



केन्द्रीय विद्यालय संगठन

KENDRIYA VIDYALAYA

SANGATHAN

MUMBAI REGION

STUDENT STUDY MATERIAL

CLASS- XII

SUBJECT- ACCOUNTANCY

(055)

SESSION- 2022-23

INSPIRATION

SMT SONA SETH

Deputy commissioner

KVS RO Mumbai

Mr S. V. Joglekar

Assistant Commissioner

KVS RO Mumbai

MD. NASIMUDDIN
PRINCIPAL
K.V 9,BRD, PUNE & Course Director

KENDRIYA VIDYALAYA SANGATHAN

MUMBAI REGION

CONTENT AND REVIEW TEAM

**COURSE DIRECTOR : Md. Nasimuddin ,Principal KV 9 BRD ,
PUNE**

Name Of The Teacher	Name Of KV
Mrs. Poonam Malik	KV KOLIWADA
Mrs. Bhuvanshwari V M	KV ONGC PANVEL
Mr. Kailash Kandpal	KV CME, PUNE
Mr Chand Kumar Kashyap	KV VSN NAGPUR
Mr Ravinder Kumar	KV BEG Pune
Miss. Sushila Yadav	KV NO1 DEHU ROAD
Mrs. Shivani Mishra	KV AFS OJHAR

Mrs. Manju K	KV Bambolim Goa
Mr. Bodh Raj	KV 9 BRD Pune

Business Studies

CLASS–XII (2022-23)

Theory: 80 Marks

3 Hours

Project: 20 Marks

Units		Periods	Marks
Part A	Principles and Functions of Management		
1.	Nature and Significance of Management	12	16
2	Principles of Management	14	
3	Business Environment	12	
4	Planning	14	14
5	Organising	15	
6	Staffing	16	20
7	Directing	15	
8	Controlling	12	
	Total	110	50
Part B	Business Finance and Marketing		
9	Financial Management	20	15
10	Financial Markets	18	
11	Marketing Management	30	15
12	Consumer Protection	12	
	Total	80	30
Part C	Project Work (One)	30	20

Part A: Principles and Functions of Management

Unit 1: Nature and Significance of Management

Concept	After going through this unit, the student/ learner would be able to:
Management - concept, objectives, and importance	• Understand the concept of management. • Explain the meaning of 'Effectiveness and Efficiency. • Discuss the objectives of management. • Describe the importance of management.
Management as Science, Art and Profession	• Examine the nature of management as a science, art and profession.
Levels of Management	• Understand the role of top, middle and lower levels of management
Management functions-planning, organizing, staffing, directing and controlling	• Explain the functions of management
Coordination- concept and importance	• Discuss the concept and

	characteristics of coordination. • Explain the importance of coordination.
--	--

Unit 2: Principles of Management

Principles of Management- concept and significance	• Understand the concept of principles of management. • Explain the significance of management principles.
Fayol's principles of management	• Discuss the principles of management developed by Fayol.
Taylor's Scientific management- principles and techniques	• Explain the principles and techniques of 'Scientific Management'. • Compare the contributions of Fayol and Taylor.

Unit 3: Business Environment

Business Environment- concept and importance	• Understand the concept of 'Business Environment'. • Describe the importance of business environment
Dimensions of Business Environment- Economic, Social, Technological, Political and Legal	• Describe the various dimensions of 'Business Environment'. • Understand the concept of demonetization
Demonetization - concept and features	

Unit 4: Planning

Concept, importance and limitation	• Understand the concept of planning. • Describe the importance of planning. • Understand the limitations of planning.
Planning process	• Describe the steps in the process of planning.
Single use and standing plans. Objectives, Strategy, Policy, Procedure, method Rule, budget and Programme	• Develop an understanding of single use and standing plans • Describe objectives, policies, strategy, procedure, method, rule, budget and programme as types of

	plans.
--	--------

Unit 5: Organising

Concept and importance	• Understand the concept of organizing as a structure and as a
------------------------	--

	process. • Explain the importance of organising.
Organising Process	• Describe the steps in the process of organizing
Structure of organisation- functional and divisional concept. Formal and informal organisation- concept	• Describe functional and divisional structures of organisation. • Explain the advantages, disadvantages and suitability of functional and divisional structure. • Understand the concept of formal and informal organisation. • Discuss the advantages, disadvantages of formal and informal organisation.
Delegation: concept, elements and importance	• Understand the concept of delegation. • Describe the elements of delegation. • Appreciate the importance of Delegation.
Decentralization: concept and importance	• Understand the concept of decentralisation. • Explain the importance of decentralisation. • Differentiate between delegation and decentralisation.

Unit 6: Staffing

Concept and importance of staffing	• Understand the concept of staffing. • Explain the importance of staffing
Staffing as a part of Human Resource Management concept	• Understand the specialized duties and activities performed by Human Resource Management
Staffing process	• Describe the steps in the process of staffing
Recruitment process	• Understand the meaning of recruitment. • Discuss the sources of recruitment. • Explain the merits and demerits of internal and external sources of recruitment.

Selection – process	• Understand the meaning of selection. • Describe the steps involved in the process of selection.
Training and Development - Concept and importance, Methods of training - on the	• Understand the concept of training and development.

job and off the job - vestibule training, apprenticeship training and internship training	• Appreciate the importance of training to the organisation and to the employees. • Discuss the meaning of induction training, vestibule training, apprenticeship training and internship training. • Differentiate between training and development. • Discuss on the job and off the job methods of training.
---	--

Unit 7: Directing

Concept and importance	• Describe the concept of directing. • Discuss the importance of directing
Elements of Directing	• Describe the various elements of directing
Motivation - concept, Maslow's hierarchy of needs, Financial and non-financial incentives	• Understand the concept of motivation. • Develop an understanding of Maslow's Hierarchy of needs. • Discuss the various financial and non-financial incentives.
Leadership - concept, styles - authoritative, democratic and laissez faire	• Understand the concept of leadership. • Understand the various styles of leadership.
Communication - concept, formal and informal communication; barriers to effective communication, how to overcome the barriers	• Understand the concept of communication • Understand the elements of the communication process. • Discuss the concept of formal and informal communication. • Discuss the various barriers to effective communication. • Suggest measures to overcome barriers to communication.

Unit 8: Controlling

Controlling - Concept and importance	• Understand the concept of controlling. • Explain the importance of controlling.
--------------------------------------	--

Relationship between planning and controlling	• Describe the relationship between planning and controlling
Steps in process of control	• Discuss the steps in the process of controlling.

Part B: Business Finance and Marketing

Unit 9: Financial Management

Concept, role and objectives of Financial Management	• Understand the concept of financial management. • Explain the role of financial management in an organisation. • Discuss the objectives of financial management
Financial decisions: investment, financing and dividend- Meaning and factors affecting	• Discuss the three financial decisions and the factors affecting them.
Financial Planning - concept and importance	• Describe the concept of financial planning and its objectives. • Explain the importance of financial planning.
Capital Structure – concept and factors affecting capital structure	• Understand the concept of capital structure. • Describe the factors determining the choice of an appropriate capital structure of a company.
Fixed and Working Capital - Concept and factors affecting their requirements	• Understand the concept of fixed and working capital. • Describe the factors determining the requirements of fixed and working capital.

Unit 10: Financial Markets

Financial Markets: Concept	• Understand the concept of financial market.
Money Market: Concept	• Understand the concept of money market.
Capital market and its types (primary and secondary)	• Discuss the concept of capital market. • Explain primary and secondary markets as types of capital market. • Differentiate between capital market and money market. • Distinguish between primary and secondary markets.

Stock Exchange - Functions and trading procedure	• Give the meaning of a stock exchange. • Explain the functions of a stock exchange. • Discuss the trading procedure in a stock exchange.
---	---

	Give the meaning of depository services and demat account as used in the trading procedure of securities.
Securities and Exchange Board of India (SEBI) - objectives and functions	- State the objectives of SEBI. - Explain the functions of SEBI.

Unit 11: Marketing

Marketing – Concept, functions and philosophies	- Understand the concept of marketing. - Explain the features of marketing. - Discuss the functions of marketing. - Explain the marketing philosophies.
Marketing Mix – Concept and elements	- Understand the concept of marketing mix. - Describe the elements of marketing mix.
Product - branding, labelling and packaging – Concept	- Understand the concept of product as an element of marketing mix. - Understand the concept of branding, labelling and packaging.
Price - Concept, Factors determining price	- Understand the concept of price as an element of marketing mix. - Describe the factors determining price of a product.
Physical Distribution – concept, components and channels of distribution	- Understand the concept of physical distribution. - Explain the components of physical distribution. - Describe the various channels of distribution.
Promotion – Concept and elements; Advertising, Personal Selling, Sales Promotion and Public Relations	- Understand the concept of promotion as an element of marketing mix. - Describe the elements of promotion mix. - Understand the concept of advertising. - Understand the concept of sales promotion. - Discuss the concept of public relations.

Unit 12: Consumer Protection

Concept and importance of consumer protection	• Understand the concept of consumer protection. • Describe the importance of
---	--

	consumer protection. • Discuss the scope of Consumer Protection Act, 2019
The Consumer Protection Act, 2019: Source: http://egazette.nic.in/WriteReadData/2019/210422.pdf Meaning of consumer Rights and responsibilities of consumers Who can file a complaint? Redressal machinery Remedies available	• Understand the concept of a consumer according to the Consumer Protection Act, 2019. • Explain the consumer rights • Understand the responsibilities of consumers • Understand who can file a complaint and against whom? • Discuss the legal redressal machinery under Consumer Protection Act, 2019. • Examine the remedies available to the consumer under Consumer Protection Act, 2019.
Consumer awareness - Role of consumer organizations and Non-Governmental Organizations (NGOs)	• Describe the role of consumer organizations and NGOs in protecting consumers' interests.

Unit 13: Project Work

INDEX

S. NO.	PARTICULARS	PAGE NO.
1.	Ch-01: NATURE AND SIGNIFICANCE OF MANAGEMENT	12
2.	Ch-02: PRINCIPLES OF MANAGEMENT	16
3.	Ch-03: BUSINESS ENVIRONMENT	21
4.	Ch-04: PLANNING	24
5.	Ch-05 : ORGANISING	29
6.	Ch-06 : STAFFING	32
7.	Ch-07 : DIRECTING	34

8.	Ch-08 : CONTROLLING	43
9.	Ch-09: FINANCIAL MANAGEMENT	46
10.	Ch-10: FINANCIAL MARKET	54
11.	Ch-11: MARKETING MANAGEMENT	57
12.	Ch-12: CONSUMER PROTECTION	66

UNIT-1: NATURE AND SIGNIFICANCE OF MANAGEMENT

Meaning/Concept of Management:

Management is the process of getting things done with the aim of achieving goals effectively and efficiently.

Effectiveness: means completing the right task to achieve the goal within time. Efficiency: means completion of task using minimum resources

Characteristics/Features of Management

- a) Management is Goal oriented
- b) Management is Pervasive
- c) Management is Multidimensional-Management of Work, Management of people, Management of Operation
- d) Management is Continuous process
- e) Management is Group activity
- f) Management is Dynamic function
- g) Management is Intangible.

Functions of Management:

- a) **Planning** - Setting objectives and targets and formulating an action plan of what is to be done, how to be done and when to do it
- b) **Organising** - Assignment of duties, task, establishment of authority and responsibility Relationship, allocating the resource required to perform the planned task.
- c) **Staffing**-Finding and placing the right person at the right job at the right time.
- d) **Directing** - Leading, influencing, and motivating the staff chosen to perform the assigned task efficiently and effectively.
- e) **Controlling** - Ensuring/Monitoring the activities in an organisation are performed as per the plan.

Objectives of Management

Organisational Objectives:-

- a) Survival: - Ensure that the organization survives and exists in the future.
- b) Profitability: - Earning adequate profit in order to survive and grow.
- c) Growth: - Growth indicates how well it exploits the potential opportunities.

Social Objectives: Supply of quality products at reasonable rates, Generating employment opportunities, Contribution toward desirable civic activities, Using environmental friendly methods of production.

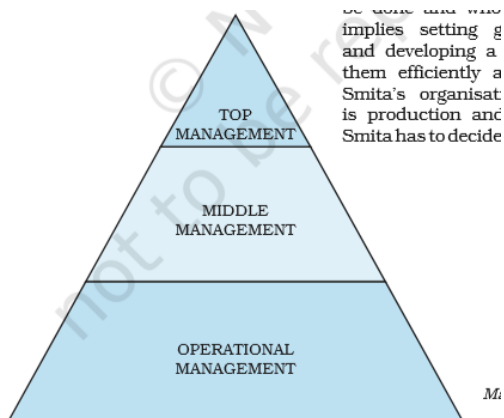
Personnel Objectives:

Meeting the Financial needs like competitive salaries & perks, Peer recognition like self respect, etc., Good & healthy working conditions for safety of employees, Promotion, training personal growth of employees.

Importance of Management

1. Helps in achieving Group Goals
2. Creates a dynamic organization
3. Helps in achieving Personal objectives
4. Increases efficiency
5. Helps in development of society facilitate changes

Levels of Management-



The levels of management denote a demarcation between various position in an organization on the basis of the irresponsibility, authority and status .

These are– Top Level Management - Ex- CEO, Board of directors, MD, President & Chairman.

Functions of Top Level Management:-

- a) Decide overall objectives of the organization.
- b) To make plan.
- c) Provide various resources
- d) Decide policies

Middle Level Management –

For eg.- Departmental heads such as purchase manager, Operations manager, Production manager, Marketing manager, Divisional heads & Plant superintendent etc.

Functions of Middle Level Management:-

- a) To implement plan and policies to assist top management.
- b) To assign job to subordinates.
- c) To recruit employees for their respective departments

Lower level Management –For eg.- Foremen, Inspectors, Supervisors etc.

Functions of Lower level Management:-

- a) To arrange raw materials, tools and other facilities.
- b) To ensure about the performance of workers
- c) To ensure safety and security of workers

Nature of Management:-

Management as a Science:

- a) Universal validity
- b) Arranged, organized systematic body of knowledge
- c) Principles arrived after experimentation.

Management as an Art:-

- a) Based on practice and creativity
- b) Personalised Application

c) Existence of Theoretical knowledge.

Management as a Profession:

- a) Well defined body of knowledge.
- b) Existence of code of conduct
- c) Professional association (AIMA)
- d) Restricted entry
- e) Fees as remuneration for their services.

Coordination:- It is the synchronization of various activities and efforts in an organization providing the required amount of quality, timing and sequence; thus ensuring the achievement of the planned goal with minimum content.

Features of coordination:

- 1. Integrates Group Effort:
- 2. Ensures unity of action
- 3. It is a Continuous Process
- 4. It remains the function and responsibility of every manager

Importance of coordination

- 1. Ensures unity of action
- 2. Erases interdepartmental conflicts Promotes harmonious implementation of plans
- 3. Helps in maintaining a high degree of morale amongst employees.

Key Terms

- 1 Management
- 2.Process
- 3.Efficiency
- 4.Effectiveness
- 5. Art ,Science, Profession

FUNCTIONS:

- 6. Planning 7. Organising 8. Staffing 9. Directing 10. Controlling

11. Coordination

UNIT- 2: PRINCIPLES OF MANAGEMENT

Meaning: Principles of management are broad & general guidelines for managerial decision- making.

Nature/Features/ Characteristics of Management Principles:-

- a) They have universal applicability in all types of organisations. They are formed by practice & experimentation.
- b) They are flexible and can be modified by the manager when the situation so demands.
- c) They are aimed at influencing human behaviour; so they are mainly behavioural in nature.
- d) The applications of the principles of management is contingent or dependent upon the prevailing situation at a particular point of time.

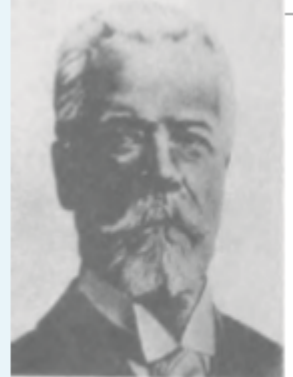
Significance/ Importance of Management Principles:-

- a) They provide the managers with useful insights into reality.
- b) They help in optimum utilization of resources and effective administration.
- c) They help to take scientific decisions.

- d) They help in meeting changing environment requirements. They help in fulfilling social responsibility.
- e) They are use data basis for management training, education and research.

Henri Fayol

1. Life Time: 1841 TO 1925
2. Profession: Mining Engineer and Management Theorist (French national)
3. Education: Graduated from Mining Academy at St. Etienne. in 1880.
4. Positions Held: Founded the mining company 'Cmpagnie de Commentry- Fourchambeau-Decazeville' and became its Managing Director in 1888 and remained till 1918.
5. Writings: Administration industrielle et générale. It was published in English as General and Industrial Management in 1949 and is widely considered a *foundational work in classical management theory*.
6. Contributions: Mainly 14 Management Principles, which are referred to as administrative in nature in that they have Top-Down approach concerning top management and other manager's conduct.



Fayol's Principles of Management-

- 1) **Division of work:** - Whole work should be divided into small tasks / units; each task should be assigned to one person according to the capability, qualification and experience of the person.
- 2) **Authority and responsibility:** - Authority' means the power to take decisions. Responsibility' means obligation to complete the job assigned on time. Fayol suggested that there must be a balance between authority and responsibility.
- 3) **Discipline:**-It means obedience to organizational rules and employment agreement.
- 4) **Unity of command:**-An employee should receive orders / instructions from one and only one boss/ superior and should be accountable to one superior only.
- 5) **Unity of direction:**-All the units of an organisation should be moving towards the same objectives through coordinated and focused efforts. (One unit means one plan.

Difference between Unity of Command and Unity of Direction

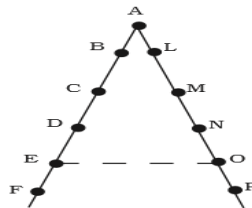
Basis	Unity of Command	Unity of Direction
1. Meaning	One subordinate should receive orders from and should be responsible to only one superior.	Each group of activities having same objective must have one head and one plan.
2. Aim	It prevents dual subordination.	It prevents overlapping of activities.
3. Implications	It affects an individual employee.	It affects the entire organisation.

6) **Subordination of Individual Interest to General Interest:-** The interest of the organisation must supersede the interest of individuals or employees.

7) **Remuneration of employees:** - Remuneration of employees should be just and equitable to provide maximum satisfaction to the employees as well as employer.

8) **Centralisation and Decentralisation:-** Centralisation refers to concentration of authority or power in few hands at the top level. Decentralisation means evenly distribution of power at every level of management. There must be combination of both depending upon the nature and size of the organisation.

9) **Scalar chain:-** The formal line of authority from highest to lowest rank are known as 'scalar chain' suggests that communication from top to bottom should follow the official lines of command. Gang plank is a shorter



route and has been provided so that communication has not delayed.

10) **Order:** - It means there should be a fix place for every person and everything in the organization and each person and everything should be at its definite place i.e. material and social order.

11) **Equity:** - Equity means no discrimination on account of sex, religion, language, caste, belief or nationality etc.

12) **Stability of Tenure of personnel:** - It refers to no frequent termination and transfer. Employees should not be moved from their positions frequently, they should be given reasonable time to show results.

13) **Initiative:** - Initiative refers to taking the first step with self-motivation. The employees in the organisation must be given an opportunity to take some initiative in making and executing a plan.

14) **Espirit de corps:-** Fayol emphasises the need for team work, spirit of unity and harmony among employees.

Scientific Management: Principles and Techniques

Scientific management means knowing exactly what you want

men to do and seeing that they do it in the best and cheapest way. **Scientific Principles:-**

1) **Science, not rule of thumb:** Taylor believed that there was only one best method to maximize efficiency, which can be developed

through scientific study.

2) Harmony, not discard: Taylor insists that there is need for both the groups i.e. workers group and management group to change their attitudes for each other. He insists on mental revolution which means complete change of attitude and outlook for each other.

3) Cooperation, not individualism: Taylor insists work must be carried on in co-operation with each other, with mutual confidence and understanding for each other.

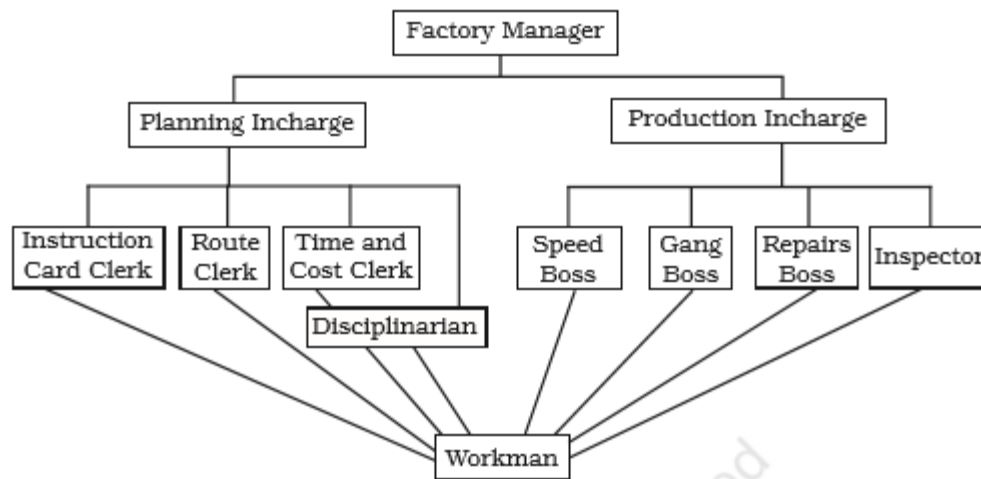
4) Development of each and every person to his/her greatest efficiency and prosperity: Each person should be scientifically selected. They should be given required training to learn best method.

Fayol Versus Taylor — a Comparison

Sl. No.	Basis of difference	Henri Fayol	F. W. Taylor
1.	Perspective	Top level of management	Shop floor level of a factory
2.	Unity of Command	Staunch Proponent	Did not feel that it is important as under functional foremanship a worker received orders from eight specialists.
3.	Applicability	Applicable universally	Applicable to specialised situations
4.	Basis of formation	Personal experience	Observations and experimentation
5.	Focus	Improving overall administration	Increasing Productivity
6.	Personality	Practitioner	Scientist
7.	Expression	General Theory of Administration	Scientific Management

Taylor's techniques of scientific management:-

- 1) Functional foremanship:-** Taylor suggested activities of factory workers should be observed by eight type of specialised foremen. He divided the work of factory in two departments: Planning department:- Instruction card clerk, route clerk, time and cost clerk and discipline officer
Production department:- Gang boss, speed boss, repair boss and Inspector.



2) Standardisation and Simplification of work: - It refers to the process of setting standards for various business activities whereas Simplification means to put an end to unnecessary types, qualities, size/weight etc. of products.

3) Method study: – Objective of method study is to find out one best way of doing the job.

4) Motion study: - It refers to the study of movements so that unproductive movements may be eliminated.

5) Time study: – It determines standard time taken to perform a well- defined job.

6) Fatigue study: – It seeks to determine the amount and frequency of rest intervals in completing a task.

7) Differential piece wage system: - It emphasises on paying different rates of wages for efficient and inefficient employees. It rewards the efficient employees and motivates the inefficient ones to perform better.

KEY TERMS

1. Functional Foremanship
2. Standardisation of Work
3. Time Study
4. Motion Study
5. Fatigue Study
6. Method Study
7. Differential Piece Wage System
8. Mental Revolution

- 9. Unity of Command
- 10. Unity of Direction
- 11. Scalar Chain
- 12. Gang Plank
- 13. Espirit De Corps

-----*****-----

UNIT 03 - BUSINESS ENVIRONMENT

HAVE A LOOK AT PORTION OF THIS CHAPTER FROM

Unit 3: Business Environment

Business Environment- concept and importance

Understand the concept of Business Environment.

Describe the importance of business environment

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

Describe the various dimensions of Business Environment'.

Understand the concept of demonetization, Demonetization - concept and features

NOTES

Meaning of Business Environment:

Business environment refers to forces and institutions outside the firm with which its members must deal to achieve the organisational purposes. Here

- Forces = economical, social, political, technological etc

It includes all those constraints and forces external to a business within which it operates. therefore,

- The firm must be aware of these external forces and institutions and
- The firm must be nagged keeping in mind these forces and institutions so that the organisational objectives are achieved. .

Features of Business Environment

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

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

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

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

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

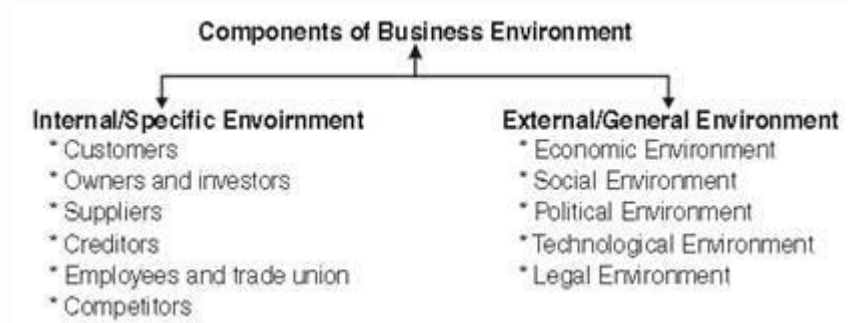
6. Complexity: Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.

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

VERY VERY IMPORTANT FROM CASE STUDY POINT OF VIEW

IMPORTANCE OF BUSINESS ENVIRONMENT

- 1. Identification of opportunities to get first mover advantage:** Understanding of business environment helps an organization in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.
- 2. Identification of threats:** Correct knowledge of business environment helps an organization to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other companies entered the auto industry.
- 3. Tapping useful resources:** Business environment makes available various resources such as capital, labour, machines, raw material etc. to a business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.
- 4. Coping with Rapid changes:** Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively.
- 5. Assistance in planning and policy formulation:** Understanding and analysis of business environment helps an organization in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.



- 6. Helps in Improving performance:** Correct analysis and continuous monitoring of business environment helps an organization in improving its performance.

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

- 1. Economic Environment:** It has immediate and direct economic impact on a business. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms. Economic environment may offer opportunities to a firm or it may put constraints.
- 2. Social Environment:** It includes various social forces such as customs, beliefs, literacy rate, educational levels, lifestyle, values etc. Changes in social environment affect an organization in the long run. Example: Now a days people are paying more attention towards their health, as a result of which demand for mineral water, diet coke etc. has increased while demand of tobacco, fatty food products has decreased.
- 3. Technological Environment:** It provides new and advance ways/techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product. For Example, Digital watches in place of traditional watches, artificial fabrics in place of traditional cotton and silk fabrics, booking of railway tickets on internet etc.
- 4. Political Environment:** Changes in political situation also affect business organizations. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government-single party or coalition government affects the

business Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.

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

FEATURES OF DEMONETISATION:

1. Demonetisation is viewed as a tax administration measure. Cash holdings arising from declared income was readily deposited in banks and exchanged for new notes. But those with black money had to declare unaccounted income and pay tax penalty was imposed.
2. Demonetisation is also interpreted as a shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.
3. Demonetisation also led to tax administration channelizing savings into the formal financial system.
4. Another feature of demonetization is to create a less-cash or cash-lite economy, i.e., channeling more savings through the formal financial system and improving tax compliance.

POINTS TO REMEMBER(COVERING 1 MARK QUESTION)

1. The totality of all individuals, institutions and other forces that are outside the business is considered as Business environment .
2. Business environment includes specific and general forces.
3. Business environment is the sum total of all the factors and forces external to a business.
4. Different elements of parts of a business environment are closely interrelated.
5. Frequent environmental changes in the field of technology and fashion industry is related with uncertainty of business environment.
6. Understanding of business environment helps the firm to identify opportunities to get the first mover advantage.
7. Environment is a complex phenomenon that is relatively easier to understand in parts but difficult to grasp in its totality.
8. Celebration of Diwali is the example of Social Environment.
9. The trend of health and fitness has created a demand for products like gyms, bottled mineral water and food supplement etc. these are the examples of Social Environment.
10. Main components of New Economic policy are Liberalization, globalization and Privatization.

CHAPTER 04: PLANNING

HAVE A LOOK AT PORTION OF THIS CHAPTER FROM SYLLABUS-----CBSE ,2022-23

Unit 4: Planning Concept, importance and limitation · Understand the concept of planning. · Describe the importance of planning. · Understand the limitations of planning. Planning process · Describe the steps in the process of planning. Single use and standing plans. Objectives, Strategy, Policy, Procedure, method, Rule, budget and Programme · Develop an understanding of single use & standing plans. · Describe objectives, policies, strategy, procedure, method, rule, budget and programme as types of plans

Planning class 12 Notes Business Studies

Meaning:

- Deciding in advance what to do & how to do it. It is one of the basic managerial functions.
- It involves 2 aspects:
Setting of aims and objectives of the organization + Selecting and developing an appropriate course of action to achieve these objectives.
- Koontz and O'Donnell – —Planning is deciding in advance what to do, how to do, when to do, and who to do it. Planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur which would not otherwise happen.
- Involves setting of objectives & developing an appropriate course of action to achieve these objectives

3. Features of Planning

- (i) **Planning Focuses on Achieving Objective** :Planning is purposeful. It has no meaning unless it contributes to the achievement of predetermined organisational goals.
- (ii) **Planning is a Primary Function of Management** :Planning is the primary or first function to be performed by every manager. No other function can be executed by the manager without performing planning function.
- (iii) **Planning is Pervasive** :Planning is essential for every sort of business activities. Every department whether, purchase, sales accounts, auditing, marketing etc needs systematic planning.
- (iv) **Planning is Continuous** :Planning is a never ending or continuous process because after making plans also one has to be in touch with the changes in changing environment and in the selection of one best way.
- (v) **Planning is Futuristic** :Planning always means looking ahead, it is never for the past. All the managers try to make predictions and assumptions for future.

(vi) **Planning Involves Decision Making:** Planning choice making of the best possible alternative out of various alternatives.

Importance of Planning

1. **Planning provides directions:** By stating in advance how the work is to be done planning provides direction for action. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its goals efficiently.
2. **Planning reduces the risk of uncertainty:** Planning is an activity which enables a manager to look ahead, anticipate change, consider the impact of change and develop appropriate responses.
3. **Planning reduces wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different departments and individuals whereby useless and redundant activities are mentioned.
4. **Planning promotes innovative ideas:** Planning is the first function of management. Managers get the opportunity to develop new ideas and new ideas can take the shape of concrete plans.
5. **Planning facilitates decision making:** Under planning targets are laid down. The manager has to evaluate each alternative and select the most viable option.
6. **Planning establishes standards for controlling:** Planning provides the standards against which the actual performance can be measured and evaluated. Control is blind without planning. Thus planning provides the basis for control.

Limitations of Planning

(A) Internal Limitations

1. **Planning leads to rigidity:** Planning discourages individual's initiative & creativity. The managers do not make changes according to changing business environment. They stop taking or giving suggestions and new ideas. Thus detailed planning may create a rigid framework in the organization.
2. **Planning may not work in dynamic environment:** Planning is based on anticipation of future happenings and since future is uncertain and dynamic therefore, the future anticipations are not always true.
3. **Planning involves huge costs:** When plans are drawn up, huge cost is involved in their formulation.
4. **Planning is time consuming:** Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.
5. **Planning does not guarantee success:** The success of an enterprise is possible only when plans are properly drawn and implement. Sometimes managers depend on previously tried successful plans, but it is not always true that a plan which has worked before will work effectively again.
6. **Planning reduces creativity:** In planning, work is to be done as per pre-determined plans. It is decided in advance what is to be done, how it is to be done and who is going to do it. Moreover, planning is done by top management which leads to reduction of creativity of other levels of management.

(B) External Limitations

They are those limitations of planning which arises due to external factors over which an organization has no control.

1. Changes in Government policies way leads to failure of planning.
2. Natural calamities such as flood, earthquake etc. also adversely affect the success of planning.
3. Changes in the strategies of competitors also leads to failure of planning many times.
4. Regular technological changes may affect planning.
5. Changes in the Economic and Social Conditions also reduces the effectiveness of planning.

Planning Process

1. Setting Objectives:

- Objectives specify what the organization wants to achieve.
- Objectives can be set for the entire org. & stated to each dept. within the org. very clearly, to

determine how all depts. would contribute towards overall objectives.

– Then these have to percolate down to all employees at all levels so that they understand how their actions contribute to achieving objectives.

– E.g. Objective could be to achieve sales, expansion of business etc.

2. Developing Premises:

– Plans are made on the basis of some assumptions.

– These assumptions, which provide the basis for planning, are called premises.

– All managers involved in planning should be familiar w/ them, cuz plans are expected to operate & reach their destination subject to these. They can be:

- Internal premises: Cost of products, capital, machinery, profitability etc.

- External premises: Changes in technology, population growth, competition, govt. policies etc

3. Identifying Alternative Courses Of Action:

– After setting the objectives, managers make a list of alternatives through which the org. can achieve its objectives as there can be many ways to achieve the objectives & managers must know all of them.

– E.g. Sales could be increased through any of the following ways:

- By enhancing advertising expenditure

- Appointing salesmen for door-to-door sales

- By offering discounts

- By adding more product lines.

4. Evaluating Alternative Courses Of Action

– Positive & negative aspects of each & every proposal need to be evaluated to determine their feasibility and consequences in the light of each objective to be achieved.

– E.g. In financial plans, risk-return trade-off are imp. Riskier the investment, higher the returns it is likely to give. To evaluate such proposals, detailed calc. of earnings, taxes, earnings per share etc. should be done.

5. Selecting The Best Alternative

– Real point of decision-making→ Best plan has to be adopted and implemented.

– The ideal plan = most feasible, profitable and with least negative consequences.

– Most plans may not be subjected to mathematical analysis. In such cases, subjectivity & manager's experience, judgment and intuition are important to select the most viable alternative.

– Sometimes a combination of plans may be selected instead of one best course.

6. Implementing The Plan

– Concerned with putting the plan into action.

– For implementing the plans, managers start organizing & assembling resources for it.

– E.g. If there is a plan to ↑ production, then more labour, more machinery will be reqd. This step would also involve organizing for more labour and purchase of machinery.

7. Follow Up Action

– This involves monitoring the plans and ensuring that activities are performed according to the schedule.

– Whenever there are deviations from plans, immediate action has to be taken to bring implementation according to the plan or make changes in the plan.

TYPES OF PLAN

Plan

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

SINGLE USE PLAN

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

Types of Single Use Plan

- 1. Programme:** A programme is a single use plan containing detailed statements about project outlining the objectives, policies, procedures, rules, tasks, physical and human resources required to implement any course of action.
- 2. Budget:** A budget is a statement of expected result expressed in numerical terms for a definite period of time in the future.

STANDING PLANS

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

Types of Standing Plans

- 1. Objectives:** Objectives are defined as ends for the achievement of which an organization goes on working. They may be designed as the desired future position that the management would like to reach. The first and foremost step of the planning process is setting organizational objectives. Examples increasing sales by 10%, Getting 20% return on Investment etc. Objectives should be clear and achievable.
- 2. Strategy:** Strategies refer to those plans which an organization prepares to face various situations, threats and opportunities. When the managers of an organization prepare a new strategy for the business it is called internal strategy and when some strategies are prepared to respond to the strategies of the competitors, then such strategies are called external strategies. Examples, selection of the medium of advertisement, selection of the channel of distribution etc.
- 3. Policy:** Policies refers to the general guidelines which brings uniformity in decision-making for achievement of organizational objectives. They provide directions to the managers of an organization. They are flexible as they may be changed as per requirement. Example, selling goods on cash basis only, reserving some post for women in the organization.
- 4. Procedure:** Procedures are those plans which determine the sequential steps to carry out some work/activity. They indicate which work is to be done in which sequence/way. They help in the performance of work. Procedures are guides to action. Example: Process adopted in the Selection of Employees.
- 5. Rule:** Rules are specific statement that tell what is to be done and whatnot to be done in a specified situation. They help in indicating which points are to be kept in mind while performing task/work. Rules are rigid which ensure discipline in the organization. Example : 'No smoking in the office premises'. Violation of rules may invite penalty.
- 6. Method:** Methods are standardized ways or manners in which a particular task has to be performed. There may be many ways/method of completing a task but that method/way must be selected by which work can be done early at the minimum possible cost. Methods are flexible. Example, various methods of training are adopted by an organization to train its employees like apprenticeship training, vestibule training etc.

Basis of Difference	Single use plans	Standing Plans
1. Meaning	A single use plans in a business refers to plans developed for a one time project or event that has same objective.	A standing plans in a business refers to plans developed for using over and over again because they focus on organizational situations that occur repeatedly.
2. Objective	Single use plans is developed to carry out a course of action that is not likely to be repeated in future time.	Standing plans however is developed for activities that occur regularly over a period of time.
3. Scope	Single use plans generally encompass a narrow scope targeting a specific project or event.	Standing plans generally encompass a wider scope involving more than one department or business function.
4. Stability	Single use plans are discarded when the situation, project or event is occur.	Standing plans are relatively stable and used over and over again with necessary modifications or updates.
5. Example	Budget for Annual General Meeting of Shareholders.	Recruitment and selection procedure for a particular post in a company.

Study Material

Chapter: 5- ORGANISING

Meaning- It refers to the process of defining and grouping the activities of an enterprise and establishing authority relationship among them.

Organising Process (IDAE)

- I- I -Identification and division of Work
- II- D- Departmentalisation
- III- A- Assignment of duties
- IV- E- Establishing reporting relationship.

Importance/Significance of Organising – (BADO)

B-Benefits of specialization

A-Adaptation to changes

D-Development of Personnel

O-Optimum utilisation of resources.

Organisation Structures: It is a network of job positions, responsibilities and authority at different levels.

Span of management means how many employees or subordinates can be effectively managed by one manager or how many subordinates can be effectively controlled by one superior.

Types of Organisational Structure:

- i) **Functional Structure** and, (ii) **Divisional Structure.**
 - i) **Functional Structure–** When the activities or jobs are grouped keeping in mind the functions or the job then it is called functional structure.
- Advantages of functional structure: -**

- a) Occupational specialisation
- b) Promotes control and coordination within department
- c) Increase managerial and operational efficiency
- d) Due attention to different functions.

Disadvantages of functional structure: -

- a) Problem of coordination
- b) Conflicts of interest
- c) Less emphasis to overall objectives of organisation.
- d) Difficult to fix accountability

ii) Divisional Structure – Created on the basis of different products produced by business.

Advantages of Divisional Structure: -

- a) Product specialization
- b) Easy to fix accountability
- c) Fast decision making
- d) It facilitates Expansion and Growth

Disadvantages of Divisional Structure: -

- a) Increase in cost
- b) Ignore organizational interests.
- c) Product focus department
- d) Conflict

TYPES OF ORGANISATIONS

1. FORMAL ORGANISATION
2. INFORMAL ORGANISATION

1. **Formal Organisation** : refers to the organisation structure which is designed by the management to accomplish a particular task.

Features of Formal Organisation

- (i) It specifies the Reporting Relationships.
- (ii) It is established to achieve organisational objectives.
- (iii) It coordinates and integrates the efforts of various departments.
- (iv) It is deliberately designed by the top level management.
- (v) It places more emphasis on work than interpersonal relationships.

Advantages of Formal Organisation

- (i) Easy Fixation of Responsibility
- (ii) Clarity of Duties
- (iii) Unity of Command
- (iv) Helpful in achieving objectives
- (v) Provides Stability to the Organisation.

Disadvantages of Formal Organisation

- (i) Delay in Action
- (ii) Lack of Initiative

- (iii) Ignores Human Element.

2. Informal Organisation : refers to network of social relations, which emerges on its own due to formal roles and relationships among people.

Features of Informal Organisation

- (i) Informal Organisation emerges from formal organisation.
- (ii) It arises spontaneously due to frequent contact of people with each other.
- (iii) It has no prescribed rules and regulation and no fixed line of Communication.

Advantages of Informal Organisation

- (i) Faster Communication
- (ii) Fulfill Social needs
- (iii) Helps in Achieving Organisational Objectives.

Disadvantages of Informal Organisation

- (i) Spread of Rumours
- (ii) Resistance to Change
- (iii) Pressure of Group norms
- (iv)

Delegation of Authority: - Transfer of authority from superiors to his subordinates.

Elements-

1. Authority
2. Responsibility
3. Accountability.

1. **Authority:** It means power to take decision. To carry on the responsibilities, every employee needs to have some authorities.

2. **Responsibility:** It means the work assigned to an individual. It includes all the physical & mental activities to be performed by the employees at a particular job position.

3. **Accountability:** To make sure that the employees or subordinate perform their responsibilities in their expected manner, the accountability is created.

Importance of Delegation: -

- a) Effective management
- b) Employees development
- c) Motivation of employees
- d) Facilitates organisational growth
- e) Better Coordination
- f) Reduces the work load of managers.

Decentralisation- It refers to the systematic transfer of authority throughout the organisation on permanent basis.

Importance of Decentralisation:

- a) Relief to top management
- b) Develops initiative among subordinates
- c) Develops managerial talent for the future
- d) Facilitates growth

- e) Quick decision making
- f) Better control

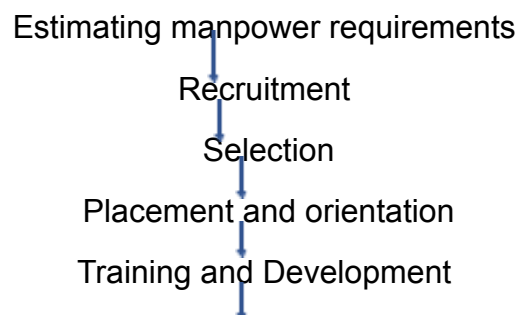
CHAPTER 06: STAFFING

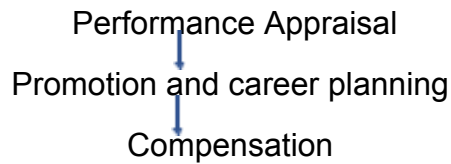
Meaning- Staffing is the process of management which is concerned with obtaining, utilising & maintaining a satisfactory and satisfied workforce.

Importance of staffing

- a) Helpful in Discovering Competent personnel
- b) Helpful in better performance
- c) Helpful in Growth of organization
- d) Optimum utilization of human resources.

Staffing Process: - (ERSPTPPC)





Element of staffing

Recruitment + Selection + Training= Staffing

Recruitment: - It means searching for prospective candidates and stimulating them to apply for jobs in the organization.

Sources of recruitment: -

a) Internal source of Recruitment: –Transfer and Promotion.

b) External Source of Recruitment: –Direct recruitment, Casual callers, Campus placement, Employment exchanges, Private placement agencies, Employee recommendation and Web publishing.

Selection: -It refers to discovering most promising and most suitable candidate to fill up the vacant job position in the organisation.

Selection Process: -

- 1) Preliminary Screening
- 2) Selection Tests: - Intelligence test, Aptitude test, Personality test, Trade test and Interest test are conducted in it.
- 3) Employment Interview
- 4) Checking references and background
- 5) Selection Decision
- 6) Medical Examination.
- 7) Job offer
- 8) Contract of employment

Training and Development: - Training means equipping the employees with the required skill to perform the job. The candidates are sent to training so that they can perform the job in the expected manner

Development refers to overall growth of the employee. It focuses on personal growth and successful employees 'development.

Need for Training and Development: -

- a) Reduced learning time
- b) Better performance
- c) Attitude formation

- d) Aids in or help in solving operational problems
- e) Managing manpower need
- f) Helps to adopt changes.

Methods of training: -

On-the-job Training: - When the employees are trained while they are performing the job then it is known as on the job training. Under this method the employees learn by doing.

(i) **Apprenticeship training-** It refers to that training method where the trainee is put under the guidance of an expert to acquire higher level of skill. Generally, electricians, plumbers and iron workers are required to undergo this training.

(ii) **Internship:** It is a practical training of theoretical knowledge. Selected candidates carry on regular studies for prescribed period and also work in some factory or office to acquire practical knowledge.

Off-the-job Training: - Means Training given to the employees by taking them away from their work position which means employees are given a break from the job and sent for training.

- (i) **Vestibule Training:** Under this method, with a view to imparting training to new employees, a separate training centre is set up. An experienced and trained trainer is appointed as an in-charge of this centre. Machines, tools and other equipment are so arranged in this centre as to present a look of a workshop.

CHAPTER - 7 (Directing)

Directing

Directing is the process in which a superior provides instructions, guidance and counselling to its subordinate so as to motivate and lead them for the successful achievement of objectives.

Characteristics of Directing

- Initiates action: Directing initiates action through instructions supervision and motivation to achieve goals.
- All pervasive: Directing takes place in every organization, and at every level of management.
- Continuous process: Directing is a continuous process and takes place throughout the life of an organization.
- Flows downward: Directing flows downward from superior to subordinate.

Importance of Directing

- Initiates action: Directing helps to initiate action towards attainment of desired objective.
- Integrates efforts: It integrates individual efforts as group effort to achieve organizational objectives.
- Provide leadership and motivation; Directing motivates and provides effective leadership to employees to realise their full potential.
- Brings changes: Directing introduces changes in the organization through proper communication, motivation and leadership.
- Maintain stability: Balance and stability in the organization could be maintained through effective directing.

Elements of direction

These are grouped into four categories:

- Supervision
- Motivation
- Leadership
- Communication
-

Supervision

- Supervision involves overseeing and guiding the efforts of human and other resources with an objective to accomplish the desired objectives.
- It means overseeing what is being done by subordinates and giving instruction to ensure optimum utilisation of resources and achievement of work targets.

Motivation

A stimulator used by managers to make people act in a desired way to achieve organizational goals.

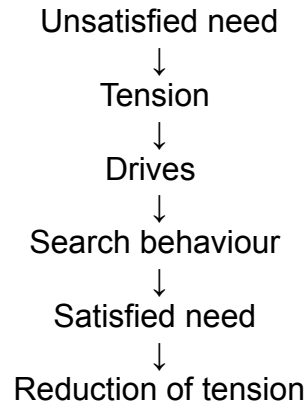
The Related terms in motivation are:

- Motive: It is the inner state of an individual which directs his behaviour towards a goal.
- Motivation: It is the process of stimulating people into action.
- Motivators: These are the techniques used for motivating people.

Features of Motivation

1. Motivation is an internal feeling: It is the urge or desire to satisfy needs or wants which influences human behaviour.
2. Motivation produces goal-directed behaviour: All actions are directed to achieve specific goals.
3. Motivation may be positive or negative: Positive motivators are like high salaries that influence constructively while negative motivators are like punishments that inculcates fear in the employees.
4. Motivation is a complex process: It involves dealing with people of different types and expectations.

Motivation Process



- a. Unsatisfied Want: The motivation process begins with an individual's unsatisfied need.
- a. Tension: As the desire goes unsatisfied, frustration builds up in the individual's mind.
- b. Motives/Drives: Frustration motivates the individual to seek out alternatives to meet his needs.
- c. Search Behaviour: He selects one of several options and begins acting in accordance with it.
- d. Satisfied Needs: After a period of time, he evaluates whether or not his need has been met.
- e. Reduced Tension: Once the need is met, the individual's frustration and tension are relieved.

Example: Assume a person wishes to advance in his or her career. This makes him uneasy, and he begins to look for other ways to advance in his career. He may consider working harder and bettering his performance. After consistently working hard, he may receive recognition and a promotion, which will finally satisfy his desire and alleviate his frustration.

Importance of Motivation

- 1. Improves Performance: It satisfies employee's needs resulting in higher level of performance contributing towards organizational goals.
- 2. Develops a positive attitude: Motivation techniques eliminate negativity and create a desire to realize maximum potential.
- 3. Reduces employee turnover: A satisfied employee prefers to remain loyal to the organization leading to a lesser number of people quitting the organization.

4. Reduces absenteeism: Motivation helps to make the workplace a source of pleasure and provides the workers with a pleasant experience resulting in increased level of commitment from employees towards work.
5. Brings change smoothly: motivated staffs accept changes with much lesser resistance.

Maslow's Need Hierarchy Theory of Motivation

This theory was given by Abraham Maslow in 1943, and is based on human needs.

Assumptions

- Satisfaction of needs influences people's behaviour.
- Needs are in hierarchical order.
- Once need is satisfied only, the next higher need can motivate individuals.
- Satisfaction of lower-level needs motivates to move to the next level of need.

Hierarchy of needs

According to Maslow need hierarchy theory, employees need and wants can be categorised as a hierarchy of five needs:

1. Basic Physiological Needs: It includes basic needs like hunger, thirst, shelter, sleep, etc.
2. Safety/ Security Needs: It includes needs of security and protection like job security, etc.
3. Affiliation/ Social/ Belonging Needs: It includes needs like affection, sense of belongingness, friendship, etc.
4. Esteem Needs: It includes needs like self-respect autonomy, status, recognition, etc.
5. Self-Actualization Needs: It includes needs that drive to realize a dream.

Financial and Non-Financial Incentives

- Incentives are the means to satisfy an employee's needs and motives. These can be:
- Financial
- Non-Financial

Financial Incentives

Incentives offered to employees which are either in direct monetary form or can be valued in monetary terms.

Types of Financial Incentives

1. Pay and allowances: These include salary, dearness allowance and other allowances paid to employees.
2. Productivity linked wage incentives: Wages paid at different rates to increase productivity.
3. Bonus: Incentive offered above the wages or salary.
4. Profit Sharing: Providing a fixed percentage of profit to employees.
5. Co-partnership/ Stock option: Shares offered to employees at a price which is lower than the market price.
6. Retirement benefits: Benefits offered after retirement such as provident fund, pension, etc.
7. Perquisites: Benefits over and above the salary offered such as car allowance, housing, medical aid, etc.

Non-Financial Incentives

Incentives which are given to provide psychological and emotional satisfaction rather than monetary satisfaction.

Types of Non-Financial Incentives

1. Status: It is the level of authority, responsibility and recognition an employee commands in the organization.
2. Organizational climate: Characteristics influencing an individual's behaviour such as individual autonomy, reward orientation, consideration to employees, etc.
3. Career advancement opportunity: Opportunities of growth and development in the organization to the higher level.
4. Job enrichment: It refers to a variety of work offered to challenge the knowledge and skills of highly motivated employees.
5. Employee recognition programmes: It involves recognising and appreciating the contribution of employees in public.
6. Job security: It refers to the certainty and stability offered in a job about future income and work.
7. Employee participation: Involvement of employees in the decision making process, seeking their advice or suggestions.
8. Employee empowerment: Opportunities provided to employees to take decisions independently and perform jobs assigned to them.

Leadership

Leadership is the process of influencing the behaviour of people in such a way that they voluntarily work towards the achievement of organizational objectives.

Features of Leadership

- It is the ability of an individual to influence others.
- It tries to transform the behaviour of the subordinates.
- It indicates interpersonal relationship between leader and followers.
- It is exercised to achieve organizational goals.
- It is a continuous process.
-

Importance of Leadership

- It influences people's behaviour to have a positive attitude.
- It provides opportunities to subordinates to fulfil their needs and wants and build confidence.
- It helps employees in understanding the need for changes and introduction of changes smoothly.
- It clarifies and eliminates conflicts effectively through healthy discussions.
- It trains and develops employees to handle managerial work.

Leadership Styles

1. Autocratic leadership: in this style of leadership, a leader takes all the decisions on his own and gives orders to his or her subordinate to implement them.
2. Democratic leadership: In this style of leadership a leader takes decisions after consulting with subordinates and encourages them to participate in decision making.
3. Laissez faire leader: In this style of leadership a leader gives freedom to his subordinate to take decisions and execute work assigned to them and the leader acts as observer or guide.

Communication

It is the process of exchange of information between two or more people with an aim to create common understanding.

Elements of Communication Process

1. Sender: The person who conveys his thoughts or ideas.
2. Message: Content intended to be communicated.
3. Encoding: Process of converting message into communication.
4. Media: Path through which an encoded message is transmitted to the receiver.

5. Decoding: It is the process of converting the encoded message in a readable format.
6. Receiver: The person who receives a communication message from the sender.
7. Feedback: It refers to the information or suggestions provided by the receiver to the sender in context to the communication or message he received.
8. Noise: The hindrances and obstruction to communication.

Importance of Communication

1. Basis of coordination: Acts as a basis to coordinate their efforts of employees by explaining organizational goals.
2. Smooth working of an enterprise: It makes interaction among all individuals possible helping smooth and unrestricted working of an enterprise.
3. Basis of decision making: Communication acts as a medium for providing information needed for decision making.
4. Increases managerial efficiency: Helps managers to convey important information to subordinates to enable them to perform with efficiency.
5. Cooperation and industrial peace: The two way communication promotes cooperation and mutual understanding between the management and workers.
6. Effective leadership: Effective communication enables a manager to lead and influence his or her subordinate.
7. Boosts morale and provides motivation: Managers understand and satisfy employees' needs and motives by effective communication.

Formal and Informal Communication

- The process of communication within an organization may be
 - o Formal or
 - o Informal.

Formal communication

- It flows through official channels designed in the organization chart to communicate official information between employees.
- Formal communication is classified as:
 - o Vertical communication: It is the formal two-way communication between superior and subordinate and the communication flows upward or downward.
 - o Horizontal communication: It is the formal two-way communication between employees working at the same level of authority.

Formal Communication Networks

- Single chain: Communication flows from superior to his immediate subordinate.

- Wheel: Superior acts as a hub of information and all subordinates communicate through the superior only.
- Circular: Employees communicate with his or her adjoining people.
- Free flow: All employees are free to communicate with each other without any restrictions.
- Inverted V: An employee communicates with his or her immediate superior but may also communicate with his/her superior's superior.

Informal communication

- Communication between employees who are not officially related to each other is called informal communication, this type of communication may flow in any direction thus it is also called 'grapevine'.
- The informal communication spreads information rapidly and sometimes generates rumours.

Grapevine Network

Grapevine communication, also known as informal communication, is a communication that develops as a result of social interaction among employees and spreads without following the formal communication path. The types of grapevine communication networks are as follows.

- Single Strand Network: An employee communicates with other employees in sequence. That is, one person communicates with another, who then communicates with yet another. Hence, information is passed through a line of persons.
- Gossip Network: In a gossip network, one person spreads information to a large number of people. An employee communicates with all on a selective basis. Such as gossip about the new employee who recently joined the organization etc.
- Probability Network: In a probability network, an individual shares information with other people at random. That is, the individual is unconcerned about who he shares the information with.
- Cluster Network: Information in this network is first shared between two people who trust each other. One of them then passes the information on to another, who then passes it on to another, and so the information spreads.

Barriers to Communication

A. Semantic Barriers:

Problems and obstructions in the encoding and decoding of messages into words or impressions.

Reasons of semantic barriers are:

- Badly expressed message: It involves the message with inadequate vocabulary, use of wrong words, omission of important words, or framing the message improperly, etc., that may distort the understanding and readability of the message.
- Symbols with different meanings: Words with multiple meanings may change the intended meaning of the message, such as idol and idle, the word value having two meanings(price and importance), deer and dear.
- Faulty translations: Incorrect translations may change the meaning of the message. For example, the meaning of certain words may change in a translation of an instruction from English to Hindi.

- Unclarified assumptions: Sender and receiver may follow different assumptions while understanding the message resulting in different understanding of the message.
- Technical jargon: Meaning of a message may not be clear if technical words are used in the communication with the workers who may not be familiar. For example the word drawings have separate meanings for a commerce person and a person from non-commerce background.
- Body language and gesture decoding: Mismatch between body movement or gestures may convey wrong meaning. As in your face expression reveals anger, while your hand movements reveal otherwise.

B. Psychological Barriers:

Sender or receiver's state of mind may influence the meaning of the message.

Reasons of psychological barriers are:

- Premature evaluation: Judgemental or biased nature of the receiver may result in premature evaluation. For example the listener/receiver may assume in advance that his boss is going to shout at him, this may lead to biasness in listening.
- Lack of attention: Sender's or receiver's pre-occupation of mind with other thoughts may result in ineffective communication.
- Loss by transmission and poor retention: Passing of messages through various levels of communication and poor retention may result in transmission of inaccurate information.
- Distrust: Distrust between sender or receiver may distort information.

C. Organizational Barriers:

Organizational authority relationships, rules and regulations, may result in communication barriers.

Reasons of organizational barriers are:

- Organizational policy: Policies may not support free flow of communication.
- Rules and regulations: Strict rules and regulations may result in delay of information, such as following a certain path for communication etc.
- Status: A status conscious manager, hampering the effectiveness of communication between him and his subordinates.
- Complexity in organizational structure: organization with too many levels may result in delay or distort of communication due to several filter points.
- Organizational facilities: Improper facilities may affect free flow of communication and may create problems. A free and effective flow of communication requires the presence of certain organizational facilities such as social gatherings, complaint boxes, and transparency in operations, etc. The absence of such facilities hinders the flow of information

D. Personal Barriers:

These barriers arise due to the personal factors on the part of both, the sender and the receiver which may affect effective communication.

Reasons of personal barriers are:

- Fear of challenge to authority: Superior may not share any information with the subordinates that may affect his authority.

- Lack of confidence of superior on his subordinates: Sometimes superiors aren't confident enough about their subordinates, and hence he may not welcome any take suggestions or opinions given by the subordinates.
- Unwillingness to communicate: Subordinates unwillingness to communicate with their superiors may lead to ineffective communication.
- Lack of proper incentives: Lack of incentives may discourage employees from taking initiative or sharing information.

Measures to Improve Communication Effectiveness

- Clarify the ideas before communication: Superiors must have a clear and detailed understanding of the message before it is communicated to the subordinates.
- Communicate according to the needs of the receiver: Sender must consider receiver's education, knowledge and understanding level while communicating message.
- Consult others before communicating: Superiors must involve subordinates while taking decisions and making plans for effective communication.
- Be aware of languages, tone and content of message: Sender must use proper language and tone while transmitting message to the receiver.
- Convey things of help and value to listeners: Sender must consider the interests and needs of the receiver while transmitting messages.
- Ensure proper feedback: Feedback from receiver ensures that the message is received or understood with the same intended meaning.
- Communicate for present as well as future: Superiors must communicate with the subordinates about the present and future goals of the organization.
- Follow ups: Regular follow ups and reviews make communication effective.
- Be a good listener: Communicator must be a patient and attentive listening to understand the receiver's problem related to understanding and implementing message

CHAPTER – 8

Controlling

Meaning & Definition:

Controlling involves comparison of actual performance with the planned performance. If there is any difference or deviation, then finding the reasons for such difference and taking corrective measures or action to stop those reasons so that they don't re-occur in future and that organizational objectives are fulfilled efficiently.

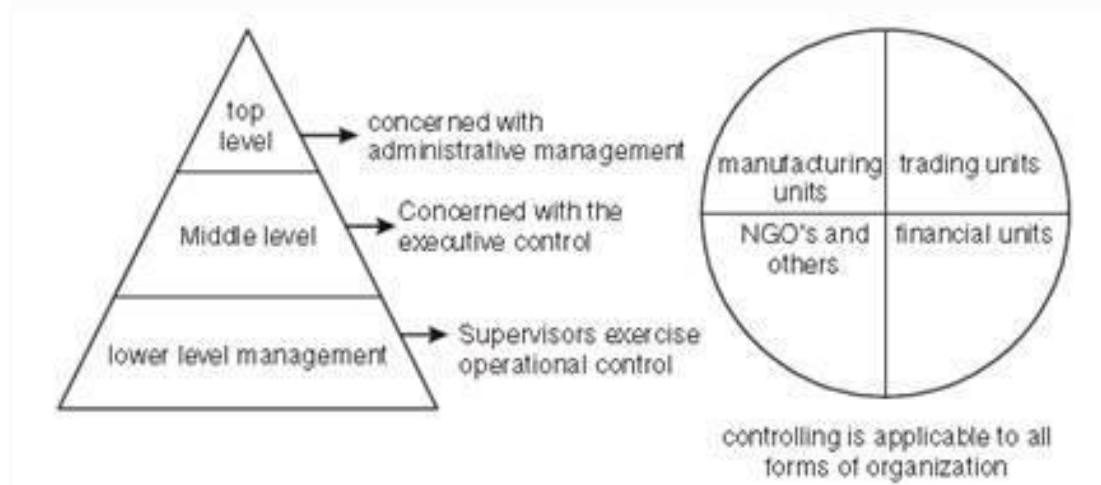
Importance of Controlling

1. Controlling helps in achieving organizational goals: The controlling function measures progress towards the organizational goals and brings to light/indicates corrective action.
2. For Evaluating/Judging accuracy of standards: A good control system enables management to verify whether the standards set are accurate or not by careful check on the changes taking place in the organizational environment.
3. Making efficient use of resources: By the process of control, a manager seeks to reduce wastage of resources.
4. Improves employee's motivation: A good control system ensures that employees know well in advance what they are expected to do & also the standard of performance. It thus motivates & helps them to give better performance.
5. Facilitating Coordination in action: In controlling each department and employee is governed by predetermined standards which are well coordinated with one another. Control provides unity of direction.
6. Ensuring order and discipline: Controlling creates an atmosphere of order and discipline in the organization by keeping a close check on the activities of its employees.

Nature of Controlling/Features of Controlling

1. Goal oriented: Controlling is directed towards accomplishment of organizational goals in the best possible manner.
2. Pervasive: Controlling is an essential function of every manager and exercised at all levels of management.
3. Continuous: It is not an activity to be pursued in the end only; it has to be done on a continuous basis.

4. Controlling is looking back: Controlling involves measurement of actual performance and its comparison with the desired performance. It is the process of checking and verification.
5. Controlling is forward looking: It is related to future because it seeks to improve future results on the basis of experience gained in the past.
6. Depends on planning: It pre supposes existence of planning because without planning no control is possible.
7. Action oriented*: Control has no meaning if no corrective action is taken; So timely action should be taken to prevent deviations.
8. Primary Function of Management* – controlling is performed at all levels and in all types of organizations.
9. Brings back management cycle back to planning:* Control should not be viewed as the last function. In fact it links back to planning. Controlling involves Comparing actual performance with standards • Finding out deviations • Taking corrective action so that they don't repeat in future these are the guidelines when future planning is done. Thus controlling not only completes one cycle of management process and also helps to improve planning in the next cycle.



Relationship between Planning and Controlling

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

1. Planning is pre-requisite for controlling. Plans provide the standard for controlling. Thus, without planning, controlling is blind. If the standards are not set in advance managers have nothing to control.
2. Planning is meaningless without controlling. It is fruitful when control is exercised. It discovers deviations and initiates corrective measures.
3. Effectiveness of planning can be measured with the help of controlling.
4. Planning is looking ahead and controlling is looking back: Planning is a future oriented function as it involves looking in advance and making policies for the maximum utilization of resources in future that is why it is considered as forward looking function. In controlling we

look back to the performance which is already achieved by the employees and compare it with plans. If there are deviations in actual and standard performance or output then controlling functions makes sure that in future actual performance matches with the planned performances. Therefore, controlling is also a forward looking function. Thus, planning & controlling cannot be separated. The two are supplementary function which supports each other for successful execution of both the function. Planning makes controlling effective whereas controlling improves future planning.

Controlling Process

1. **Setting Performance Standards:** Standards are the criteria against which actual performance would be measured. Thus standards become basis for comparison and the manager insists on following of standards.
2. **Measurement of Actual Performance:** Performance should be measured in an objective and reliable manner which includes personal observation, sample checking. Performance should be measured in same terms in which standards have been established, this will facilitate comparison.
3. **Comparing Actual Performance with Standard:** This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired performance. If the performance matches the standards it may be assumed that everything is under control.
4. **Analysing Deviations:** The deviations from the standards are assessed and analysed to identify the causes of deviations.
5. **Taking Corrective Action:** The final step in the controlling process is taking corrective action. No corrective action is required when the deviation are within the acceptable limits. But where significant deviations occur corrective action is taken.

-----*****-----

CHAPTER 09: FINANCIAL MANAGEMENT

Introduction – Finance refers to money, cash or fund available to carry out business operations. It is the life blood of business. A business enterprise requires funds at different stages - to start a business, to operate and expand it.

Financial Management

“Financial management is considered to be the management of the finance function”. It deals with planning, organizing, directing and controlling financial activities like procurement and utilization of funds and distribution of earnings to owners.

“Financial management deals with procurement of funds and their effective utilization in the business” – S.C. Kuchhal.

Role and Importance of Financial Management

All items in the financial statements (Balance Sheet and P/L Account) of a business are directly or indirectly affected by the financial management decisions, some of them are given below:

- a. **The size and composition of fixed assets** – A decision to invest (capital decision) Rs. 100 crores in fixed assets would result in the increase of fixed capital.
- b. **The amount of current assets** – Cash, inventory, accounts receivables etc. are also

affected by the financial management decisions.

- c. **Amount of long term and short term funds** – Financial management decisions will directly influence the availability of long term as well as short term funds in the business; it will affect the liquidity and profitability of the organizations.
- d. **Debt – equity ratio** – Decisions regarding finance will determine the amount of debt, equity capital, preference capital etc.
- e. **All items in the Profit and loss account** – Financial management decisions will affect all the items in P/L account also. For instance, if the organization is depending highly on borrowed funds, it may call for higher interest expense, which will result in poor profits.

Objectives of financial management

1. **Profit maximization**- The financial management should ensure maximum return on investment to the shareholders.
2. **Wealth maximization** – The ultimate objective of decision makers must be to increase the wealth of shareholders or investors.

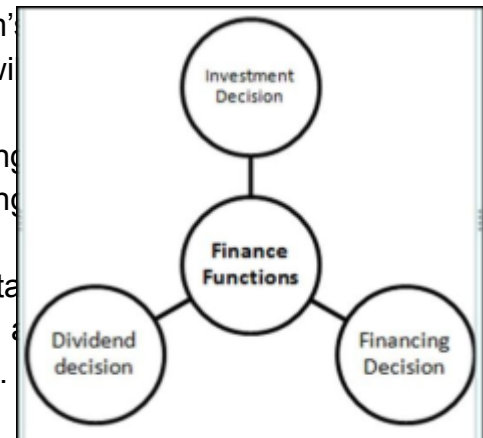
$\text{Wealth of owners} = \text{Number of shares held} \times \text{market price per share}$

The financial management focuses on three major financial decision areas namely **investment, financing and dividend decisions**. They are collectively known as the finance functions of business.

Finance Functions (Financial Decisions)

1. **Investment Decision** – It is concerned with how firm's valuable funds are to be invested in various assets. It will include the following:

- a. Long term investment decisions (capital budgeting decision) E.g., Purchasing a new machine, opening a new branch etc.
- b. Short term investment decision (working capital decision) – related to the day to day working of a business. E.g., Level of cash in hand, inventory etc.



Factors affecting Capital Budgeting (Investment Decision)

- a. **Cash flow of the project** – The inflow and outflow of cash in the business should be considered before making capital budgeting decisions. Some projects will take a long period of time to start inflow of cash.
- b. **The rate of return** – While selecting a project, the rate of return must be considered. If two projects having 10% return and 15% return with almost equal risk, normally, the 2nd one may be selected.
- c. **Investment criteria involved** – Investment decisions must be based on certain capital budgeting techniques or calculations regarding the amount of investment, rate of return,

interest rate, cash flow etc.

2. **Financing Decision** – it is concerned with the quantum of finance to be raised from various long term sources. They are shareholders' fund and borrowed fund such as shares, debentures, loans etc. But a proper mix of the above securities is very much essential for maintaining a good capital structure of the company.

Factors affecting financing decision

- a. **Cost** – Try to obtain the fund from cheaper sources.
 - b. **Risk** – Risk factor in each source must be considered.
 - c. **Flotation cost** – Cost of raising finance should be less.
 - d. **Cash flow position** – A stronger cash flow position recommends more debt financing.
 - e. **Fixed cost** – If fixed operating costs like rent, insurance premium, salaries etc. are high, it is better to reduce debt financing having fixed interest burden.
 - f. **Control** – More dependence on owners fund will reduce control among the existing shareholders.
 - g. **Capital market condition** – During rising trends in capital market, it is easy to accumulate shareholders fund, otherwise better to depend on borrowed fund.
3. **Dividend Decision** – It is concerned with the disposal of profits. Profits are required for different purposes. A portion of the profit is to be retained in the business for growth and expansion. That part of profit is called retained earnings and the rest of the profit is to be distributed to the shareholders in the form of dividends. Here is the role of financial management that, how much is to be retained and what would be distributed.

Factors affecting dividend decision

- a. Amount of earnings – Dividend decision is always depend on the amount of profit during the current period.
- b. Stability of earnings – Stable earnings promotes higher dividend.
- c. Stability of dividend – It will improve the confidence of shareholders and higher reputation for the company.
- d. Growth opportunities – Fewer dividends may be given to the investors if the company is having growth and expansion projects.
- e. Cash flow position – Payment of dividend involves outflow of cash, therefore, enough cash must be available for the declaration of dividend.
- f. Shareholders' preference – Normally, shareholders want to get regular income from their investment, hence at least a minimum dividend may be distributed every year.

- g. Taxation Policy – If tax on dividend is higher, it is better to pay less by way of dividends. But the dividends are free of tax in the hands of shareholders as a dividend distribution tax is levied on companies. In the present tax policy, shareholders may demand higher dividend.
- h. Stock Market Reaction – Investors generally evaluate the companies on the basis of their dividend declaration status. Higher the rate of dividend gives a positive impact in the market.
- i. Access to Capital Market – Reputed companies generally have easy access to the capital market and therefore they may depend less on retained earnings to finance their growth. So that they may declare high rate of dividend than small companies.
- j. Legal Constraints – While declaring dividends, the companies have to follow the restrictions laid down by Companies Act.
- k. Contractual Constraints – While granting loans to a company, sometimes the lender may impose certain restrictions on the payment of dividends in future.

Financial Planning – When the process of planning employed in finance, it is called financial planning. It involves the estimation, procurement, utilization and administration of funds. Its objective is to ensure that enough funds are available at right time, but having no surplus funds. It involves the following aspects:

- a. Estimation of quantum of finance
- b. Determining the pattern of financing – proportion of various securities to be issued.
- c. Proper utilization of finance – through effective policies and programs.

Types of financial planning

- a. Long term financial planning – focuses on capital expenditure for long term growth and investment in business – usually 3 to 5 years.
- b. Short term financial planning – in the form of budget – usually for a period of 1 year or less.

Objectives of Financial Planning

- 1. To ensure availability of funds whenever required – it includes estimation of funds for long term and short terms needs of the organization.
 - 1. To ensure that the firm does not raise resources unnecessarily – it will help to minimize the loss due to idle fund in the organization.

Importance of financial planning

- 1. **Forecasting** – It helps the organization to foresee the future financial requirements in advance.

2. **Avoiding uncertainties** – Helps in meeting unexpected situations by arranging necessary funds.
3. **Coordination** – Helps to coordinate the activities of all departments in the organization by allotting them necessary funds in time.
4. **Reduces wastages** – Through proper planning about the financial requirements helps to reduce wastages and duplication of efforts.
5. **Easy evaluation** – It helps to evaluate the actual performance of the organization based on the plans formulated in advance.

Capital Structure

Capital structure refers to the mix or composition of long term sources of funds such as equity share capital, preference share capital, debentures, long term loans and reserves and surplus. In other words, it refers to the proportion of borrowed funds to owner's funds. *(It is a mix between owners' funds and borrowed funds)*. Owners' funds are called **equity** and borrowed funds as **debt**.

The capital structure of a company consists any of the following forms:

1. Equity shares only.
2. Equity shares and preference shares.
3. Equity shares and debentures.
4. Equity shares, preference shares and debentures.
5. Equity, Preference, debentures and long term loans.

Financial Leverage – The proportion of debt in the capital structure is called financial leverage or capital gearing or trading on equity. When the proportion of owners' funds in capital structure is very small, it is said to be high geared, whereas if borrowed fund is less than equities, it is called a low geared company.

As the financial leverage increases (highly geared) the cost of funds declined and therefore more earnings per share, but the financial risks increases.

The impact of financial leverage on profitability:

Descriptions	Company A	Company B	Company C
No. Equity shares @ Rs.10	30,000	20,000	10,000
Equity Capital	3,00,000	2,00,000	1,00,000
10% Debentures (borrowed fund)	NIL	1,00,000	2,00,000
Total Capital	3,00,000	3,00,000	3,00,000
Profit @ 20% on investment	60,000	60,000	60,000
Interest on debentures	NIL	10,000	20,000
Net Profit	60,000	50,000	40,000
Earnings per share	2.00	2.50	4.00
Leverage	Unlevered	Low	High

Note: Income tax on profit is ignored.

Trading on equity – It refers to the use of fixed income securities such as debentures and preference capital in the capital structure so as to increase the return on equity capital. In other words, equity share holders get additional profits with the help of employing others fund. It is also known as **financial leverage or capital gearing**.

For example, A company raises Rs.50,000 through equity shares and earns a profit of Rs.5000. Here the rate of return is 10%. On the other hand, if the company raises Rs.40000 by way of 6% debentures and Rs.10000 through equity shares, the rate of return to equity shareholders is increased to 26% as follows:

Total Investment	40000 + 10000	= 50,000
Total Profit		= 5,000
Interest on debentures	40000 * 6%	= 2,400
Balance of Profit to equity shareholders	(5000-2400)	= 2,600
Rate of return on equity share capital	(2600/10000*100)	= 26%

Factors Affecting the Choice of Capital Structure

1. **Cash flow position** – The size of projected cash flow must be considered before we include the borrowed fund in capital structure. This cash flow in future must be enough to meet the payment obligations in the matter of normal business operations, investment in fixed assets and to meet the debt service commitments such as payment of interest and repayment of principal.
2. **Interest coverage ratio** – ICR refers to the number of times, earnings before interest and taxes (EBIT) covers the interest obligation. Higher the ratio means lower the risk for the company to pay off interest in time.

$$ICR = \frac{EBIT}{Interest}$$
3. **Debt Service Coverage Ratio (DSCR)** – The cash profits generated from the operations must be enough to service the debts and preference share capital.
4. **Return on Investment (ROI)** – If ROI is higher than rate of interest for debt, borrowed fund can be increased in capital structure, otherwise, increase in equity portion is good.
5. **Cost of debt** – If the firm is able to borrow at a lower rate, it may prefer more debt than equity in capital structure.
6. **Tax rate** – Income tax liability can be reduced by employing borrowed funds in capital structure, as the interest on debt is a deductible expense.
7. **Cost of Equity** – When a company increases debt in their capital structure, the financial risk faced by the equity shareholders may increase, so that the company cannot use debt beyond a point.
8. **Floatation cost** – It is the cost incurred for floating (issue) securities such as brokerage, underwriting commission etc. It is generally less in case of debts.
9. **Risk Consideration** – A business has two types of risks; they are financial risk (to pay interest, preference dividend, repayment of debt etc.) and business risk (operating risk). It

must be considered while choosing a suitable capital structure.

10. **Flexibility** – The capital structure should be capable of being adjusted according to the needs of changing conditions. To maintain flexibility, the company should maintain some borrowing power to take care of unforeseen circumstances.
11. **Control** – If the control of the management is to be retained, debt financing is recommended for raising additional fund.
12. **Regulatory Framework** – Rules and regulations framed by SEBI etc. must be considered while choosing a capital structure.
13. **Stock Market Conditions** – During depression in capital market, investors will prefer fixed interest bearing securities for safety and hence it is not advisable to issue shares that time. In a booming situation, issue of share will be more preferable.
14. **Capital Structure of other Companies** – Capital structure followed by other companies in the same industry may be adopted by considering whether they are in conformity with the industry norms or not.

FIXED CAPITAL AND WORKING CAPITAL

Fixed Capital

Fixed capital represents a long term investment which needed to acquire fixed assets like land and building, plant and machinery, vehicles etc., benefits of which are expected to be received over a number of years in future.

Management of fixed capital – It refers to the allocation of firm's capital to different projects or assets which will have a long term implications in the business.

Importance of management of fixed capital

1. **Long term growth** – This capital is invested in fixed assets and long term projects, therefore, it will affect the future prospects of business.
2. **Large amount of funds involved** – A major portion of capital may be blocked in this areas, hence careful planning and detailed analysis is very essential in this segment.
3. **High risk** – Investment decisions involving huge capital outlay influence the overall performance of the business.
4. **Irreversible decision** – Once the decision to acquire a permanent asset is taken, it becomes very difficult to reverse that decision. It is possible but with huge losses.

Factors affecting the requirement of fixed capital

1. **Nature of Business** – The nature and character of business determine how much fixed capital is required. In a manufacturing concern fixed assets require huge investments.
2. **Scale of Operations** – Large scale business generally require huge investments in fixed capital than a small scale business organization.

3. **Choice of technique** – Highly mechanized and automated industries require large amount of fixed capital.
4. **Technology up gradation** – Assets in certain industries become obsolete sooner, this requires replacement faster which will demand more fixed capital, e.g., computers, mobile phone manufacturing equipments etc.
5. **Growth prospects** – Higher investment in fixed capital is necessary, if the organization is in the way of growth and expansion.
6. **Diversification** – When a firm diverts its operations to new segments, higher fixed capital requirement arises, e.g., ITC Company diverted its business to note books manufacturing along with their traditional item of cigarettes.
7. **Method of acquiring fixed assets (financing alternatives)** – If it is on hire purchase or lease system, less amount of investment is required for cash purchase.
8. **Collaboration** – By collaborating with other firms, the requirement of fixed capital can be reduced, e.g., establishment of ATM counters by cooperative banks by collaborating with certain scheduled banks.

Working Capital

Working capital is that part of capital required for investing in short term or current assets like inventory (raw materials, work in progress and finished goods), bills receivables, sundry debtors, cash required for day to day affairs like salaries, wages, rent, etc. There are two concepts of defining working capital as follows:-

- i. Gross working capital = Total investment in current assets
- ii. Net working capital = Current assets – Current Liabilities

Factors affecting Working Capital Requirements

A business concern must neither have excessive nor inadequate working capital. Both the situations are dangerous. Following are the factors influencing working capital requirements:

1. **Nature of business** – Concerns which do not keep very high stock of finished goods and sells on cash basis can manage with less working capital.
2. **Scale of Operations** – Generally big enterprises have to keep higher working capital.
3. **Business Cycle** – In boom period, the production and sales will be larger and hence huge amount of working capital is required. But in case of depression, it will be less.
4. **Seasonal Factors** – Industries that produce and sell seasonal goods require large amount of working capital.
5. **Production cycle** – Longer the period of manufacture, larger is the amount of working capital required.
6. **Credit allowed** – A liberal credit policy results in higher amount of debtors and thereby more working capital requirement.
7. **Credit availed** – If a business gets credit facility from its suppliers for goods, lesser would

be the working capital requirement.

8. **Operating efficiency** – If cash, debtors and inventories are efficiently managed, working capital requirement can be reduced.
9. **Availability of raw materials** – If raw materials are available regularly without any shortage, less working capital is needed.
10. **Growth prospects** – If a firm is growing fast, it will require large amount of working capital to meet higher production and sales.
11. **Level of competition** – In case the competition is high, more shall be the stock of finished goods, this increases working capital requirement.
12. **Inflation** – Huge amount of working capital is needed at the time of inflation (price rises) to maintain a constant volume of production and sales.

	STUDY MATERIAL
	CHAPTER 10: FINANCIAL MARKET
	Financial Market: - This market refers to that market where financial securities are exchanged. Functions of Financial Market:- a) Mobilise savings and channelize them into most productive uses b) Facilitates Price Discovery c) Provides Liquidity Financial Assets d) Reduce the cost of transactions. Types of Financial Market:- A) Money Market and B) Capital Market A. Money Market:-It is a Market which deals in short term securities i.e. whose maturity period is less than 01 year. B. Capital Market:-Where long term securities are sold and purchased. Types of capital market: a) Primary Market and, b) Secondary Market. a) Primary or new issue market Secondary Market (Stock Exchange):-It refers to that market in which securities are sold for the first time for collecting long term capital. b) Secondary Market:-Where already issued securities are sale and purchase, Stock exchange: - The stock exchange is a market in which existing securities are bought and sold. Functions of stock exchange a) Providing Liquidity and Marketability to Existing Securities b) Pricing of Securities c) Safety of Transactions d) Contributes to Economic Growth e) Spreading of Equity Cult f) Providing Scope for Speculation. Trading procedure in the stock exchange:- 1) Selection of broker and signing of broker: - Client agreement, submitting other details including PAN (mandatory). 2) Opening demat account or 'beneficial owner' (BO) account with depository Participant (DP) 3) Placing the order with broker and confirmation slip issued to investor by broker. 4) Match the share and Best price:-Broker will on-line match the share and best price available.

- 5) Executing order: - When the price will match order will be executed electronically and a trade confirmation slip will be issued to the investor.
 - 6) Issue of Contract Note: - Within 24 hours, contract Note will be issued by the broker containing details of the transaction. It is legally enforceable and helps to settle disputes.
 - 7) Delivery of shares and making payment:- Investor has to deliver the shares or pay cash for the shares. This is called the pay- in-day.
 - 8) Settlement Cycle: - Cash is paid or securities are delivered on pay-in-day, which is before T+2 day.
 - 9) On T+2 day, exchange will deliver shares or make payment to the other broker. This is called payout day. The broker will make payment to the investor within 24 hours of pay-out day.
 - 10) The broker can deliver directly to demat account.
- D'MAT/ Demat Account:-**D'Mat Account refers to that account which is opened by the investors with depository participant to facilitate trading in shares.

Constituents of Depository System:-

- 1)The depository and, 2) The depository participants.
1. Depository:-A Depository is an institution which holds the shares of an investor in electronic form. It acts as bank where investors can open a securities account and deposit the electronic form of securities.
At present, there are two depository institutions in India:-
 - a) NSDL: – National Securities Depository Limited. &
 - b) CDSL – Central Depository Services Limited.
 2. The Depository Participant (DP):- Depository participant is an agent of the depository. An investor has to interact only with a DP and not with the depository for all his dealings in share in electronic form.

Stock Exchange Indices:-

- (i) Sensex: - This is Bombay Stock Exchange Index. It is calculated by taking prices of 30 stocks across key sectors of BSE.
- (ii) Nifty: - This is a National Stock Exchange Index. It is calculated by taking prices of 50% key stocks listed in NSEI.

Demutualisation:- It refers to separation of ownership and control of stock exchange from the trading rights of members. Through demutualisation there is reduction of chances of brokers using stock exchange for personal gains.

SEBI (The Securities Exchange Board of India):-The Securities Exchange Board of India was established in 1992 to protect the interest of investors and to regulate and control the trading of financial securities.

Objectives of SEBI:-

- a) Regulation of stock exchange:- It regulates stock exchanges so that efficient services may be provided to all the parties operating there.
- b) Protection to the Investors:- SEBI protects interest of investors from wrong information given by the company and reducing the risk of delivery and payment etc.
- c) To prevent fraudulent and malpractices by having balance between self regulation of business.

	Functions of SEBI:- a) Regulatory Functions:- - Registration of brokers and sub-brokers and other players in the market. - Registration of collective investment schemes and Mutual Funds. - Regulation of Stock Brokers, portfolio exchanges, underwriters and merchant bankers. b) Development Function:- - Training of intermediaries of the securities market. - Conducting research and publishing information useful to all market participants. - Undertaking measures to develop the capital markets by adapting a flexible approach. c) Protective Functions:- - Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulation, price rigging etc. - Controlling insider trading and imposing penalties for such practices. - Undertaking steps for investor protection.
	<u>KEY WORDS OF FINANCIAL MARKET:</u> Capital Market- The capital market deals in medium and long term securities such as equity shares and debentures. Commercial Bill A commercial bill is a bill of exchange used to finance the working capital requirements of business firms. Certificate of Deposit- Short-term instruments in bearer form, issued by commercial banks and development financial institutions. Commercial Paper- Commercial paper is a short-term unsecured promissory note. Treasury Bill- A Treasury bill is basically an instrument of short-term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds issued by the Reserve Bank of India on behalf of the Central Government. Financial Market- Market for creation and exchange of financial assets. It helps in mobilisation and channelizing the savings into most productive uses. Financial markets also help in price discovery and provide liquidity to financial assets. Money Market- Market for short term funds which deals in monetary assets whose period of maturity is up to one year. Treasury Bill- Instrument short-term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds issued by the Reserve Bank of India. Primary Market -Deals with new securities to the public. Secondary Market -Existing securities are bought and sold. <u>The Instruments of Money Market</u> Treasury bills, commercial paper, call money, Certificate of deposit, commercial bills. Stock Exchanges Buying and selling of existing securities. SEBI Established in 1988 and was given statutory status through an Act in 1992. To protect the interests of investors, development and regulation of securities market. e-IPOs A company proposing to issue capital to the public through the on-line system of the stock exchange.

	15- Rights Issue This is a privilege given to existing shareholders. 16- Private Placement Private placements are the allotment of securities by a company to institutional investors and some selected individuals. 17-Offer for Sale Under this method securities are not issued directly to the public but are offered for sale through intermediaries like issuing houses or stock brokers. 18- e-IPOs A company proposing to issue capital to the public through the on-line system of the stock exchange.
--	---

CHAPTER 11: Marketing

Market in traditional sense – The word market is derived from a Latin word, “Marcatus”, which means a place of business, in other words, it is a location where buyers and sellers of goods assemble to facilitate exchange, market thus refers to a place. The term market used in various contexts is given below:

1. Product market (Pepper market, Vegetable market, share market etc.)
2. Geographical market – (Local market, national market, international market)
3. Based on types of buyers (Consumer market and industrial market)
4. Based on quantity of goods (Wholesale and Retail market) Market in modern sense - the term market has a wider meaning; it refers to the aggregate potential demand for a product or service.

For example, we say the market for car is booming, we are referring to the enhanced collective demand for cars.

Marketing – Marketing can be defined as an exchange transaction in between buyer and seller. All activities connected with transfer of goods and services from the producer to the consumer come within the purview of marketing. They include production, transportation, storage, advertising etc. Though selling and sales promotion are integral part of marketing, they are not everything, therefore marketing is a broader term and is concerned with the identification of needs and wants of consumers and finding out ways and means for satisfying them.

Definition – “Marketing is the performance of business activities that direct the flow of goods and services through producers to consumers or users.” –

American Marketing Association According to Philip Kotler –

“Marketing is a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.”

The above definition gives the following features of marketing:-

1. Needs and Wants – Marketing process helps the people in getting what they want. The focus of marketing is on the satisfaction of their needs and wants. A marketer's job is to identify the needs of consumers and develop products or services accordingly.

2. Creating a market offering – Market offering means a complete offer of a product or service. While offering products to customers, it should include the features like size, quality, taste, price, availability etc.

3. Customer value – Consumer buys a product based on its value to satisfy their need. So the marketer should always add value to his products, so that the customer prefers it.

4. Exchange Mechanism – It refers to a process through which two or more parties come together to obtain the desired product or service from someone, in return making a payment to the other. Essential conditions in exchange mechanism are as follows:

- a. Two parties – buyer and seller.
- b. Offering something – Seller offer a product and the buyer, money.
- c. Ability to communicate – Each party should communicate and deliver the product or service.
- d. Freedom – Each party has the freedom to accept or reject the offer.
- e. Voluntary – Acceptance or rejection of the offer must not be on compulsion.

What can be marketed? Usually products are marketed, in marketing literature, anything that can be value to the buyer may be termed as product. It may be tangible or intangible products. It also includes person, place, event, experience, organization etc.

Marketer or Seller – Marketer refers to any person, who takes a lead role in the process of exchange, normally it is the seller. Consumer seeks satisfaction by consuming products and services, whereas the marketer or seller provides the satisfaction by offering products and services to satisfy the consumer's needs.

Functions of marketing

1. Gathering and analyzing market information – This will help to identify the needs of customers and can take vital decisions. It is highly useful for analyzing opportunities, threats, strength and weakness of the firm.

2. Marketing plan – A proper marketing plan should be developed to achieve the marketing objectives of the firm. E.g., to increase the market share of a product in next one year by 20%.

3. Product designing and development – The product should be developed and designed to meet the customer needs. Marketing department should always be on the look out to make necessary changes in the product such as packing, price, size, colour, shape and design.

4. Standardization and grading – Standardization refers to producing goods in predetermined standards such as quality, price, packaging etc. which ensures uniformity and consistency. So that buyers need not inspect, test and evaluate such goods in their future purchases. Grading is the process of classifying products into different classes on the basis of quality, size, weight etc. It is needed in agricultural products. This helps in realizing higher price for better quality.

5. Packaging and Labelling – Package is a container or a wrapper or a box in which a product is enclosed. It is done for protecting the goods from damage in transit and storage, now a days it is also used to establish the

brand. Labelling refers to designing and developing the label to be put on the package to give the specifications of the product in the package.

6. Branding – It is the process of giving a name or symbol to a product for identifying and differentiating it from the products of competitors. E.g., BMW, TATA, JIO, Pears, Coco-cola etc.

7. Customer support service – These are after sales services, handling customer complaints, maintenance services, technical services and customer information. All these will provide maximum satisfaction to the customers.

8. Pricing – Price of a product means the amount of money that have to pay to obtain a product. A sound pricing policy is an important factor for selling the products to customers. The pricing policy of a firm should attract all types of customers.

9. Promotion – It means informing the customers about the firm's products and persuading them to buy these products. Promotion techniques include advertising, personal selling, sales promotion and publicity.

10. Physical distribution – It involves planning, implementing and controlling the flow of materials and finished goods from the origin to the point of use to meet the customer requirement at a profit. A suitable distribution channel must be selected by the marketing management in this regard.

11. Transportation - It is an integral part of marketing as it helps in making available the product at the terminal point of consumption.

12. Storage or warehousing – Goods are produced in anticipation of future demand. They must be stored properly in warehouses to protect them from damages.

Marketing mix

Marketing mix : It is the term used to describe the combination of four inputs which constitute the core of the company's marketing system, the product, the price structure, the promotional activities and the place of distribution. It is also known as four 'Ps' of marketing mix, namely Product, Price, Place (distribution) and Promotion.

Elements of marketing mix

1. Product – Product means goods or services or anything of value which is offered for sale in the market. It is the most important component of marketing mix, which involves planning, developing and producing the right type of goods and services needed by the consumer.

2. Price – The price of a product should be fixed that the firm is able to sell it profitably. It may consider credit policies, discount system, terms of delivery, payment, retail price, cost of production, competition, government regulations etc.

3. Place – It refers to marketing efforts undertaken to make the product available at the right time in the right place. There are products which are produced at one part of the country and it is consumed in different places during different seasons. In Kerala textile items are largely sold during Onam season, so that most of the producers will come to this place and ensure the supply of their product here and in Deepavali season they will move towards some other States. It involves two major functions: 1) Physical distribution and 2) Channels of distribution.

4. Promotion – Promotion means all those activities undertaken by a sales manager to inform the consumers about the product(s) of the company and persuade them to buy. He has to make the consumers know where,

when and how the products are available. There are four elements which constitute promotion mix. They are advertising, personal selling, publicity and sales promotion.

1. PRODUCT

Product means goods or services or anything of value which is offered for sale in the market. It is the most important component of marketing mix, which involves planning, developing and producing the right type of goods and services needed by the consumer.

Branding It refers to the process of giving a name or sign or a symbol to a product for identifying and distinguishing it from competitors. E.g., Titan, Audi, Bata, Lifebouy, Pears etc. Terms related to branding: a. Generic name – It means the name of whole class of a product. E.g., soap, book, pen, camera, paracetamol etc. b. Brand – It is a name, term, symbol or design to identify the goods or services. E.g., Pears, Classmate, Reynolds, Canon etc. c. Brand name – It is a part of the brand consisting of a word, letter or group of these that can be pronounced. E.g., Lux, Reynolds etc. d. Brand mark – It is a part of brand that appears as a symbol, design, picture etc. which cannot be pronounced. E.g., symbol of LIC, emblem of SBI etc.

Trade mark – It is the legal version of a brand. It is a brand name or brand mark registered with legal authorities. When a brand name is registered, it becomes a Trade Mark. Once it is registered it is legally protected and others cannot use this as a duplicate. Advantages of branding To Marketers To Customers a. Helps to make an identity Helps in identifying the product b. Helps in advertising and display programs Ensures quality and confidence in the mind of customers c. Enables the firm to charge higher price than the competitors Status symbol d. Easy to introduce new product Helps to increase the level of satisfaction

Characteristics of a good brand name

1. Short and simple – brand name should be short, easy to pronounce and to remember. E.g., Hero, Maruti, VIP, Vim etc.
2. Suggests the benefit of product and its quality. E.g., Rasika, Boost, Fair N Lovely.
3. Distinctive – It should be unique such as Liril, Sero, Titan etc.
4. Adaptable – Brand name must be suitable for packing and labeling and to suit different advertisement media and different languages.
5. Versatile – Better it is multi-purpose to adopt new products. E.g., Acer, V-guard etc.
6. Legal protection – the brand should be capable of being registered.
7. Staying power – the name chosen as brand name should not get outdated. (“3G Mobiles” is an outdated brand).

Packaging It refers to the designing and producing the container or wrapper of a product. It has an important role in the marketing success or failure of a product. **Levels of packaging**

1. Primary packaging – The immediate container of a product is called primary packet. e.g., the plastic cover of a shirt, tube for shaving cream, tooth paste etc. and a bottle for horlicks.

2. Secondary packaging – It gives an additional protection for the product. E.g., the card board box for a tooth paste tube.

3. Transportation packing – It is a further packaging of products for storage and transportation. E.g., a toothpaste manufacturer may send the goods to the retailers in a large box containing 100 pieces.

Importance of Packaging

1. Rising standards of health and sanitation – More people prefer to buy packed goods as the chances of adulteration are minimum.

2. It is suitable for self service outlets.

3. Innovational opportunities – New ideas can be implemented in packaging which will increase the scope of marketing the products. E.g., soft drinks, mango juices etc. in specially designed packages (foils).

4. Product differentiation – The colour, size, material etc. of the packages will help to identify the product and its quality up to a certain extent. E.g., Body spray, Shampoo etc. Functions of packaging

1. Product identification – Packaging helps the customers to identify the product easily. E.g., Toothpaste, Soap etc.

2. Product protection – It helps the product from breakage, leakage, contamination, evaporation, pilferage (theft) etc.

3. Facilitating the use of the product – The size and shape of the product should be in such a way to use the product conveniently. E.g., Hand wash, Tooth paste, Powder tin etc.

4. Product promotion – Beautiful packages attracts consumers, and it serves as a promotional tool for the product as it is a silent sales man.

Labelling

Labelling refers to the designing and developing the label to be put on the package. It may be attached to the product and carries information about the product and the producer in the form of a tag, sticker etc.

Functions of Labelling

1. Describe the product and specify its contents and it may give its usage, precautions to be taken etc.

2. Identification of product or brand

3. It also gives information about the name and address of manufacturer, net weight, MRP etc.

4. Grading of products such as Green label for 1st quality, Yellow for 2nd quality and Red for 3rd quality.

5. Helps in promotion of products - a well designed label will catch the attention of consumers. “Free Tooth Brush inside”, “Save Rs.10/-“, “Free Mobile Recharge Rs.50/-” etc.

6. Providing information required by law, e.g., statutory warning on the package of cigarette, “Smoking is injurious to health” etc.

2. PRICE

Pricing – Price of a product is the amount of money paid by the buyer (or received by the seller) in consideration of purchase of a product or service. Pricing is the function of determining product value in terms of money before it is offered to consumers for sale. A good pricing policy enables a firm to achieve maximum sales revenue.

Factors affecting price determination

1. Product cost – It includes cost of production, selling and distribution expenses. While fixing prices for the products or service, a margin of profit over the cost should be considered. The cost of a product consists the following:

- a. Fixed cost – do not vary with the volume of production. E.g., Rent, salary, insurance etc.
- b. Variable cost – Cost which vary based on the volume of production. E.g., raw material cost, labour cost, power etc. c.

Semi-variable cost – Cost which vary with the level of production, but not in direct proportion. E.g., Commission to a salesman beyond a particular level.

2. Utility and demand – Pricing is affected by the elasticity of demand. In case of inelastic demand a firm can fix a higher price and vice versa.

3. Extent of competition – If there is no competition in the market, a firm can fix the price for its product by its own, and they are the price makers. If the competition is very high in the market, the price should be fixed by considering the price of competitors, and they became the price takers

4. Government and legal regulations – The prices of certain products are regulated by government. E.g., cement, sugar, etc.

5. Pricing objectives – If the firm wants to maximize profit in short run, it would charge high price and if it wants to capture maximum market share for its products, it would charge only a low price. Some pricing objectives are: a. To Obtaining market share leadership b. To Survive in a competitive market c. To Attaining product quality leadership (high prices may be charged for maintaining high quality)

6. Marketing methods used – Price fixation is also affected by various elements like distribution system, advertising, sales promotion, type of packaging, credit facilities, after sales services, guarantee etc.

3. PLACE (PHYSICAL DISTRIBUTION)

In order to ensure availability of products at the right Place, two factors require consideration; they are Channel of distribution and Physical distribution.

A.Channels of distribution

The path taken by the goods in their movement from the producer to the consumer is referred to as the channel of distribution.

Types of channels 1.

Direct channel (Zero level) – In this case, no intermediary is involved. It implied direct selling of goods to the customer. Mail order business, internet selling, door to door selling or through own retail network etc. are the examples.

2. Indirect channels – The manufacturer seeks the help of one or more intermediary to move the goods from the place of production to the place of consumption is called indirect network.

a. One level – Here only one intermediary is in the distribution channel, the retailer. E.g., Maruti Udyog Ltd. sells their cars through their approved retailers.

b. Two level channel – Here one more middlemen, the wholesaler joins the channel along with the retailer (2 middlemen). This channel is suitable to the products with widely scattered markets. E.g., soap, cloth, tooth paste etc.

c. Three level channel – In this channel the producer by an arrangement hands over the entire output to his selling agent in order to relieve from the problems of distribution.

Factors determining choice of channels

1. Product related factors

a. **Industrial goods** – Highly expensive and with a few buyers, hence direct channel is preferred.

b. **Consumer goods** – Less expensive and frequently bought, hence long network is good. Producer Customer
Producer Retailer Customer Producer Wholesaler Retailer Customer Producer Agent Wholesaler Retailer
Customer PRODUCER CONSUMER Direct Selling Retailer Wholesaler Retailer Agent Wholesaler
Retailer Zero Level One Level Two Level Three Level

c. **Perishable goods** – Short channel is more suitable

d. **Durable goods** – Long channel is good.

e. **Unit value of product** – Cheaper goods are usually traded through long channels.

f. **Complex products** – requiring technical details such as industrial or engineering products may prefer short channels.

2. **Company characteristics** – if the company is having sufficient funds, it can go for direct selling or through short channels. Likewise, if they want to maintain a control over the channel members, short channels are better.

3. **Competitive factors** – If a competitor has selected a particular channel and they are successful, sometimes we may also follow it, whereas some other companies may avoid such channels.

4. **Market factors** – a. Size of market – Where number of buyers is small, short channel is required and for large number of customers, longer channel would give better result.

b. **Geographical concentration** – Small channel is better if the buyers are only in a particular area and if they are scattered over a large area, long channel is better.

c. **Size of order** – If the size of order and its value is high, shorter channel is good and in case of consumer goods long channel is better.

5. **Environmental factors** – A Economic condition, legal constraints etc. are considered here. For example, in case of depression period, shorter channel is preferred.

B. Physical movement / physical distribution

Physical distribution involves the handling and movement of goods from production centre to the place of consumption. Components of Physical Distribution

1. Order processing – It begins with the receipt of an order from the customer, It involves the preparation of invoice, instructions to the warehouse keeper for dispatch, granting of credit facilities, sending bills etc. Quick processing helps to retain the customers for ever.
2. Transportation – It is the means of carrying goods and raw materials from the point of production to the point of sale. It is important because unless there is no proper movement (transportation), the sale cannot be completed.
3. Warehousing – It is inevitable factor in the movement of goods, it involves the decisions regarding type of warehouse, (i.e., own warehouse or rented warehouse), location of warehouse, cost of warehousing etc.
4. Inventory control – In order to ensure prompt supply of goods a proper inventory level must be maintained. It must not be too high or too low. High level of inventory results in blocking of capital and high management cost. Low level may lead to stock out situations.

Major factors determining inventory levels are:

- a. Level of customer service – Higher the level of customer service, greater will be the need of inventories.
- b. Accuracy of sales forecast – If the sales forecast is more accurate, the need for inventory can be minimized.
- c. Time required to meet additional demand – If it is taking much time to meet additional or unexpected demand, the need for inventory level will be high.
- d. Cost of inventory – It includes holding cost / carrying cost such as warehousing cost, blocked up capital cost etc. If the cost of inventory is high, less inventory is maintained.

4. PROMOTION

All activities connected with informing and persuading the customers are collectively known as promotion mix. It includes **Advertising, Personal selling, Sales promotion, and Public Relations.**

1. **Advertising** - Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or service of an identified sponsor. The message which is presented or disseminated is known as advertisement.

Features of advertising

- a. Paid form – The sponsor or marketer bears the cost of communication.
- b. Impersonality – No face-to-face contact between seller and buyer, but through a media.
- c. Identified sponsor – Advertisement is done by a sponsor.

Merits of advertising

- a. Mass reach – It reaches a large number of populations with the help of newspapers, television etc.
- b. Enhancing customer satisfaction – They feel more comfortable and assured about quality.

c. Expressiveness – Messages can be expressed in a very attractive manner with the help of modern technology.

d. Economy – It is in the sense that, it can reach millions of people. As a result, the per unit cost becomes low.

2. Personal Selling - It implies a face-to-face contact or conversation between seller and buyer by which the consumers will be motivated to purchase the products.

Features of personal selling

a. Personal form – face to face contact.

b. Development of relationship – Salesman develops a personal relationship with the customers.

Merits of Personal selling

a. Flexibility – The presentation of product can be adjusted to suit the prospective buyer.

b. Direct feedback – Face to face communication facilitates the salesman to adapt the presentation according to the needs of customers.

c. Minimum wastage – This strategy can be adopted only to the targeted customers; hence the company can minimize the wastes of efforts compared to advertisement.

Differences between Advertising and Personal Selling

Advertising	Personal Selling
1. Impersonal communication	Personal form of communication
2. Standardized message is transmitted	Based on customers' needs
3. Not flexible	Highly flexible
4. Reaches many people	Limited number of people only
5. Cost per person is low	It is very high
6. It can cover the market in a short time	Take a lot of time
7. Media is used such as TV, Radio etc.	Use of salespersons
8. No direct feedback	Direct and immediate feedback is possible
9. Useful in consumer goods having a large number of consumers	Useful in industrial products having only a limited number of customers .

3. Sales Promotion –

It refers to short-term activities, which are aimed at promoting sales such as rebates, discounts, free gifts, contests, refunds, premium etc. Sales promotion tools are designed to promote customers, middlemen and salespersons.

a. Customers – Free samples, discounts, contests, gifts, lucky draws, etc.

b. Middlemen – Cooperative advertising, dealer discounts, incentives, contests etc.

c. Salespersons – Bonus, salesmen contests, special offers, etc.

Advantages of sales promotion

- a. It catches the buyers' attention.
- b. Useful in new product launch.
- c. Synergy in total promotional efforts – Sales promotion supplement the personal selling and advertising efforts.

TECHNIQUES OF SALES PROMOTION

- 1. Rebates
- 2. Discount
- 3. Refunds.
- 4. Product combinations
- 5. Quantity gift
- 6. Instant draws and gifts
- 7. **Lucky draw**
- 8. **Usable benefit**
- 9. **Full finance @ 0%**
- 10. **Sampling**
- 11. **Contests**

Public Relations :

Public relation can be defined as publicity through media which is very important in present day business. It is ranked second after personal selling in promotional mix. Since they can be used very effectively to reach the most influential people, this is considered as an effective tool for promotion. Public relations tools: News, Speeches, Events, Written materials, Public service activities etc.

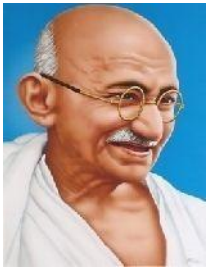
Merits of Maintaining good Public Relations :

- (i) Building Awareness about the product.
- (ii) Building Credibility of the product
- (iii) Stimulates Sales Force
- (iv) Lowers Promotion Costs.

Role of Public Relations

- 1. Press relations – Information about the organization or products needs to be presented in a positive manner in the press. Eg; Launching a new car.
 - 2. Product publicity – A company can invite attention of the public on their products by sponsoring sports and cultural events, exhibitions etc.
-

CHAPTER 12: CONSUMER PROTECTION



A customer is the most important person in our premises. He is not dependent on us, we are dependent on him.

He is not an interruption in our work; he is a purpose of it. He is not an outsider of our business; he is a part of it.

We are not doing him a favour by serving him.

He is doing us a favour by giving us an opportunity to do so

----- **Mahatma Gandhi**

Consumer is said to be the king in a free market economy. The earlier approach of “Caveat emptor” (let the buyer beware) has been changed to “Caveat venditor” (let the seller beware).

With the growing competition and to push up the sales, businessmen indulge in exploitative and unfair trade practices which include supply of defective and unsafe products, adulteration, false and misleading advertising, hoarding, black marketing etc., so there arises the need for providing protection to consumers.

Consumer - Definition

Consumer Protection Act, 1986 defines a consumer is an individual or organization who buys goods and services for a consideration.

Some other definitions for consumer are as follows:

1. The person who buys any goods for a consideration.
2. A person who hires or avails of any services for a consideration.

Importance of Consumer Protection

Consumers point of view:

1. **Consumer ignorance** – In usual practice, consumers are innocent and ignorant about their rights and reliefs against unfair trade practices. Consumer protection protects them through consumer education.
2. **Unorganized consumers** – Consumers need to be organized in the form of consumer organizations which would protect their interest.
3. **Consumer exploitation** – Consumers need protection against unfair trade practices like defective and unsafe products, black marketing, hoarding, adulteration etc.

Business point of view:

1. **Long term interest of business** – Satisfied customers only provide repeat sales, but also give good feedback to the prospective customers. This will help to increase sales.
2. **Use of resources from the society** – As the business makes use of society's resources, it has the obligation to give reasonable return to the nation and its people.
3. **Social responsibility** – A business has social responsibilities towards different groups like shareholders, employees, etc. Therefore it should not be an exploiter but must be a servant

4. **Moral justification** – It is the moral duty of any business to protect the interest of consumers. Exploitative, and unfair trade practices must be avoided.
5. **Government intervention** – A business engaging in any form of exploitative trade practices would invite government intervention.

Legal protection to consumers

1. **Consumer Protection Act (CPA) 2019** – It gives protection against defective goods, unfair trade practices and all other exploitation. It provides for protection of consumer rights and redressal of consumer disputes. It also provides for the setting up of a three- tier machinery – *District Commission , State Commissions and the National Commission*.
2. **The Contract Act 1982** – This Act specifies the remedies available in case of breach of contract.
3. **The Sale of Goods Act 1930** – It assures some safeguards to buyers of goods in case the goods do not conform to the implied conditions or warranties.
4. **The Essential Commodities Act 1955** – This Act suggests for action against anti- social activities of profiteers, hoarders and black marketers.
5. **The Agricultural Produce (Grading and Marking) Act 1937** – It lays down the procedure for grading, marking and packing of agricultural products. The quality mark is known as AGMARK.
6. **The Prevention of Food Adulteration Act 1954** – To check adulteration of food items and to ensure their purity.
7. **The Standards of Weights and Measures Act 1976** – It gives protection to consumers against the malpractice of underweight or under measure.
8. **The Trade Marks Act 1999** – This Act prevents the use of fraudulent marks (duplicate trademarks of other companies) on products.
9. **The Competition Act 2002** – This Act replaced the MRTP Act 1969 (Monopolies and Restrictive Trade Practices). It gives protection to consumers in case policies adopted by business firms hamper competition in the market.
10. **The Bureau of Indian Standards Act 1986** – The Bureau has two sets of activities –
 (1) Formulation of quality standards and (2) Certification through BIS. By this, producers can use ISI mark on their products only if the products meet the prescribed quality. Also there is a grievance cell under the bureau accepts complaints from consumers.

Common unfair trade practices

- | | |
|-------------------|----------------------------|
| ● Adulteration | ● Exorbitant price |
| ● Black marketing | ● Misleading advertisement |
| ● False weights | ● Duplication of brand |
| ● Poor quality | |

Consumer Rights

1. **Right to safety** – Consumers have the right to be protected against the goods which are

hazardous to health and safety. Manufacturing defects in electrical goods, pressure cookers etc. may endanger the life of consumers.

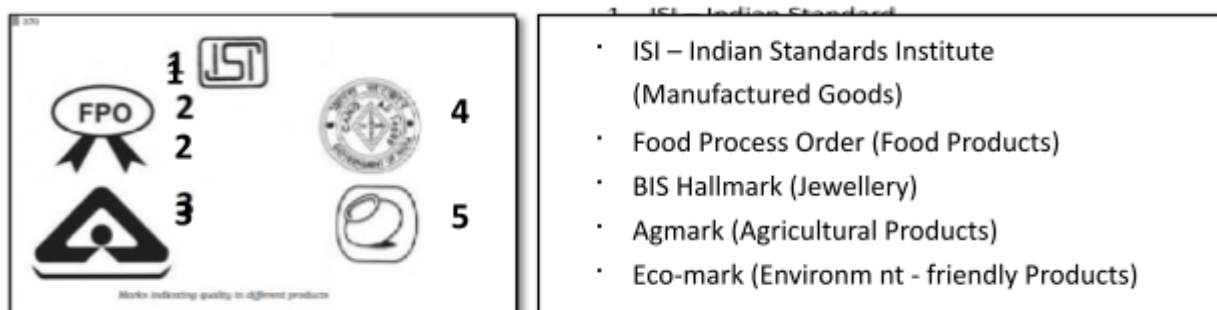
2. **Right to be informed** – It implies that the producer should disclose all the facts regarding his products. Information as to the quantity, quality, price, date of manufacture, ingredients, precautions of use etc. should be given.
3. **Right to choose** – It implies that consumer has the chance to choose from the alternatives, the producer should not take away the right through aggressive selling techniques.
4. **Right to be heard** – Every consumer would like to be assured that complaints or grievances regarding a product or service will be considered.
5. **Right to seek redressal** – When the consumers are cheated or exploited they have the right to get compensation.
6. **Right to consumer education** – A consumer can get protected against fraud and malpractices only with the help of knowledge and proper education, he should know the rights and remedies available to him. It is possible with proper consumer education.

Consumer Responsibilities

1. **Awareness** about various goods and services available in intelligent and wise choice can be made. the market, so that an
2. **Consumer must exercise his right** – Consumers must be aware of their own rights with regard to the products or services they buy from the market.
3. **Cautious consumer** – Before purchasing, the consumer should insist on getting complete information on quality, quantity, price, utility etc. of the goods.
4. **Filing complaints for redressal of genuine grievances** – Sometimes, consumers

ignore the deception (dishonesty) of traders believing that the loss is small. This attitude encourages corrupt business practices to continue.

5. **The consumer must be quality conscious** – While making purchases, he should look for quality certification. purchased. Only products having ISI, Agmark, BIS, ISO etc. should be



6. **Understand the risks** – associated with the products, follow strictly the instructions.

7. **Be honest** – Go in for only legal goods and services and discourage illegal marketing.
8. **Insist on cash memo** – If there is any defect in the goods purchased and the consumer has to make a complaint, the cash memo must be produced as proof of purchase. A seller is bound to give cash memo.
9. **File complaints** – if any in appropriate consumer forum, even if the amount involved is very small.
10. **Educate consumers** – Take initiative to educate consumers about their rights.

Ways and means of consumer protection

1. **Self regulation by business** – Firms with social commitment follow ethical standards and good practices in serving the customers. Such firms have set up their customer service and grievance cells to redress the grievances of their customers.
2. **Business Associations** – Federation of Indian Chambers of Commerce, (FCCI), Confederation of Indian Industries (CII), etc. lay down their code of conduct for their members to deal with consumers.
3. **Consumer awareness** – A consumer aware of his rights will be in a position to raise his voice against unfair trade practices.
4. **Consumer organizations** – These organizations can take necessary steps to eliminate consumer exploitation and force the business firms to avoid unfair trade practices.
5. **Government** – Government is always protecting the interest of consumers by implementing rules and regulations in the form of various laws and Acts. Also it provides a three tier system of District Forum, State Commission and the National Commission for redressal of consumer grievances.

Who can file a complaint under the Act?

1. A consumer.
2. Any voluntary consumer association, registered under the Companies Act, 1956 or under any other law.
3. The Central Government.
4. The State Government.
5. One or more consumers, where there are numerous consumers having the same interest.
6. A legal heir or representative of a deceased consumer.

Redressal Agencies under the CPA 2019

There is a three-tier grievance redressal system for enforcement of the rights of the consumers, they are:-

1. District Commission	2. State Commission	3. National Commission
- Established by State Govt. 01 President and not less than 02 other members. - Entertain the complaints where value of goods or service and compensation claimed up to 1 crore. - Aggrieved party can Appeal to State Commission within 45 days of order from District commission.	- Established by State Govt. 01 President and not less than 04 other members. - Entertain the complaints where value of goods or service and compensation claimed above Rs. 01 crore and upto Rs. 10 crore. - Aggrieved party can Appeal to National Commission within 30 days of order from State commission.	- Established by Central Govt. 01 President and not less than 04 other members. - Entertain the complaints where value of goods or service and compensation claimed above Rs. 10 crore . - Aggrieved party can Appeal to Supreme Court in case of original jurisdiction of national commission only within 30 days of order from

		national commission.
--	--	-------------------------

Relief available through redressal agencies

- a. Removal of defects.
- b. Replacement of goods or service.
- c. Return of price by seller.
- d. Payment of compensation by seller for the loss suffered.
- e. Discontinuance of unfair trade practices.
- f. Withdrawal of hazardous goods.
- g. To issue corrective advertisement to neutralize the effect of a misleading advertisement.

Role of Consumer Organisations and NGOs

1. Bringing out brochures, Journals and Monographs (book which is a detailed study of one subject).
2. Accelerating consumer awareness.
3. Collecting data on different products and testing them.
4. Arranging talks, seminars, workshops and conferences for the purpose of focusing the problems of consumers and finding solutions.
5. Encouraging consumers for boycotting goods which are defective and bad quality.
6. Filing suits on behalf of consumers.
7. Investigating into problems of consumers.
8. Resisting against price rigging (dishonesty), adulteration, black marketing etc.
9. To produce films on food adulteration, misuse of drugs and cosmetics.
10. To educate women regarding consumerism.
11. To help business to standardize their products.
12. Helping schools to start consumer education.

Prominent Consumer Organizations in India

- Consumer Coordination Council, Delhi.
- Consumer guidance society of India (CGSI), Mumbai.
- Citizens Action group, Mumbai.
- Consumer Education and Research Centre (CERC) Ahmedabad.
- Common Cause, New Delhi.
- Consumer Unity and Trust Society (CUTS), Jaipur.
- Voluntary Organization in Interest of Consumer Education (VOICE).
- Consumer Action Forum, Kolkata, Delhi and Chennai.
- Consumer Protection Council, Ahmedabad.

CONSUMER PROTECTION ACT, 2019

(An Appendix to Chapter 12: Consumer Protection)

The Consumer Protection Act, 2019 has replaced the Act 1986 and seeks to widen its scope in addressing consumer concerns.

Key Highlights of the New Act

- **Product Liability:** A product liability action may be brought by a complainant against a product manufacturer or a product service provider or a product seller, as the case may be, for any harm caused to him on account of a defective product.
- **Filing of Complaint:** According to the new Act, consumer can also file complaint with the jurisdictional consumer forum where the complainant resides or personally works for gain. This is unlike the earlier practice of filing it at the place of purchase or where the seller has its registered office address.
- **Settlement through Mediation:** At the first hearing of the complaint or at any later stage, if it appears to the District Commission that there exists elements of a settlement which may be acceptable to the parties, except in such cases as may be prescribed, it may direct the parties to give in writing, within five days, consent to have their dispute settled by mediation.
- **e-Filing of Complaints:** The new Act has enabled consumers to file complaints electronically and for hearing and/or examining parties through video-conferencing. This is aimed to provide procedural ease and reduce inconvenience and harassment for the consumers.
- **Establishment of Central Consumer Protection Authority:** The Central Government will set up a regulatory authority known as the Central Consumer Protection Authority (CCPA), to be known as the 'Central Authority' to regulate matters relating to violation of rights of consumers, unfair trade practices and false or misleading advertisements which are prejudicial to the interests of public and consumers and to promote, protect and enforce the rights of consumers as a class.
- **Penalties for Misleading Advertisement:** If the Central Authority (CCPA) is of the opinion that it is necessary to impose a penalty in respect of false or misleading advertisement by a manufacturer or an endorser, it may, by order, impose on manufacturer or endorser a penalty which may extend to ₹ 10 lakh. The CCPA may also sentence them to imprisonment for up to two years for the same.
 - In case of a subsequent offence, the fine may extend to ₹ 50 Lakh and imprisonment of up to five years.
 - The CCPA can also prohibit the endorser of a misleading advertisement from endorsing that particular product or service for a period of up to one year. For every subsequent offence, the period of prohibition may extend to three years.

12.6 MEANING OF CONSUMER

(New Addition Under this Heading)

- **Covers E-Commerce Transactions:** The New Act has widened the definition of 'Consumer'. The definition now includes any person who buys any goods or hires or avails any services, whether through offline or online transactions, electronic means, teleshopping, direct selling or multi-level marketing.

R.62

Who can file a complaint?*(Fully Reframed as per Consumer Protection Act, 2019)*

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

1. A consumer; or
2. Any voluntary consumer association registered under any law for the time being in force; or
3. The Central Government or any State Government; or
4. The Central Authority; or
5. One or more consumers, where there are numerous consumers having the same interest; or
6. In case of death of a consumer, his legal heir or legal representative; or
7. In case of a consumer being a minor, his parent or legal guardian.

12.7 REDRESSAL AGENCIES*(Fully Reframed as per Consumer Protection Act, 2019)*

For the redressal of consumer grievances, the Consumer Protection Act, 2019 has set up three-tier machinery:

District Consumer Disputes Redressal Commission or District Commission

The State Government shall establish a District Consumer Disputes Redressal Commission, to be known as the District Commission, in each district of the State. State Government can set more than one District Commission in each district, if it deems fit.

- **Composition:** Each District Commission shall consist of:
 - (a) A President; and
 - (b) Not less than two and not more than such number of members as may be prescribed, in consultation with the Central Government.
- **Jurisdiction:** The District Commission shall have jurisdiction to entertain complaints where the value of the goods or services paid as consideration does not exceed ₹ 1 crore.
- **Appeal:** Any person aggrieved by an order made by the District Commission may prefer an appeal against such order to the State Commission on the grounds of facts or law within a period of 45 days from the date of the order.

State Consumer Disputes Redressal Commission or State Commission

The State Government shall establish a State Consumer Disputes Redressal Commission, to be known as the State Commission, in the State.

- **Composition:** Each State Commission shall consist of:
 - (a) A President; and
 - (b) Not less than four or not more than such number of members as may be prescribed, in consultation with the Central Government.
- **Jurisdiction:** The State Commission shall have jurisdiction to entertain:
 - (a) Complaints where the value of the goods or services paid as consideration exceeds ₹ 1 crore, but does not exceed ₹ 10 crore; and
 - (b) Appeals against the orders of any District Commission within the State.
- **Appeal:** Any person aggrieved by an order made by the State Commission may prefer an appeal against such order to the National Commission within a period of 30 days from the date of the order in such form and manner as may be prescribed.

National Consumer Disputes Redressal Commission or National Commission

The Central Government shall establish a National Consumer Disputes Redressal Commission, to be known as the National Commission.

- **Composition:** Each National Commission shall consist of:
 - (a) A President; and
 - (b) Not less than four and not more than such number of members as may be prescribed.
- **Jurisdiction:** The National Commission shall have jurisdiction to entertain:
 - (a) Complaints where the value of the goods or services paid as consideration exceeds ₹ 10 crore; and
 - (b) Appeals against the orders of any State Commission.
- **Appeal:** Any person aggrieved by an order made by the National Commission may prefer an appeal against such order to the Supreme Court within a period of 30 days from the date of the order.

Always Remember: Only those cases can be appealed in Supreme Court in which claim amount exceeds ₹ 10 crore and aggrieved party is not satisfied with the order of National Commission. Moreover, in a case decided by the District Commission, the appeal can be filed before the State Commission and, thereafter, the order of the State Commission can be challenged before the National Commission and no further.

12.8 RELIEFS (REMEDIES) AVAILABLE TO CONSUMERS

(Fully Reframed as per Consumer Protection Act, 2019)

If the consumer court or redressal agency is satisfied about the genuineness of the complaint, it can grant one or more of the following reliefs to the aggrieved party:

1. To remove the defects in goods or deficiencies in the services in question.
2. To replace the goods with new goods of similar description which shall be free from any defect.
3. To return the price or charges paid by the complainant along with interest.
4. To pay compensation to the consumer for any loss or injury suffered by the consumer due to the negligence of the opposite party.
5. To discontinue the unfair trade practice or restrictive trade practice and not to repeat them.
6. Not to offer the hazardous or unsafe goods for sale.
7. To withdraw the hazardous goods from being offered for sale.
8. To cease manufacture of hazardous goods and to desist from offering services which are hazardous in nature.
9. To pay such sum as may be determined by it, if it is of the opinion that loss or injury has been suffered by a large number of consumers who are not identifiable conveniently, provided that the minimum amount of sum so payable shall not be less than 25% of the value of such defective goods sold or service provided, as the case may be, to such consumers.
10. To issue corrective advertisement to neutralise the effect of misleading advertisement at the cost of the opposite party responsible for issuing such misleading advertisement.
11. To provide for adequate costs to parties.
12. To cease and desist from issuing any misleading advertisement.