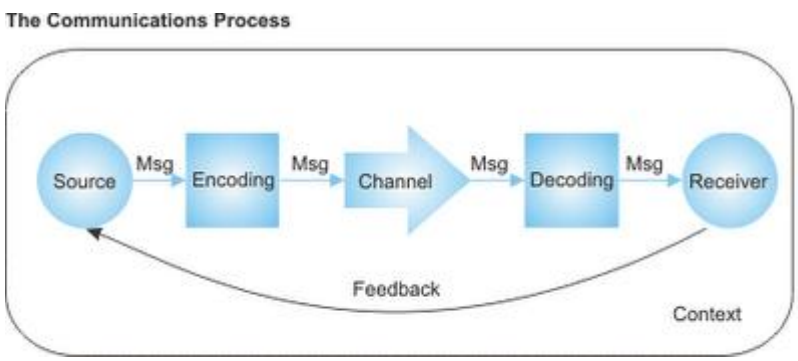
A **channel of communication** must also be selected, which is the manner in which the message is sent. Channels of communication include speaking, writing, video transmission, audio transmission, electronic transmission through emails, text messages and faxes and even nonverbal communication, such as body language. Lindsey also needs to know the target of her communication. This party is called the **receiver**.

The receiver must be able to **decode** the message, which means mentally processing the message into understanding. If you can't decode, the message fails. For example, sending a message in a foreign language that is not understood by the receiver probably will result in decoding failure.

Sometimes, a receiver will give the sender **feedback**, which is a message sent by the receiver back to the sender. For example, a member of Lindsey's team may provide feedback in the form of a question to clarify some information received in Lindsey's message.

Let's put all these components together to build a model of the communication process:

1. A sender encodes information
2. The sender selects a channel of communication by which to send the message
3. The receiver receives the message
4. The receiver decodes the message
5. The receiver may provide feedback to the sender



25. a) Common Barriers to Effective Communication:

The use of jargon. Over-complicated, unfamiliar and/or technical terms.

Emotional barriers and taboos. Some people may find it difficult to express their emotions and some topics may be completely 'off-limits' or taboo.

Lack of attention, interest, distractions, or irrelevance to the receiver. (See our page [Barriers to Effective Listening] for more information).

Differences in perception and viewpoint.

Physical disabilities such as hearing problems or speech difficulties.

Physical barriers to non-verbal communication. Not being able to see the non-verbal cues, gestures, posture and general body language can make communication less effective.

Language differences and the difficulty in understanding unfamiliar accents.

Expectations and prejudices which may lead to false assumptions or stereotyping. People often hear what they expect to hear rather than what is actually said and jump to incorrect conclusions.

Cultural differences. The norms of social interaction vary greatly in different cultures, as do the way in which emotions are expressed. For example, the concept of personal space varies between cultures and between different social settings.

Physical barriers are easy to spot – doors that are closed, walls that are erected, and distance between people all work against the goal of effective communication. While most agree that people need their own personal areas in the workplace, setting up an office to remove physical barriers is the first step towards opening communication. Many professionals who work in industries that thrive on collaborative communication, such as architecture, purposefully design their workspaces around an "open office" plan. This layout eschews cubicles in favor of desks grouped around a central meeting space. While each individual has their own dedicated work space, there are no visible barriers to prevent collaboration with their co-workers. This encourages greater openness and frequently creates closer working bonds.

Perceptual barriers, in contrast, are internal. If you go into a situation thinking that the person you are talking to isn't going to understand or be interested in what you have to say, you may end up subconsciously sabotaging your effort to make your point. You will employ language that is sarcastic, dismissive, or even obtuse, thereby alienating your conversational partner. Think of movie scenarios in which someone yells clipped phrases at a person they believe is deaf. The person yelling ends up looking ridiculous while failing to communicate anything of substance.

Emotional barriers can be tough to overcome, but are important to put aside to engage in conversations. We are often taught to fear the words coming out of our own mouths, as in the phrase "anything you say can and will be used against you." Overcoming this fear is difficult, but necessary. The trick is to have full confidence in what you are saying and your qualifications in saying it. People often pick up on insecurity. By believing in yourself and what you have to say, you will be able to communicate clearly without becoming overly involved in your emotions.

Cultural barriers are a result of living in an ever shrinking world. Different cultures, whether they be a societal culture of a race or simply the work culture of a company, can hinder developed communication if two different cultures clash. In these cases, it is important to find a common ground to work from. In work situations, identifying a problem and coming up with a highly efficient way to solve it can quickly topple any cultural or institutional barriers. Quite simply, people like results.

Language barriers seem pretty self-inherent, but there are often hidden language barriers that we aren't always aware of. If you work in an industry that is heavy in jargon or technical language, care should be taken to avoid these words when speaking with someone from outside the industry. Without being patronizing, imagine explaining a situation in your industry to a child. How would you convey these concepts without relying on jargon? A clear, direct narrative is preferable to an incomprehensible slew of specialty terms.

Gender barriers have become less of an issue in recent years, but there is still the possibility for a man to misconstrue the words of a woman, or vice versa. Men and women tend to form their thoughts differently, and this must be taken into account when communicating. This difference has to do with how the brain of each sex is formed during gestation. In general, men are better at spatial visualization and abstract concepts such as math, while women excel at language-based thinking and emotional identification. However, successful professionals in highly competitive fields tend to have similar thought processes regardless of their gender.

Interpersonal barriers are what ultimately keep us from reaching out to each other and opening ourselves up, not just to be heard, but to hear others. Oddly enough, this can be the most difficult area to change. Some people spend their entire lives attempting to overcome a poor self-image or a series of deeply rooted prejudices about their place in the world. They are unable to form genuine connections with people because they have too many false perceptions blocking the way. Luckily, the cure for this is more communication. By engaging with others, we learn what our actual strengths and weaknesses are. This allows us to put forth our ideas in a clear, straightforward manner.

25.b) the Securities Exchange Board of India (SEBI). As a banking aspirant, it is necessary for you to have knowledge about SEBI. Not only this, the general awareness and banking awareness section in banking exams feature questions based on the regulatory authorities. **One of the major regulatory authorities is the Securities Exchange Board of India (SEBI).**

Overview of SEBI

- Securities Exchange Board of India (SEBI) was established in 1988 to regulate the functions of securities market.
- SEBI promotes orderly development in the stock market.
- SEBI was set up with the main idea to keep a check on malpractices and protect the interest of investors.

Now, let us gain more insights into the objectives and functions of SEBI.

Objectives of SEBI

The objectives of SEBI are:

- To regulate activities in stock exchange and ensure safe investments
- To prevent fraudulent practices by striking a balance between business and its statutory regulations

Functions of SEBI

The three main functions of SEBI are as follows:

1. Protective function
2. Developmental function
3. Regulatory function

1. **Protective functions** are performed by SEBI to protect interest of investors and provide safe investments. This entails:

- **Checks on prices rigging:** Price rigging refers to manipulating the prices of securities.
- **Prevents insider trading:** Insider refers to directors, promoters of the company. These people have sensitive information which they can use to make profit. SEBI keeps a stringent check whether insiders are buying securities of the company.
- **Prohibits fraudulent and unfair practices:** SEBI does not allow companies to make misleading statements.

2. **Developmental functions** are performed by the SEBI to develop activities in stock exchange to increase the business in stock exchange. Under this category, following functions are performed by SEBI:

- Promoting training of intermediaries of the securities market
- Promote activities of stock exchange by adopting flexible methods such as internet trading
- Initial public offer of primary market is permitted through stock exchange.

3. **Regulatory functions** are performed by SEBI to regulate the business in stock exchange.

- SEBI registers and regulates the working of mutual funds and other investment options.
- SEBI regulates takeover of the companies.
- SEBI conducts inquiries and audit of stock exchanges.

Role of SEBI

Entry norms 1

1. Net tangible asset of company should be atleast 3cr for three full years.
2. A company should have good trait record for dividend payment for minimum of three year proceeding the issue

   Entry norms 2

   1. A minimum post issue face value of capital should be compulsory market making atleast two years.

26.A) Financial Management - Meaning, Objectives

Meaning of Financial Management

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

Scope/Elements

1. Investment decisions includes investment in fixed assets (called as capital budgeting). Investment in current assets are also a part of investment decisions called as working capital decisions.
2. Financial decisions - They relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby.
3. Dividend decision - The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:
   a. Dividend for shareholders- Dividend and the rate of it has to be decided.

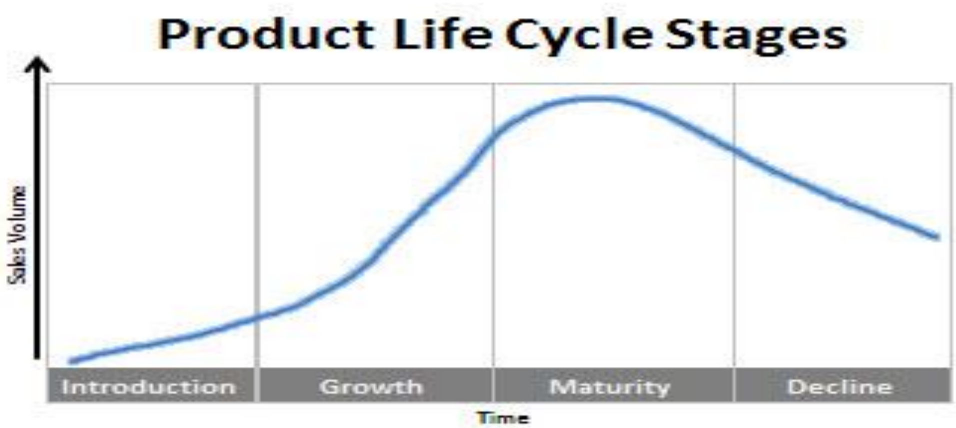
b. Retained profits- Amount of retained profits has to be finalized which will depend upon expansion and diversification plans of the enterprise.

Objectives of Financial Management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
4. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
5. To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

B)Product Life Cycle Stages



As consumers, we buy millions of products every year. And just like us, these products have a life cycle. Older, long-established products eventually become less popular, while in contrast, the demand for new, more modern goods usually increases quite rapidly after they are launched.

Because most companies understand the different product life cycle stages, and that the products they sell all have a limited lifespan, the majority of them will invest heavily in new product development in order to make sure that their businesses continue to grow.

Product Life Cycle Stages Explained

The product life cycle has 4 very clearly defined stages, each with its own characteristics that mean different things for business that are trying to manage the life cycle of their particular products very high, especially if it's a competitive sector.

Growth Stage – The growth stage is typically characterized by a strong growth in sales and profits, and because the company can start to benefit from economies of scale in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage.

Maturity Stage – During the maturity stage, the product is established and the aim for the manufacturer is now to maintain the market share they have built up. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage.

Decline Stage – Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets.

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Introduction Stage – This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things like research and development, consumer testing, and the marketing needed to launch the product can be

Product Life Cycle Examples

It's possible to provide examples of various products to illustrate the different stages of the product life cycle more clearly. Here is the example of watching recorded television and the various stages of each method:

1. Introduction – 3D TVs
2. Growth – Blueray discs/DVR
3. Maturity – DVD
4. Decline – Video cassette

The idea of the product life cycle has been around for some time, and it is an important principle manufacturers need to understand in order to make a profit and stay in business.

However, the key to successful manufacturing is not just understanding this life cycle, but also proactively managing products throughout their lifetime, applying the appropriate resources and sales and marketing strategies, depending on what stage products are at in the cycle

KARPAGAM ACADEMY OF HIGHER EDUCATION

DEPARTMENT OF COMMERCE

BUSINESS ORGANIZATION AND MANAGEMENT

LECTURE PLAN

S.No	Hours	Topics covered	Support Material
UNIT - I			
1	1	An overview of Indian business: manufacturing and service sector	R5:1.5-1.9
2	1	Small and medium enterprises	R5:88-91
3	1	Problems and government policy	T1:61-68
4	1	India's experience of liberalization	R6:249-251
5	1	Globalization	R6:252-253
6	1	Technological innovations	R6:142-144
7	1	Skill development, make in India	R6:142-144
8	1	Social responsibility and ethics	R6:148-166
9	1	Ethics emerging opportunities in business	R6:148-166
10	1	Franchising	W1
11	1	Outsourcing needs	W2
12	1	Domain mix	R6:132-135
13	1	E-commerce	R6:149-181
14	1	Recapitulation and important question paper discussion	
15	1	TUTORIAL - I :E-Commerce	
16	1	TUTORIAL - II: Social Responsibility	
Total			**16**
UNIT - II			
1	1	An overview of business enterprises	T1:30-35
2	1	Forms of business organization	T1:1-4
3	1	Sole proprietorship	T1:7-8
4	1	Joint Hindu Family firm	T1:8-9
5	1	Partnership firm	T1:9-11
6	1	Joint Stock company	T1:23-26
7	1	Co-operative society	T1:45-48
8	1	Limited liability partnership	T1:12-13
9	1	Choice of form of partnership, organization	T1:57-68
10	1	Government and business interface	T1:63-68
11	1	Forms of Public Enterprises	T1:96-98
12	1	International Business	R5:382-356
13	1	Multinational Corporation, Innovation and Technologies	R5:382-386
14	1	Recapitulation and important question paper discussion	
15	1	TUTORIAL - I :E-Commerce	

16	1	TUTORIAL - II: Social Responsibility	
Total			**16**
UNIT - III			
1	1	An overview of management and organization	R3:3.19-3.22
2	1	The process of management	R3:3.22-3.26
3	1	An overview of planning	T1:34-36
4	1	Decision making: Meaning and significance	R3:4.25-4.31
5	1	Strategy formulation	R2:185-187
6	1	Organizing basic consideration	R2:189-191
7	1	Departmentation	R2:282-284
8	1	Functional project matrix	R2:291-293
9	1	Project network	R2:293
10	1	Delegation	R2:294-296
11	1	Decentralization of Authority	R2:310-313
12	1	Groups on organization	R2:327-328
13	1	Teams in organization	R2:328-329
14	1	Recapitulation and important question paper discussion	
15	1	TUTORIAL - I :E-Commerce	
16	1	TUTORIAL - II: Social Responsibility	
Total			**16**
UNIT - IV			
1	1	An overview of management and organization	R4:344-346
2	1	Leadership concept	R4:344-346
3	1	Leadership traits	R2:451-454
4	1	Situational theory of leadership	R2:451-455
5	1	Motivation: concepts	R2:465-466
6	1	Motivation importance	R2:465-466
7	1	Maslow need hierarchy theory	R2:469-470
8	1	Herzberg two factor theory	R2:471-473
9	1	Communication meaning and concept	R2:501-502
10	1	Communication process and barriers	R2:367-369
11	1	Control concept	R2:530-533
12	1	Characteristics of controlling	R2:534
13	1	Recapitulation and important question paper discussion	
14	1	TUTORIAL - I : leadership styles	
15	1	TUTORIAL - II: control process	
Total			**15**
UNIT - V			
1	1	An overview of marketing management	T1:3-4
2	1	Marketing mix and product life cycle	T1:68
3	1	Pricing policies and practices	T1:10-12
4	1	Financial management concept and objectives	T1:3-7
5	1	Sources of funds	T1:19-23
6	1	Equity, debentures, venture capital	T1:23-26
7	1	Lease finance, securities market	R1:212-215

8	1	Role of SEBI	T1:68-71
9	1	Human resource management concept	R5:256-258
10	1	Functions of human resource	R5:256-258
11	1	Basic dynamics of employer and employee relations	R5:301-306
12	1	Recapitulation and important question paper discussion	
Total			**12**
13	1	TUTORIAL - I : product life cycle	
14	1	TUTORIAL - II: employer and employee relation	
15	1	Previous ESE Question paper revision	
16	1	Previous ESE Question paper revision	
17	1	Previous ESE Question paper revision	

SUGGESTED READINGS

TEXT BOOK

1. Bhusan,Y.K.(2014), Business Organization and Management, 18th edition, New Delhi, Sultan Chand & Sons.

Reference Books:

1. Chhabra,T.N. Business Organization and Management, sun India Publication .
2. Gupta C.B, Modern Business Organization , S.Chand and Company Ltd, New Delhi
3. Koontz and sweihrich(2010), essentials of management education.
4. P.N.Reddy(1999), Principles of business organization and management, S.Chand and Company ltd.
5. Francis cheranilam, Business Environment Himalaya Publication.

Web Address:

1. www.em.wikipedia.org/wiki/franchising
2. www./roseindia.net/services/outsourcing/what-is-outsourcing/needs

Qp-579

Reg. No................................

[16CMU102 /16COU102/16BPU102]

KARPAGAM UNIVERSITY
Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2016 onwards)

B.Com., DEGREE EXAMINATION, NOVEMBER 2016
First Semester

COMMERCE/ COMMERCE (CORPORATE SECRETARYSHIP)/ COMMERCE (BUSINESS PROCESS)

BUSINESS ORGANIZATION AND MANAGEMENT

Time: 3 hours Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 2 = 10 Marks) (2 ½ Hours)
Answer ALL the Questions

21. What is Liberaslisation?
22. Define Multinational Corporation.
23. What is Matrix departmentation?
24. What is Leadership?
25. What is Venture capital?

PART C (5 x 6 = 30 Marks)
Answer ALL the Questions

26. a) State the objectives and benefits of Make in india program.

Or

b) Give the reasons for rationale pf public enterprises.

27. a) Describe the capital limit of small and medium manufacturing and service sectors.

Or

b) What is Joint Stock Company? State its features.

28. a) State the differences between delegation and decentralisation.

Or

b) Discuss the importance of planning.

29. a) Explain the Maslow's need hierarchy theory of motivation.

Or

b) What are the Organisational barriers of communication?

30. a) Explain the Product life cycle with an example.

Or

b) Discuss the role of SEBI in capital market.

Reg. No..................................

[15PAU404A]

KARPAGAM UNIVERSITY
Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2015 onwards)

B.Com., DEGREE EXAMINATION, APRIL 2017
Fourth Semester

COMMERCE (PROFESSIONAL ACCOUNTING)

BUSINESS ORGANIZATION AND OFFICE MANAGEMENT

Time: 3 Hours Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 8 = 40 Marks) (2 ½ Hours)
Answer ALL the Questions

a. Explain the meaning, the nature and the scope of Business.
or
b. Explain the difference between partnership and sole proprietorship.

a. Explain the factors influencing location of Business.
or
b. Explain the types of plant layout.

a. What is the stock exchange? Explain the national stock exchange?
or
b. What are the functions of SEBI?

a. Explain the term office and the functions of office management
or
b. Discuss the various objectives of office layout.

a. Explain the types of office machines.
or
b. Explain the term EDP.

Reg. No.................................

[14CMU304]

KARPAGAM UNIVERSITY

Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2014 onwards)

B.Com., DEGREE EXAMINATION, NOVEMBER 2015

Third Semester

COMMERCE

BUSINESS ORGANIZATION AND OFFICE MANAGEMENT

Time: 3 hours Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 8 = 40 Marks) (2 ½ Hours)
Answer ALL the Questions

21. a) Explain the nature of Business?

Or

b) What do you mean by Co-operative Organization? Explain their features?

22. a) What are the Primary Factors influencing Plant Location?

Or

b) State the Merits and Demerits of Public Deposits?

23. a) State the important function of Stock Exchange?

Or

b) Discuss the features of Trade Association?

24. a) State the essential of good Filing System ?

Or

b) Explain the function of an Office?

25. a) State the factors in selecting Office Machine?

Or

b) State the merits and demerits of EDP?

Reg. No.................................

[16CMU102 /16COU102/16BPU102]

KARPAGAM UNIVERSITY

Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2016 onwards)

B.Com., DEGREE EXAMINATION, JANUARY 2017

First Semester

COMMERCE/ COMMERCE (CORPORATE SECRETARYSHIP)/ COMMERCE (BUSINESS PROCESS SERVICES)

BUSINESS ORGANIZATION AND MANAGEMENT

Time: 3 hours — Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
Answer ALL the Questions

Who can start a business______
a. Only highly educated person b. Only an uneducated person
c. Only rich person d. Any one of the above

______ include agriculture, fortestry and mining products.
a. Production b. wholesaling c. sales d. Marketing

Manufacturing Industries are engaged in the conversion or transformation of ______ into finished goods.
a. Work-in-progress b. raw material c. Semi-finished Products
d. Industry Goods

______ Industries various ingredients are put together and combined in manufacturing.
a. Processing b.Synthetic c.Assembly line d.Analytical

The ______ process commences at corporate level. Here the organization sets out the overall mission, purpose, and values.
a. researching b.strategic planning c.controlling d.managing

6. A statement that sets out what the organization wishes to achieve in the long term is referred to as ______
a. mission. b. vision c. values. d. strategic context.

7. An organization can offer standard products at acceptable levels of quality, yet still generate above-average profit margin by adopting ______
a. differentiation b. focus strategy c. cost leadership
d. market follower strategy

8. What are characteristics of a programmed decision?
a. Complex and risky b. Uncertain and non-routine c. Low risk and certain
d. Routine and non-complex

9. Co-operatives play an important role in ______ .
a. aerospace b. agriculture c. manufacturing d. railways

10. The best definition of a sole trader form of business organisation is ______
a. The business only employs one person
b. The business is owned by one person c.The firm has a single customer
d. There is a single firm in the industry

11. One of the claimed advantages of a sole trader business is that______
a. Owners have limited liability b. Shares can be sold to raise capital
c. Decisions and responsibilities can be shared d. The owner has independence

12. One of the disadvantages of a sole trader business is that______
a. Capital is limited to owner's savings and bank loans
b. Decisions take too long to make
c. As they are government owned there is no profit motive
d. the owners may disagree

13. Which one of the following aspects of managing has not been emphasized by McGregor's theories X and Y?
a. planning b. organising c. directing d. appraising

14. Communication begins with ______
a. encoding b. idea generation c. decoding d. channel selection

15. Grapevine is a type of ______
a. informal communication b. formal communication
c. written communication d. pictorial

16. Which one of these is used for motivation?
a. job simplification b. job rotation c. job enlargement d.job enrichment

17. Which of the following is not true of a stock exchange?
    a. It is a market where shareholders can sell their shares.
    b. It is a market where shareholders can buy shares.
    c. It is a place where companies can be formed.
    d. It is a market where new shares can be issued

18. Marketing is no accident, but a result of careful planning and ______
    a. execution b. selling c. strategies d. research

19. The ______ concept holds that consumers and businesses, if left alone, will ordinarily not buy enough of the organization's products.
    a. production b. selling c. marketing d. holistic marketing

20. The buying process starts when the buyer recognizes a ______
    a. Product b. an advertisement for the product
    c. a salesperson from a previous visit d. problem or need

PART B (5 x 2 = 10 Marks) (2 ½ Hours)
Answer ALL the Questions

21. Write a note on business terms.
22. What you mean by business organization?
23. Write a note on planning.
24. What you mean by leadership?
25. Write a note on Marketing concept.

PART C (5 x 6 = 30 Marks)
Answer ALL the Questions

26. a. Explain about manufacturing and service sectors.
(or)
b. Write a brief note on Technological Innovations and skill development.

27. a. Write a brief note on sole proprietorship and joint hindu family.
(or)
b. Explain about Rationale and forms of public enterprise.

28. a. Write about planning and concept of planning.
(or)
b. Write a brief note on Delegation and Decentralisation of Authority.

29. a. Write a brief note on trait and situational theory of leadership.
(or)
b. Explain the concept of communication, process and barriers.

30. a. Explain the concept of Marketing Management and kinds of Marketing Mix.
(or)
b. Write a brief note on human resource management and concept and functions.

17CMU102 BUSINESS ORGANIZATION AND MANAGEMENT

Semester I

L	T	P	C
6	2	-	6

Programme Outcome

The subject of Business Organization and Management has acquired an important status in the field of business studies. It embraces the types of organizations, location of business unit and functions of stock exchange. The knowledge of this subject is essential for all those who want to enter into any line of business.

Programme Learning Outcome

1. It inculcate students by providing specialized and updated knowledge of Organization management.
2. It provides understanding about the activities of various departments in the business organization.
3. Students be taught the activities of various forms of business organization and basics of leadership and management theories.

Unit I

Foundation of Indian Business: Manufacturing and Service Sectors- Small and Medium Enterprises- Problems and Government policy. India's Experience of Liberalization and Globalization. Make in India - Technological Innovations and Skill Development. Social Responsibility and Ethics Emerging opportunities in business- Franchising, Outsourcing, and E-commerce.

Unit II

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

Unit III

Management and Organisation: The Process of Management- Planning- Decision-making- Strategy Formulation. Organizing Basic Considerations; Departmentation – Functional, Project, Matrix and Network; Delegation and Decentalisation of Authority; Groups and Teams.

Unit IV

Leadership, Motivation and Control: 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.

Unit V

Functional Areas of Management: Marketing Management- Marketing Concept- Marketing Mix- Product Life Cycle- Pricing Policies and Practices 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.

Suggested Readings

Text Book

1. Bhushan , Y.K. (2016), *Business Organization and Management*, 18th edition, New Delhi, Sultan chand & sons.

Reference books:

1. Kaul, V.K., (2013), *Business Organisation and Management*, New Delhi, Pearson Education,
2. Chhabra, T.N., (2014), *Business Organisation and Management*, New Delhi, Sun India Publications,
3. Gupta CB, (2014), *Modern Business Organisation*, New Delhi, Mayur Paperbacks.
4. Koontz & Weihrich, (2010), *Essentials of Management*, McGraw Hill Education.

BUSINESS ORGANISATION AND MANAGEMENT

Unit I

Foundation of Indian Business: Manufacturing and Service Sectors- Small and Medium Enterprises- Problems and Government policy. India's Experience of Liberalization and Globalization. Make in India - Technological Innovations and Skill Development. Social Responsibility and Ethics Emerging opportunities in business- Franchising, Outsourcing, and E-commerce.

Business : Meaning, definition, Scope, characteristics of business

The term business is derived from the word 'busy'. Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits. The activity may consist of production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people. In every society people undertake various activities to satisfy their needs. These activities may be broadly classified into two groups — economic and non-economic activities

Economic activities may be further divided into three categories, namely business, profession and employment. Business may be defined as an economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society.

Characteristics of Business:

(i) **An economic activity:** Business is considered to be an economic activity because it is undertaken with the object of earning money or livelihood and not because of love, affection, sympathy or any other sentimental reason. It may be mentioned here that this activity can be undertaken either at small and individual level, e.g. (purchase and sale by a shopkeeper) or on large scale in a more formal and organised level (purchase and sale by a cooporative society or company).

(ii) **Production or procurement of goods and services**: Before goods are offered to people for consumption, these must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or it acquires them from producers, to be further sold to consumers or users. Goods may consist of consumable items of daily use such as sugar, ghee, pen, notebook, etc. or capital goods like machinery, furniture, etc. Services may include facilities offered to consumers, business firms and organisations in the form of transportation, banking, electricity, etc.

(iii) **Sale or exchange of goods and services**: Directly or indirectly, business involves transfer or exchange of goods and services for value. If goods are produced not for the purpose of sale but say for personal consumption, it cannot be called a business activity. Cooking food at home for the family is not business, but cooking food and selling it to others in a restaurant is business. Thus, one essential characteristic of business is that there should be sale or exchange of goods or services between the seller and the buyer.

(iv) **Dealings in goods and services on a regular basis:** Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business. Thus, for example, if a person sells his/her domestic radio set even at a profit, it will not be considered a business activity. But if he/she sells radio sets regularly either through a shop or from his/herresidence, it will be regarded as a business activity.

(v) **Profit earning:** One of the main purpose of business is to earn income by way of profit. No business can survive for long without earning profit. That is why businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.

(vi) **Uncertainty of return**: Uncertainty of return refers to the lack of knowledge relating to the amount of money that the business is going to earn in a given period. Every business invests money (capital) to run its activities with the objective of earning profit. But it is not certain as to what amount of profit will be earned. Also, there is always a possibility of losses being incurred, in spite of the best efforts put into the business.

(vii) **Element of risk:** Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavourable or undesirable event. The risks are related with certain factors like changes in consumer tastes and fashions, changes in methods of production, strike or lockout in the work place, increased competition in the market, fire, theft, accidents, natural calamities, etc. No business can altogether do away with risks.

Comparison of Business, Profession and Employment

Basic	Business	Profession	Employment
1. Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice	Appointment letter and service agreement
2. Nature of work	Provision of goods and services to the public	Rendering of personalised, expert services	Performing work as per service contract or rules of service
3. Qualification	No minimum qualification is necessary	Expertise and training in a specific field is a must	Qualification and training as prescribed by the employer
4. Reward or return	Profit earned	Professional fee	Salary or wages
5. Capital investment	Capital investment required as per size and nature of business	Limited capital needed for establishment	No capital required
6. Risk	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no risk
7. Transfer of interest	Transfer possible with some formalities	Not possible	Not possible
8. Code of conduct	No code of conduct is prescribed	Professional code of conduct is to be followed	Norms of behaviour laid down by the employer are to be followed.

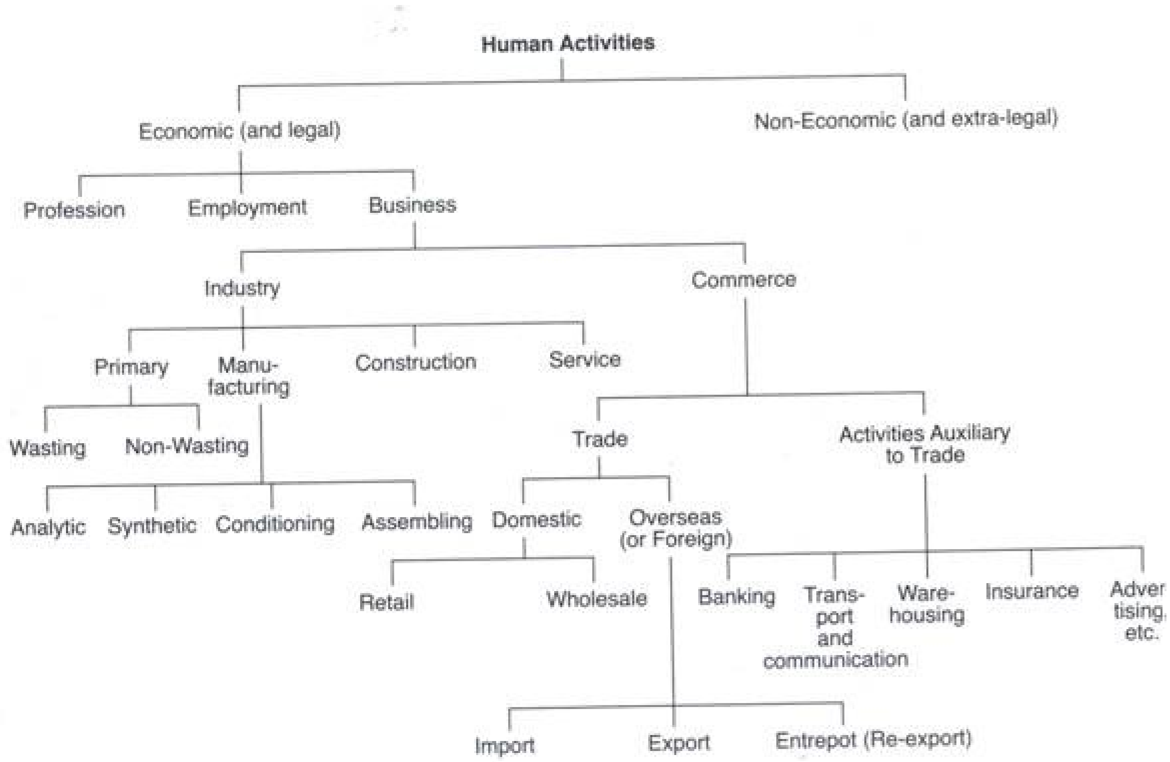


Figure 1.1. Human Activities and Divisions of Business

Each class of factors decides the optimum size of unit. The optimum depending upon the group of factors is known as the optimum technical unit, optimum financial unit, optimum managerial unit, together may give the optimum size.

1. Optimum technical unit:
Technical factors are concerned with methods of production. They may include specialization, division of labor, mechanization and the like. Production methods become economical when these steps are taken. Technical forces decide the minimum and the maximum limits to size.

2. Optimum Financial unit:
Generally, the size of a unit depends upon the volume or size of capital and, in turn, the volume of capital depends on its size. Larger the size of a unit, larger the volume of capital required and easier to obtain capital because large volume of production and operational efficiency insure adequate return on capital. The optimum financial unit is governed by the volume of funds.

3. Optimum managerial unit:
Management expenses may vary with size. If the size is small it may be relatively costly to manage its affairs whereas with the growth of size there is an economy in such expenses. The growth of size may bring in complexities of organization and management.

But in a larger unit the advantages of specialization and division of labor may be obtained and managerial efficiency improved.

4. Optimum survival unit:

The production of a commodity depends upon its demand in the market. Since demand may fluctuate from time to time, there is risk and uncertainty before the firm. Therefore, conditions of demand may influence the size of a unit because the risk or uncertainty is influenced by such conditions.

The changes in demand may be permanent cyclical and seasonal. Changes in demand due to the development of a substitute or a change in the taste and habits of the consumers may be taken as a permanent change.

The firm should reorganize its activities to adjust to the changed conditions. Cyclical variations are those which are concerned with depressions and booms. The firm has to meet both these situations and make adjustments. Seasonal variations are governed by change situations the firm has to adjust its size to keep it optimum in a particular situation, in seasons and the subsequent change in the demand for a commodity. In all these, however, changes in the size of a unit are difficult to make.

5. Optimum marketing unit:

Marketing optimum has to seek a balance between large scale marketing operations with a view to having some economies in selling and buying and better quality of commodities and services by limiting the size to a manageable limit. Demand estimates are to be prepared to decide the size of marketing operations.

Size of capital

The capital invested by the owner determines the size of business. It is mainly used to compare two firms or more that are producing similar or differentiated products. It is an important factor because it determines how little of how much you will be able to do in your business. If a business has limited capital, it is limited in terms of the volume of sales, services to be rendered, number of employees to be appointed and the level of technology to be employed in its operations. Volume of sales High volume of sales = business have many clients and selling large amount of goods/rendering a lot of services. Business with high volume of sales are usually regarded as big. It is also assumed that the capital contribution will be high, buildings are bigger and more staff will be employed than in a small business.

3. Number of employees The number of employees employed by any business determines its size. In the case of a small sole trader the owner will do all the work him/herself and possibly appoint a receptionist who will do the administrative duties. In a large sole trader with different sections the owner will need more personnel to be responsible for different tasks. One of the aspects one can look at when comparing businesses is the wages paid to employees. Level of technology The technology used can also give an indication of the size of a business. Is production done manually or by means of machinery? Does the business have a sophisticated computerised cash register system or just an ordinary cash register or a money box? If we have a small business with only a few customers and little capital, it is not necessary to have state-of-the-art equipment.

4. Raw materials used This is the form in which the business is registered. A sole trader business most probably will be the smallest business, unless the owner has lots of capital and employ many people, while a partnership with a maximum of twenty partners or a Close Corporation will be much bigger. Legal form of ownership The annual consumption of raw materials of any firm determines its size. The raw materials is used to determine the size of the business where firms are producing similar products.

Small scale industries in India: definition; characteristics and objectives

In Indian economy small-scale and cottage industries occupy an important place, because of their employment potential and their contribution to total industrial output and exports.

Government of India has taken a number of steps to promote them. However, with the recent measures, small-scale and cottage industries facing both internal competition as well as external competition.

There is no clear distinction between small-scale and cottage industries. However it is generally believed that cottage industry is one which is carried on wholly or primarily with the help of the members of the family. As against this, small-scale industry employs hired labour.

Moreover industries are generally associated with agriculture and provide subsidiary employment in rural areas. As against this, small scale units are mainly located in urban areas as separate establishments.

Definition:
The official definitions of a small scale unit are as follows:

(i) Small-Scale Industries:
These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.

(ii) Ancillary Industries:
These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 1 crore engaged in or proposed to engage in,

(a) The manufacture of parts, components, sub-assemblies, tooling or intermediaries, or

(b) The rendering of services supplying 30 percent of their production or services as the case may be, to other units for production of other articles.

(iii) Tiny Units:
These refer to undertakings having fixed investment in plant and machinery not exceeding Rs. 23 lakhs. These also include undertakings providing services such as laundry, Xeroxing, repairs and maintenance of customer equipment and machinery, hatching and poultry etc. Located m towns with population less than 50,000.

(iv) Small-Scale Service Establishments:
These mean enterprises engaged in personal or household services in rural areas and town with population not exceeding 50000 and having fixed investment in plant and machinery not exceeding Rs. 25 lakhs.

(v) Household Industries:
These cover artisans skilled craftsman and technicians who can work in their own houses if their work requires less than 300 square feet space, less than 1 Kw power, less than 5 workers and no pollution is caused. Handicrafts, toys, dolls, small plastic and paper products electronic and electrical gadgets are some examples of these industries.

Women Entrepreneurs

A Small Scale Industrial Unit/ Industry related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/ they individually or jointly have a share capital of not less than 51% as Partners/ Shareholders/ Directors of Private Limits Company/ Members of Cooperative Society.

Characteristics of Small-Scale Industries:

(i) Ownership:

Ownership of small scale unit is with one individual in sole-proprietorship or it can be with a few individuals in partnership.

(ii) Management and control:

A small-scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalised fashion. The owner is activity involved in all the decisions concerning business.

(iii) Area of operation:

The area of operation of small units is generally localised catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.

(iv) Technology:

Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce and there is abundant supply of labour.

(v) Gestation period:

Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.

(vi) Flexibility:

Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions.

They are more flexible to adopt changes like new method of production, introduction of new products etc.

(vii) Resources:
Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.

(viii) Dispersal of units:
Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

Objectives of Small Scale Industries:
The objectives of small scale industries are:

1. To create more employment opportunities with less investment.

2. To remove economic backwardness of rural and less developed regions of the economy.

3. To reduce regional imbalances.

4. To mobilise and ensure optimum utilisation of unexploited resources of the country.

5. To improve standard of living of people.

6. To ensure equitable distribution of income and wealth.

7. To solve unemployment problem.

8. To attain self-reliance.

9. To adopt latest technology aimed at producing better quality products at lower costs

Problems faced by Small Scale Industries

The following are the problems faced by Small Scale Industries:

1. **Poor capacity utilization**: In many of the Small Scale Industries, the capacity utilization is not even 50% of the installed capacity. Nearly half of the machinery remains idle. Capital is unnecessarily locked up and idle machinery also occupies space and needs to be serviced resulting in increased costs.
2. **Incompetent management**: Many Small Scale Industries are run in an incompetent manner by poorly qualified entrepreneurs without much skill or experience. Very little thought has gone into matters such as demand, production level and techniques, financial availability, plant location, future prospects etc. According to one official study, the

major reason for SSI sickness is deficiency in project Management i.e., inexperience of promoters in the basic processes of production, cash flow etc

3. **Inadequate Finance**: Many Small Scale Industries face the problem of scarcity of funds. They are not able to access the domestic capital market to raise resources. They are also not able to tap foreign markets by issuing ADR's (American Depository Receipts) GDR's (Global Depository Receipts) etc because of their small capital base. Banks and financial institutions require various procedures and formalities to be completed. Even after a long delay, the funds allocated are inadequate. Bank credit to the small scale sector as a percentage of total credit has been declining. It fell from 16% in 1999 to 12.5% in 2002. Small Scale Industries are not able to get funds immediately for their needs. They have to depend on private money lenders who charge high interest. Finance, as a whole, both long and short term, accounts for as large as 43% of the sector's sickness.
4. **Raw material shortages**: Raw materials are not available at the required quantity and quality. Since demand for raw materials is more than the supply, the prices of raw materials are quite high which pushes up the cost. Scarcity of raw materials results in idle capacity, low production, inability to meet demand and loss of customers.
5. **Lack of marketing support**: Small Scale Industries lack market knowledge with regard to competitors, consumer preferences, market trends. Since their production volume is small and cannot meet demand for large quantities their market is very restricted. Now with the process of liberalization and globalization they are facing competition from local industries as well as foreign competitors who sell better quality products at lower prices. For e.g. heavily subsidized but better quality imports from China has made most of the Indian SSI units producing toys, electronic goods, machine tools, chemicals, locks and paper etc., unviable.
6. **Problem of working capital**: Many Small Scale Industries face the problem of inadequate working capital. Due to lack of market knowledge their production exceeds demand, and capital gets locked in unsold stock. They do not have enough funds to meet operational expenses and run the business.
7. **Problems in Export**: They lack knowledge about the export procedures, demand patterns, product preferences, international currency rates and foreign buyer behavior. Small Scale Industries are not able to penetrate foreign markets because of their poor quality and lack of cost competitiveness. In countries like Taiwan, Japan etc. products produced by Small Scale Industries are exported to many foreign countries. But in India not much thought and focus has gone into improving the export competitiveness of Small Scale Industries.
8. **Lack of technology up-gradation**: Many Small Scale Industries still use primitive, outdated technology leading to poor quality and low productivity. They do not have adequate funds, skills or resources to engage in research and development to develop new

technologies. Acquiring technology from other firms is costly. Therefore Small Scale Industries are left with no choice but to continue with their old techniques.

9. **Multiplicity of labor laws**: One of the merits of Small Scale Industries are that they are labor intensive and can provide employment to a large number of people. But the multiplicity of labor laws, need to maintain several records (PF, ESI, Muster Rolls etc), fines and penalties for minor violations etc place Small Scale Industries at a great disadvantage.

10. **Inability to meet environmental standards**: The government lays down strict environmental standards and Courts have ordered closure of polluting industries. Small Scale Industries which are already facing shortage of funds to carry out their business are not able to spend huge sums on erecting chimneys, setting up effluent treatment plants etc.

11. **Delayed payments**: Small Scale Industries buy raw materials on cash but due to the intense competition have to sell their products on credit. Buying on cash and selling on credit itself places a great strain on finances. The greater problem is payments are delayed, sometimes even by 6 months to one year. It is not only the private sector but even government departments are equally guilty. Delayed payments severely impact the survival of many Small Scale Industries.

12. **Poor industrial relations**: Many Small Scale Industries are not able to match the pay and benefits offered by large enterprises, because their revenues and profitability are low and also uncertain. This leads to labor problems. Employees fight for higher wages and benefits which the SSI is not able to provide. This may lead to strikes, resulting in damage to property in case of violence by employees, production losses etc.

13. **Strain on government finances**: Marketing of products manufactured by Small Scale Industries is a problem area. The government has to provide high subsidies to promote sales of products produced by Khadi and Village Industries. This places a great strain on government finances.

14. **Concentration of industrial units**: There is high concentration of small scale industrial units in a few states. Of the estimated 3.37 million units as on 2000-01, nearly 60% were located in six states. West Bengal, Madhya Pradesh and Uttar Pradesh alone account for 20% of Small Scale Industries. Due to concentration, there is high competition among them to procure raw materials and other industrial inputs. This leads to high costs and scarcity of raw materials and other inputs affecting their production and increasing costs.

15. **Inadequate dispersal**: One of the objectives of the government in promoting Small Scale Industries was to increase industrial development and employment opportunities throughout the country. Since nearly 60% of the Small Scale Industries are concentrated in few states, the objective of balanced regional development and promotion of backward areas has not been achieved. Further majority of Small Scale Industries are located in urban areas and the aim of industrial development in rural areas has also been defeated.

16. **Widespread sickness**: Sickness among Small Scale Industries is widespread. Sickness is not detected in the initial stages and large amount of funds are locked in them. Nearly two and a half lakh SSI units are sick and as on 2001 and nearly Rs.five thousand five hundred crores of bank funds are locked in them. Due to this new entrepreneurs are not able to get loans, workers in the sick units lose their jobs and industrial and economic development is affected. In Maharashtra alone nearly 3 lakh units have closed down, 38 lakh workers have lost their jobs and the loss to the government is Rs.5,000 crore.
17. **Lack of awareness**: The government has set up many organizations to support and provide assistance to Small Scale Industries. But, many of the entrepreneurs running Small Scale Industries are not aware of the various support services.
18. **Government interference**: Small Scale Industries have to maintain a number of records and there are endless government inspections. A lot of time, money and effort is wasted in complying with various inspections and records verification. This prevents Small Scale Industries from fully concentrating on their business activities

MEDIUM ENTERPRISES

Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output, 40% of exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. SME's Contribution towards GDP in 2011 was 17% which is expected to increase to 22% by 2012. There are approximately 30 million MSME Units in India and 12 million persons are expected to join the workforce in the next 3 years.

Despite of the importance of the MSMEs in Indian economic growth, the sector is facing challenges and does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporates which is proving to be a hurdle in the growth path of the MSMEs. The list of the problems that are faced by existing/new companies in SME sector are as under:

1. Absence of adequate and timely banking finance
2. Limited capital and knowledge
3. Non-availability of suitable technology
4. Low production capacity
5. Ineffective marketing strategy
6. Constraints on modernisation& expansions
7. Non availability of skilled labour at affordable cost

8. Follow up with various government agencies to resolve problems due to lack of man power and knowledge etc.

Measures Taken For MSMEs Growth

Some of the measures taken by government to improve the performance of MSMEs are as under –

- Government has set up an India Opportunities Venture Fund with SIDBI worth INR 50 bn to provide equity to the MSME sector.
- Under the Public Procurement Policy for Micro and Small Enterprises (MSEs), government organizations and Central Public Sector Enterprises(CPSEs) are required to make a minimum of 20% of their annual purchase from MSMEs. Of this purchase, 4% to be earmarked for procurement from MSEs owned by SC/ST entrepreneurs.
- To improve the productivity, competitiveness and capacity building of MSMEs, the Government of India has adopted a cluster based approach.
- Credit disbursed to micro and small enterprises is considered part of priority sector lending by banks.
- Around 20 items have been reserved for exclusive manufacturing by MSMEs. Large scale enterprises cannot produce these items.
- In order to build the capacity of MSMEs, central government has initiated National Manufacturing Competitiveness Programme (NMCP). It would help them in facing stiff competition from global MNCs.

NEW ECONOMIC POLICIES: LIBERALIZATION, PRIVATIZATION, GLOBALIZATION

NEW ECONOMIC POLICY

In 1990s the govt. of India in order to come out of the economic crisis decided to devite from its previous economic policies and learn towards Privatization . In July 1991 when thedevaluation of Indian currency took place the govt. started announcing its new economic polices one after another. Though these polices pertained to different aspects of the economic field they had one thing in common. The economic element was to orient the Indian system towards theworld market it is in this context the govt. launched its new economic policy which consisted ofamong other things three important features. Liberalization , Privatization and Globalization .Liberalization of the economy means to free if from direct or physical control imposed by the govt.economic reforms were based on the assumption that marten forces could guide the economy in amore effective manner than govt.

Main objectives of New –Economic Policy – 1991

The main objectives behind the launching of the new –economic policy (NEP) in 1991 by the union finance minister Dr. Manmohan singh, could be stated as follows:

- The main objective was to plunge Indian economy in to the arena of 'Globalization and to give it a new thrust on market orientation.
- The NEP intended to bring down the rate of inflation and to remove imbalances in payment.
- It intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.
- It wanted to achieve economic stabilization and to convert the economic in to a market economy by removing all kinds of unnecessary restrictions.
- It wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.

Beginning with mid-1991, the govt. has made some radical changes in its policies bearing on trade, foreign investment exchange rate, industry, fiscal of fairs etc…The various elements, when put together, constitute an economic policy which marks a big departure from what has gone before.

New Economic Policies: Liberalization, Privatization and Globalization

The last quarter of the 20th century has been a wave of economic policy reforms in thedeveloping world, with one country after another taking the Liberalization cure, often imposed bythe international financial institutions. This wave of reform had been preceded by a quarter-centuryof state directed effort at economic development, during which time the goals of economic self reliance and import substitution industrialization were the hallmarks of development strategiesin the less developed countries. These goals seemed particularly justified, given the longexperience of these countries with colonialism and the agricultural nature of their economies.However, all this seemed to be overtaken by the subsequent surge of liberalization.

LIBERALIZATION

The term "liberalization" in this context implies economic liberalization. "economic liberalization" constitutes one of the basic elements of the new Economic policy (NEP) which theIndian Government launched in the middle of the year 1991. The other important aspects of thepolicy are –Privatization of the public sector, Globalization and market friendly state.

The main trust of the New economic policy is “liberalization”. The essence of this policy is that greater freedom is to be given to the entrepreneur of any industry, trade or business and that governmental control on the same be reduced to the minimum.

The main purpose of the process to economic liberalization is to set business free and to run on commercial lines. The underlying belief is that commerce and business are not matter to contained to fixed national boundaries; they are global phenomena. Here, artificial govt. restrictions which hinder economic and commercial activities ad flow of goods and services must be removed. The liberalization intends to liberalization commerce and business and trade from the clutches of controls and obstacles.

The concept of Liberalization:

The recent wave of economic policy reform in the developing world has been seen as a necessary consequence of a changed world economic system. The key feature of the changed world economy is the clement of the heightened economic Globalization which provides new external challenges as well as opportunities for development.

MAIN FEATURES OF THE POLICY OF LIBERA LISATION:

Following are main features of liberalization .

- Lessened Government control and freelance to private Enterprises.
- Capital Markets opened for private Entrepreneurs
- Simplification of Licensing policy
- Opportunity to purchase foreign exchange at market prices
- Right To Take Independent Decisions Regarding The Market
- Better opportunity for completion
- Widened Liberty in the Realm of Business and Trade

Brief Evaluation of Liberalization :

From the Indian point of view, it is very difficult to say at this stage when the process of economic liberalization taken up by the govt. of India in 1990’s has realiy brought big economic gains to India gains to India. The process has no doubt brought some benefits through suffers from some deficiencies.

The Gains

The liberalization process has helped the free movement of goods and services it has led tobetter industrial performances. Industrial organizations have now become more efficient andmarket responsive. Country's exports are on the increase. Sectors such as information technology and computer soft ware here registered tremendous progress.

The Deficiencies

Liberalization process has its deficiencies also. The economic reforms including liberalization were introduced all on a sudden and proper background was not created to take theirfull advantage and to face their consequences.

LIBERALIZATION IN INDIA

There are at least two striking features of main stream analysis of the economic reforms programme in India since 1991. The first which is evident not only in official govt. publications particularly English language financial press is the generally un-supported far by and large have been successful so both in achieving the medium term goals of structural adjustment and in preparing to economy for intake off in the new globalised environment. The important characteristics of the new policy may be described and explained under the following four heads liberalization; Privatization of the public sector, Globalization and market friendly state. Liberalization is the thrust of the policy is the freedom for the entrepreneur. The new policy permits foreign direct investment to a large extent and in a larger number of Industries then before.

PRIVATIZATION

Privatization is a managerial approach that has attracted the interest of many categories of people academicians, politicians, government employee players of the private sector and public on the whole. Privatization has an adverse impact on the employee morale and generates fear of dislocation or termination more likely it also adds on to the apprehension pertaining to accountability and quality. Experts both advocate and criticize Privatization making it more or less provocative decision that calls for diligent scurrying by the decision makers in assessment of pros and cons attached to the concerned policy.

In India Privatization has been accepted with a lot of resistance and has been dormant initially during the inception period of economic Liberalization in the country. The article intends to analyze the present status of Privatization in India and summarize its advantages and disadvantages in context with the Indian economy. Privatization is also one of the aspects of the new economic policy which came to take shape in the decade 1990. The term "Privatization " can notes wide range of ideas. But the broad meaning of Privatization is that in the economic field much broader role is to be agencies and the role of the public sector activities is to be limited.

Privatization refers to any process hat reduces the involvement of the state, public sector in economic activities of a nation. The Privatization process in a mixed economy such as of India includes:

- Decentralization the transfer of the ownership of productive assets to the private sector.
- Entry of private sector industries into the areas exclusive reserved for the state sector or which are considered exclusive monopolies of state.
- Limiting the scope of the public sector or no more diversification of existing public sector understandings.

DEFINITION OF PRIVATIZATION :

- Steve H. Hanke refers to Privatization as "the process whereby the public operations are transferred to the private sector".
- Barbara Lee and John Nellis define the concept in this manner: " Privatization is the general process of involving the private sector in the ownership or operation of a state owned enterprise. Thus the term refers to private purchase of all or part of a company. It cover "contractedly out" and the Privatization of management through management contracts leases or franchise arrangements."

MAIN OBJECTIVEOF PRIVATIZATION

1. The process of Privatization has been triggered with the main intention of improving industrial efficiency and to facilitate the inflow of foreign investments.
2. It also wants to make the public sector undertakings strong able efficient companies. It recommends a change in the role of the government from that of the "owner manager" to that of a mere "controller" or "regular".
3. It also intend to ensure efficient utilization of all types of resources including human resources.
4. Privatization insists on the government to concentrate on the area such as education administration and infrastructure and to give up the responsibility of looking after business and running industries. It is expected to strengthen the capital market by following appropriate trade policies.

PRIVATIZATION IN INDIA

In India the wave of Privatization that was generated during the Eighties (1980s) became more powerful when Rajiv Gandhi assumed office as the Prime minister of India. The issue of Privatization in India has to be understood in the context of – the relative inefficiency of the public sector industries, dearth of financial resources, defective competition system, continuouslabour problem and so on.

When India became independent it embarked upon planned economic development.In order to accelerate the economic development it started giving more important to the publicsector on which the Government had its control. The Industrial Policy Resolution of 1956 alsogave importance to the public sector industries. The growth of the public sector assume importance in the Indian economy. It contributed to employment opportunities, capital formation , development of infrastructure, increase in exports over the years, and to many other areas. But itfailed in certain respects. It failed to generate adequate surpluses to support sustained growth. The public sector was also a failure in obtaining consistent profits, fulfilling labour demands and interests, encouraging industrial researches, reducing the cost of the production, achieving technical expertise, and in successfully facing the competition at the hand of the private sector. During the later years of Mrs. Indira Gandhi's regime a search for the new policy options began. Gradually, a new industrial policy started taking its shape. The essence of this policy is marketed forces must be allowed to play their role in shaping the economy. With the announcement of new economic policy on 24th July 1991 by Dr. Manmohan Singh, the then Union Finance Minister,India opted for a radical change.

ADVANTAGES OFPRIVATIZATION

Efficiency, Absences of political interference, Quality service, Systematic marketing Use of freedom technology.

- Accountability.
- Innovation.
- Research and development.
- Infrastructure.

ARGUMENTS IN FAVOUR OF PRIVATIZATION

- Privatization is Necessary to Revitalize the State Owned Enterprises
- Privatization is Necessary to Face Global Competition
- Privatization is Needed to Create More Employment Opportunities in Future
- Helpful for Mobilizing and Investing Resources
- Recognition of Talents and Good Performance of work

ARGUMENT AGAINSTPRIVATIZATION

- Profitability Alone Should Not Become the Sole Yardstick to Measure Efficiency

- Role of Public Sector Undertaking From the socio-Economic Angle Also Cannot beignored
- Protection of the Interests of the Weaker Section
- Price –fixing Policy Here is Not Profit- Oriented
- Argument that the Private Sector Is More Efficient than the Public Sector is Not right

GLOBALIZATION

Globalization represent one of the aspects of the new economic policy lunched in the decades of 1980 and 1990s. The new economic policy has also maid the economy out wardly oriented such that its activities are now to be governed both by domestic market and the world market. The general usages of the terms Globalization can be follows ,

- Interaction and interdependence among countries
- Integration of world economy
- Deterritorisation

The tem Globalization was first coined in 1980s . But even before this there were interaction among nations. But in the modern days Globalization has launched all spheres of life such as economy, education, technology , cultural phenomenon , social aspects etc……the term global village is also frequently used to high light the significance of the Globalization . " Globalization of production refers to the integration of economic activities by units of private capital on awaked scale ."S.K Misra and V.K Pury "stated that in simple terms Globalization means integrating economy of a country with the world economy."

In simple words" Globalization is refers to a process of increasing economic integration and growing economic interdependence between countries in the world economy"

The word Globalization is now used to sum contemporary world order. But the influence of the Globalization of directly visible in the economic field and hence the term is very often taken to me economic Globalization of market. The Globalization defined as the process whereby there is social, cultural, technological, exchange across the border.

STEPS INGLOBALIZATION

- Need for corporate sector to go global : The Indian corporate sector has to take lead and initiative in bringing about the Globalization of the economy. To go global a corporate must consciously .

- Needs to promote competitiveness of Indian producers : to succeed in global market ,competitiveness of Indian producers has to be improved .
- Need to adopt new strategies; the changes realities of the global environment detect that the Indian firms must in order to survive.
- Need to create favorable environment; world class companies need to undergo a change.
- Need to set up new institutions
- Need for a rules and regulations : if we want make our companies world – class wealso need rule and regulations that are in leave with global corporate and financial norms.

INDIA'S AWAKNINGTO A GLOBALISED WORLD

The origin of globalizations in India need to be the analyses in terms of economic changes brought about in the country in the last decades of 20th century. The definite move towards economic Globalization came in the summer of 1991 when the country found itself in the midst of a series balance of payment crisis and was bailed out by the IMF and that world bank offered programs of stabilization and structural adjustment which India was hardly in a position to refuse. The Liberalization and Globalization of the Indian economy are the key components of the package of the reforms adopted and implemented following the 1992 crises.

INDIA'S PERSPECTIVESON GLOBALAISATION

The concept of Globalization to describe a verity of changing economical , political, and cultural process . the development of Globalization is in India as which traditionally had quite a developed pre industrial base trade and market , the market and trade relation continue to be located in local cultural even today . Also , the economic policies of India up to the 1980 has been that of import substitution and protectionism . The political Globalization in India ends up with the discussion on the survival and weakening of nations state besides the nation state , another issues relating to Globalization is that of political ethnocentrism.

ADVANTAGES OF GLOBALAISATION

- Better and faster industrialization: the flow of industrial units from developed countries todeveloping countries gives speed of industries helping global industrialization. Helps over all balanced development.
- Flow of capital: moves from to surplus countries to the needy in globalization. Investors get advantage of better returns for his capital.
- Speed of production facilities throughout the world: the production units give cost competitive and wider availability and manufactured gods.

- Flow of technology : the advanced level of technology flow from developed country to less developed countries .
- Increase in conception: due to technology and the spared up gradation the demand increases formanufactured good
- Attitude: thinking globally in major plus point in globalization

Disadvantages of Globalization

- Globalization discourages domestic industry and business: with sophistication in technologies and large scale production felicities of other countries domestic trade and industries is hit.
- Problem on the labor front: the process of Globalization needs to job lay offs and exploitation of human recourses. This is especially applicable to under developed countries.
- Widening rich and poor divide: the un employment and decline of in income level in lowerstrata of society widen the gap between the rich and poor more and more.
- Transfer of national recourses: the developed countries tend to establish factories in under developed countries may lead to commercial exploitation

SOURCE: http://www.kcgjournal.org/ss/issue11/dharini.php

FRANCHISING

The Concept of Franchising

To all of us as consumers, a McDonald's or a KFC or a Cafe Coffee Day for that matter in India, or abroad largely look the same. Yet beneath this layer of similarity reside two entirely different organisations - the invisible company that owns the brand, and the company that operates the visible outlet- the franchise.

A 'franchise' means the special right given by a manufacturer or a parent organisation to another individual or firm to sell the former's product or service in a specified area(s). Thus, a right given by McDonalds to someone in India to sell McDonalds' products in a particular area in Delhi, for example, is an example of a franchise agreement. The person or organisation which grants the right is called ***franchiser***. The individual or enterprise to which the right is granted is called***franchisee***. Thus, in our example, McDonalds is the franchiser and the person to whom the right has been given to sell McDonalds' products in Delhi is the franchisee. Because this person in India gets the advantage of selling goods of a big brand McDonalds, he is required to pay some fee to McDonalds in return.

The right granted by a franchiser to a franchisee is given under a special agreement known as the ***Franchise Agreement.*** A franchiser can have such an agreement with more than one franchisee. Thus, franchising is a term that defines the business relationship between two organizations where a franchisor, who is the owner of a brand name, product, or system of a business, permits a franchisee to use its brand, product, or business process for a fee.

Definition

Franchising may be defined as a contractual licence (right) granted by one person (franchiser) to another (franchisee) which:

- permits the franchisee to carry on a particular business using the franchiser's business know-how under the franchiser's brand as an independent business
- enables the franchiser to exercise control over the manner in which the franchisee carries on the franchised business
- requires the franchiser to provide the franchisee with ongoing support in carrying on the franchised business

Examples of Franchising

In India, NIIT (computer education), APTECH (computer education), Pizza Hut (fast food), McDonalds (fast food), Nirulas (fast food), Subway (fast food), Bata (shoes), Liberty (shoes), Nike (shoes and sports apparel), Adidas (shoes and sports apparel), Reebok (shoes and sports apparel), Van Huesen (clothing), Allen Solly (clothing), Pantaloons (clothing), Barista (coffee), Café Coffee Day (coffee) are examples of franchise agreements.

Features of Franchising

The salient features of franchising are as follows:

1. The franchiser allows the franchisee to use his trade mark under a licence.
2. The franchise agreement requires the franchisee to follow franchiser's policies regarding mode of operation of business.
3. The franchiser provides marketing support and technology to the franchisee to carry on business in the manner specified in the franchise agreement. Thus, a franchiser virtually sets up the business for the franchisee.
4. The franchiser may also arrange for the training of personnel working in the franchisee organisation.
5. The franchisee pays to the franchiser a sum of money (called royalty) for using his business know-how and trade mark.
6. The right to use the business know-how and trade mark of the franchiser is for a limited period of time defined in the franchise agreement. However, the franchise agreement may be renewed from time to time.

Franchise Manual

A franchise manual is the embodiment of the know-how of the franchise. The manual is a living document and will continually change as the business develops.

The following is an illustrative list of the likely contents of the franchise manual.

- Shop layout
- Staff uniform/appearance
- Staff etiquette
- Staff job descriptions
- Training requirements
- Pricing policies
- Storage requirements
- Advertising and marketing policies
- Technical information about equipment used
- Customer complaint procedures

Franchise Agreement

The agreement between franchiser and franchisee is called franchise agreement. Such an agreement contains various terms and conditions of the franchise.

Some of the terms and conditions of a franchise agreement are given below.

1. The term of the franchise.
2. The franchise agreement may be renewed with the mutual consent of both the parties on expiry of the term.
3. The franchisee agrees in the form of an undertaking not to carry other competing business during the term of the franchise. The franchiser, in turn, undertakes not to sell the franchise to any other person in the same region.
4. The franchisee gives an undertaking not to disclose any confidential information pertaining to the franchise during the term of the franchise agreement and two years thereafter.
5. The franchisee gives an undertaking to pay the specified royalty fee to the franchiser.
6. The franchiser gives an undertaking not to terminate the franchise agreement before the expiry of the term except for a "good cause".

Benefits of Franchising

(I) To the Franchiser

1. The franchise can expand his distribution system in the least possible time.
2. The franchiser is able to expand the business with little extra capital as the franchisee provides the capital for the outlet.
3. The franchiser gets important feedback about the popularity of the product and specific needs and preferences of the local customers from the franchisees.
4. Franchising enables the franchiser to increase his goodwill and reputation by expanding his network.
5. The Franchiser gains wider acceptance of his brand name through the franchisees.

(II) To the Franchisee

1. The business is based on a proven idea. The franchisee can check out how successful other franchisees are before committing himself.
2. The franchisee can use the brand name of the franchiser to attract customers and increase his sales.
3. The franchisee can get assistance from the franchiser in training his staff, promotion of the product, designing store layout etc.
4. There are greater chances of success of the franchisee because the brand of the franchiser is well known.
5. The franchise ensures a high degree of quality control. This enables the franchisee to satisfy his customers by offering quality products.

6. The franchisee enjoys exclusive rights in his territory. The franchiser won't sell any franchises in the same region.

Disadvantages of Franchising

(I) To the Franchiser

1. The franchiser's brand name and reputation may get tarnished if the franchisee is not able to maintain standards of quality and service.
2. The franchiser has to provide initial financial assistance and support in the form of staff training, advertising etc.
3. There are ongoing costs of supporting the franchisee and national advertising.

(II) To the Franchisee

1. The franchisee does not enjoy complete freedom in his business. The franchise agreement generally contains restrictions on how the franchisee would run the business.
2. Payment of royalty on a regular basis is to be made to the franchiser.
3. The franchisee cannot sell his business without taking approval from the franchiser.

Potential Disputes

There might be sometimes some disputes between the franchiser and the franchisee. Some possible causes of disputes may be:

1. Poor performance of the franchisee.
2. The franchisee may find that the franchiser has licensed another person in his territory.
3. The franchisee fails to pay the royalty fee.
4. There is a leak out of the confidential information pertaining to the franchise or the franchiser's business.

Meaning

The term e-commerce or electric commerce refers to a comprehensive system of trading that uses networks of computers for buying and selling of goods, information and services. In simple words, e-commerce refers to buying and selling of goods, information and services through electronic means.

Thus, e-commerce includes buying and selling of

1. Goods- e.g. digital cameras, music systems, clothes, accessories
2. Information-e.g. subscription to some law site may give access to some court cases
3. Services-e.g. matrimonial services through shaadi.com, placement services through naukri.com

The European Union website defines e-commerce as a general concept covering any form of business transactions or information exchange that is made by using information and communication technology. According to International Fiscal Association, e-commerce means “commercial transactions in which an order is placed electronically and goods or services are delivered in tangible or electronic form. For instance, a digital camera purchased by a consumer from indiatimes.com which might be delivered to him at his residence, is a good delivered in a tangible form whereas, a song downloaded from a site like cooltoad.com, is a good delivered in electronic form.

Classification of E-Commerce

Based upon the entities involved in transaction, electronic commerce has been classified into the following categories:

Business-to –Business (B2B)

1. Business-to-Consumer (B2C)
2. Consumer-to-Business (C2B)
3. Consumer-to-Consumer (C2C)

Business-to-Business (B2B) Electronic Commerce

Under B2B electronic commerce, commercial transactions take place between different business organisations. An example of B2B transaction is a business organisation purchasing material from suppliers. Compared to B2C and C2C transactions, the value per transaction is higher in B2B transactions because bulk purchases are made. The buyers also might get the advantage of discounts on bulk purchases.

Business-to-Consumer (B2C) Electronic Commerce

Under B2C electronic Commerce, commercial transactions take place between business firms and their consumers. Here companies sell goods, information or services to customers online in a more personalized dynamic environment. An example of B2C transaction is Amazon.com selling books to customers.

Consumer-to-Business (C2B) Electronic Commerce

C2B can be described as a form of electronic commerce where, the transaction, originated by the consumer has a set of requirement specifications or specific price for a commodity, service or item. It is the responsibility of electronic commerce business entity to match the requirements of the consumers to the best possible extent. For instance, a consumer may specify on a site like yatra.com his dates of travel, his source and destination of travel, specifying the total number of tickets required in business/economy class. Yatra.com then finds out the various options for him which best meet his requirements.

Consumer-to-Consumer (C2C) Electronic Commerce

C2C is the electronic commerce activity that provides the opportunity for trading of products and/or services amongst consumers who are connected through the internet. In this category, electronic tools and internet infrastructure are employed to support transactions between individuals. For instance, a consumer who wants to sell his property can post an ad on timesclassifieds.com. Another person interested in purchasing a property can browse the property ads posted on this site. Thus, the two consumers can get in touch with each other for sale/purchase of property through timesclassifieds.com.

BUSINESS PROCESS OUTSOURCING

Outsourcing or Business Process Outsourcing (BPO) means transferring a firm's non-core activities to an external provider. It means getting some business activities accomplished through an outside agency. For instance, a manufacturing firm instead of setting up its own advertising department may outsource the advertising work to some advertising agency. The Ad agency can help the client company in fixing the advertising budget, preparing advertising copy, choosing the most appropriate media such as TV, radio, newspapers, magazines and buying media space.

In an outsourcing agreement, there are two parties:

1. The outsourced, i.e., the client company which wants to outsource a business process
2. The vendor or external provider who provides the service to the company.

Thus, in the above example the manufacturing firm is the client company or the outsourced and the advertising firm is the vendor or the external provider.

Some of the business processes which may be outsourced include accounting and financial services, payroll services, inventory management, advertising services, healthcare and welfare services, market research, courier service etc.

Outsourcing enables a company to concentrate on its core activities by contracting out the non-core and routine activities to outsiders. There is no need for the firm to recruit, train and pay workers on a permanent basis to undertake non-core activities.

Benefits of BPO

Outsourcing offers the following advantages:

1. Outsourcing enables a firm to concentrate on its core activities as the non-core activities are outsourced to an external provider.
2. The external vendor is a specialist in performing the outsourced business process and thus can perform the same at a lower cost.
3. The firm need not create a separate department to perform non-core business processes and thus lesser investment needs to be done.
4. The external vendor provides his expert advice to the client company for better performance of outsourced services.
5. The firm has a freedom to choose the external provider who it thinks can perform the business process most efficiently. In case the firm is not satisfied with the performance of the vendor, it can terminate the contract and find a new vendor.
6. For certain services which are require temporarily, outsourcing them is the best option.

The Outsourcing Guide

Outsourcing business processes to an external vendor requires a careful consideration of the following areas:

1. Selection of the right activities to be outsourced
2. Identification of the right supplier of services

Which activities to outsource?

It is important to identify those activities of the business which an external provider can perform in a more cost efficient way. These are generally the non-core activities of a business. Such activities when outsourced to an external vendor do not require any fixed investment in the form of a separate department to perform these activities. However, the firm must be aware that outsourcing may imply loosing control over its operations.

Identifying the right supplier of services

Choosing the right company to outsource the jobs is not easy. It is important to identify the key technical and management issues in outsourcing. A few prime factors one has to focus on are:

- The vision and mission of the company in evaluation
- Balance sheets of the previous years
- Client lists
- Infrastructure

The external vendors are evaluated on these criteria and the best one is chosen with whom the firm will enter into an outsourcing agreement. The more providers there are in the market, the better position the firm is in for negotiating a deal. Besides, it also allows the firm the option to switch, if the need arises.

BPO in India

India is rapidly emerging as an outsourcing base for multinational corporations. India has low cost but highly qualified English speaking labour. Therefore, business process outsourcing is accelerating quite fast in India. Initially, companies which started experimenting with India as an outsourcing base were MNCs who started company owned back office operations and call centers. Very soon they started outsourcing more complex business processes to India. In India, companies like Infosys, Wipro, HCL Technologies and Satyam have entered BPO operations. With time, the upsurge in BPO has offered Indian companies a route to participate in the core business processes of MNCs and gradually move up the value chain. This would be the time when they will be more like business partners rather than mere suppliers of services to MNCs.

http://sol.du.ac.in/mod/book/view.php?id=576&chapterid=339

BUSINESS ORGANISATION AND MANAGEMENT

Unit II

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

Business Enterprises

A business can be organized in one of several ways, and the form its owners choose will affect the company's and owners' legal liability and income tax treatment. Here are the most common options and their major defining characteristics.

Sole proprietorship

With this type of business organization, you are the sole owner, and fully responsible for all debts and obligations related to your business. All profits are yours to keep. Because you are personally liable, a creditor can make a claim against your personal assets as well as your business assets in order to satisfy any debts.

Advantages:

- Easy and inexpensive to register
- Regulatory burden is generally light
- You have direct control of decision making
- Minimal working capital required for start-up
- Some tax advantages if your business is not doing well (for example, deducting your losses from your personal income, and a lower tax bracket when profits are low)
- All profits go to you directly

Disadvantages:

- Unlimited liability (if you have business debts, claims can be made against your personal assets to pay them off)
- Income is taxable at your personal rate and, if your business is profitable, this could put you in a higher tax bracket
- Lack of continuity for your business if you are unavailable
- Can be difficult to raise capital on your own

Partnership

A partnership is a non-incorporated business that is created between two or more people. In a partnership, your financial resources are combined with those of your business partner(s), and put into the business. You and your partner(s) would then share in the profits of the business according to any legal agreement you have drawn up.

In a **general partnership**, each partner is jointly liable for the debts of the partnership. In a **limited partnership**, a person can contribute to the business without being involved in its operations. A **limited liability partnership** is usually only available to a group of professionals, such as lawyers, accountants or doctors.

Limited Liability Company

Limited liability companies (LLCs) in the USA, are hybrid forms of business that have characteristics of both a corporation and a partnership. An LLC is not incorporated; hence, it is not considered a corporation.

Nonetheless, the owners enjoy limited liability like in a corporation. An LLC may elect to be taxed as a sole proprietorship, a partnership, or a corporation.

When establishing a partnership, you should have a partnership agreement in place. This is important because it establishes the terms of the partnership and can help you avoid disputes later on. Hiring a lawyer or other legal professional to help you draw up a partnership agreement will save you time and protect your interests.

Advantages:

- Fairly easy and inexpensive to form a partnership
- Start-up costs are shared equally with you and your partner(s)
- Equal share in the management, profits and assets
- Tax advantage — if income from the partnership is low or loses money (you and your partner(s) include your shares of the partnership in your individual tax returns)

Disadvantages:

- There is no legal difference between you and your business
- Unlimited liability (if you have business debts, personal assets can be used to pay off the debt)
- Can be difficult to find a suitable partner
- Possible development of conflict between you and your partner(s)

- You are held financially responsible for business decisions made by your partner(s); for example, contracts that are broken

- **Legal issues for small business**

  Do you really need a lawyer when you start your small business? Find out how legal counsel could benefit your business.

Corporation

Another type of business structure is a corporation. Incorporation can be done at the federal or provincial/territorial level. When you incorporate your business, it is considered to be a legal entity that is separate from its shareholders. As a shareholder of a corporation, you will not be personally liable for the debts, obligations or acts of the corporation. It is always wise to seek legal advice before incorporating.

Advantages:

- Limited liability
- Ownership is transferable
- Continuous existence
- Separate legal entity
- Easier to raise capital than it might be with other business structures
- Possible tax advantage as taxes may be lower for an incorporated business

Disadvantages:

- A corporation is closely regulated
- More expensive to set up a corporation than other business forms
- Extensive corporate records required, including documentation filed annually with the government
- Possible conflict between shareholders and directors
- You may be required to prove residency or citizenship of directors

Different Forms of Business Organization India – Basic Guide

The selection of a suitable form of ownership organisation is an important entrepreneurial decision because it influences the success and growth of a business — e.g., it determines the decision of profits, the risk associated with business, and so on. As discussed earlier, the different forms of private ownership organisation differ from each other in respect of division of profit, control, risk, legal formalities, flexibility, etc.

Therefore, a thoughtful consideration should be given to this problem and only that form of ownership should be chosen. Since the need for the selection of ownership organisation arises both initially, while starting a business, and at a later stage for meeting the needs of growth and expansion, it is desirable to discuss this question at both these levels.

For a new or proposed business, the selection of a suitable form of ownership organisation is generally governed by the following factors:

1. Nature of business activity:
This is an important factor having a direct bearing on the choice of a form of ownership. In small trading businesses, professions, and personal service trades, sole-proprietorship is predominant.

Examples are Laundromats, beauty parlours, repair shops, consulting agencies, small retail stores, medicine, dentist accounting concerns, boarding-house, restaurants, speciality ships, jobbing builders, painters, decorators, bakers, confectioners, tailoring shops, small scale shoe repairers and manufactures, etc. The partnership is suitable in all those cases where sole proprietorship is suitable, provided the business is to be carried on a slightly bigger scale.

Besides, partnership is also advantageous in case of manufacturing activities on a modest scale. The finance, insurance, and real estate industries seem to be suited to partnership form of organisation. Some of the financial businesses that find this form advantageous are tax, accounting, and stockbrokerage firms, and consulting agencies.

Service enterprises like hotels and lodging places; trading enterprises, such as wholesale trade, large scale retail houses; manufacturing enterprises, such as small drug manufacturers, etc. can be undertaken in the form of partnership. Manufacturing contains the highest percentage of companies among all industries. Similarly large chain stores, multiple shops, super-bazaars, engineering companies are in the form of companies.

2. Scale of operations:
The second factor that affects the form of ownership organisation is the scale of operations. If the scale of operations of business activities is small, sole proprietorship is suitable; if this scale of operations is modest — neither too small nor too large — partnership is preferable; whereas, in case of large scale of operations, the company form is advantageous.

The scale of business operations depends upon the size of the market area served, which, in turn, depends upon the size of demand for goods and services. If the market area is small, local, sole-proprietorship or partnership is opted. If the demand originates from a large area, partnership or company may be adopted.

3. Capital requirements:
Capital is one of the most crucial factors affecting the choice of a particular form of ownership organisation. Requirement of capital is closely related to the type of business and scale of operations. Enterprises requiring heavy investment (like iron and steel plants, medicinal plants, etc.) should be organised as joint stock companies.

Enterprises requiring small investment (like retail business stores, personal service enterprises, etc.) can be best organised as sole proprietorships. Apart from the initial capital required to start a business, the future capital requirements—to meet modernisation, expansion, and diversification plans —also affect the choice of form of ownership organisation.

In sole proprietorship, the owner may raise additional capital by borrowing, by purchasing on credit, and by investing additional amounts himself. Banks and suppliers, however, will look closely at the proprietor's individual financial resources before sanctioning loans or advances.

Partnerships can often raise funds with greater ease, since the resources and credit of all partners are combined in a single enterprise. Companies are usually best able to attract capital because investors are assured that their liability will be limited.

4. Degree of control and management:
The degree of control and management that an entrepreneur desires to have over business affects the choice of ownership organisation. In sole proprietorship, ownership, management, and control are completely fused, and therefore, the entrepreneur has

complete control over business. In partnership, management and control of business is jointly shared by partners.

They have equal voice in the management of partnership business except to the extent that they agree to divide among themselves the business responsibilities.

Even then, they are legally accountable to each other. In a company, however, there is divorce between ownership and management. The management and control of company business is entrusted to the elected representatives of shareholders.

Thus, a person wishing to have complete and direct control of business prefers proprietary organisation rather than partnership or company. If he is prepared to share it with others, he will choose partnership. But, if he is just not bothered about it, he will go in for company.

5. Degree of risk and liability:

The size of risk and the willingness of owners to bear it is an important consideration in the selection of a legal form of ownership organisation. The amount of risk involved in a business depends, among other, on the nature and size of business. Smaller the size of business, smaller the amount of risk.

Thus, a sole proprietary business carries small amount of risk with it as compared to partnership or company. However, the sole proprietor is personally liable for all the debts of the business to the extent of his entire property. Likewise, in partnership, partners are individually and jointly responsible for the liabilities of the partnership firm.

Companies have a real advantage, as far as the risk goes, over other forms of ownership. Creditors can force payment on their claims only to the limit of the company's assets. Thus, while a shareholder may lose the entire money he put into the company, he cannot be forced to contribute additional funds out of his own pocket to satisfy business debts.

6. Stability of business:

Stability of business is yet another factor that governs the choice of an ownership organisation. A stable business is preferred by the owners insofar as it helps him in attracting suppliers of capital who look for safety of investment and regular return, and also helps in getting competent workers and managers who look for security of service and opportunities of advancement. From this point of view, sole proprietorships are not stable, although no time limit is placed on them by law.

The illness of owner may derange the business and his death cause the demise of the business. Partnerships are also unstable, since they are terminated by the death, insolvency, insanity, or withdrawal of one of the partners. Companies have the most permanent legal structure. The life of the company is not dependent upon the life of this member. Members may come, members may go, but the company goes on forever.

7. Flexibility of administration:

As far as possible, the form of organisation chosen should allow flexibility of administration. The flexibility of administration is closely related to the internal organisation of a business, i.e., the manner in which organisational activities are structured into departments, sections, and units with a clear definition of authority and responsibility.

The internal organisation of a sole proprietary business, for instance, is very simple, and therefore, any change in its administration can be effected with least inconvenience and loss. To a large extent, the same is true of a partnership business also. In a company organisation, however, administration is not that flexible because its activities are conducted on a large scale and they are quite rigidly structured.

Any substantial change in the existing line of business activity — say from cotton textiles to sugar manufacturing — may not be permitted by law if such a provision is not made in the 'objects clause' of the Memorandum of Association of the company.

Even when it is permitted by the Memorandum, it might have to be endorsed by the shareholders at the general meeting of the company. Thus, from flexibility point of view, sole proprietorship has a distinct edge over other forms.

8. Division of profit:

Profit is the guiding force of private business and it has a tremendous influence on the selection of a particular form of ownership organisation. An entrepreneur desiring to pocket all the profits of business will naturally prefer sole proprietorship.

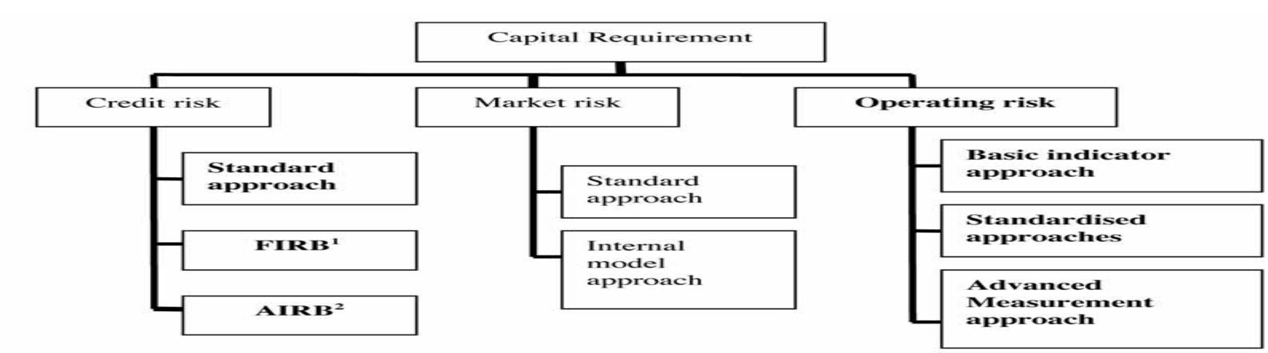


Image Courtesy : epress.anu.edu.au/agenda/016/01/images/Terry_fig_1.jpg

Of course, in sole proprietorship, the personal liability is also unlimited. But, if he is willing to share the profits partnership is best. In company organisation, however, the profits (whenever the Board of Directors decides) are distributed among shareholders in proportion to their shareholding, but the liability is also limited. The rate of dividend is generally quite low.

9. Costs, procedure, and government regulation:

This is also an important factor that should be taken into account while choosing a particular form of organisation. Different forms of organisation involve different procedure for establishment, and are governed by different laws which affect the immediate and long-term functioning of a business enterprise. From this point of view, sole proprietorships are the easiest and cheapest to get started. There is no government regulation. What is necessary is the technical competence and the business acumen of the owner.

Partnerships are also quite simple initiated. Even a written document is not necessarily a prerequisite, since an oral agreement can be equally effective. Company form of ownership is more complicated to from.

It can be created by law, dissolved by law, and operate under the complicated provisions of the law. In the formation of a company, a large number of legal formalities is to be gone through which entails, at times, quite a substantial amount of expenditure.

For example, the cost incurred on the drafting of the Memorandum of Association, the Articles of Association, the Prospectus, issuing of share capital, etc. This cost is however, small in case of private companies. Besides, companies are subjected to a large number of anti-monopoly and other economic laws so that they do not hamper the public interest.

The consideration of the various factors listed above clearly shows that:

(a) These factors do not exist in isolation, but are interdependent, and they are all important in their own right. Nevertheless, the factors of nature of business and scale of operations are the most basic ones in the selection of a form of ownership.

All other factors are dependent on these basic considerations. For instance, the financial requirements of a business will depend on the nature of business and the scale of operations planned. To take an example, if a business wants to set up a trading enterprise (say, a retail store) on a small scale, his financial requirements will be small.

(b) The various factors listed above are only major factors, and in no case they constitute an exhaustive list. Depending upon the requirements of the business and the demands of the situation and sometimes even the personal preference of the owner, the choice of a form of ownership is made.

(c) The problem in choosing the best form of ownership is one of analysing and weighing relative advantages and disadvantages to find the one that will yield the highest net advantage. And for that, weights may be assigned to different factors depending upon their importance in each form of organisation, and the organisation that obtains the maximum weights may be ultimately selected.

Forms of Public Enterprises

An important question arises as to what should be the form of organisation for running state enterprises, suitable form of organisation will increase the efficiency of the concern. Excessive dependence on government or finances will increase government interference in the day to day working. These enterprises should be run on business lines and necessary autonomy should be allowed to them. Following forms of organisation are generally used for state enterprises.

A. Departmental Management:

Departmental form of organisation of managing state enterprises is the oldest form of organisation. In this form, the enterprise works as a part of government department. The finances are provided by the government and management is in the hands of civil servants. The Minister of the department is the ultimate in-charge of the enterprise.

The enterprise is subjected to legislative security. Departmental management is suitable for public utility services and strategic industries. In India, railways, post and telegraph, radio and television are working as government departments. In the same way, strategic industries like defence and atomic power are under government.

Characteristics:

(i) The undertakings are wholly dependent on government for finances. State treasury provides finances and surplus money (profits) is deposited in treasury.

(ii) The management is in the hands of the government. The enterprise is managed and controlled by the civil servants of the department.

(iii) The budget of the department is passed by the Parliament and/or by the state legislature.

(iv) The accounting and audit control applicable to other government departments are applicable to state enterprises also.

(v) The department enjoys legal immunity. Governmental sanction is necessary for using the undertakings.

Advantages:

(i) Useful for Specific Industries:

Departmental form of organisation is necessary for public utility services. The motive of these industries is not to earn profits but to provide services at cheap rates. Strategic industries like defence and atomic power cannot be better managed than under government departments.

(ii) Help in Implementing Government Policies:

Government policies and programmes are better implemented by the enterprises under direct government control.

(iii) Complete Government Control:

Departmental undertakings are completely under government control. These undertakings are associated with one of the government departments. Government can regulate their working in a proper way.

(iv) Legislative Control:

These undertakings are under the control of legislatures. Government is answerable to the legislature for the working of departmental undertakings. Legislative control acts as a check on these undertakings.

(v) Source of Income for Government:

These undertakings are run on commercial lines. They earn profits like private enterprises. They provide finances to the government for initiating other social and development activities.

(vi) Secrecy:

Department undertakings can maintain secrecy in their workings. Secrecy is especially necessary for undertakings like defence.

(vii) Useful for Developing Enterprises:

Departmental form of organisation is necessary for those undertakings which are in a developing stage. They are suitable for enterprises where gestation period is long.

Disadvantages:

(i) Excessive Government Interference:

There is excessive government interference in departmental organisation. These undertakings are not given freedom to decide their own policies.

(ii) Shortage of Competent Staff:
Departmental undertakings are like administrative departments. Civil servants are given control of these undertakings. There is a shortage of competent persons who have commercial experience. Civil servants are not suitable for running commercial organisations.

(iii) Centralisation of Powers:
All policies are decided at the ministerial level. The powers are centralised at the higher level. It adversely affects the efficiency of the concerns.

(iv) Red Tapism:
There is delay in taking important decisions. Red tapism is prevalent as in other government departments. Commercial organisations cannot afford delay in taking decisions.

(v) Inefficiency:
Losses in departmental undertakings are not taken seriously. No efficiency standards are set for these undertakings. They are run as government departments and not as commercial undertakings.

(vi) Political Changes affect their Working:
The change in government involves shift in policies of departmental undertakings. Every political party tries to manage departmental undertakings according to its election manifesto. This adversely affects the working of these undertakings.

B. Public Corporations:
Public Corporations are created by a special stature of a state or central government. A legislative act is passed by defining the sphere of work and mode of management of the undertakings. A public corporation is a separate legal entity created for a specific purpose.

In India, the Reserve Bank of India, Damodar Valley Corporation, State Trading Corporation, Industrial Development Bank of India, Industrial Finance Corporation are some of the corporations created by special acts of Parliament.

According to President Roosevelt, "A public corporation is clothed with the powers of the government but possessed of the flexibility and initiative of private enterprise." "Public Corporation is a continuation of public ownership, public accountability and business management for public ends."

An exhaustive definition is given by Earnest Davis, “Public Corporation is a corporate body, created by public authority with defined powers and functions and is financially independent. It is administered by a board appointed by public authority to which it is answerable. Its capital structure and financial operations are similar to those of public company, but its stock holders retain no equity interests and are deprived of voting rights and power of appointment of the board.”

Characteristics:

(i) Separate Legal Entity:

A public corporation is created by a separate legislative act. It is a separate legal entity. It can sue or be sued without any government approval.

(ii) Government Investment:

These corporations are financed by the government. In some cases private capital may also be associated, but at least 51% of the shares are held by the government.

(iii) Financial Autonomy:

Corporations are not dependent on the state exchequer for its day-to-day financial requirements. Legislatures do not pass their budgets. They can also raise loans separately.

(iv) Government Appointed Management:

The management of the corporation is appointed by the Government. Generally a board is nominated to manage these undertakings.

(v) Service Motive:

The motive of public corporations is to provide service to the public at a reasonable price.

(vi) Independent Recruitment of Employees:

These corporations recruit their own employees. They can appoint capable persons to manage the corporations on commercial lines.

(vii) No Government Interference:

Public corporations are free from government interference. They execute their independent policies. They do not depend upon government departments for determining their policies.

Advantages:

(i) Internal Autonomy:

Public corporations have internal freedom. They can devise their own policies and programmes. They can set their own goals and can decide their own line of action.

(ii) Flexibility:
There is no rigidity in their working as in case of departmental undertakings. The flexibility is necessary for the success of a business concern. The management is free to take decisions in the interest of the organisation.

(iii) Free from Government Interference:
Public corporations are free from government interference. They are not dependent on government departments. Various policies are decided independently. Management is free to manage these undertakings.

(iv) Employment of Competent Persons:
These corporations utilise the services of competent persons. They are free to employ persons according to their requirements. All important positions are given to capable persons. They have their own cadres of employees.

(v) Run on Business Lines:
These undertakings are run on commercial lines. They also earn profits like private concerns. It helps these undertakings to finance their schemes and undertake expansion plans.

(vi) Accountability:
These undertakings are accountable to the legislature for their performance. They try to increase their efficiency, otherwise they are criticised in the Parliament or state legislature.

(vii) Service to Society:
Public corporations provide commodities and services to the people at reasonable prices. Though they also earn profits, their primary aim is to help the society in getting various services.

Disadvantages:
(i) Limited Autonomy:
Though public corporations enjoy internal autonomy, still government's interference is there. Concerned government department exercises direct or indirect control over these bodies. All important policies are decided with government approval. Management is also appointed by the government. So, limited autonomy is exercised by these corporations.

(ii) Difficulty in making Changes:

Any change in the sphere of activities of the corporation involves a change in the statute of the corporation. The statute can be amended only by a legislature. It is a difficult process and takes much more time.

(iii) Misuse of Financial Autonomy:
Financial autonomy of the corporation is sometimes misused by the management. Public money may be wasted on unnecessary projects.

(iv) Lack of Personal Touch:
Corporations are managed by the salaried employees. Top managerial personnel are also paid employees. There is lack of personal touch. Everything is managed in a routine way.

(v) Government Control:
Though these corporations are autonomous bodies, still there are many controls exercised by the government. Public Accounts Committee and Auditor and Comptroller General of India exercise control on these corporations.

C. Government Company Organisation:
A company owned by central and/or state government is called a government company. Either whole of the capital or majority of the shares are owned by the government. In some cases, private investment is also encouraged but at least 51% shares are held by the government. Management of these companies is under the control of the government. Subsidiary companies of government companies are also covered under government companies.

According to Indian Companies Act, 1956, "Government company means any company in which not less than 51 per cent of the paid up share capital is held by the central government or by any state government or governments or partly by the central government and partly by one or more state governments and includes a company which is a subsidiary of a government company."

Government companies are registered both as public limited and private limited companies but the management remains with the government in both the cases. Government companies enjoy some privileges which are not available to non-government companies. No special statute is required to form government companies.

Government companies enter those fields where private investment is not forthcoming. Sometimes, government has to take over sick units in private sector. These companies are also useful where joint ventures are to be taken up. Nationalised industries can also be run up by government companies. Some of the examples of government companies in India are Coal Mines Authority Ltd., Steel Authority of India Ltd.

Advantages:

(i) Flexibility in management:

There is a freedom and flexibility in the management of government companies. Companies can organise their working according to the necessity of the situation.

(ii) Run on commercial lines:

Government companies are run on sound business lines. They earn surpluses to finance their own expansion plans.

(iii) Healthy competition:

Government companies provide healthy competition to the private sector. Private businessmen will have to be careful in fixing their prices. The consumer is not at the mercy of the private businessmen.

(iv) Financial autonomy:

These companies are dependent on the government only for their initial investments. They can plan their own capital structure. The companies earn profits and these profits can be used for further investments.

(v) Helpful in developing neglected sectors:

There are certain sectors which are important from the national point of view. Private sector may not be coming forth to invest in such sectors. Government companies can enter all the neglected areas and can help all-round growth.

(vi) Providing industrial environment:

An industrial infrastructure is provided by the government companies. They help the growth of ancillary units.

Disadvantages:

(i) Slackness in management:

The management of government companies is slackened under the garb of public service. These companies are not generally as efficient as units in the private sector.

(ii) Political interference:

There is a lot of political interference in government companies. Every government tries to nominate directors from its own political party and the companies are run on political considerations.

(iii) Red tapism:

These companies are dependent on the government for taking important policy decisions. Red-tapism in government departments affects the working of these companies.

(iv) Limited autonomy:

Theoretically, these companies are free from government control but in reality they are dependent on various government departments. They have to get permission from government departments regarding loans, capital and managerial appointments.

(v) Official domination:

Civil servants are appointed on important managerial posts of these companies. They are not capable of running these undertakings on sound business lines.

International Business conducts business transactions all over the world. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries. International business involves exports and imports.

An international business has many options for doing business, it includes,

1. Exporting goods and services.
2. Giving license to produce goods in the host country.
3. Starting a joint venture with a company.
4. Opening a branch for producing & distributing goods in the host country.
5. Providing managerial services to companies in the host country.

Features of International Business

The nature and **characteristics** or features of international business are:-

1. **Large scale operations** : In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.
2. **Intergration of economies** : International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labour from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.
3. **Dominated by developed countries and MNCs** : International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. This is because they have large financial and other resources. They also have the best technology and research and development (R & D). They have highly skilled employees and managers because they give very high salaries and other benefits. Therefore, they produce good quality goods and services at low prices. This helps them to capture and dominate the world market.

4. **Benefits to participating countries** : International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.
5. **Keen competition** : International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favourable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.
6. **Special role of science and technology** : International business gives a lot of importance to science and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global business. International business helps them to transfer such top high-end technologies to the developing countries.
7. **International restrictions** : International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.
8. **Sensitive nature** : The international business is very sensitive in nature. Any changes in the economic policies, technology, political environment, etc. has a huge impact on it. Therefore, international business must conduct marketing research to find out and study these changes. They must adjust their business activities and adapt accordingly to survive changes.

MULTINATIONAL CORPORATION

Meaning of Multinational Companies (MNCs):

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country.

It must be emphasized that the headquarters of a multinational company are located in the home country.

Neil H. Jacoby defines a multinational company as follows:

"A multinational corporation owns and manages business in two or more countries."

Features of Multinational Corporations (MNCs):

(i) Huge Assets and Turnover:

Because of operations on a global basis, MNCs have huge physical and financial assets. This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.

(ii) International Operations Through a Network of Branches:

MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries.

(iii) Unity of Control:

MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Managements of branches operate within the policy framework of the parent corporation.

(iv) Mighty Economic Power:

MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of companies, in host countries.

(v) Advanced and Sophisticated Technology:

Generally, a MNC has at its command advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

(vi) Professional Management:

A MNC employs professionally trained managers to handle huge funds, advanced technology and international business operations.

(vii)Aggressive Advertising and Marketing:

MNCs spend huge sums of money on advertising and marketing to secure international business. This is, perhaps, the biggest strategy of success of MNCs. Because of this strategy, they are able to sell whatever products/services, they produce/generate.

(viii) Better Quality of Products:

A MNC has to compete on the world level. It, therefore, has to pay special attention to the quality of its products.

Advantages and Limitations of MNCs:

Advantages of MNCs from the Viewpoint of Host Country:

We propose to examine the advantages and limitations of MNCs from the viewpoint of the host country. In fact, advantages of MNCs make for the case in favour of MNCs; while limitations of MNCs become the case against MNCs.

(i) Employment Generation:
MNCs create large scale employment opportunities in host countries. This is a big advantage of MNCs for countries; where there is a lot of unemployment.

(ii) Automatic Inflow of Foreign Capital:
MNCs bring in much needed capital for the rapid development of developing countries. In fact, with the entry of MNCs, inflow of foreign capital is automatic. As a result of the entry of MNCs, India e.g. has attracted foreign investment with several million dollars.

(iii) Proper Use of Idle Resources:
Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country.

(iv) Improvement in Balance of Payment Position:
MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position.

(vi) Technical Development:
MNCs carry the advantages of technical development 10 host countries. In fact, MNCs are a vehicle for transference of technical development from one country to another. Because of MNCs poor host countries also begin to develop technically.

(vii) Managerial Development:
MNCs employ latest management techniques. People employed by MNCs do a lot of research in management. In a way, they help to professionalize management along latest lines of management theory and practice. This leads to managerial development in host countries.

(viii) End of Local Monopolies:
The entry of MNCs leads to competition in the host countries. Local monopolies of host countries either start improving their products or reduce their prices. Thus MNCs put an end to exploitative practices of local monopolists. As a matter of fact, MNCs compel domestic companies to improve their efficiency and quality.

In India, many Indian companies acquired ISO-9000 quality certificates, due to fear of competition posed by MNCs.

(ix) Improvement in Standard of Living:
By providing super quality products and services, MNCs help to improve the standard of living of people of host countries.

(x) Promotion of international brotherhood and culture:
MNCs integrate economies of various nations with the world economy. Through their international dealings, MNCs promote international brotherhood and culture; and pave way for world peace and prosperity.

Limitations of MNCs from the Viewpoint of Host Country:
(i) Danger for Domestic Industries:
MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

(ii) Repatriation of Profits:
(Repatriation of profits means sending profits to their country).

MNCs earn huge profits. Repatriation of profits by MNCs adversely affects the foreign exchange reserves of the host country; which means that a large amount of foreign exchange goes out of the host country.

(iii) No Benefit to Poor People:
MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

(iv) Danger to Independence:
Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

(v) Disregard of the National Interests of the Host Country:
MNCs invest in most profitable sectors; and disregard the national goals and priorities of the host country. They do not care for the development of backward regions; and never care to solve chronic problems of the host country like unemployment and poverty.

(vi) Misuse of Mighty Status:
MNCs are powerful economic entities. They can afford to bear losses for a long while, in the hope of earning huge profits-once they have ended local competition and achieved monopoly. This may be the dirties strategy of MNCs to wipe off local competitors from the host country.

(vii) Careless Exploitation of Natural Resources:

MNCs tend to use the natural resources of the host country carelessly. They cause rapid depletion of some of the non-renewable natural resources of the host country. In this way, MNCs cause a permanent damage to the economic development of the host country.

(viii) Selfish Promotion of Alien Culture:
MNCs tend to promote alien culture in host country to sell their products. They make people forget about their own cultural heritage. In India, e.g. MNCs have created a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

(ix) Exploitation of People, in a Systematic Manner:
MNCs join hands with big business houses of host country and emerge as powerful monopolies. This leads to concentration of economic power only in a few hands. Gradually these monopolies make it their birth right to exploit poor people and enrich themselves at the cost of the poor working class.

Advantages from the Viewpoint of the Home Country:
Some of the advantages of the MNCs from the viewpoint of the home country are:
(i) MNCs usually get raw-materials and labour supplies from host countries at lower prices; specially when host countries are backward or developing economies.

(ii) MNCs can widen their market for goods by selling in host countries; and increase their profits. They usually have good earnings by way of dividends earned from operations in host countries.

(iii) Through operating in many countries and providing quality services, MNCs add to their international goodwill on which they can capitalize, in the long-run.

Limitations from the Viewpoint of the Home Country:
Some of the limitations of MNCs from the viewpoint of home country may be:
(i) There may be loss of employment in the home country, due to spreading manufacturing and marketing operations in other countries.

(ii) MNCs face severe problems of managing cultural diversity. This might distract managements' attention from main business issues, causing loss to the home country.

(iii) MNCs may face severe competition from bigger MNCs in international markets. Their attention and finances might be more devoted to wasteful counter and competitive advertising; resulting in higher marketing costs and lesser profits for the home country.

BUSINESS ORGANIZATION AND MANAGEMENT

Unit III

Management and Organisation: The Process of Management- Planning- Decision-making- Strategy Formulation. Organizing Basic Considerations; Departmentation – Functional, Project, Matrix and Network; Delegation and Decentalisation of Authority; Groups and Teams.

UNIT III
Management

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

Management has the following 3 characteristics:

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

MANAGEMENT FUNCTIONS:

The 4 basic management functions that make up the management process are described in the following sections:

1. PLANNING
2. ORGANIZING
3. DIRECTING
4. CONTROLLING.

PLANNING: Planning involves choosing tasks that must be performed to attain organizational goals, outlining how the tasks must be performed, and indicating when they should be performed.

Planning activity focuses on attaining goals. Managers outline exactly what organizations should do to be successful. Planning is concerned with the success of the organization in the short term as well as in the long term.

ORGANIZING:

Organizing can be thought of as assigning the tasks developed in the planning stages, to various individuals or groups within the organization. Organizing is to create a mechanism to put plans into action.

People within the organization are given work assignments that contribute to the company's goals. Tasks are organized so that the output of each individual contributes to the success of departments, which, in turn, contributes to the success of divisions, which ultimately contributes to the success of the organization.

1. DIRECTING:

Directing is also referred to as motivating,leading. Directing can be defined as guiding the activities of organization members in he direction that helps the organization move towards the fulfillment of the goals.

The purpose of influencing is to increase productivity. Human-oriented work situations usually generate higher levels of production over the long term than do task oriented work situations because people find the latter type distasteful.

CONTROLLING:

Controlling is the following roles played by the manager:

1. Gather information that measures performance
2. Compare present performance to pre established performance norms.
3. Determine the next action plan and modifications for meeting the desired performance parameters.

Controlling is an ongoing process.

Planning

Planning (also called **forethought**) is the process of thinking about and organizing the activities required to achieve a desired goal. It involves the creation and maintenance of a plan, such as psychological aspects that require conceptual skills. There are even a couple of tests to measure someone's capability of planning well. As such, planning is a fundamental property of intelligent behavior.

Also, planning has a specific process and is necessary for multiple occupations (particularly in fields such as management, business, etc.). In each field there are different types of plans that help companies achieve efficiency and effectiveness. An important, albeit often ignored aspect of planning, is the relationship it holds toforecasting. Forecasting can be described as predicting what the future will look like, whereas planning predicts what the future should look like for multiple scenarios. Planning combines forecasting with preparation of scenarios and how to react to them.

Planning is one of the most important project management and time management techniques. Planning is preparing a sequence of action steps to achieve some specific goal. If a person does it effectively, they can reduce much the necessary time and effort of achieving the goal. A plan is like a map. When following a plan, a person can see how much they have progressed towards their project goal and how far they are from their destination.

There are three main types of plans that a manager will use in his or her pursuit of company goals, which include **operational, tactical and strategic**. If you think about these three types of plans as stepping stones, you can see how their relationship to one another aids in the achievement of organizational goals. Operational plans are necessary to attain tactical plans and tactical plans lead to the achievement of strategic plans. Then, in true planning fashion, there are also plans to backup plans that fail. These are known as **contingency plans**. To better understand how each type of plan is used by managers, let's take a look at an example from Nino's Pizzeria and how Tommy, Martha and Frank carry out their planning responsibilities.

Strategic Plans

To best understand the relationship between the different types of plans, let's start at the top. **Strategic plans** are designed with the entire organization in mind and begin with an organization's mission. Top-level managers, such as CEOs or presidents, will design and execute strategic plans to paint a picture of the desired future and long-term goals of the organization. Essentially, strategic plans look ahead to where the organization wants to be in three, five, even ten years. Strategic plans, provided by top-level managers, serve as the framework for lower-level planning.

Tommy is a top-level manager for Nino's Pizzeria. As a top-level manager, Tommy must use strategic planning to ensure the long-term goals of the organization are reached. For Tommy, that means developing long-term strategies for achieving growth, improving productivity and profitability, boosting return on investments, improving customer service and finding ways to give back to the community in which it operates.

For example, Tommy's strategic plans for achieving growth, improving productivity and profitability and boosting return on investments are all part of the desired future of the pizzeria. Strategic plans also tend to require multilevel involvement so that each level of the organization plays a significant role in achieving the goals being strategically planned for. Top-level managers, such as Tommy, develop the organizational objectives so that middle- and lower-level managers can create compatible plans aligned with those objectives.

Tactical Plans

Now that you have a general idea for how organizational planning evolves, let's look at the next level of planning, known as tactical planning. **Tactical plans** support strategic plans by translating them into specific plans relevant to a distinct area of the organization. Tactical plans are concerned with the responsibility and functionality of lower-level departments to fulfill their parts of the strategic plan.

For example, when Martha, the middle-level manager at Nino's, learns about Tommy's strategic plan for increasing productivity, Martha immediately begins to think about possible tactical plans to ensure that happens. Tactical planning for Martha might include things like testing a new process in making pizzas that has been proven to shorten the amount of time it takes for prepping the pizza to be cooked or perhaps looking into purchasing a better oven that can speed up the amount of time it takes to cook a pizza or even considering ways to better map out delivery routes and drivers. As a tactical planner, Martha needs to create a set of calculated actions that take a shorter amount of time and are narrower in scope than the strategic plan is but still help to bring the organization closer to the long-term goal.

Operational Plans

Operational plans sit at the bottom of the totem pole; they are the plans that are made by frontline, or low-level, managers. All operational plans are focused on the specific procedures and processes that occur within the lowest levels of the organization. Managers must plan the routine tasks of the department using a high level of detail.

Frank, the frontline manager at Nino's Pizzeria, is responsible for operational planning. Operational planning activities for Frank would include things like scheduling employees each week; assessing, ordering and stocking inventory; creating a monthly budget; developing a promotional advertisement for the quarter to increase the sales of a certain product (such as the Hawaiian pizza) or outlining an employee's performance goals for the year.

Operational plans can be either single-use or ongoing plans. **Single-use plans** are those plans that are intended to be used only once. They include activities that would not be repeated and often have an expiration. Creating a monthly budget and developing a promotional advertisement for the quarter to increase the sales of a certain product are examples of how Frank would utilize single-use planning.

Ongoing plans are those plans that are built to withstand the test of time. They are created with the intent to be used several times and undergo changes when necessary. Outlining an employee's performance goals for the year would be considered an ongoing plan that Frank must develop, assess and update, if necessary. Ongoing plans are typically a **policy**, **procedure** or **rule**. Policies are general statements, or guidelines, that aid a manager in understanding routine responsibilities of his or her role as a manager. Examples of policies include things such as hiring, training, outlining and assessing performance appraisals and disciplining and terminating subordinates. A procedure details the step-by-step process of carrying out a certain task, such as assessing, ordering and stocking inventory. A rule provides managers and employees with specific and explicit guidelines of behavior that is what they should and should not do as a member of the organization.

DECISION MAKING

Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions.

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 alternative possible.

Download the PDF

Step 1: Identify the decision

You realize that you need to make a decision. Try to clearly define the nature of the decision you must make. This first step is very important.

Step 2: Gather relevant information

Collect some pertinent information before you make your decision: what information is needed, the best sources of information, and how to get it. This step involves both internal and external "work." Some information is internal: you'll seek it through a process of self-assessment. Other information is external: you'll find it online, in books, from other people, and from other sources.

Step 3: Identify the alternatives

As you collect information, you will probably identify several possible paths of action, or alternatives. You can also use your imagination and additional information to construct new alternatives. In this step, you will list all possible and desirable alternatives.

Step 4: Weigh the evidence

Draw on your information and emotions to imagine what it would be like if you carried out each of the alternatives to the end. Evaluate whether the need identified in Step 1 would be met or resolved through the use of each alternative. As you go through this difficult internal process, you'll begin to favor certain alternatives: those that seem to have a higher potential for reaching your goal. Finally, place the alternatives in a priority order, based upon your own value system.

Step 5: Choose among alternatives

Once you have weighed all the evidence, you are ready to select the alternative that seems to be best one for you. You may even choose a combination of alternatives. Your choice in Step 5 may very likely be the same or similar to the alternative you placed at the top of your list at the end of Step 4.

Step 6: Take action

You're now ready to take some positive action by beginning to implement the alternative you chose in Step 5.

Step 7: Review your decision & its consequences

In this final step, consider the results of your decision and evaluate whether or not it has resolved the need you identified in Step 1. If the decision has*not* met the identified need, you may want to repeat certain steps of the process to make a new decision. For example, you might want to gather more detailed or somewhat different information or explore additional alternatives.

STRATEGY FORMULATION

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. **The process of strategy formulation basically involves six main steps**. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

1. **Setting Organizations' objectives -** The key component 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 of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. 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 deployment of resources so as 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 and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to

conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.

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.

3. **Setting Quantitative Targets -** In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.
4. **Aiming in context with the divisional plans -** In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.
5. **Performance Analysis -** Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.
6. **Choice of Strategy -** This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

DEPARTMENTATION

Departmentalization (or simply departmentation) refers to the grouping of operating tasks into jobs, the combining of jobs into effective work groups and the combining of groups into divisions often termed as 'Departments'.

Grouping of activities into departments is necessary part of the process of setting up organisation, whenever enterprise expands beyond the size that cannot be effectively managed by one person. Departments and levels emerge from the grouping of activities.

According to Koontz and O'Donnell, "A department is a distinct area, division or branch of an enterprise over which a manager has authority for the performance of specified activities."'

In the words of Louis Allen, "Divisionalisation is a means of dividing the large and monolithic functional organisation into smaller flexible administrative units."

In simple words, departmentation is the process of classifying and grouping all the activities of an enterprise into different units and sub-units. The aim is to facilitate the carrying out of the activities efficiently for achieving overall results.

The management of the enterprise is made more effective by departmentation. It would have been a very difficult and complicated task to manage a large undertaking without divisionalisation.

The following are the basis of dividing responsibility within an organisation structure:

1. Functional Departmentation.

2. Product wise Departmentation.

3. Territorial or Geographical Departmentation.

4. Customer wise Departmentation.

5. Process or Equipment wise Departmentation.

6. Combined or Composite Form of Departmentation.

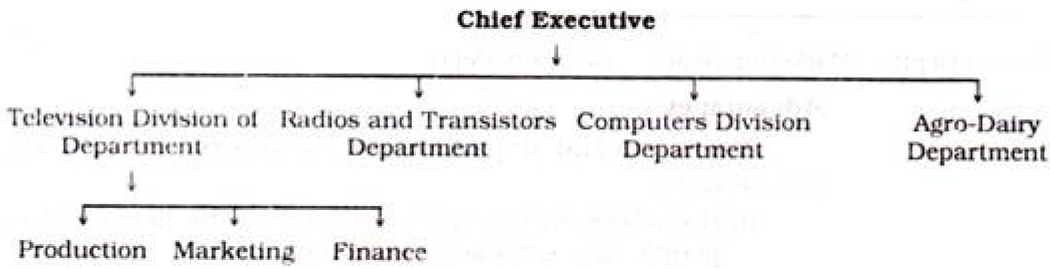
1. Functional Departmentation:

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.

2. Product Wise Departmentation:

The grouping of activities on the basis of products is very popular with large organisations 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.

A simple representation of product wise departmentation is given as follows:

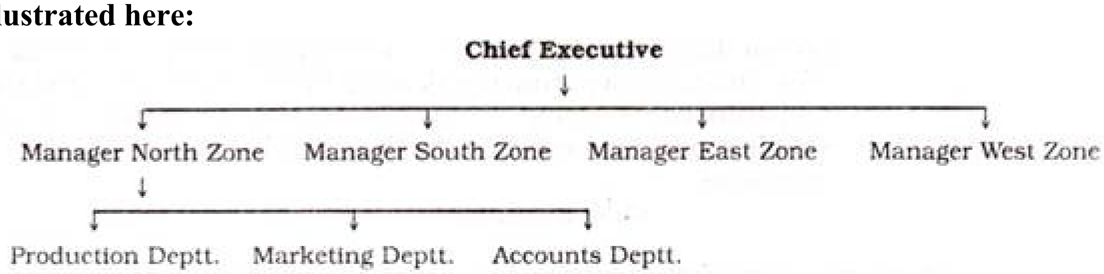


Product wise departmentation is also known as multifunctional product departmentation, because each product department handles all the functions concerning it.

3. Territorial or Geographical Departmentation:

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.

There may be further sub-division of activities under one zonal manager as illustrated here:



4. Customer Wise Departmentation:

A business house may be divided into a number of departments on the basis of customers it serves, viz., large and small 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 requirements can be read effectively.However, it may not be possible to group all activities of an enterprise on the basis of customers. In fact,the activities may be classified or grouped on such basis. But there may be problems of co-ordination with other departments. There may not be enough work, at times, in case of certain types of Customers. This may lead to idle capacity.

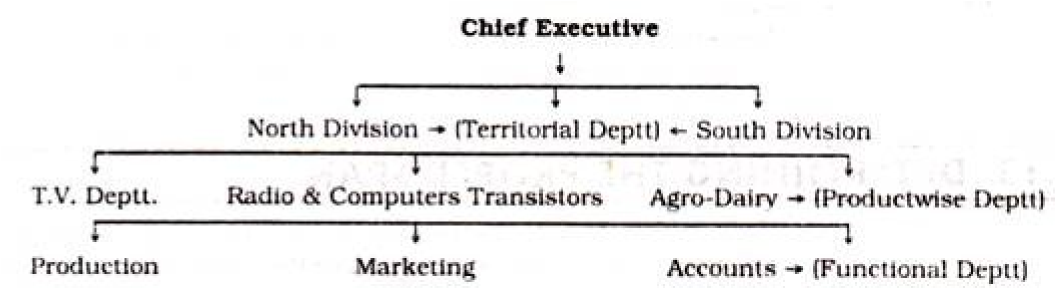
5. Process or Equipment Wise Departmentation:

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, such as milling departments, grinding departments, lathe department etc. The main advantage of this method is that it avoids duplication of equipment in various activities. Moreover, specialised people can be engaged to work on specialised equipments and departments.

6. Combined or Composite Method of Departmentation:

In practice, it may not be advisable to create departments on the basis of any one of the above mentioned methods. An enterprise may have to combine two or more of the methods of departmentaton to make best use of all of them. Such a method is known as combined or composite method of departmentation.

This can be illustrated as follows:



Functional Departmentalization

In **functional departmentalization**, an organization is organized into departments based upon the respective functions each performs for the organization. For example, a manufacturing company may create a production department, sales and marketing department, an accounting department, and a human resources department. Functional departmentalization may be advantageous because it can increase efficiency and expertise since all related activities are performed in one place by one group of people that specialize in that activity.

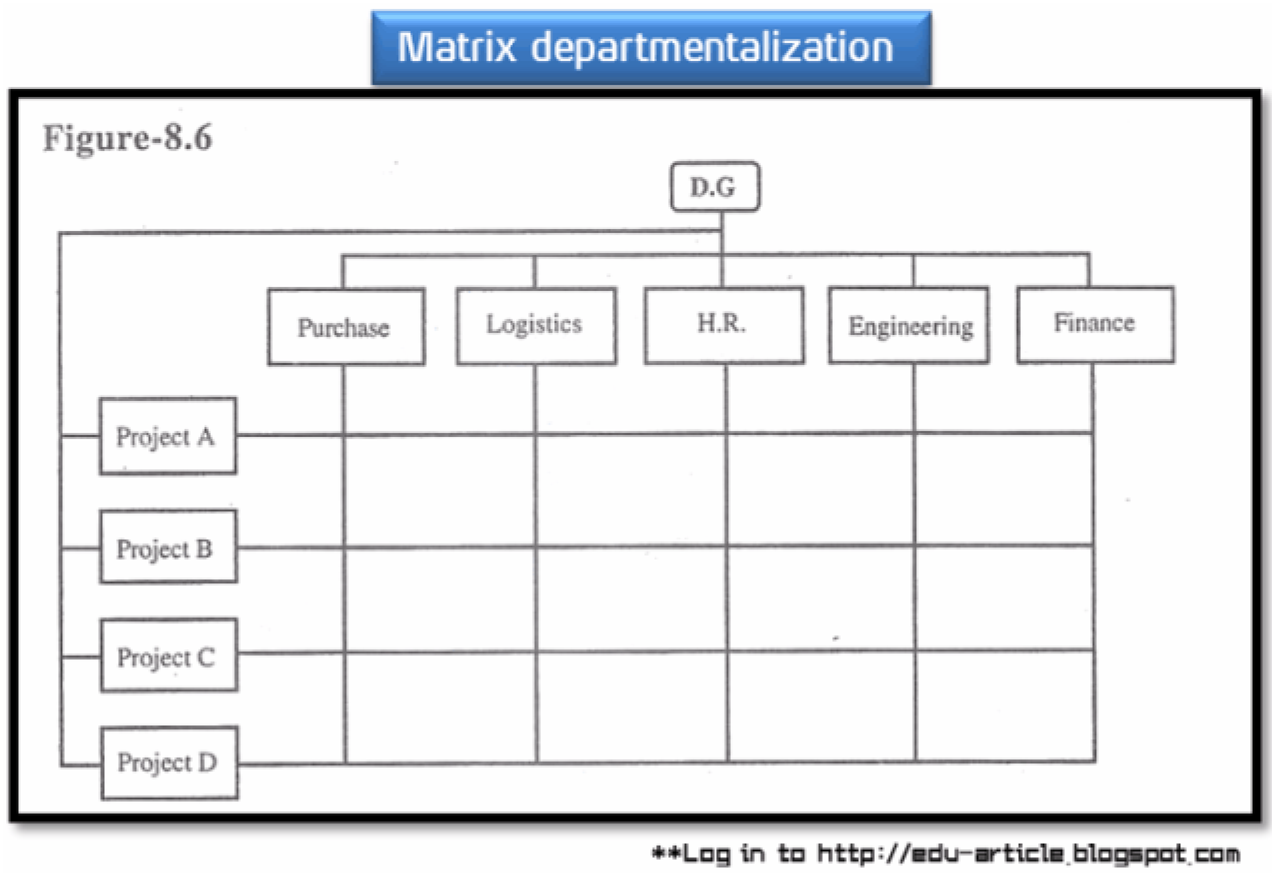
Functional Departmentalization – A form of organization that groups a company's activities around essential functions such as manufacturing, sales, or finance.

Matrix departmentalization to improve synchronization in enterprise's activities

Matrix departmentalization attempts to combine **functional** and **task force** (project) departmentalization designs to improve the synchronization of multiple components for a single activity (i.e., a moon launch), to improve the economics of scale, and to better serve the customer and company.

Matrix departmentalization was introduced in the early 1960's in response to the growing complexity and size of technically oriented enterprises, which needed more flexibility.

Initially the aerospace industry and later Dow Coming, General Electric, Shell Oil, and other industry giants adopted this concept of a project**management structure** superimposed on a traditional functional organization.



Supervision is dual, encompassing technical and administrative managers, and incorporates several reporting systems and interweaves communication lines for transmitting decisions.

The image illustrates a matrix form of organization structure. In the image, five managerial groups, represent five different functional areas within a firm (i.e., Purchase, Logistics, H.R, Engineering, and Finance.).

These functional areas, under the direct control and direction of the CEO, take proper care of the projects—A, B, C & D which are vital for the survival of the organization as a whole.

Many argue that this form of departmentalization achieves a more balanced form of organization structure and expedites complex and specialized **decision-making challenges**.

However, care should be exercised in adopting matrix departmentalization. The traditional "one worker, one boss" management practice is severely modified.

The matrix arrangement requires extensive communication, and it should meet internal company needs and not simply be grafted onto the existing organization in the hope of demonstrating progressive management thinking.

Matrix departmentalization may slow down decision-making and thus all managers must understand the rules of the game.

Usually, this necessitates an educational effort so that none feel that their decision-making is threatened, and non-management members learn how to function with two managers.

Advantages of Matrix departmentalization

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

Disadvantages of Matrix departmentalization

- Conflict in organization authority exists, causing uncertainty in reporting relationships
- The possibility of disunity of command exists.
- Requires the manager to be the most effective and efficient.

Problems with Matrix Organizations

Davis and Lawrence point out at least nine problems that can affect a matrix organization;

- **Tendencies towards anarchy:** Dual and multiple reporting can create "a formless state of confusion where people do not recognize a boss to whom they feel responsible."
- **Power struggles:** A matrix organization encourages jockeying for power and upward mobility because an individual's career path can appear "fuzzy".
- **Severe grouping:** Matrix behavior is often confused with group decision-making, which often wastes time and hampers managers from being quick and decisive.
- **Collapse during economic crunch:** Often when business declines for any number of internal or external reasons, the matrix form becomes the scapegoat for poor management and is discarded, even after tremendous investment in its creation.
- **Excessive overhead:** In initial phases, a matrix organization has high overhead costs. It appears that costs will double because of double management' and a dual chain of command. In the long run, however, extra costs should disappear and be offset by productivity gains.
- **Sinking to lower levels:** A matrix organization has difficulty existing at higher levels of a corporation and has a corresponding tendency to sink to group and division levels, where it thrives and flourishes.

- **Uncontrolled layering:** "Matrices which lie within matrices result frequently from the dynamics of power rather than from the logic of design."
- **Navel gazing:** Matrix managers can succumb to an excessive internal preoccupation with the interdependence of people and tasks and decisions, and lose touch with the external marketplace.
- **Decision strangulation:** A matrix can create too much democracy and foster an environment of too little action via endless delays for debate.

Delegation

A manager alone cannot perform all the tasks assigned to him. In order to meet the targets, the manager should delegate authority. Delegation of Authority means division of authority and powers downwards to the subordinate. Delegation is about entrusting someone else to do parts of your job. Delegation of authority can be defined as subdivision and sub-allocation of powers to the subordinates in order to achieve effective results.

Elements of Delegation

1. **Authority** - in context of a business organization, authority can be defined as the power and right of a person to use and allocate the resources efficiently, to take decisions and to give orders so as to achieve the organizational objectives. Authority must be well- defined. All people who have the authority should know what is the scope of their authority is and they shouldn't misutilize it. Authority is the right to give commands, orders and get the things done. The top level management has greatest authority.

   Authority always flows from top to bottom. It explains how a superior gets work done from his subordinate by clearly explaining what is expected of him and how he should go about it. Authority should be accompanied with an equal amount of responsibility. Delegating the authority to someone else doesn't imply escaping from accountability. Accountability still rest with the person having the utmost authority.

2. **Responsibility** - is the duty of the person to complete the task assigned to him. A person who is given the responsibility should ensure that he accomplishes the tasks assigned to him. If the tasks for which he was held responsible are not completed, then he should not give explanations or excuses. Responsibility without adequate authority leads to discontent and dissatisfaction among the person. Responsibility flows from bottom to top. The middle level and lower level management holds more responsibility. The person held responsible for a job is answerable for it. If he performs the tasks assigned as expected, he is bound for

praises. While if he doesn't accomplish tasks assigned as expected, then also he is answerable for that.

3. **Accountability** - means giving explanations for any variance in the actual performance from the expectations set. Accountability can not be delegated. For example, if 'A' is given a task with sufficient authority, and 'A' delegates this task to B and asks him to ensure that task is done well, responsibility rest with 'B', but accountability still rest with 'A'. The top level management is most accountable. Being accountable means being innovative as the person will think beyond his scope of job. Accountability, in short, means being answerable for the end result. Accountability can't be escaped. It arises from responsibility.

For achieving delegation, a manager has to work in a system and has to perform following steps : -

1. Assignment of tasks and duties
2. Granting of authority
3. Creating responsibility and accountability

Delegation of authority is the base of superior-subordinate relationship, it involves following steps:-

1. **Assignment of Duties -** The delegator first tries to define the task and duties to the subordinate. He also has to define the result expected from the subordinates. Clarity of duty as well as result expected has to be the first step in delegation.
2. **Granting of authority -** Subdivision of authority takes place when a superior divides and shares his authority with the subordinate. It is for this reason, every subordinate should be given enough independence to carry the task given to him by his superiors. The managers at all levels delegate authority and power which is attached to their job positions. The subdivision of powers is very important to get effective results.
3. **Creating Responsibility and Accountability -** The delegation process does not end once powers are granted to the subordinates. They at the same time have to be obligatory towards the duties assigned to them. Responsibility is said to be the factor or obligation of an individual to carry out his duties in best of his ability as per the directions of superior. Responsibility is very important. Therefore, it is that which gives effectiveness to authority. At the same time, responsibility is absolute and cannot be shifted. Accountability, on the others hand, is the obligation of the individual to carry out his duties as per the standards of performance. Therefore, it is said that authority is delegated, responsibility is created and accountability is imposed. Accountability arises out of responsibility and responsibility arises out of authority. Therefore, it becomes important that

with every authority position an equal and opposite responsibility should be attached.

Therefore every manager,i.e.,the delegator has to follow a system to finish up the delegation process. Equally important is the delegatee's role which means his responsibility and accountability is attached with the authority over to here.

Relationship between Authority and Responsibility

Authority is the legal right of person or superior to command his subordinates while accountability is the obligation of individual to carry out his duties as per standards of performance Authority flows from the superiors to subordinates,in which orders and instructions are given to subordinates to complete the task. It is only through authority, a manager exercises control. In a way through exercising the control the superior is demanding accountability from subordinates. If the marketing manager directs the sales supervisor for 50 units of sale to be undertaken in a month. If the above standards are not accomplished, it is the marketing manager who will be accountable to the chief executive officer. Therefore, we can say that authority flows from top to bottom and responsibility flows from bottom to top. Accountability is a result of responsibility and responsibility is result of authority. Therefore, for every authority an equal accountability is attached.

Differences between Authority and Responsibility

Authority	**Responsibility**
It is the legal right of a person or a superior to command his subordinates.	It is the obligation of subordinate to perform the work assigned to him.
Authority is attached to the position of a superior in concern.	Responsibility arises out of superior-subordinate relationship in which subordinate agrees to carry out duty given to him.
Authority can be delegated by a superior to a	Responsibility cannot be shifted and is absolute

subordinate	
It flows from top to bottom.	It flows from bottom to top.

Concept of Decentralisation:
Decentralisation is a conscious process of systematic distribution of authority by the top management down the line to create operative levels and to make them autonomous in there functioning.

In a highly decentralised organisation, the top management restricts itself to major decisions in areas like policy making, coordination and control. The lower level managers have enough decision making authority and support to introduce innovativeness in their work.

Characteristics of Decentralisation of Authority:
1. Decentralisation is both a philosophy of management (to prepare inside people for future positions) and a technique of organising (creating number of centres of initiative).

2. Decentralisation of authority is different from dispersal of activities (dispersal of activities in different geographies is a strategic decision; decentralisation is concerned with distribution of authority, not the activities).

3. Decentralisation is extension of Delegation: There may be delegation without decentralisation, but no decentralisation is possible without delegation.

4. Degree of decentralisation can be measured through number of decisions, more important decisions, the scope of decisions, and lesser the controls on lower-level mangers. The decision making would be situated nearer to the point of execution.

5. Decentralisation is just opposite to centralisation but centralisation and decentralisation are mutually dependent in a large organisation.

Need / Advantages / Importance / of Decentralisation:
1. Improves decision making at the top level to

2. Development of managerial personnel through exposure which provides the opportunity to grow.

3. Increases motivation and morale which is reflected in performance.

4. Quicker and better decisions, since decisions are not to be refreshed.

5. Creates healthy competition between different autonomous operative levels.

6. Adaptation to dynamic change is faster in a decentralised structure.

Problems / Drawbacks / Limitations of Decentralisation:

1. Problem of coordination because of independent work units.

2. Increased operating cost due to duplication of management functions in each unit.

3. It may lead to inconsistencies as uniform policies may not be followed for same type of work in different divisions.

4. Introduction in small concerns may not be practicable.

5. During a crisis decentralisation creates its own problems.

6. Managers, having worked in centralised systems, find uncomfortable to work in a more decentralised form.

Concept of Centralisation:

Centralisation means a conscious and systematic process of retention of authority in the hands of top-level managers.

Advantages / Merits of Centralisation:

1. Facilitates coordination as all the decisions are taken at one central point.

2. There is no duplication of efforts and resources.

3. Decisions are consistent, because they are made by same set of people each line.

4. Top management while deciding, keeps the balance among functions and departments.

5. Centralisation helps in maintaining confidentiality.

Disadvantages / Problems / Draw backs / Limitations of centralisation:

1. Decreases efficiency as top management is generally removed from the facts and realities of the actual situations.

2. Middle and lower level managers feel frustrated and hesitant to take any initiative.

3. Concentration of authority is always fraught with misuse of authority for personal gains.

4. In case of death, leaving the organisation, organisational growth is hampered as there is no immediate replacement.

GROUP

group can be defined as two or more interacting and interdependent individuals who come together to achieve particular objectives. A group behavior can be stated as a course of action a group takes as a family. For example: Strike.

Types of Groups

There are two types of groups an individual forms. They are formal groups and informal groups. Let us know about these two groups.

Formal Groups

These are the type of work groups created by the organization and have designated work assignments and rooted tasks. The behavior of such groups is directed toward achieving organizational goals.

These can be further classified into two sub-groups −

- **Command group** − It is a group consisting of individuals who report directly to the manager.

- **Interest group** − It is a group formed by individuals working together to achieve a specific objective. **Example** − A group of workers working on a project and reporting to the same manager is considered as a command group. A group of friends chilling out together is considered as interest group or say members of a club.

Informal Groups

These groups are formed with friendships and common interests. These can be further classified into two sub-groups −

- **Task group** − Those working together to finish a job or task is known as task group.
- **Friendship group** − Those brought together because of their shared interests or common characteristics is known as friendship group.

Why Do People Join Groups

There is no particular reason answering why individuals join groups. Group helps individual to feel stronger, have fewer self-doubts, and be more contrary to threats.

The following points help us understand the need of joining a group by individuals −

- **Security mirrors strength in numbers**. Status pinpoints a prestige that comes from belonging to a specific group. Inclusion in a group is considered as important because it provides recognition and status.
- **Self-esteem transmits people's feelings of self-worth**. Membership can sometimes raise feelings of self-esteem like being accepted into a highly valued group.
- **Affiliation with groups can meet one's social needs**. Work groups significantly contribute to meet the need for friendships and social relations.
- **Groups represent power**. What mostly cannot be achieved individually becomes possible with group effort. Power might be aimed to protect themselves from unreasonable demands. Informal groups provide options for individuals to practice power.
- **People may join a group for goal achievement**. Sometimes it takes more than one person to accomplish a particular task.

Group Roles

The concept of roles is applicable to all employees within an organization as well as to their life outside the organization. A role is a set of expected behavior patterns attributed to the one who occupies the position demanded by the social unit.

Individuals play multiple roles at the same time. Employees attempt to understand what kind of behavior is expected from them. An individual when presented by divergent role expectations experiences role conflict. Group roles are divided into three types −

- Task-oriented Roles
- Relationship-oriented Roles

- Individual Roles

Task-oriented Roles

Roles allotted to individuals according to their work and eligibility is known as task-oriented roles. Task-oriented roles can broadly divide individuals into six categories initiator, informer, clarifier, summarizer, reality tester and information seekers or providers respectively.

- **Initiator** − The one who proposes, suggests, defines.
- **Informer** − The one who offers facts, expresses feelings, gives opinions.
- **Clarifier** − The one who interprets, defines, clarifies everything.
- **Summarizer** − The one who links, restates, concludes, summarizes.
- **Reality Tester** − The one who provides critical analysis.
- **Information seekers or providers** − The one who gives information and data.

These roles present the work performed by different individuals according to their marked designation.

Relationship-oriented Roles

Roles that group individuals according to their efforts made to maintain healthy relationship in the group and achieve the goals are known as relationship-oriented roles. There are five categories of individuals in this category namely: harmonizer, gatekeeper, consensus tester, encourager, and compromiser.

- **Harmonizers** − The one who limits tension and reconciles disagreements.
- **Gatekeeper** − The one who ensures participation by all.
- **Consensus Tester** − The one who analyzes the decision-making process.
- **Encourager** − The one who is warm, responsive, active, shows acceptance.
- **Compromiser** − The one who admits error, limits conflict.

These roles depict the various roles an individual plays to maintain healthy self as well as group relationships.

Individual Roles

Roles that classify a person according to the measure of individual effort put in the project aimed is known as individual roles. Five types of individuals fall into these roles: aggressor, blocker, dominator, cavalier, and avoidance.

- **Aggressor** − The one who devalues others, attacks ideas.
- **Blocker** − The one who disagrees and rebels beyond reason.
- **Dominator** − The one who insists superiority to manipulate.
- **Cavalier** − The one who takes part in a group non-productively.
- **Avoidance** − The one who shows special interest to avoid task.

These are the various roles a person plays in an organization.

Well-Functioning Groups

We know what a group is, why it is important to form a group, and what the group-oriented roles are. Now we need to know how to mark a group as a well-functioning group, what features are necessary for a group to mark it as efficient.

A group is considered effective when it has the following characteristics.

- Relaxed, comfortable, friendly atmosphere.
- Task to be executed are well understood and accepted.
- Members listen well and actively participate in given assignments.
- Assignments are made clear and are accepted.
- Group is acquainted of its operation and function.
- People express their feelings and ideas openly.
- Consensus decision-making process is followed.
- Conflict and disagreement center regarding ideas or method.

Team

A team is a group of people, each of whom possesses particular expertise; each of whom is responsible for making individual decisions; who together hold a common purpose; who meet together to communicate, collaborate and consolidate knowledge, from which plans are made, actions determined and future decisions influenced.

Brill's (1976)

Teams are increasingly common and relevant from an organizational perspective, as globalization and technology continue to expand organizational scope and strategy. In organizations, teams can be constructed both vertically (varying levels of management) and horizontally (across functional disciplines). In order to maintain synergy between employees and organize resources, teams are increasingly common across industries and organizational types.

The Role of Teams

The primary role of a team is to combine resources, competencies, skills, and bandwidth to achieve organizational objectives. The underlying assumption of a well-functioning team is one of synergy, which is to say that the output of a team will be greater than the sum of each individual's contribution without a team architecture in place. As a result, teams are usually highly focused groups of employees, with the role of achieving specific tasks to support organizational success.

Cross-Functional Teams

Some organizations have a need for strong cross-functional teams that enable various functional competencies to align on shared objectives. This is particularly common at technology companies, where a number of specific disciplines are combined to produce complex products and/or services.

Team Processes

When considering the role of a team, it's important to understand the various processes that teams will carry out over time. At the beginning of a team set up (or when redirecting the efforts of a team), a transitional process is carried out. Once the team has set strategic goals, they can begin progressing towards the completion of those goals operationally. The final team process is one of interpersonal efficiency, or refining the team dynamic for efficiency and success.

More specifically, these processes can be described as follows:

Transitional Process

- Mission analysis
- Goal specification
- Strategy formulation

Action Process

- Monitoring progress toward goals
- Systems monitoring
- Team monitoring and backup behavior

- Coordination

Interpersonal Process

- Conflict management
- Motivation and confidence building
- Affect management

BUSINESS ORGANIZATION AND MANAGEMENT

UNIT IV

Leadership , Motivation and control 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.

Leadership

Definitions of Leadership

"The meaning of a message is the change which it produces in the image." — Kenneth Boulding in *The Image: Knowledge in Life and Society*

Leadership is a process by which a person influences others to accomplish an objective and directs the organization in a way that makes it more cohesive and coherent.

Some other popular definitions of Leadership are:

A process whereby an individual influences a group of individuals to achieve a common goal (Northouse, 2007, p3).

The U.S. military has studied leadership in depth. One of their definitions is a process by which a person influences others to accomplish a mission (U.S. Army, 1983).

Leadership is inspiring others to pursue your vision within the parameters you set, to the extent that it becomes a shared effort, a shared vision, and a shared success (Zeitchik, 2012).

Leadership is a process of social influence, which maximizes the efforts of others, towards the achievement of a goal (Kruse, 2013).

Leaders carry out this process by applying their leadership knowledge and skills. This is called *Process Leadership* (Jago, 1982). However, we know that we have traits that can influence our actions. This is called *Trait Leadership* (Jago, 1982), in that it was once common to believe that leaders were born rather than made. These two leadership types are shown in the chart below (Northouse, 2007, p5):

While leadership is learned, a leader's skills and knowledge can be influenced by his or hers attributes or traits, such as beliefs, values, ethics, and character. Knowledge and skills contribute directly to the *process* of leadership, while the other attributes give the leader certain characteristics that make him or her unique.

For example, a leader might have learned the skills in counseling others, but her traits will often play a great role in determining how she counsels. A person who has empathy will make a better counselor than a person who thinks the employees are simply there do accomplish her biddings.

Skills, knowledge, and attributes make the *Leader*, which is one of the *Factors of Leadership*.

Leader

You must have an honest understanding of who you are, what you know, and what you can do. Also, note that it is the followers, not the leader or someone else who determines if the leader is successful. If they do not trust or lack confidence in their leader, then they will be uninspired. To be successful you have to convince your followers, not yourself or your superiors, that you are worthy of being followed.

Followers

Different people require different styles of leadership. For example, a new hire requires more supervision than an experienced employee does. A person who lacks motivation requires a different approach than one with a high degree of motivation. You must know your people! The fundamental starting point is having a good understanding of human nature, such as needs, emotions, and motivation. You must come to know your employees' *be, know,* and *do* attributes.

Communication

You lead through two-way communication. Much of it is nonverbal. For instance, when you “set the example,” that communicates to your people that you would not ask them to perform anything that you would not be willing to do. What and how you communicate either builds or harms the relationship between you and your followers.

S i t u a t i o n

All situations are different. What you do in one situation will not always work in another. You must use your judgment to decide the best course of action and the leadership style needed for each situation. For example, you may need to confront an employee for inappropriate behavior, but if the confrontation is too late or too early, too harsh or too weak, then the results may prove ineffective.

Also note that the *situation* normally has a greater effect on a leader's action than his or her traits. This is because while traits may have an impressive stability over a period of time, they have little consistency across situations (Mischel, 1968). This is why a number of leadership scholars think the *Process Theory of Leadership* is a more accurate than the *Trait Theory of Leadership*.

Various forces will affect these four factors. Examples of forces are:

- your relationship with your seniors
- the skills of your followers
- the informal leaders within your organization
- how your organization is organized

Types of Leadership Styles

Different types of leadership styles exist in work environments. Advantages and disadvantages exist within each leadership style. The culture and goals of an organization determine which leadership style fits the firm best. Some companies offer several leadership styles within the organization, dependent upon the necessary tasks to complete and departmental needs.

Laissez-Faire

A laissez-faire leader lacks direct supervision of employees and fails to provide regular feedback to those under his supervision. Highly experienced and trained employees requiring little supervision fall under the laissez-faire leadership style. However, not all employees possess those characteristics. This leadership style hinders the production of employees needing supervision. The laissez-faire style produces no leadership or supervision efforts from managers, which can lead to poor production, lack of control and increasing costs.

Autocratic

The autocratic leadership style allows managers to make decisions alone without the input of others. Managers possess total authority and impose their will on employees. No one challenges the decisions of autocratic leaders. Countries such as Cuba and North Korea operate under the autocratic leadership style. This leadership style benefits employees who require close supervision. Creative employees who thrive in group functions detest this leadership style.

Participative

Often called the democratic leadership style, participative leadership values the input of team members and peers, but the responsibility of making the final decision rests with the participative leader. Participative leadership boosts employee morale because employees make contributions to the decision-making process. It causes them to feel as if their opinions matter. When a company needs to make changes within the organization, the participative leadership style helps employees accept changes easily because they play a role in the process. This style meets challenges when companies need to make a decision in a short period.

Transactional

Managers using the transactional leadership style receive certain tasks to perform and provide rewards or punishments to team members based on performance results. Managers and team members set predetermined goals together, and employees agree to follow the direction and leadership of the manager to accomplish those goals. The manager possesses power to review results and train or correct employees when team members fail to meet goals. Employees receive rewards, such as bonuses, when they accomplish goals.

Transformational

The transformational leadership style depends on high levels of communication from management to meet goals. Leaders motivate employees and enhance productivity and efficiency through communication and high visibility. This style of leadership requires the involvement of management to meet goals. Leaders focus on the big picture within an organization and delegate smaller tasks to the team to accomplish goals.

Raymond Cattell, a pioneer in the field of personality assessment, developed the Leadership Potential equation in 1954. This equation, which was based on a study of military leaders, is used today to determine the traits which characterize an effective leader. The traits of an effective leader include the following:

- **Emotional stability**. Good leaders must be able to tolerate frustration and stress. Overall, they must be well-adjusted and have the psychological maturity to deal with anything they are required to face.
- **Dominance**. Leaders are often times competitive and decisive and usually enjoy overcoming obstacles. Overall, they are assertive in their thinking style as well as their attitude in dealing with others.

- **Enthusiasm**. Leaders are usually seen as active, expressive, and energetic. They are often very optimistic and open to change. Overall, they are generally quick and alert and tend to be uninhibited.
- **Conscientiousness**. Leaders are often dominated by a sense of duty and tend to be very exacting in character. They usually have a very high standard of excellence and an inward desire to do one's best. They also have a need for order and tend to be very self-disciplined.
- **Social boldness**. Leaders tend to be spontaneous risk-takers. They are usually socially aggressive and generally thick-skinned. Overall, they are responsive to others and tend to be high in emotional stamina.
- **Tough-mindedness**. Good leaders are practical, logical, and to-the-point. They tend to be low in sentimental attachments and comfortable with criticism. They are usually insensitive to hardship and overall, are very poised.
- **Self-assurance**. Self-confidence and resiliency are common traits among leaders. They tend to be free of guilt and have little or no need for approval. They are generally secure and free from guilt and are usually unaffected by prior mistakes or failures.
- **Compulsiveness**. Leaders were found to be controlled and very precise in their social interactions. Overall, they were very protective of their integrity and reputation and consequently tended to be socially aware and careful, abundant in foresight, and very careful when making decisions or determining specific actions.

Beyond these basic traits, leaders of today must also possess traits which will help them motivate others and lead them in new directions. Leaders of the future must be able to envision the future and convince others that their vision is worth following. To do this, they must have the following personality traits:

- **High energy**. Long hours and some travel are usually a prerequisite for leadership positions, especially as your company grows. Remaining alert and staying focused are two of the greatest obstacles you will have to face as a leader.
- **Intuitiveness**. Rapid changes in the world today combined with information overload result in an inability to "know" everything. In other words, reasoning and logic will not get you through all situations. In fact, more and more leaders are learning to the value of using their intuition and trusting their "gut" when making decisions.
- **Maturity**. To be a good leader, personal power and recognition must be secondary to the development of your employees. In other words, maturity is based on recognizing that more can be accomplished by empowering others than can be by ruling others.

- **Team orientation**. Business leaders today put a strong emphasis on team work. Instead of promoting an adult/child relationship with their employees, leaders create an adult/adult relationship which fosters team cohesiveness.
- **Empathy**. Being able to "put yourself in the other person's shoes" is a key trait of leaders today. Without empathy, you can't build trust. And without trust, you will never be able to get the best effort from your employees.
- **Charisma**. People usually perceive leaders as larger than life. Charisma plays a large part in this perception. Leaders who have charisma are able to arouse strong emotions in their employees by defining a vision which unites and captivates them. Using this vision, leaders motivate employees to reach toward a future goal by tying the goal to substantial personal rewards and values.

Theories of leadership

The Great Man theory evolved around the mid 19th century. Even though no one was able to identify with any scientific certainty, which human characteristic or combination of, were responsible for identifying great leaders. Everyone recognized that just as the name suggests; only a man could have the characteristic (s) of a great leader.

The Great Man theory assumes that the traits of leadership are intrinsic. That simply means that great leaders are born they are not made. This theory sees great leaders as those who are destined by birth to become a leader. Furthermore, the belief was that great leaders will rise when confronted with the appropriate situation. The theory was popularized by Thomas Carlyle, a writer and teacher. Just like him, the Great Man theory was inspired by the study of influential heroes. In his book "On Heroes, Hero-Worship, and the Heroic in History", he compared a wide array of heroes.

In 1860, Herbert Spencer, an English philosopher disputed the great man theory by affirming that these heroes are simply the product of their times and their actions the results of social conditions.

TRAIT LEADERSHIP THEORY

The trait leadership theory believes that people are either born or are made with certain qualities that will make them excel in leadership roles. That is, certain qualities such as intelligence, sense of responsibility, creativity and other values puts anyone in the shoes of a good leader. In fact, Gordon Allport, an American psychologist,"...identified almost 18,000 English personality-relevant terms" (Matthews, Deary & Whiteman, 2003, p. 3).

The trait theory of leadership focused on analyzing mental, physical and social characteristic in order to gain more understanding of what is the characteristic or the combination of characteristics that are common among leaders.

There were many shortfalls with the trait leadership theory. However, from a psychology of personalities approach, Gordon Allport's studies are among the first ones and have brought, for the study of leadership, the behavioural approach.

Behavioural Theories (1940's - 1950's)

In reaction to the trait leadership theory, the behavioural theories are offering a new perspective, one that focuses on the behaviours of the leaders as opposed to their mental, physical or social characteristics. Thus, with the evolutions in psychometrics, notably the factor analysis, researchers were able to measure the cause an effects relationship of specific human behaviours from leaders. From this point forward anyone with the right conditioning could have access to the once before elite club of naturally gifted leaders. In other words, leaders are made not born.

The behavioural theories first divided leaders in two categories. Those that were concerned with the tasks and those concerned with the people. Throughout the literature these are referred to as different names, but the essence are identical.

Associated Theories

- The Managerial Grid Model / Leadership Grid
- Role Theory

Read more: http://www.leadership-central.com/leadership-theories.html#ixzz4k9zXGNSb
Read more: http://www.leadership-central.com/leadership-theories.html#ixzz4k9zO3zmZ

Meaning of motivation

Motivation is an inspiration that helps to use the employees' knowledge and skill for the growth and development of the organization. It is an act of persuading the people who work in the organization. It is defines as the psychological process that hell to increase the will to do work. It is the process of inspiring people from which the people can use their ability. It is an important function of management,. The employees who are engaged in the organization must be motivated. Without motivation, their ability and skill can't be used properly. Every employee has the capacity to do work. It is the process that helps the employee to explore their talent.
"The concept of motivation is mainly psychological. It relates to those factors or forces operating with the individual employee or subordinate which impel him to act or not to act in certain ways."
—**Delton e. McFarland**

Motivation Cycle or Process:
As stated earlier, motivation is a process or cycle aimed at accomplishing some goals. The basic elements included in the process are motives, goals and behaviour. A brief mention of these follows:

Motives:
Almost all human behaviour is motivated. It requires no motivation to grow hair, but getting a hair cut does. Motives prompt people to action. Hence, these are at the very heart of motivational process. Motives provide an activating thrust towards reaching a goal. The examples of the needs for food and water are translated into the hunger and thrust drives or motives. Similarly, the need for friends becomes a motive for affiliation.

Goals:
Motives are generally directed towards goals. Motives generally create a state of physiological or psychological imbalance. Attaining goals restores balance. For example, a goal exists when the body of the man is deprived of food or water or one's personality is deprived of friends or companions.

Behaviour:
Behaviour is a series of activities to be undertaken. Behaviour is directed to achieve a goal. For example, the man goes to saloon to cut his hair. Diagrammed simply, the cycle or process of motivation is presented in Figure 17.1 as follows:

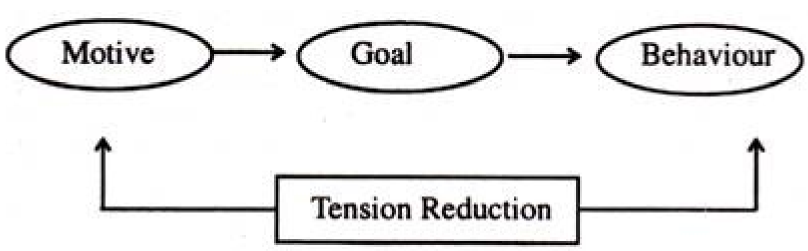


Fig. 17.1: Motivation Process

http://www.yourarticlelibrary.com/motivation/motivation-meaning-and-importance-of-motivation-explained-with-diagram/35364/

Importance of motivation

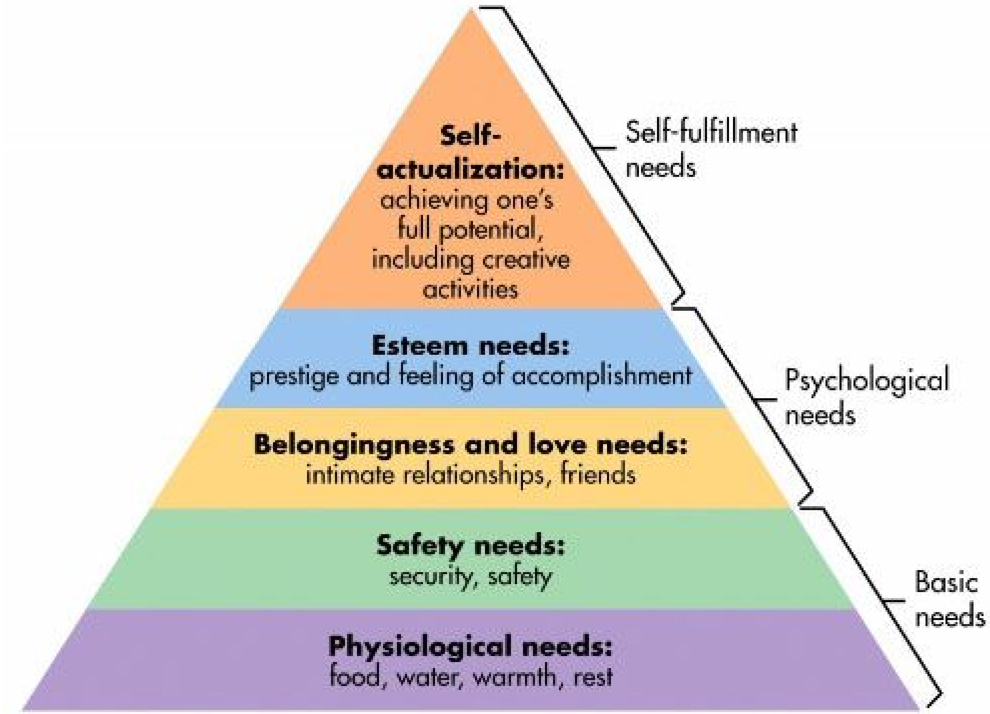
1. **Proper utilization of production factor:** Motivation is the mechanism which is used to stimulate the employees. Stimulated employees are ready to use the production factor properly and efficiently. So it results in increase in production and productivity.

2. **Willingness and interest creation:** Motivation stimulates the employees in an organization. It influences the willingness of employees to work hard and help to present better performance. It is a process that acts according to desire of employees and increases the willingness and interest of employees to do work.
3. **High productivity:** When the employees are fully motivated there is better performance. It results high production and productivity increment.
4. **Organizational goals:**The machine, equipment, money cannot be effectively used when the employees are not motivated to do the work in an organization to the maximum extent .so it helps to achieve the organizational goals.
5. **Readiness for change:**Changes are required in every organization. Such changes may be in technology, environment etc. when the changes are introduced in the organization there is tendency to resist them by the employee or hesitate to accept the change. Motivated employees are already made ready to accept the change.
6. **Efficiency in work:**Motivated employees perform their duties according to the goals of the organization. They perform work efficiently and timely and increase the efficiency
7. Reduce absenteeism: – Motivated employees don't want to be absent frequently. In other words, Motivated employees stay in the organization more and non Motivated employees are careless for the organizational goals.
8. **Employees' satisfaction:**employee's satisfaction is an important aspect for the managerial point of view. Employees may be motivated by fulfilling their needs and giving satisfaction in their work. In short Motivated employees are always satisfied.
9. **Less disputes and strikes:** disputes and strikes are harmful for organizational activities. When the employees are not motivates they are dissatisfies which creates disputes in the organization.
10. **Better human relation:** all employees must be treated as human beings by the organization. Motivation I mainly related to behave the human beings.

MASLOW'S *HIERARCHY OF NEEDS*

Maslow's (1943, 1954) *hierarchy of needs* is a motivational theory in psychology comprising a five tier model of human needs, often depicted as hierarchical levels within a pyramid.

Maslow stated that people are motivated to achieve certain needs and that some needs take precedence over others. Our most basic need is for physical survival, and this will be the first thing that motivates our behaviour. Once that level is fulfilled the next level up is what motivates us, and so on.



This five stage model can be divided into deficiency needs and growth needs. The first four levels are often referred to as deficiency needs (*D-needs*), and the top level is known as growth or being needs (*B-needs*).

The deficiency needs are said to motivate people when they are unmet. Also, the need to fulfil such needs will become stronger the longer the duration they are denied. For example, the longer a person goes without food, the more hungry they will become.

One must satisfy lower level deficit needs before progressing on to meet higher level growth needs. When a deficit need has been satisfied it will go away, and our activities become habitually directed towards meeting the next set of needs that we have yet to satisfy. These then become our salient needs. However, growth needs continue to be felt and may even become stronger once they have been engaged. Once these growth needs have been reasonably satisfied, one may be able to reach the highest level called self-actualization.

Every person is capable and has the desire to move up the hierarchy toward a level of self-actualization. Unfortunately, progress is often disrupted by a failure to meet lower level needs. Life experiences, including divorce and loss of a job may cause an individual to fluctuate between levels of the hierarchy. Therefore, not everyone will move through the hierarchy in a uni-directional manner but may move back and forth between the different types of needs.

Maslow noted only one in a hundred people become fully self-actualized because our society rewards motivation primarily based on esteem, love and other social needs.

The original hierarchy of needs five-stage model includes:

1. Biological and Physiological needs - air, food, drink, shelter, warmth, sex, sleep.

2. Safety needs - protection from elements, security, order, law, stability, freedom from fear.

3. Love and belongingness needs - friendship, intimacy, trust and acceptance, receiving and giving affection and love. Affiliating, being part of a group (family, friends, work).

4. Esteem needs - achievement, mastery, independence, status, dominance, prestige, self-respect, respect from others.

5. Self-Actualization needs - realizing personal potential, self-fulfillment, seeking personal growth and peak experiences.

Maslow posited that human needs are arranged in a hierarchy:

Physiological needs are those needs required for human survival such as air, food, water, shelter, clothing and sleep. As a manager, you can account for physiological needs of your employees by providing comfortable working conditions, reasonable work hours and the necessary breaks to use the bathroom and eat and/or drink.

Safety needs include those needs that provide a person with a sense of security and well-being. Personal security, financial security, good health and protection from accidents, harm and their adverse affects are all included in safety needs. As a manager, you can account for the safety needs of your employees by providing safe working conditions, secure compensation (such as a salary) and job security, which is especially important in a bad economy.

Social needs, also called **love and belonging**, refer to the need to feel a sense of belonging and acceptance. Social needs are important to humans so that they do not feel alone, isolated and depressed. Friendships, family and intimacy all work to fulfill social needs. As a manager, you can account for the social needs of your employees by making sure each of your employees know one another, encouraging cooperative teamwork, being an accessible and kind supervisor and promoting a good work-life balance.

Esteem needs refer to the need for self-esteem and respect, with self-respect being slightly more important than gaining respect and admiration from others. As a manager, you can account for the esteem needs of your employees by offering praise and recognition when the employee does well, and offering promotions and additional responsibility to reflect your belief that they are a valued employee.

Self-actualization needs describe a person's need to reach his or her full potential. The need to become what one is capable of is something that is highly personal. While I might have the need to be a good parent, you might have the need to hold an executive-level position within your organization. Because this need is individualized, as a manager, you can account for this need by providing challenging work, inviting employees to participate in decision-making and giving them flexibility and autonomy in their jobs.

As the name of the theory indicates, Maslow believed that these needs exist in a hierarchical order. This **progression principle** suggests that lower-level needs must be met before higher-level needs. The **deficit principle** claims that once a need is satisfied, it is no longer a motivator because an individual will take action only to satisfy unmet needs. If you look at this pyramid you can see how Maslow's needs are organized with basic physiological needs, such as air, food, water and sleep, at the bottom and the idea of self-actualization, or when a person reaches the full potential in life, at the top. Again, according to Maslow, before a person can take action to satisfy a need at any level on this pyramid the needs below it must already be satisfied. To better understand how Maslow's hierarchy works, let's take a look at the following example.

Herzberg’s Two-Factor Theory of Motivation

In 1959, Frederick Herzberg, a behavioural scientist proposed a two-factor theory or the motivator-hygiene theory. According to Herzberg, there are some job factors that result in satisfaction while there are other job factors that prevent dissatisfaction. According to Herzberg, the opposite of “Satisfaction” is “No satisfaction” and the opposite of “Dissatisfaction” is “No Dissatisfaction”.

MOTIVATORS

Satisfaction No Satisfaction

HYGIENE FACTORS

No Dissatisfaction Dissatisfaction

FIGURE: Herzberg's view of satisfaction and dissatisfaction

Herzberg classified these job factors into two categories-

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

- Pay - The pay or salary structure should be appropriate and reasonable. ItX must be equal and competitive to those in the same industry in the same domain.
- Company Policies and administrative policies - The company policies should not be too rigid. They should be fair and clear. It should include flexible working hours, dress code, breaks, vacation, etc.
- Fringe benefits - The employees should be offered health care plans (mediclaim), benefits for the family members, employee help programmes, etc.
- Physical Working conditions - The working conditions should be safe, clean and hygienic. The work equipments should be updated and well-maintained.
- Status - The employees' status within the organization should be familiar and retained.
- Interpersonal relations - The relationship of the employees with his peers, superiors and subordinates should be appropriate and acceptable. There should be no conflict or humiliation element present.

- Job Security - The organization must provide job security to the employees.

b. **Motivational factors-** According to Herzberg, the hygiene factors cannot be regarded as motivators. The motivational factors yield positive satisfaction. These factors are inherent to work. These factors motivate the employees for a superior performance. These factors are called satisfiers. These are factors involved in performing the job. Employees find these factors intrinsically rewarding. The motivators symbolized the psychological needs that were perceived as an additional benefit. Motivational factors include:
    - Recognition - The employees should be praised and recognized for their accomplishments by the managers.
    - Sense of achievement - The employees must have a sense of achievement. This depends on the job. There must be a fruit of some sort in the job.
    - Growth and promotional opportunities - There must be growth and advancement opportunities in an organization to motivate the employees to perform well.
    - Responsibility - The employees must hold themselves responsible for the work. The managers should give them ownership of the work. They should minimize control but retain accountability.
    - Meaningfulness of the work - The work itself should be meaningful, interesting and challenging for the employee to perform and to get motivated.

Limitations of Two-Factor Theory

The two factor theory is not free from limitations:

1. The two-factor theory overlooks situational variables.
2. Herzberg assumed a correlation between satisfaction and productivity. But the research conducted by Herzberg stressed upon satisfaction and ignored productivity.
3. The theory's reliability is uncertain. Analysis has to be made by the raters. The raters may spoil the findings by analyzing same response in different manner.
4. No comprehensive measure of satisfaction was used. An employee may find his job acceptable despite the fact that he may hate/object part of his job.
5. The two factor theory is not free from bias as it is based on the natural reaction of employees when they are enquired the sources of satisfaction and dissatisfaction at work. They will blame dissatisfaction on the external factors such as salary structure, company policies and peer relationship. Also, the employees will give credit to themselves for the satisfaction factor at work.

6. The theory ignores blue-collar workers. Despite these limitations, Herzberg's Two-Factor theory is acceptable broadly.

COMMUNICATION

- **Communication is an exchange of facts, ideas, opinions or emotions by two or more persons.**

  - W.H. Newman & C. F.Summer Jr
- **Communication is a process by which information is transmitted between individuals and/or organisations so that an understanding response results.**

  - Peter Little

Nature of Communication:

The exchange of information or passing of information, ideas or thought from one person to the other or from one end to the other is communication. According to McFarland communication is, "a process of meaningful interaction among human beings. More specifically, it is the process by which meanings are perceived and understandings are reached among human beings." Newman and summer defined communication as "an exchange of facts, ideas, opinions or emotions by two or more persons."**Communication** is the process of conveying information between two or more people. The **communication process** is the steps we take in order to achieve a successful communication.

Communication Process

The communication process consists of several components. Let's take a look.

A **sender** is the party that sends a message. Lindsey, of course, will be the sender. She'll also need the **message**, which is the information to be conveyed. Lindsey will also need to **encode** her message, which is transforming her thoughts of the information to be conveyed into a form that can be sent, such as words.

A **channel of communication** must also be selected, which is the manner in which the message is sent. Channels of communication include speaking, writing, video transmission, audio transmission, electronic transmission through emails, text messages and faxes and even nonverbal communication, such as body language. Lindsey also needs to know the target of her communication. This party is called the **receiver**.

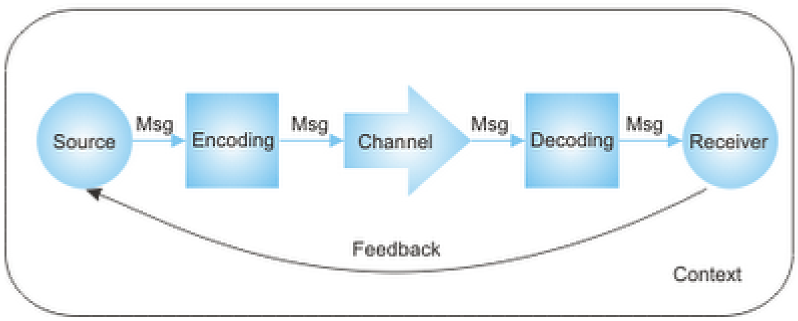
The receiver must be able to **decode** the message, which means mentally processing the message into understanding. If you can't decode, the message fails. For example, sending a message in a foreign language that is not understood by the receiver probably will result in decoding failure.

Sometimes, a receiver will give the sender **feedback**, which is a message sent by the receiver back to the sender. For example, a member of Lindsey's team may provide feedback in the form of a question to clarify some information received in Lindsey's message.

Let's put all these components together to build a model of the communication process:

1. A sender encodes information
2. The sender selects a channel of communication by which to send the message
3. The receiver receives the message
4. The receiver decodes the message
5. The receiver may provide feedback to the sender

The Communications Process



Common Barriers to Effective Communication:

- **The use of jargon.** Over-complicated, unfamiliar and/or technical terms.
- **Emotional barriers and taboos.** Some people may find it difficult to express their emotions and some topics may be completely 'off-limits' or taboo.
- **Lack of attention, interest, distractions, or irrelevance to the receiver.** (See our page **Barriers to Effective Listening** for more information).
- **Differences in perception and viewpoint.**
- **Physical disabilities such as hearing problems or speech difficulties.**
- **Physical barriers to non-verbal communication.** Not being able to see the non-verbal cues, gestures, posture and general body language can make communication less effective.
- **Language differences and the difficulty in understanding unfamiliar accents.**
- **Expectations and prejudices which may lead to false assumptions or stereotyping.** People often hear what they expect to hear rather than what is actually said and jump to incorrect conclusions.

- **Cultural differences.** The norms of social interaction vary greatly in different cultures, as do the way in which emotions are expressed. For example, the concept of personal space varies between cultures and between different social settings. See our page on **Intercultural Awareness** for more information.

Read more at: https://www.skillsyouneed.com/ips/barriers-communication.html

Control, or **controlling**, is one of the managerial functions

like *planning*, *organizing*, *staffing* and *directing*. It is an important function because it helps to check the errors and to take the corrective action so that deviation from standards are minimized and stated goals of the organization are achieved in a desired manner.

According to modern concepts, control is a foreseeing action whereas earlier concept of control was used only when errors were detected. Control in management means setting standards, measuring actual performance and taking corrective action.

In 1916, Henri Fayol formulated one of the first definitions of control as it pertains to management:

Control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from recurring.[1]

Controlling has got two basic purposes

1. It facilitates co-ordination
2. It helps in planning

Features of Controlling Function

Following are the characteristics of controlling function of management-

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

5. **Controlling is related with planning-** Planning and Controlling are two inseperable functions of management. Without planning, controlling is a meaningless exercise and without controlling, planning is useless. *Planning presupposes controlling and controlling succeeds planning*.

Process of Controlling

Controlling as a management function involves following steps:

1. **Establishment of standards-** Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two-
    a. Measurable or tangible - Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
    b. Non-measurable or intangible- There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

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

2. **Measurement of performance-** The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured. Performance of a manager cannot be measured in quantities. It can be measured only by-
    a. Attitude of the workers,
    b. Their morale to work,
    c. The development in the attitudes regarding the physical environment, and
    d. Their communication with the superiors.

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

3. **Comparison of actual and standard performance-** Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has

to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon consciously. Therefore it is said, " If a manager controls everything, he ends up controlling nothing." For example, if stationery charges increase by a minor 5 to 10%, it can be called as a minor deviation. On the other hand, if monthly production decreases continuously, it is called as major deviation.

Once the deviation is identified, a manager has to think about various cause which has led to deviation. The causes can be-

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

4. **Taking remedial actions-** Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-
   a. Taking corrective measures for deviations which have occurred; and
   b. After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.

BUSINESS ORGANIZATION AND MANAGEMENT

UNIT V

Functional Areas of Management: Marketing Management- Marketing Concept- Marketing Mix- Product Life Cycle- Pricing Policies and Practices 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

FUNCTIONAL AREAS OF MANAGEMENT

Marketing management is the organizational discipline which focuses on the practical application of marketing orientation, techniques and methods inside enterprises and organizations and on the management of a firm's marketing resources and activities. Marketing management facilitates the activities and functions which are involved in the distribution of goods and services.

According to Philip Kotler, “Marketing management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target markets for the purpose of achieving organisational objectives.

Concepts of Marketing

There are 5 different **concepts of marketing**, each of which vary in the function that they deal with. For example – production concept deals with production and selling concept deals with selling. Each of the concept was developed as per the need of the market. As the market changed, so did the concepts of marketing. And today, we have an opportunity to look at all 5 concepts of marketing and what they represent.

1. Production concept
2. Product concept
3. Selling concept
4. Marketing concept
5. Societal marketing concept

The article lists out the concepts of marketing in a very brief manner. You can click on each link to know more about each individual concept of marketing.

Production Concept – Consumers prefer products that are widely available and inexpensive. The production concept is more operations oriented than any other concept. Click here to read more about the Production Concept

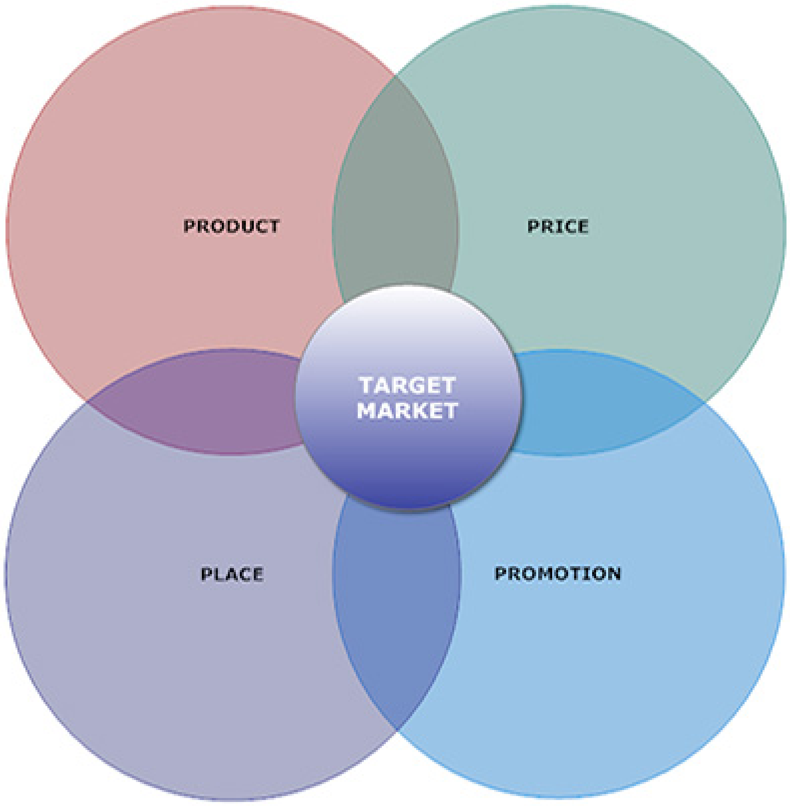
Product Concept – Consumers favor products that offer the most quality, performance, or innovative features. The product concept believes in the consumer and it says the consumers are more likely to be loyal if they have more options of products or they get more benefits from the product of the company. Click here to read more about the Product Concept

Selling Concept – Consumers will buy products only if the company aggressively promotes or sells these products. Off course, in this era of marketing, we know that selling is not the only tactic to sell your product. You have to focus on marketing as well. Click here to read more about the Selling Concept

Marketing Concept – Focuses on needs/wants of target markets & delivering value better than competitors. The marketing concept believes in the pull strategy and says that you need to make your brand so strong that customers themselves prefer your brand over every other competitor. This can be achieved through marketing. Click here to read more about the Marketing Concept

Societal Marketing concept – Focuses on needs / wants of target markets & delivering value better than competitors that preserves the consumer's and society's well-being. Click here to read about the Societal Marketing concept

Marketing Mix 4P's



A marketing expert named E. Jerome McCarthy created the Marketing 4Ps in the 1960s. This classification has been used throughout the world. Business schools teach this concept in basic marketing classes.

The marketing 4Ps are also the foundation of the idea of marketing mix.

#1 Marketing Mix – Product

A product is an item that is built or produced to satisfy the needs of a certain group of people. The product can be intangible or tangible as it can be in the form of services or goods.

You must ensure to have the right type of product that is in demand for your market. So during the product development phase, the marketer must do an extensive research on the life cycle of the product that they are creating.

A product has a certain life cycle that includes the growth phase, the maturity phase, and the sales decline phase. It is important for marketers to reinvent their products to stimulate more demand once it reaches the sales decline phase.

Marketers must also create the right product mix. It may be wise to expand your current product mix by diversifying and increasing the depth of your product line.

All in all, marketers must ask themselves the question “what can I do to offer a better product to this group of people than my competitors”.

In developing the right product, you have to answer the following questions:

- What does the client want from the service or product?
- How will the customer use it?
- Where will the client use it?
- What features must the product have to meet the client’s needs?
- Are there any necessary features that you missed out?
- Are you creating features that are not needed by the client?
- What’s the name of the product?
- Does it have a catchy name?
- What are the sizes or colors available?
- How is the product different from the products of your competitors?
- What does the product look like?

#2 Marketing Mix – Price

The price of the product is basically the amount that a customer pays for to enjoy it. Price is a very important component of the **marketing mix definition**.

It is also a very important component of a marketing plan as it determines your firm’s profit and survival. Adjusting the price of the product has a big impact on the entire marketing strategy as well as greatly affecting the sales and demand of the product.

This is inherently a touchy area though. If a company is new to the market and has not made a name for themselves yet, it is unlikely that your target market will be willing to pay a high price.

Although they may be willing in the future to hand over large sums of money, it is inevitably harder to get them to do so during the birth of a business.

Pricing always help shape the perception of your product in consumers eyes. Always remember that a low price usually means an inferior good in the consumers eyes as they compare your good to a competitor.

Consequently, prices too high will make the costs outweigh the benefits in customers eyes, and they will therefore value their money over your product. Be sure to examine competitors pricing and price accordingly.

When setting the product price, marketers should consider the perceived value that the product offers. There are three major pricing strategies, and these are:

- Market penetration pricing
- Market skimming pricing
- Neutral pricing

Here are some of the important questions that you should ask yourself when you are setting the product price:

- How much did it cost you to produce the product?
- What is the customers' perceived product value?
- Do you think that the slight price decrease could significantly increase your market share?
- Can the current price of the product keep up with the price of the product's competitors?

#3 Marketing Mix – Place

Placement or distribution is a very important part of the product mix definition. You have to position and distribute the product in a place that is accessible to potential buyers.

This comes with a deep understanding of your target market. Understand them inside out and you will discover the most efficient positioning and distribution channels that directly speak with your market.

There are many distribution strategies, including:

- Intensive distribution
- Exclusive distribution
- Selective distribution
- Franchising

Here are some of the questions that you should answer in developing your distribution strategy:

- Where do your clients look for your service or product?
- What kind of stores do potential clients go to? Do they shop in a mall, in a regular brick and mortar store, in the supermarket, or online?
- How do you access the different distribution channels?
- How is your distribution strategy different from your competitors?
- Do you need a strong sales force?
- Do you need to attend trade fairs?
- Do you need to sell in an online store?

<u>#4 Marketing Mix – Promotion</u>

Promotion is a very important component of marketing as it can boost brand recognition and sales. Promotion is comprised of various elements like:

- Sales Organization
- Public Relations
- Advertising
- Sales Promotion

Advertising typically covers communication methods that are paid for like television advertisements, radio commercials, print media, and internet advertisements. In contemporary times, there seems to be a shift in focus offline to the online world.

Public relations, on the other hand, are communications that are typically not paid for. This includes press releases, exhibitions, sponsorship deals, seminars, conferences, and events.

Word of mouth is also a type of product promotion. Word of mouth is an informal communication about the benefits of the product by satisfied customers and ordinary individuals. The sales staff plays a very important role in public relations and word of mouth.

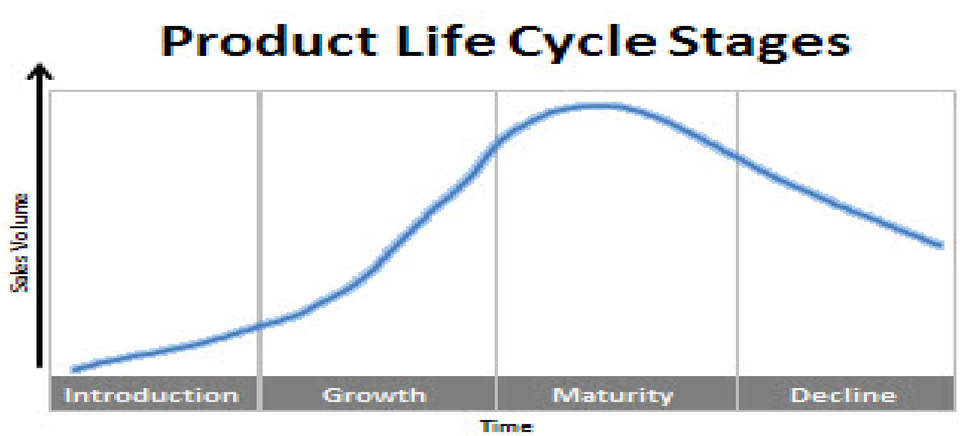
It is important to not take this literally. Word of mouth can also circulate on the internet. Harnessed effectively and it has the potential to be one of the most valuable assets you have in boosting your profits online. An extremely good example of this is online social media and managing a firm's online social media presence.

In creating an effective product promotion strategy, you need to answer the following questions:

- How can you send marketing messages to your potential buyers?
- When is the best time to promote your product?
- Will you reach your potential audience and buyers through television ads?
- Is it best to use the social media in promoting the product?
- What is the promotion strategy of your competitors?

Your combination of promotional strategies and how you go about promotion will depend on your budget, the message you want to communicate, and the target market you have defined already in previous steps.

Product Life Cycle Stages



As consumers, we buy millions of products every year. And just like us, these products have a life cycle. Older, long-established products eventually become less popular, while in contrast, the demand for new, more modern goods usually increases quite rapidly after they are launched.

Because most companies understand the different product life cycle stages, and that the products they sell all have a limited lifespan, the majority of them will invest heavily in new product development in order to make sure that their businesses continue to grow.

Product Life Cycle Stages Explained

The product life cycle has 4 very clearly defined stages, each with its own characteristics that mean different things for business that are trying to manage the life cycle of their particular products.

Introduction Stage – This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things like research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it’s a competitive sector.

Growth Stage – The growth stage is typically characterized by a strong growth in sales and profits, and because the company can start to benefit from economies of scale in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage.

Maturity Stage – During the maturity stage, the product is established and the aim for the manufacturer is now to maintain the market share they have built up. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage.

Decline Stage – Eventually, the market for a product will start to shrink, and this is what’s known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets.

Product Life Cycle Examples

It's possible to provide examples of various products to illustrate the different stages of the product life cycle more clearly. Here is the example of watching recorded television and the various stages of each method:

1. Introduction – 3D TVs
2. Growth – Blueray discs/DVR
3. Maturity – DVD
4. Decline – Video cassette

The idea of the product life cycle has been around for some time, and it is an important principle manufacturers need to understand in order to make a profit and stay in business.

However, the key to successful manufacturing is not just understanding this life cycle, but also proactively managing products throughout their lifetime, applying the appropriate resources and sales and marketing strategies, depending on what stage products are at in the cycle

Pricing Policy

Meaning of Pricing Policy:

A pricing policy is a standing answer to recurring question. A systematic approach to pricing requires the decision that an individual pricing situation be generalised and codified into a policy coverage of all the principal pricing problems. Policies can and should be tailored to various competitive situations. A policy approach which is becoming normal for sales activities is comparatively rare in pricing.

Most well managed manufacturing enterprises have a clear cut advertising policy, product customer policy and distribution-channel policy. But pricing decision remains a patchwork of ad hoc decisions. In many, otherwise well managed firms, price policy has been dealt with on a crisis basis. This kind of price management by catastrophe discourages the kind of systematic analysis needed for clear cut pricing policies.

Considerations Involved in Formulating the Pricing Policy:

The following considerations involve in formulating the pricing policy:

(i) Competitive Situation:

Pricing policy is to be set in the light of competitive situation in the market. We have to know whether the firm is facing perfect competition or imperfect competition. In perfect competition, the producers have no control over the price. Pricing policy has special significance only under imperfect competition.

(ii) Goal of Profit and Sales:
The businessmen use the pricing device for the purpose of maximising profits. They should also stimulate profitable combination sales. In any case, the sales should bring more profit to the firm.

(iii) Long Range Welfare of the Firm:

Generally, businessmen are reluctant to charge a high price for the product because this might result in bringing more producers into the industry. In real life, firms want to prevent the entry of rivals. Pricing should take care of the long run welfare of the company.

(iv) Flexibility:
Pricing policies should be flexible enough to meet changes in economic conditions of various customer industries. If a firm is selling its product in a highly competitive market, it will have little scope for pricing discretion. Prices should also be flexible to take care of cyclical variations.

(v) Government Policy:

The government may prevent the firms in forming combinations to set a high price. Often the government prefers to control the prices of essential commodities with a view to prevent the exploitation of the consumers. The entry of the government into the pricing process tends to inject politics into price fixation.

(vi) Overall Goals of Business:
Pricing is not an end in itself but a means to an end. The fundamental guides to pricing, therefore, are the firms overall goals. The broadest of them is survival. On a more specific level, objectives relate to rate of growth, market share, maintenance of control and finally profit. The various objectives may not always be compatible. A pricing policy should never be established without consideration as to its impact on the other policies and practices.

(vii) Price Sensitivity:
The various factors which may generate insensitivity to price changes are variability in consumer behaviour, variation in the effectiveness of marketing effort, nature of the product, importance of service after sales, etc. Businessmen often tend to exaggerate the importance of price sensitivity and ignore many identifiable factors which tend to minimise it.

(viii) Routinisation of Pricing:
A firm may have to take many pricing decisions. If the data on demand and cost are highly conjectural, the firm has to rely on some mechanical formula. If a firm is selling its product in a highly competitive market, it will have little scope for price discretion. This will have the way for routinised pricing.

PRICING PRACTICES
General Considerations To Be Kept In Mind While Formulating A Pricing Policy:

- **Objectives of business-** Notwithout considering its impact on all objectives
- **Market structure**
- **Competitor's strategy**
- **Price Sensitivity/ elasticity(even for monopolist)**
- **Conflicting Interests** of Manufacturers and Middlemen, consumers

Financial Management - Meaning, Objectives and Functions

Meaning of Financial Management

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

Scope/Elements

1. Investment decisions includes investment in fixed assets (called as capital budgeting). Investment in current assets are also a part of investment decisions called as working capital decisions.
2. Financial decisions - They relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby.
3. Dividend decision - The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:
    a. Dividend for shareholders- Dividend and the rate of it has to be decided.
    b. Retained profits- Amount of retained profits has to be finalized which will depend upon expansion and diversification plans of the enterprise.

Objectives of Financial Management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
4. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
5. To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

Functions of Financial Management

1. **Estimation of capital requirements:** A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programmes and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.
2. **Determination of capital composition:** Once the estimation have been made, the capital structure have to be decided. This involves short- term and long- term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised from outside parties.
3. **Choice of sources of funds:** For additional funds to be procured, a company has many choices like-
    a. Issue of shares and debentures
    b. Loans to be taken from banks and financial institutions
    c. Public deposits to be drawn like in form of bonds.

    Choice of factor will depend on relative merits and demerits of each source and period of financing.

4. **Investment of funds:** The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.
5. **Disposal of surplus:** The net profits decision have to be made by the finance manager. This can be done in two ways:
    a. Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.
    b. Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.
6. **Management of cash:** Finance manager has to make decisions with regards to cash management. Cash is required for many purposes like payment of wages and

salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintainance of enough stock, purchase of raw materials, etc.

7. **Financial controls:** The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control, etc.

SOURCES OF FINANCE

Some sources of finance are **short term** and must be paid back within a year. Other sources of finance are **long term** and can be paid back over many years.

Internal sources of finance are funds found inside the business. For example, profits can be kept back to finance expansion. Alternatively the business can sell **assets** (items it owns) that are no longer really needed to free up cash.

External sources of finance are found outside the business, eg from **creditors** or **banks**.

ACCORDING TO TIME-PERIOD:

Sources of financing a business are classified based on the time period for which the money is required. Time period is commonly classified into following three:

LONG TERM SOURCES OF FINANCE

Long-term financing means capital requirements for a period of more than 5 years to 10, 15, 20 years or maybe more depending on other factors. Capital expenditures in fixed assets like plant and machinery, land and building etc of a business are funded using long-term sources of finance. Part of working capital which permanently stays with the business is also financed with long-term sources of finance. Long term financing sources can be in form of any of them:

- Share Capital or Equity Shares
- Preference Capital or Preference Shares
- Retained Earnings or Internal Accruals
- Debenture / Bonds
- Term Loans from Financial Institutes, Government, and Commercial Banks
- Venture Funding
- Asset Securitization
- International Financing by way of Euro Issue, Foreign Currency Loans, ADR, GDR etc.

MEDIUM TERM SOURCES OF FINANCE

Medium term financing means financing for a period of 3 to 5 years. Medium term financing is used generally for two reasons. One, when long-term capital is not available for the time being and second, when deferred revenue expenditures like advertisements are made which are to be written off over a period of 3 to 5 years. Medium term financing sources can in the form of one of them:

- Preference Capital or Preference Shares
- Debenture / Bonds
- Medium Term Loans from
  - Financial Institutes
  - Government, and
  - Commercial Banks
- Lease Finance
- Hire Purchase Finance

SHORT TERM SOURCES OF FINANCE

Short term financing means financing for a period of less than 1 year. The need for short-term finance arises to finance the current assets of a business like an inventory of raw material and finished goods, debtors, minimum cash and bank balance etc. Short term financing is also named as working capital financing. Short term finances are available in the form of:

- Trade Credit
- Short Term Loans like Working Capital Loans from Commercial Banks
- Fixed Deposits for a period of 1 year or less
- Advances received from customers
- Creditors
- Payables
- Factoring Services
- Bill Discounting etc.

ACCORDING TO OWNERSHIP AND CONTROL:

Sources of finances are classified based on ownership and control over the business. These two parameters are an important consideration while selecting a source of finance for the business. Whenever we bring in capital, there are two types of costs – one is the interest and another is sharing of ownership and control. Some entrepreneurs may not like to dilute their ownership rights in the business and others may believe in sharing the risk.

OWNED CAPITAL

Owned capital is also referred as equity capital. It is sourced from promoters of the company or from the general public by issuing new equity shares. Business is started by the promoters by bringing in the required capital for a startup. Owners capital is sourced from following sources:

- Equity Capital
- Preference Capital
- Retained Earnings

- Convertible Debentures
- Venture Fund or Private Equity

Further, when the business grows and internal accruals like profits of the company are not enough to satisfy financing requirements, the promoters have a choice of selecting ownership capital or non-ownership capital. This decision is up to the promoters. Still, to discuss, certain advantages of equity capital are as follows:

- It is a long term capital which means it stays permanently with the business.
- There is no burden of paying interest or installments like borrowed capital. So, the risk of bankruptcy also reduces. Businesses in infancy stages prefer equity capital for this reason.

BORROWED CAPITAL

Borrowed capital is the capital arranged from outside sources. These include the following:

- Financial institutions,
- Commercial banks or
- The general public in case of debentures.

In this type of capital, the borrower has a charge on the assets of the business which means the borrower would be paid by selling the assets in case of liquidation. Another feature of borrowed capital is regular payment of fixed interest and repayment of capital. Certain advantages of borrowing capital are as follows:

- There is no dilution in ownership and control of business.
- The cost of borrowed funds is low since it is a deductible expense for taxation purpose which ends up saving on taxes for the company.
- It gives the business a leverage benefit.

ACCORDING TO SOURCE OF GENERATION:

INTERNAL SOURCES

Internal source of capital is the capital which is generated internally from the business. Internal sources are as follows:

- Retained profits
- Reduction or controlling of working capital
- Sale of assets etc.

The internal source has the same characteristics of owned capital. The best part of the internal sourcing of capital is that the business grows by itself and does not depend on outside parties. Disadvantages of both equity capital and debt capital are not present in this form of financing. Neither ownership is diluted nor fixed obligation / bankruptcy risk arises.

EXTERNAL SOURCES

An **e**xternal source of finance is the capital which is generated from outside the business. Apart from the internal sources finance, all the sources are external sources of capital. Deciding the right source of finance is a crucial business decision taken by top-level finance managers. The wrong source of finance increases the cost of funds which in turn would have a direct impact on the feasibility of project under concern. Improper match of the type of capital with business requirements may go against the smooth functioning of the business. For instance, if fixed assets, which derive benefits after 2 years, are financed through short-term finances will create cash flow mismatch after one year and the manager will again have to look for finances and pay the fee for raising capital again.

Debt and equity are the two major sources of financing. Government grants to finance certain aspects of a business may be an option. Also, incentives may be available to locate in certain communities and/or encourage activities in particular industries.

Equity Financing

Equity financing means exchanging a portion of the ownership of the business for a financial investment in the business. The ownership stake resulting from an equity investment allows the investor to share in the company's profits. Equity involves a permanent investment in a company and is not repaid by the company at a later date.

The investment should be properly defined in a formally created business entity. An equity stake in a company can be in the form of membership units, as in the case of a limited liability company or in the form of common or preferred stock as in a corporation.

Companies may establish different classes of stock to control voting rights among shareholders. Similarly, companies may use different types of preferred stock. For example, common stockholders can vote while preferred stockholders generally cannot. But common stockholders are last in line for the company's assets in case of default or bankruptcy. Preferred stockholders receive a predetermined dividend before common stockholders receive a dividend.

Personal Savings

The first place to look for money is your own savings or equity. Personal resources can include profit-sharing or early retirement funds, real estate equity loans, or cash value insurance policies.

Life insurance policies - A standard feature of many life insurance policies is the owner's ability to borrow against the cash value of the policy. This does not include term insurance because it has no cash value. The money can be used for business needs. It takes about two years for a policy to accumulate sufficient cash value for borrowing. You may borrow most of the cash value of the policy. The loan will reduce the face value of the policy and, in the case of death, the loan has to be repaid before the beneficiaries of the policy receive any payment.

Home equity loans - A home equity loan is a loan backed by the value of the equity in your home. If your home is paid for, it can be used to generate funds from the entire value of your home. If your home has an existing mortgage, it can provide funds on the difference between the value of the house and the unpaid mortgage amount. For example, if your house is worth $150,000 with an outstanding mortgage of $60,000, you have $90,000 in equity you can use as collateral for a home equity loan or line of credit. Some home equity loans are set up as a revolving credit line from which you can draw the amount needed at any time. The interest on a home equity loan is tax deductible.

Friends and Relatives

Founders of a start-up business may look to private financing sources such as parents or friends. It may be in the form of equity financing in which the friend or relative receives an ownership interest in the business. However, these investments should be made with the same formality that would be used with outside investors.

Venture Capital

Venture capital refers to financing that comes from companies or individuals in the business of investing in young, privately held businesses. They provide capital to young businesses in exchange for an ownership share of the business. Venture capital firms usually don't want to participate in the initial financing of a business unless the company has management with a proven track record. Generally, they prefer to invest in companies that have received significant equity investments from the founders and are already profitable.

They also prefer businesses that have a competitive advantage or a strong value proposition in the form of a patent, a proven demand for the product, or a very special (and protectable) idea. Venture capital investors often take a hands-on approach to their investments, requiring representation on the board of directors and sometimes the hiring of managers. Venture capital investors can provide valuable guidance and business advice. However, they are looking for substantial returns on their investments and their objectives may be at cross purposes with those of the founders. They are often focused on short-term gain.

Venture capital firms are usually focused on creating an investment portfolio of businesses with high-growth potential resulting in high rates of returns. These businesses are often high-risk investments. They may look for annual returns of 25 to 30 percent on their overall investment portfolio.

Because these are usually high-risk business investments, they want investments with expected returns of 50 percent or more. Assuming that some business investments will return 50 percent or more while others will fail, it is hoped that the overall portfolio will return 25 to 30 percent.

More specifically, many venture capitalists subscribe to the 2-6-2 rule of thumb. This means that typically two investments will yield high returns, six will yield moderate returns (or just return their original investment), and two will fail.

Angel Investors

Angel investors are individuals and businesses that are interested in helping small businesses survive and grow. So their objective may be more than just focusing on economic returns. Although angel investors often have somewhat of a mission focus, they are still interested in profitability and security for their investment. So they may still make many of the same demands as a venture capitalist.

Angel investors may be interested in the economic development of a specific geographic area in which they are located. Angel investors may focus on earlier stage financing and smaller financing amounts than venture capitalists.

Government Grants

Federal and state governments often have financial assistance in the form of grants and/or tax credits for start-up or expanding businesses.

Equity Offerings

In this situation, the business sells stock directly to the public. Depending on the circumstances, equity offerings can raise substantial amounts of funds. The structure of the offering can take many forms and requires careful oversight by the company's legal representative.

Initial Public Offerings

Initial Public Offerings (IPOs) are used when companies have profitable operations, management stability, and strong demand for their products or services. This generally doesn't happen until companies have been in business for several years. To get to this point, they usually will raise funds privately one or more times.

Warrants

Warrants are a special type of instrument used for long-term financing. They are useful for start-up companies to encourage investment by minimizing downside risk while providing upside potential. For example, warrants can be issued to management in a start-up company as part of the reimbursement package.

A warrant is a security that grants the owner of the warrant the right to buy stock in the issuing company at a pre-determined (exercise) price at a future date (before a specified expiration date). Its value is the relationship of the market price of the stock to the purchase price (warrant price) of the stock. If the market price of the stock rises above the warrant price, the holder can exercise the warrant. This involves purchasing the stock at the warrant price. So, in this situation, the warrant provides the opportunity to purchase the stock at a price below current market price.

If the current market price of the stock is below the warrant price, the warrant is worthless because exercising the warrant would be the same as buying the stock at a price higher than the current market price. So, the warrant is left to expire. Generally warrants contain a specific date at which they expire if not exercised by that date.

Debt Financing

Debt financing involves borrowing funds from creditors with the stipulation of repaying the borrowed funds plus interest at a specified future time. For the creditors (those lending the funds to the business), the reward for providing the debt financing is the interest on the amount lent to the borrower.

Debt financing may be secured or unsecured. Secured debt has collateral (a valuable asset which the lender can attach to satisfy the loan in case of default by the borrower). Conversely, unsecured debt does not have collateral and places the lender in a less secure position relative to repayment in case of default.

Debt financing (loans) may be short term or long term in their repayment schedules. Generally, short-term debt is used to finance current activities such as operations while long-term debt is used to finance assets such as buildings and equipment.

Friends and Relatives

Founders of start-up businesses may look to private sources such as family and friends when starting a business. This may be in the form of debt capital at a low interest rate. However, if you borrow from relatives or friends, it should be done with the same formality as if it were borrowed from a commercial lender. This means creating and executing a formal loan document that includes the amount borrowed, the interest rate, specific repayment terms (based on the projected cash flow of the start-up business), and collateral in case of default.

Banks and Other Commercial Lenders

Banks and other commercial lenders are popular sources of business financing. Most lenders require a solid business plan, positive track record, and plenty of collateral. These are usually hard to come by for a start- up business. Once the business is underway and profit and loss statements, cash flows budgets, and net worth statements are provided, the company may be able to borrow additional funds.

Commercial Finance Companies

Commercial finance companies may be considered when the business is unable to secure financing from other commercial sources. These companies may be more willing to rely on the quality of the collateral to repay the loan than the track record or profit projections of your business. If the business does not have substantial personal assets or collateral, a commercial finance company may not be the best place to secure financing. Also, the cost of finance company money is usually higher than other commercial lenders.

Government Programs

Federal, state, and local governments have programs designed to assist the financing of new ventures and small businesses. The assistance is often in the form of a government guarantee of the repayment of a loan from a conventional lender. The guarantee provides the lender repayment assurance for a loan to a business that may have limited assets available for collateral. The best known sources are the Small Business Administration and the USDA Rural Development programs.

Bonds

Bonds may be used to raise financing for a specific activity. They are a special type of debt financing because the debt instrument is issued by the company. Bonds are different from other debt financing instruments because the company specifies the interest rate and when the company will pay back the principal (maturity date). Also, the company does not have to make any payments on the principal (and may not make any interest payments) until the specified maturity date. The price paid for the bond at the time it is issued is called its face value.

When a company issues a bond it guarantees to pay back the principal (face value) plus interest. From a financing perspective, issuing a bond offers the company the opportunity to access financing without having to pay it back until it has successfully applied the funds. The risk for the investor is that the company will default or go bankrupt before the maturity date. However, because bonds are a debt instrument, they are ahead of equity holders for company assets.

Lease

A lease is a method of obtaining the use of assets for the business without using debt or equity financing. It is a legal agreement between two parties that specifies the terms and conditions for the rental use of a tangible resource such as a building and equipment. Lease payments are often due annually. The agreement is usually between the company and a leasing or financing organization and not directly between the company and the organization providing the assets. When the lease ends, the asset is returned to the owner, the lease is renewed, or the asset is purchased.

A lease may have an advantage because it does not tie up funds from purchasing an asset. It is often compared to purchasing an asset with debt financing where the debt repayment is spread over a period of years. However, lease payments often come at the beginning of the year where debt payments come at the end of the year. So, the business may have more time to generate funds for debt payments, although a down payment is usually required at the beginning of the loan period.

Government assistance

The government provides finance to companies in cash grants and other forms of direct assistance, as part of its policy of helping to develop the national economy, especially in high technology industries and in areas of high unemployment. For example, the Indigenous Business Development Corporation of Zimbabwe (IBDC) was set up by the government to assist small indigenous businesses in that country.

Venture capital

Venture capital is money put into an enterprise which may all be lost if the enterprise fails. A businessman starting up a new business will invest venture capital of his own, but he will probably need extra funding from a source other than his own pocket. However, the term 'venture capital' is more specifically associated with putting money, usually in return for an equity stake, into a new business, a management buy-out or a major expansion scheme.

The institution that puts in the money recognises the gamble inherent in the funding. There is a serious risk of losing the entire investment, and it might take a long time before any profits and returns materialise. But there is also the prospect of very high profits and a substantial return on the investment. A venture capitalist will require a high expected rate of return on investments, to compensate for the high risk.

A venture capital organisation will not want to retain its investment in a business indefinitely, and when it considers putting money into a business venture, it will also consider its "exit", that is, how it will be able to pull out of the business eventually (after five to seven years, say) and realise its profits. Examples of venture capital organisations are: Merchant Bank of Central Africa Ltd and Anglo American Corporation Services Ltd.

When a company's directors look for help from a venture capital institution, they must recognise that:

· the institution will want an equity stake in the company· it will need convincing that the company can be successful· it may want to have a representative appointed to the company's board, to look after its interests.

The directors of the company must then contact venture capital organisations, to try and find one or more which would be willing to offer finance. A venture capital organisation will only give funds to a company that it believes can succeed, and before it will make any definite offer, it will want from the company management:

a) a business plan

b) details of how much finance is needed and how it will be used

c) the most recent trading figures of the company, a balance sheet, a cash flow forecast and a profit forecast

d) details of the management team, with evidence of a wide range of management skills

e) details of major shareholders

f) details of the company's current banking arrangements and any other sources of finance

g) any sales literature or publicity material that the company has issued.

A high percentage of requests for venture capital are rejected on an initial screening, and only a small percentage of all requests survive both this screening and further investigation and result in actual investments.

Securities markets

Securities markets and investment banks provide opportunities for companies to obtain capital and people to make investments to increase their wealth. In this lesson, you'll learn about securities markets and the players involved.

Markets of Opportunities

Meet Sarah. She's started a green energy company that designs and builds wind turbines. Her business is growing quickly and successfully, but she is running out of money to fuel its growth. In fact, she needs so much money that her bankers don't want to take the risk of loaning her the tens of millions of dollars needed for her business to go to the next level. However, Sarah can seek capital through the securities markets.

Securities are generally either stocks or bonds. A **stock**, also referred to as **equities** or **shares**, is an ownership interest in a company. You can think of stock shares as owning a share - or part of - the company. A **bond**, sometimes called a **debenture**, is a debt instrument, which is a promise to repay a debt.

Stocks and bonds are traded on markets. A **securities market** is a market where securities are traded either on physical or electronic exchanges. Securities markets are generally divided between stock markets and bond markets. A **stock market** involves the trade of equity securities, which are ownership interests of a company commonly known as shares.

Some of the most important stock exchanges in the world include the New York Stock Exchange, the NASDAQ, Tokyo Stock Exchange, London Stock Exchange, Euronext, Hong Kong Stock Exchange and Shanghai Stock Exchange. A **bond market** involves the trade of debt securities. Rather than becoming owners of the company, the investors become creditors of it.

The securities market can be divided between primary and secondary markets. You are probably most familiar with the secondary stock market. A **secondary market** is where investors go to buy stocks and bonds from other investors. Yep, that's right - most people buy 'used' stocks and bonds. You can think of the secondary market as selling secondhand stock (not new).

Sarah is more interested in the **primary market** where new stock or bonds are initially sold to the public. Remember that primary often means first, as in first sale. This offering on the primary market is usually referred to as an **initial public offering (IPO)**. For example, the first shares of Facebook were sold on the primary market. Investors who bought those shares may later trade them to other investors on the secondary market. Sarah can try to sell shares of her company on the primary market to raise the capital needed to expand her business.

The SEBI is the regulatory authority in India established under Section 3 of SEBI Act to protect the interests of the investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith and incidental thereto.

- Protecting the interests of investors in securities and promoting and regulating the development of the securities market
- Regulating the business in stock exchanges
- Registering and regulating the working of stock brokers, sub–brokers, share transfer agent etc.
- Registering and regulating the working of venture capital funds, collective investment schemes (like mutual funds) etc
- Promoting investor's education and training intermediaries
- Promoting and regulating self-regulatory organizations
- Prohibiting fraudulent and unfair trade practices
- Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, intermediaries, self – regulatory organizations, mutual funds and other persons associated with the securities market.

Overview of SEBI

- Securities Exchange Board of India (SEBI) was established in 1988 to regulate the functions of securities market.
- SEBI promotes orderly development in the stock market.
- SEBI was set up with the main idea to keep a check on malpractices and protect the interest of investors.

Now, let us gain more insights into the objectives and functions of SEBI.

Objectives of SEBI

The objectives of SEBI are:

- To regulate activities in stock exchange and ensure safe investments
- To prevent fraudulent practices by striking a balance between business and its statutory regulations

Functions of SEBI

The three main functions of SEBI are as follows:

1. Protective function
2. Developmental function

iii. Regulatory function

1. **Protective functions** are performed by SEBI to protect interest of investors and provide safe investments. This entails:

- **Checks on prices rigging:** Price rigging refers to manipulating the prices of securities.
- **Prevents insider trading:** Insider refers to directors, promoters of the company. These people have sensitive information which they can use to make profit. SEBI keeps a stringent check whether insiders are buying securities of the company.
- **Prohibits fraudulent and unfair practices:** SEBI does not allow companies to make misleading statements.

2. **Developmental functions** are performed by the SEBI to develop activities in stock exchange to increase the business in stock exchange. Under this category, following functions are performed by SEBI:

- Promoting training of intermediaries of the securities market
- Promote activities of stock exchange by adopting flexible methods such as internet trading
- Initial public offer of primary market is permitted through stock exchange.

3. **Regulatory functions** are performed by SEBI to regulate the business in stock exchange.

- SEBI registers and regulates the working of mutual funds and other investment options.
- SEBI regulates takeover of the companies.
- SEBI conducts inquiries and audit of stock exchanges.

Now, let’s understand the organizational structure of SEBI.

Organizational Structure of SEBI

- SEBI is a corporate sector divided into five departments. Each department is headed by an executive director.
- The current chairman of SEBI is U.K. Sinha.
- The head office of SEBI is in Mumbai and it has branch office in Kolkata, Chennai and Delhi.
- There are two advisory committees to deal with primary and secondary markets.

After reading this post, you must have got a fair idea about the Securities Exchange Board of India (SEBI). Stay tuned for more updates on general awareness articles.

Human Resource Management is the process of recruitment and selecting employee, providing orientation and induction, training and development , assessment of employee (performance of appraisal), providing compensation and benefits, motivating, maintaining proper relations with employees and with trade unions, maintaining employees safety, welfare and healthy measures in compliance with labour laws of the land.

According to **Armstrong (1997)**, Human Resource Management can be defined as *"a strategic approach to acquiring, developing, managing, motivating and gaining the commitment of the organisation's key resource – the people who work in and for it."*

Functions of Human Resource Management

Human Resource Management functions can be classified in following three categories.

- Managerial Functions,
- Operative Functions, and
- Advisory Functions

The ***Managerial Functions*** of Human Resource Management are as follows:

1. Human Resource Planning - In this function of HRM, the number and type of employees needed to accomplish organisational goals is determined. Research is an important part of this function, information is collected and analysed to identify current and future human resource needs and to forecast changing values, attitude, and behaviour of employees and their impact on organisation.

2. Organising - In an organisation tasks are allocated among its members, relationships are identified, and activities are integrated towards a common objective. Relationships are established among the employees so that they can collectively contribute to the attainment of organisation goal.

3. Directing - Activating employees at different level and making them contribute maximum to the organisation is possible through proper direction and motivation. Taping the maximum potentialities of the employees is possible through motivation and command.

4. Controlling - After planning, organising, and directing, the actual performance of employees is checked, verified, and compared with the plans. If the actual performance is found deviated from the plan, control measures are required to be taken.

The ***Operative Functions*** of Human Resource Management are as follows:

1. **Recruitment and Selection** - Recruitment of candidates is the function preceding the selection, which brings the pool of prospective candidates for the organisation so that the management can select the right candidate from this pool.

2. **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. Job design aims at outlining and organising tasks, duties, and responsibilities into a single unit of work for the achievement of certain objectives.

3. **Performance Appraisal** - Human resource professionals are required to perform this function to ensure that the performance of employee is at acceptable level.

4. **Training and Development** - This function of human resource management helps the employees to acquire skills and knowledge to perform their jobs effectively. Training an development programs are organised for both new and existing employees. Employees are prepared for higher level responsibilities through training and development.

5. **Wage and Salary Administration** - Human resource management determines what is to be paid for different type of jobs. Human resource management decides employees compensation which includes - wage administration, salary administration, incentives, bonuses, fringe benefits, and etc,.

6. **Employee Welfare** - This function refers to various services, benefits, and facilities that are provided to employees for their well being.

7. **Maintenance** - Human resource is considered as asset for the organisation. Employee turnover is not considered good for the organisation. Human resource management always try to keep their best performing employees with the organisation.

8. **Labour Relations** - This function refers to the interaction of human resource management with employees who are represented by a trade union. Employees comes together and forms an union to obtain more voice in decisions affecting wage, benefits, working condition, etc,.

9. **Personnel Research** - Personnel researches are done by human resource management to gather employees' opinions on wages and salaries, promotions, working conditions, welfare activities, leadership, etc,. Such researches helps in understanding employees satisfaction, employees turnover, employee termination, etc,.

10. **Personnel Record** - This function involves recording, maintaining, and retrieving employee related information like - application forms, employment history, working hours, earnings, employee absents and presents, employee turnover and other other data related to employees.

The ***Advisory Functions*** of Human Resource Management are as follows: Human Resource Management is expert in managing human resources and so can give advice on matters related to human resources of the organisation. Human Resource Management can offer advice to

1. **Advised to Top Management**Personnel manager advises the top management in formulation and evaluation of personnel programs, policies, and procedures.
2. **Advised to Departmental Heads**Personnel manager advises the the heads of various departments on matters such as manpower planning, job analysis, job design, recruitment, selection, placement, training, performance appraisal, etc.

Basic Dynamics of Employer-Employee Relations

Employer-employee relations has become one of the most delicate and complex problems of modern industrial society. Industrial progress is impossible without labour management cooperation and industrial harmony. Therefore, it is in the interest of all to create and maintain good relations between employers and employees.Employer-employee relations mean the relationships between employers and employees in industrial organisations. According to Dale Yoder, the term employer-employee relations refers 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.
Relations between the various unions between the State and the unions as well as those between the employers and the Government. Relations of all these associated in industry may be called employer- employee relations.

The subject, therefore, includes individual relations and joint consultation between employers and workers at the place of work, collective relations between employers and their organisations and trade unions, and the part played by the State in regulating these relations.Employer-employee relations involve the study of how people get on 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.

According to the ILO, employer-employee relations comprise relationships between the Sate on the one hand and the employers’ and employees’ organisations on the other hand and the relationship among the occupational organisations themselves.The ILO uses the term to denote such matters as freedom of association and the protection of the right to organise, the right of collective bargaining, collective agreements, conciliation and arbitration and the machinery for cooperation between the authorities and the occupational organisations at various levels of economy.

UNIT I

Questions	option 1	option2	option3	option4	Answers
Who can start a business?	Only highly educated person	Only an uneducated person	Only rich person	Any one of the above	Any one of the above
Small Industry enterprise is defined as an enterprise where investment in plant should not exceed	5 crores	3 crores	2 crores	6 crores	3 crores
For small business owners, one of the most important objective is ________.	market presence	growth	profitability	innovation	innovation
________ include agriculture,fortestry and mining products.	Production	wholesaling	sales	Marketing	Production
_________ is one of the important field of small business	Retailing	Purchasing	Wholesaling	Servicing	Wholesaling
_______ includes a wide variety of service enterprise	Manufacturing	Service industries	finance	sales	Service industries
Firms Dealing in real estate are established mainly on	large business	small business	Medium business	semi large	small business
The term Industry is used to refer to __________	Production	Manufacturing	Service	Factories	Manufacturing
Manufacturing Industries are engaged in the conversion or transformation of _______into finished goods	Work-in-progress	Raw material	Semi-finished Products	Industry Goods	Raw material
_______ Industry products are manufactured by analyzing elements from the same	Analytical	Synthetic	processing	Assembling	Analytical
________ Industries various ingredients are put together and combined in manufacturing	Processing	Synthetic	Assembly line	Analytical	Processing
________ are included these industries, the raw	Assembly line	Processing	Analytical	synthetic	synthetic

material is processed in different stages of production.					
Insurance companies are under ___________ enterprises	production	Service	manufacturing	sales	Service
_________ is concerned with the group behaviour of human being	political	sociology	economics	quality	sociology
_____ of trade in manufactures is sought to be achieved mostly by reduction of tariff	Globalization	Interruption	liberalization	Expansion	liberalisaion
________ means the replacement of existing non-tariff restrictions on trade	Investigation	tariffication	reduction	Implementation	tariffication
______extends multilateral rules and disciplines	TRIMS	TRIPS	GATS	WTO	GATS
The past two decades of globalisation has seen rapid movements in __________	goods, services and people between countries	goods, services and investments between countries	goods, investments and people between countries	services, investment and people	goods, services and investments between countries

UNIT II

Questions	**option 1**	**option2**	**option3**	**option4**	**Answers**
The best definition of a sole trader form of business organisation is	The business only employs one person	The business is owned by one person	The firm has a single customer	There is a single firm in the industry	The business is owned by one person
One of the claimed advantages of a sole trader business is that:	Owners have limited liability	Shares can be sold to raise capital	Decisions and responsibilities can be shared	The owner has independence	The owner has independence
One of the disadvantages of a sole trader business is that:	Capital is limited to owner's savings and bank loans	Decisions take too long to make	As they are government owned there is no profit motive	the owners may disagree	Capital is limited to owner's savings and bank loans
One of the advantages of a partnership form of business organisation is that:	All partners always have limited liability	Shares can be sold on the Stock Exchange	The business survives the death of the partners	The business has access to more capital than a sole trader	The business has access to more capital than a sole trader
Which of the following is NOT a feature of a private limited company?	Shares can be issued to raise capital	Shares can be bought and sold on the Stock Exchan	All owners of the business have limited liability	The business continues after the death of shareholders	Shares can be bought and sold on the Stock Exchange

		ge			
The main reason why the owners of many private limited companies convert into public limited companies is because:	They do not want to remain in the private sector	They want to gain the benefits of limited liability	They want to keep the annual accounts secret	They want to raise additional capital to expand the business	They want to raise additional capital to expand the business
Which of the following statements about most public limited companies is true?	They are owned and controlled by the government	The are owned by shareho lders but controll ed by director s	They are owned by the directors but controlled by the shareholder s	They are owned and controlled by the workers	The are owned by shareholder s but controlled by directors
____________ is a form of organization in which the owner maintains complete control over the business and is personally liable for business debts	partnership	sole propriet orship	joint stock company	cooperativ e	sole proprietors hip
_____________ is a form of business organization in which there are general partners and limited liability partners	general partnership	sole propriet orship	limited liability partnership	cooperativ e	limited liability partnership
____________ is a legal business entity that is separate from its owners and managers	partnership	sole propriet orship	joint stock company	cooperativ e	joint stock company
Which of the following is not one of the three forms of business organization?	corporations	partners hips	proprietors hips	investors	investors
The joint hindu family business is controlled by the head of the family who is the eldest member and is called _________	sardar	manage r	karta	dayabhag a	karta
The karta in a joint hindu family business has __________ liability	limited liability	unlimit ed liability	partly limited liability	partly unlimited liability	unlimited liability
In a cooperative society, principle followed is ____________	one man one vote	one share	no vote	multiple votes	one man one vote

		one vote			
The board of directors of a joint stock company are elected by __________	employees	shareholders	general public	government	shareholders
The maximum number of partners allowed in banking business is ____________	ten	twenty	fifteen	fifty	ten
The maximum number of partners allowed in non-banking business is ____________	ten	twenty	fifteen	fifty	twenty
The capital of a company is divided into a number of parts and each one of which is called ____________	dividend	profit	interest	share	share
A partner whose association with the firm is unknown to general public is called ___________	active partner	secret partner	sleeping partner	nominal partner	secret partner
__________ is referred to as an artificial person in the eyes of law	sole proprietorship	company	partnership	karta	company

UNIT III

Questions	option 1	option2	Option3	Option4	Answer
Principles of Management can be applied to_____________	Big organizations	All organizations	Small organizations	Tiny organizations	All organizations
Division of work promotes____________	Specialization	Efficiency	Wastage	Confusion	Efficiency
Bottom line of any business plan is	Marketing plan	financial plan	Personnel plan	Production plan	financial plan
Planning involves defining the organization's goals, establishing an overall strategy for achieving those goals, and developing a comprehensive set of plans ______________	as to which shift will perform what work functions	to determine which manager will be over which department	to integrate and coordinate organizational work	to integrate and coordinate organizational work	to integrate and coordinate organizational work
In formal planning, __________.	specific goals covering a period of years are define	specific goals are developed and not written	general goals are developed and not written	general and lacks continuity	general and lacks continuity
Formal planning involves which of the following aspects?	developing general objectives	planning for up to one year	writing objectives	writing objectives	writing objectives
Which of the following is not a recognised type of plan?	Business	Succession	ad hoc	Financial	Adhoc

To what time-frame do strategic plans relate?	Long-term	Medium-term	Short-term	*long term*	long term
The ________________ process commences at corporate level. Here the organization sets out its overall mission, purpose, and values.	researching	strategic planning	controlling	managing	strategic planning
A statement that sets out what the organization wishes to achieve in the long term is referred	mission.	vision	values.	strategic context.	mission
An organization can offer standard products at acceptable levels of quality, yet still generate above-average profit margin by adopting _____________	differentiation.	focus strategy	cost leadership.	market follower strategy.	market follower strategy.
What are characteristics of a programmed decision?	Complex and risky	Uncertain and non-routin	Low risk and certain	Routine and non-complex	lowrisk and certain
A decision made before the occurrence of an external or internal change is called a _________ decision.	reactive.	proactive.	intuitive.	systematic.	proactive.
___________	systematic.	programmed.	non programmed.	intuitive.	systematic.

decision making is an organized, exacting, data-driven process.					
The first step in decision making is to:	establish priorities.	establish specific goals and objectives.	identify and define the problem.	determine courses of the problem.	establish specific goals and objectives
Non programmed decisions are most likely to be made by:	middle management.	lower management.	top management.	supervisory management.	top management.
third step in decision making process is to	linear predictions	dependent predictions	making predictions	independent predictions	making predictions
reports and analysis non-financial and financial information to help in decision making is called	financial accounting	management accounting	cost accounting	decision accounting	management accounting
Fourth step in decision making process is to	planning	making decisions	implement decisions	evaluate performance	making decisions
The final step in the decision-making process is to _______________	pick the criteria for the next decision	reevaluate the weightings of the criteria	evaluate the outcome of the decision	reassign the ratings on the criteria to f	evaluate the outcome of the decision

Unit IV

Questions	**option 1**	**option2**	**option3**	**option4**			**Answers**
Which of the following would be included in the "controlling function" ?	measuring results against corporate objectives	explaining routines	setting standards	giving assignments			measuring results against corporate objectives
Motivation is related to:	planning	controlling	leading	tactical decisions			leading
Supervisory management spends most of his/her time:	planning and controlling	directing and controlling	planning and organising	organising and controlling			directing and controlling
The definition of communication implies that	communication is mostly verbal	communication is mostly written	most communication is in a vertical direction	understanding must occur to have communication			understanding must occur to have communication
The least used communication channel in an organisation is usually	upward	downward	diagonal	horizontal			horizontal
According to Abraham Maslow, the most basic type of need is	safety	esteem	self actualisation	physiological			physiological
Which one of the following theories is a process theory of motivation? a. b. vroom's valence expectancy c. d.	Maslow's need hierarchy	vroom's valence expectancy	motivation – hygiene	equity theory			motivation – hygiene
According to Maslow's need hierarchy theory, which of the following sequence is correct?	physiological, safety, social, esteem, self-actualization	safety, social, esteem, physiological, self-actualization	self-actualization , safety, esteem, social, physiological	physiological, safety, esteem, social, self-actualization			physiological, safety, esteem, social, self-actualization
Which one of the following aspects of managing has not been emphasized by McGregor's theories X and Y?	planning	organising	directing	appraising			planning

Communication begins with	encoding	idea generation	decoding	channel selection			idea generation
Which one of the following is not an element of communication process?	encoding	channel	receiver	feelings			feelings
On which form of communication do managers spend maximum time	oral communicatio n	written communicatio n	non verbal communicatio n	pictorial			oral communicatio n
Grapevine is a type of -	informal communicatio n	formal communicatio n	written communicatio n	pictorial			informal communicatio n
Which one of these is used for motivation?	job simplification	job rotation	job enlargement	job enrichment			job rotation
The concept of power refers to	defined authority and responsibility	a relative hierarchical position in an organization	the ability to influence the behavior of others	the specialized knowledge possessed by an individual			the ability to influence the behavior of others
The process of adjusting future action on the basis of information about past performance is called _____________	feedback control	concurrent control	feed forward control	feed backward control			feedback control
The control measures for taking corrective action while any programme meets any obstacle in this activities is called ___________	feedback control	concurrent control	feed forward control	feed backward control			concurrent control
The control that involves evaluation of inputs and taking corrective action before a particular operation is completed is called ____________	feedback control	concurrent control	feed forward control	feed backward control			feed forward control
When a manager is comparing actual sales figures with goals established earlier to see if his department met the target, he is performing which of the following functions?	planning	controlling	leading	tactical decisions			controlling
The organization which has no interaction	open system	closed system	non	moderated			closed system

with its external environment is called:			interactive system	system			

Unit V

Questions	option 1	option2	option3	option4	Answers
The security which returns dividend on investment is called______	shares	fixed deposits	debentures	bonds	shares
Evaluation of employee performance is called as _________	job rotation	job evaluation	performance appraisal	performance study	performance appraisal
Which of the following gets priority when repayment happens during the winding up of company?	equity shares	preference shares	class shares	bonus shares	preference shares
A high risk taking investor would invest in which of the following security?	debentures	preference shares	equity shares	bonds	equity shares
Which of the following options is also called off balance sheet financing?	instalment schemes	loan financing	lease financing	sale and lease back	lease financing
Which of the following options is a major source of raising capital for new organisations?	equity	bonds	debentures	venture capital	venture capital
Which class of debentures are repayable after a specific period of time?	irredeemable debentures	convertible debentures	naked debentures	redeemable debentures	redeemable debentures
The objective of financial management is _____________	increasing the price of the shares	increasing the profit of the company	increasing the number of shareholders	profit maximisation, wealth maximisation	profit maximisation, wealth maximisation
The focus of human resource management around is	Machine	money	men	land	man
Demand for human resource and management created by	Expansion of industry	shortage of labour	abundance of capital	Increasing profit	Expansion of industry
Human resource management primarily concern with _________	sales	dimension of people	external environment	internal environment	dimension of people
Human resource management does not involve_________	Recruitment	selection	Cost control	training	Cost control

Which one is not the specific goal of human resource management?	Attracting applicants	seperating employees	retaining employees	join with employees	separating employees
To achieve goals organisations requires employees?	control	Directions	commitment	cooperation	cooperation
An employee is separate from an organisation by way of lay off then	lack of skills	Employer could not employ the employer	When he commit a mistake	the are overruling	Employer could not employ the employer
An employee is terminated due to dishonesty means	discharge	dismissal	suspend	layoff	discharge
To avail voluntary retirement scheme the employee has to complete minimum _____ years	15 years	10 years	20 years	5 years	10 years
Pricing strategy in which company divides location into different sectors and charge same price	freight on board origin pricing	zone pricing	basing point pricing	uniform delivered pricing	zone pricing
New product pricing strategy through which companies set lower prices to gain large market share is classified as	optional product pricing	skimming pricing	penetration pricing	captive product pricing	penetration pricing
Pricing strategy used to set prices of products that are must be used with main product is called	optional product pricing	product line pricing	competitive pricing	captive product pricing	captive product pricing