MANAGEMENT : PRODUCTION AND FINANCE MANAGEMENT : FUNCTIONS AND CHALLENGES

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COMMERCE PAPER II

MANAGEMENT: FUNCTIONS AND CHALLENGES

MANAGEMENT: PRODUCTION AND FINANCE

(w.e.f from the Academic Year 2014- 15
For I. D. O. L. Students)

Programme & Course Co-ordinator : **Prof. Madhura Kulkarni**
Asst. Professor-cum Asst. Director
IDOL, University of Mumbai,
Vidyanagari, Mumbai - 400 098.

Edited by : **Dr. Paras Jain**
M. D. College,Parel.

Course Writers :

Dr. V. N. Yadav
Principal,S. N. College
of Arts and Commerce,
Bhayander (E),
Thane, 401105.

Dr. B. B. Kamble
Shri Chinai College of Commerce
and Economics,
Andheri (E),
Mumbai 400069.

Dr. S. G. Sagar
Principal, S.B. College,
Shahapur, Dist. Thane.

Dr. Vinita Pimple
R. A. Poddar College of
Commerce and Economics,
Matunga, Mumbai 400090.

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INTRODUCTION TO MANAGEMENT

Unit Structure

1.0 OBJECTIVES

After studying the unit the students will be able to:

- Define the concept Management.
- Discuss the features of management.
- Know the management principles.
- Understand the factors responsible for new horizons of management,
- Explain the management skills and competence in 21st century ,
- Know the concept management information system (MIS) and characteristics of MIS.
- Understand the concept Management by exception.

1.1 INTRODUCTION TO MANAGEMENT

Management is a process of managing the various activities. Management means managing an activity. It is process of planning, organizing staffing and controlling the organizational activities to accomplish its well designed activities. Management is an art of getting the things done by the people who are directly or indirectly associated in the organization. It is one of the important elements of business like men, materials, money market and management. An effective utilisation of all there elements is purely depends on an effective and efficient management. The importance of management cannot be neglected in today's business process. Management is not only essential to business concern but also essential to organisation like School, Colleges, Hospitals, Charitable trusties.

Many organisations are effective and efficient management for planning organising and controlling their activities to accomplish their goals.

1.2 DEFINITION OF MANAGEMENT

1. Mary Parker Follet: - "Management is the art of getting thing done through people".

2. George Terry: - "Management is a distinct process consisting of planning organising staffing and controlling performed to determine and accomplish stated objectives by use of human being and other resources".

3. Henry Fayol: - "To manage is to forecast and to plan to organise, to command, to coordinate and to control".

4. Harold Koontz: - "Management is the art of getting things done through and with People in formally organized groups".

1.3 FEATURES OF MANAGEMENT

The Features of management are as follows: -

1. Management is a continuous and never ending process:

As stated above management is a process. It includes four basic functions like planning organising directing and controlling. It is continuous and never ending process as it is not comes to an end like the accomplishment of an organizational goals.

2. Management deals with the people:

Management involves people who are directly or indirectly involves with the organization effective management requires team work the collective efforts of all the people bring success to the organization.

3. It involves getting things done through people:

Management involves people to get thing done effective and efficient system of management maintain qualified and knowledgeable staff to whom proper direction is given to implement the plans of organization.

4. Management is goal oriented:

Management places emphasis an accomplishment of organization goal. Every managerial activity results in the achievement of the well defined objectives.

5. Management is a system of activity:

Management is integral part of system. A system may be defined as a set of various departments working in an organization to achieve a common objective.

6. Management is an art, science as well as profession.

7. Management is innovative:

Management techniques are creative and innovative. Every manager in the organization uses their innovative skills and talent to make the better things with higher efficiency at minimum cost.

8. Management has a different operation levels:

Such as higher level, middle level and lower level. All the managers at different levels have to work with adequate authorities and responsibilities.

9. Management is dynamic:

Business is influenced by economics, social, political, and technological and changes in human resources. Management adjusts itself to the changing atmosphere. Management have to make suitable forecasts and make the changes in the existing policies, therefore it is a dynamic activity.

10. Management follows well established principals:

It follows well established principals in managing the organization. The principals includes:-

- Division of work
- Authority and responsibility
- Discipline
- Unity of command
- Unity of direction etc.

These principles help to solve the problems of organistion.

11. Management is universal:

It is all pervasive. It is applicable not to business organization, but also to other organization such as educational institutions charitable trust, hospitals, etc. Management is must for all activities.

12. Management adopts professional approach:

Nowadays managers use a professional approach for getting the work done from their subordinate. They delegates authority and responsibility to their subordinates gives direction and guidance and also accept suggestion from the subordinates for improving their work.

13. Management adopts multi-disciplinary approach:

Management has to manage people. It is very difficult to the managers to handle the people of different backgrounds without the knowledge of different subjects such as economics, Information Technology, psychology, sociology etc.

14. Ownership and management are separated from each other.
15. Management is an intangible activity.
16. Management is aided by the computers but cannot be replaced- As managers can use computers to take quick decision, computerized data can be used. But the judgement and experience of managers is required to use computerized data to take quick decision.

1.4 IMPORTANCE OF MANAGEMENT

The need and importance of management can be stated as follows:-

1. Accomplishment of goal:

Effective and efficient management facilitates for accomplishment of an organization goals organization activities are performed by the people under proper direction and guidance.

2. Optimum use of resources:

Management facilitates optimum utilisation of available human and physical resources with the minimum cost. This helps to brings progress and prosperity of a business enterprise.

3. Management encourages initiative:

Management deals with people. It encourages people or subordinate to take an initiative to perform their work more effectively and efficiently. Employees and subordinate are encourages to make their own plans and policies and implement them to perform their work and accomplishment of individual and organisation goals.

4. Management facilitates introduction of new Techniques:

It facilitates the introduction of new machines methods in the conduct of business activities. It also brings useful technological developments and innovations in the management of business activities.

5. Cordial industrial relations:

Management develops better industrial relations. It ensures better life and welfare to employees and raiser their moral through suitable incentives.

6. Motivates employees:

It motivates employees to take more interest and initiative in the work assigned to them. Effective management facilitates higher performance. Employees can be motivated with higher incentives. Motivated employees work with application and dedication which leads to higher efficiency in the organisation.

7. Expansion of business:

Effective management facilitates expansion growth and diversification of business. It creates good corporate image to a business enterprise. Successful managers are responsible to bring success and stability to a business enterprise.

8. Reduction in wastages:

Effective management facilitates reduction of wastages in the organisation. This facilitates to improve productivity and overall efficiency of organisation.

9. Reduces absenteeism and labour turnover:

Absenteeism means remaining absent from the work place without permission. Absenteeism creates several problems in the organisation which affects adversely on the efficiency and productivity of the organisation.

Labour turnover means the employees learns the organisation. Labour turnover and absenteeism raises the cost of pricing. Effective management uses different techniques to reduce absenteeism and labour turnover in the organisation.

10. Encourages team work:

Management facilitates to improve better relations between individuals, groups, departments and between various levels of management. Better relations among employees develop team spirit in the organisation which helps to bring success and stability in the organisation.

11. Exploiting opportunities:

Success, stability prosperity expansion, growth and diversification of business organisation are largely depends on effective management. Management helps to make effective use of available resources to exploit the opportunities in a better manner. As well as it helps to face the challenges effectively and efficiently.

12. Improves Corporate Image:

An efficient management enables the organisation to improve its performance in respect of quality goods and services higher sales and higher profits. This creates goodwill and corporate image of the organisation in the minds of not only the employees but also in the minds of customers and the society. A good corporate image helps to brings success and stability to business organisation.

13. Qualities of Worker's Life:

Modern Management shares the fruits of productivity and efficiency with the workers. At present workers are provided not only better working conditions but also other benefits like as monetary and non-monetary incentives which enable them to work honestly and sincerely. Such monetary and non-monetary reward helps to improve the quality of life of the employees.

CHECK YOUR PROGRESS:

1. "An effective utilisation of Men, Material and Money is purely depends on an effective and efficient management". Explain.
2. Give the definitions of management.
3. Enlist the Features of management.

1.5 PRINCIPLES OF MANAGEMENT

Henry Fayol (1841 – 1925) is rightly treated as the father of Modern Management thought has developed the management principles and general management theory in the form of a book “Administration Industrialist General” Published in 1916. It was translated into English in 1930 as “Industrial and General Administration”. Henry Fayol has given 14 principles of management to manage the organisational activities smoothly and efficiently. Principles mean the fundamental truth or principles which can be used by the organisations to manage their business activities smoothly and successfully.

Henry Fayol’s fourteen principles of management are as follows: -

1. Division of work:

Division of work means dividing the total work into small division a department under the departmental head a manager. Fayol suggests that a division of works brings specification in the work and the managers and the subordinates will work with more interest and initiative. The performance of managers will also improve as they will get an opportunity to use their skills & talent to perform their work.

The principle of division of work can be applied at all levels of the organisation

2. Authority and responsibility:

Authority and responsibility are two sides of managements. Managers must be given authority to get things done delegation of adequate authority enables the managers to perform their activities with almost devotion and dedications it improves the moral of the managers responsibility arises out of assignment of activity. in order to discharge the responsibility properly then should be balance between authority and responsibility .

3. Discipline:

All the personnel serving in an organization should be disciplined. Discipline is obedience, application, energy behaviour and outward mark of respect shown by employees. Fayol stressed the need for discipline in the organization from top level to lower level. There should be certain rules and regulations clear and fair agreements and judicious use of penalties to be laid down to govern the organization. All the employees and share holders must respect all these rules and regulation and agreements to run the organisation successfully.

Principle of discipline state that subordinate should respect their superior and obey their orders.

4. Unity of command:

Unity of commands means that a person should get orders and instructions from only one superior. As well as subordinate should report only to one superior. Fayol observed that if one subordinate receive orders from more than one superior then he will have the problems and confusion regarding to whom he has to report. Lack of unity of command creates confusion and chaos in the organisation. Therefore Fayol suggested that dual subordination should be avoided unless and until it is absolutely essential.

5. Unity of Direction:

Fayol suggested that there should be one head and one plan for a group of activities having the same objectives. There should be the same directions to all employees doing similar activities. According to this principle, efforts all employees or members of the organisation should be directed towards common goal. Unity of direction is different from unity of command in the sense that the former is concerned with functioning of the organisation in respect of its grouping of activities while the later is concerned with personnel at all levels in the organisation in terms of reporting relationship.

6. Subordination of Individual to General Interest:

This principle suggests that general interest of the organisation is more important than the interest of one employee or group of employees. Fayols states that common interest is above the individual interest. All employees of the organisation should give more importance to accomplish the organisational objectives rather than individual objectives or group objectives. The superior should set an example in fairness and goodness. In other words, the interest of the organisation should come first and then individual or group interest.

7. Remuneration:

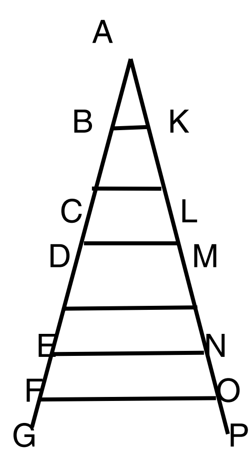
Fayol suggested that remuneration of employees should be fair and provide maximum satisfaction to employees and employers. Wages and salaries should be fair. More importantly wages must be paid on time. Wages and salaries should be determined on the basis of cost of living work assigned, financial position of the business and talent of the employees etc. Fayol also suggested that wages should be supported by non-financial benefits such as good working conditions, canteen facilities, recreation facilities etc.

8. Centralisation:

Everything which goes to increase the importance of subordinate's role is decentralisation. Everything which goes to reduce it is centralisation Fayol suggested that authority and responsibility must be centralisation in any organisation with adequate decentralisation polices in other words extreme centralisation and decentralisation of authority should be avoided and proper balance between centralisation and decentralisation should be maintained

9. Scalar chain:

Scalar chain principle refers to the line of authority or command for the purpose of communication from the top levels to the lowest level of management. Fayol suggested that there should be a scalar chain of authority and of communication ranging from the highest to the lowest level to avoid delay in decision making process principle of scalar chain suggest that each communication going up or coming down must flow through each position in the line of authority. Fayol has suggested a gangplank which is used to prevent the scalar chain from bagging down action.



In this diagram A to G and A to P is the scalar chain. A is the head of the organisation having immediate subordinate B& K . Thus B is superior of C while K is superior to L and so on at the respective level of management. Ordinarily communication must flow from A to B to C to E to F and so on while going down. Similarly it must flow from G to F to E and same while going up. It means if any communication is going from F to o it it will flow from F to A via E, D,L and B and coming down to O via K,L,M and N. Fay of suggested that this scalar chain system takes time and therefore can be substituted by gang plank. Gang Plank suggested that F & P can have direct communication to avoid delay as decision making. A gang plank is a temporary arrangement between two different points to facilitate easy and quick communication.

10. Order:

This is a principle relating to the arrangement of things and people. In material order, there should be a place for everything and everything should be in its place. Similarly in social order there should be the `Right person at right place.

11. Equity:

Equity is the combination of justice kindness and fairness. Equity is treatment and behaviour is liked by everyone and it brings loyalty in the organisation. Impartial, fair and good treatment should be given to all employees of the organisation. The application of equity requires good sense experience and good nature for soliciting loyalty and devotion from subordinates.

12. Stability of Tenure:

Fayol suggested no employees should be removed within short of time from one job to another positions job. Sufficient time is to be given to the employees to learn the new job to get used to a new work and succeed to doing it well. It means enough time is to be given to employees to get stability in the organisation. This creates team spirit and sense of belongingness among the workers.

13. Initiative:

Initiative means taking lead, coming forward to do the things. If managers are leading down the examples within the limits of authority and discipline, managers should encourage their employees for taking initiative. Initiative is concerned with thinking out and execution of a plan. Initiative increases zeal and energy or the part of employees.

14. Esprit de corps:

This is the principle of unity is strength and extension of unity of command for establishing team spirit.

Fayol suggested that the managers should encourage team spirit among the employees of the organisation. Employees should not be divided into a small groups or competing groups. Because it might be damaged the moral of the employees. Esprit de corps facilitates to develop proper coordination, informal relations among employees. It also creates interest and enthusiasm.

1.6 FUNCTIONS OF MANAGEMENT

Management is a process which refers to various functions which a manager performs in an organisation to accomplish organisational objectives. Henry Fayol has classified managerial functions in his well known book "Industrial and General management" in 19/6. He identified fine functions of management such as planning organising commanding, coordinating and controlling.

George R Terry, a well known author is of the opinion of that management is a distinct process consisting of planning, organising, directing and controlling, which are performed to determine and accomplish objectives by the use of people and resources. Like this various management scholars have identified separate functions of management. In 1937 Luther Gullite gave the seven functions of management they are POSDCORB which refers to: -

1. Planning (P). 2. Organizing (O).
3. Staffing (S). 4. Directing (D).
5. Coordinating (C). 6. Reporting (R).
7. Budgeting (B).

Hence, the function of management has been classified as per the studies under taken by the management experts.

The important functions of management are as given below: -

1. Planning:

Planning is the first managerial function to be performed in the process of management. Planning is the primary function of management. It occupies the first position in the management process. It is the starting point of the whole management process as other management functions are related to planning function. Planning is concerned with deciding in advance what is to be done & when, where, how and by whom to is to be done. It is deals with chalking out a future course of action and deciding in advance the most appropriate course of action for achievement of pre-determined goals of action. Planning is a decision making process. It is an intellectual process as it deals with determination of course of action to achieve predetermined goals. Playing is bringing the gap between the present and future planning begins with the determination of objectives of the organisation. i.e deciding the future course of action. Planning is necessary to ensure proper initialisation of physical and human resource to accomplish the organisational objectives.

In the work of Alfred and Betty “planning is the thinking process, the organised foresight the vision, based on facts and experience that is required for intelligent action”.

George Terry stated that “Planning is the selecting and relating of facts and making and using of assumptions regarding the future in the visualisation and formulation of proposed activities believe necessary to achieve the desired results”.

Hence, planning is concerned with deciding in advance the future course of action. It is needed in all areas and at all levels.

2. Organizing:

Organizing is one of the basic functions of management. It is a process of integrating and co-ordinating the efforts of manpower and material resources for the accomplishment of certain objectives. Louis Allen states that organizing is a process of identifying and grouping of the work to be performed defining and delegating authority and responsibility and establishing relationship to accomplish objectives.

George Terry defines organising as “The establishing of effective authority relationship among selected work, persons and work places in order for group to work together effectively”. Organizing involves the following aspects

1. Identification and classification of activities which are required to achieve organisational objectives.
2. Grouping of the activities into workable units for achieving objectives.

3. Assigning duties and responsibilities to subordinates in order to achieve the tasks assigned.
4. Delegating authority necessary and useful for the accomplishment of assigned tasks.
5. Establishing superior subordinate relationship.
6. Providing a system of coordination for integrating the activities of individual and departments.

3. Staffing:

Staffing is one basic function of management and occupies a key position in the management process staffing refers to manpower or human resources required for the execution of a business plan. Staffing is the process of filling positions in the organisation with adequate and qualified personnel. “Right man for the right job” is the basic principle in staffing.

Mcfarland stated that “staffing is the function by which managers build an organisation through the recruitment, selection and development of individuals as capable employees”. Thus, staffing provides proper personnel who are competent qualified and with the essential skills to perform the job efficiently. Staffing involves: -

1. Manpower planning.
2. Job Analysis.
3. Recruitment, selection and placement.
4. Training and development.
5. Remuneration.
6. Performance appraisal.
7. Promotions and transforms.
8. Motivation.
9. Mentoring and counseling.
10. Retirement of employees.

4. Directing:

It is one of the most important functions of management. When people are available in the organisation, they must know what they are expected to do in the organisation. Directing means to explain the company’s plans to its employees the managers should inform the subordinate by giving information about the plans, objectives of the organisation and instruct the people that they know what is expected of them. Directing includes: -

- **Communicating:** - cleanly transfer of information from one person to another.
- **Leading**: - to lead the people and to create an interest among them to do the work for attainment and designed objectives.
- **Motivating:** - subordinate should be motivated by the superior by providing incentives so that they work with dedication and sincerely to achieve goals of the organisation.

5. Coordinating:

It is the one of the key functions of management. Coordination means to integrate all the activities of an organisation. Coordination is a managerial function in which different activities are properly adjusted, integrated or inter-linked in order to achieve well defined objectives. Such coordination among the different activities and department is essential. It is like bringing unity among diversity. Coordination gives one common direction to all departments and employees functioning in the organisation. Coordination is essential at levels of management-

- The top level coordinates the activities of the middle level.
- The middle level coordinates the activities of the lower level.
- The lower level managers coordinate the activities of the subordinates.

6. Decision Making:

Decision making is an important function of management. Decision making play an important role for its effectiveness and also excellence. The concept of decision making is defined as “The selection from among alternatives of course of action”. Decision making is necessary in all management function.

Oxford Dictionary defines decision making means “The action of carrying out or carrying into effects”.

James Stoner states that - Decision making is the process of identifying and selecting a course of action to solve a specific problem.

Decision making process includes the following steps-

a. Defining the problem or situation.
b. Forming alternative solution.

c. Evaluating alternative solutions.
d. Selection of the best alternative.
e. Implementation of alternative.
f. Review of performance.

7. Controlling:

Controlling is the end function of management. Controlling is the core of management process. An organisation cannot work without effective control mechanism. Controlling is a regularity activity. It is rightly treated as the soul of management process. It is true that without planning there will be nothing to control. Along with this, it is equally true that without control planning will be useless.

In simple words to control means to check that the actual performance conforms to the standard and if any variance is observed, to find out the reasons for the same. It includes verifying the actual execution against the plans to ensure that execution is being done in accordance with the plans. The purpose of controlling is to ensure that everything occurs in conformities with the standards. Controlling has following

Steps: -

a. Setting standards or targets.
b. Implementation of Tasks.
c. Measuring actual performance.
d. Comparing actual performance with plans or targets.
e. Finding out causes of deviations.
f. Listing out various corrective measures.
g. Selecting the appropriate corrective measures.
h. Implementation and review of corrective measures.

1.7 NEW HORIZONS IN MANAGEMENT

It is the latest development in the field of management. Many developed countries have adopted the new horizons in their industries to manage the business activities and thereby to improve the organisational efficiently and productivity. Large firms from the developing countries also introduced the new horizons in managing their activities. At present it is essential to all the firms' especially large firms to place an emphasis on introduction of new horizons in the field of management to improve overall organisational efficiently and to accomplish their objectives.

1.7.1 New horizons in the management includes: -

- Flat organisation structure.
- Virtual organisation.
- Strategic business units.
- Knowledge management.
- Intra preneurial culture within the organisation.
- Management by exception.
- Management information system.
- Total quality management.
- Six sigma technique.
- Value engineering etc.

1.7.2 Factors Responsible for New Horizons of Management

1. Globalisation:

Globalisation is one of the important factors responsible for new horizons in management. Due to globalisation international business needs to expand their business to meet the global challenges. Like as expansion diversification, foreign direct investment global wagers and take one and research and developments. To face such challenges at global level and also to achieve the growth of business at international level many business firms must have to adopt modern techniques of organisation and management.

2. Policies of the Government:

After 1990, most of the government in the developing countries has introduced the new business policies, which favours to the liberalisation, privatisation and globalisation. Govt. has deserved the public sector, delicensing of the industries, direct foreign investment etc. Such policies are favouring the private sector enable them to participate in economic and social development of the country. This has resulted in the expansion of business of private sector enterprises. To handle the expansion of business and to manage it effectively business firms now, have to give an importance to the introducing new techniques in the field of management and business.

3. Competition:

Due to globalisation, liberalisation and privatisation, there is a still competition among the firms within and outside the country. Each and every firms from the developed and developing countries needs to face the competition. This leads to introduction or use of modern techniques of management in the field of business to gain the competitive advantages.

4. Technological Developments:

Technological Developments is an factor responsible for use of new horizons in management and business. Use of latest and updated technology is one of the important aspect of the functional management which is essentially require to manage the business and managerial activities successfully. Therefore the business firms needs to use the modern technology new system in the field of business management.

5. Customer expectations:

Now days, customer expectations are growing. They want new and better product at the right prices. Due to this business firms must have to give an importance to the use of new techniques in the field of production and management to provide better and quality product and services to meet the needs and expectations of customers. At present emphasis is given an total quality management, inventory control management customer satisfaction surveys etc.

6. Dynamic environment:

Business environment has become very dynamic. It charges very quickly. People who like to take initiative and come out with solutions are likely to succeed in dynamically changing environment. Organisation recognizes managers who find their way and came their own niche. Taking initiative rather than waiting for instructions or solutions is very important skill that is required when you work across the globe.

7. Shareholders expectations:

At present shareholders have more expectations from their companies. They expect the right information, higher dividend, best corporate governance practice etc. Due to this business firms need to give more importance to the introduction of new techniques in the field of business and management which helps to improve overall efficiency of the organisation. At present the business firms have to introduce/uses total quality management techniques, flat organisation structure, and six sigma techniques.

8. Employees expectations:

Employees expectations is an another important factor responsible for new horizons in management. At present employees expect more freedom, empowerment, good working condition, better mgt. workers relations etc. to meet such growing expectation of the employees and for the interment of the organisation, business firms must have to give an importance to the introduction modern techniques of management in the field of production and other areas of business.

8. Growth and expansion strategies:

Due to the globalisation, liberalisation and privatisation the business firms uses different growth and expansion strategies like as internal growth strategies, external growth strategies which includes product development, market development, market penetration, diversification internal wagers, take ones, joint ventures etc. to manage such growth and expansion strategies a business firm may have t adopt modern techniques of management and organisation.

Check Your Progress:

1. Explain the following functions of Management:
    a. Controlling
    b. Directing
    c. Decision Making
    d. Coordinating
2. Explain the following Principles of management:
    a. Scalar Chain
    b. Centralization
    c. Unity of Direction
    d. Unity of Command
    e. Division of Work
    f. Equity

3. Enlist the New horizons in the management.

1.8 MANAGEMENT SKILLS AND COMPETENCIES IN 21ST CENTURY

In order to perform various management functions effectively, managers must possess certain skills. Skill refers to expertness, practical ability or facility in an action or doing something. Robert L. Katz identified three kinds of skills and made them more popular. Skills required by the managers are:-

1. Technical skill:

Technical skills are concerned with what is done. These certain to knowledge and proficiency in activities involving methods and procedures. These involve working with specific tools and techniques. Such skills are learned by accountant, engineers. Technical skills are required at all level in the enterprise.

2. Conceptual skills:

Conceptual skills mean ability to see the enterprise as a whole and recognize how the various functions of the enterprise depend on one another. It is the ability to understand concepts, develop ideas and strategies. It helps the managers to identify the causes of the problem and not the symptoms. It helps him to solve the problems for the benefits of the entire centralized . Such conceptual skills are more require by the top level because they spend more time in planning and decision making.

3. Human skills:

It is also called as interpersonal skills. It is also reformed as human relations skills. It involve to work effectively with others on a person to person basis and to build up cooperative group relations to accomplish enterprise objectives. Such skill helps the managers to understand, communicate, motivate and to lead the people in the enterprise. It also helps to build up team spirit in the enterprise.

4. Other skills

Other than these three basic skills the managers also possess the following skills: -

- **Communication skills**: - Such type of skill requires for an effective communication with the people in the enterprise to communicate plans policies, objectives, strategies, problems and so on.
- **Administrative skills:** - Such skills are required at the top level management. Top level managers need to have the ability to formulate the plans and policies. They should be able to coordinate the various activities of the enterprise.
- **Decision making skills**: - Such skills are required at all level of management. A manager must be able to take a quick decision and also he must be able to implement the decision wisely and quickly to solve the problem.
- **Design skills**: - It refers to the problem solving skills. Managers should not just identify a problem but design the best solution to solve the problem.
- **Leadership skills**: - Good managers need to be good leaders. They should be able to lead and motivate the employees or subordinates to work for the betterment of themselves and the enterprise. A good manager must possess the certain qualities and leadership.

1.9 MANAGEMENT INFORMATION SYSTEM

1.9.1 Meaning:

Information is the life blood of an enterprise. The information can be defined as the knowledge communicated by the others or obtain from investigation or study. The seniors firms need to have up to date knowledge about customers, dealers, suppliers, investors and other as well as it should have updated information about political, economic, social, technological and legal changes. This information is requires to take timely decisions. The flow of information is made regular by information system, commonly known as management information system (MIS).

Kennevans defines MIS as “An enterprise method of providing, past, present and projected information relating to internal operations and external intelligence.

H. Weihrich and H. Koontz defines MIS as a formal system of gathering, integrating, comparing and entrails and dispersing information internal and external to the enterprise in a timely effective and efficient manner.

Thus MIS can be the defined as the system providing needed informative to each manager at the right time, in the right form and relevant form one which aids his understanding and stimulates his action.

1.9.2 Features:

Some of the features of MIS are as under-

1. Systematic process: MIS involves a systematic process of gathering, integrating comparing and centralizing information for effective decision making. It is a process of:-

- Data collection about interval.
- Classification of data into different categories.
- Integrating or combining data
- Comparing data
- Analysing the data
- Transmitting the data

2. MIS is a continuous process.

3. Scope of MIS: - The scope of MIS includes: -

- Decision support system.
- Human Resource Management.
- Enterprise resource planning.
- Enterprise performance management.
- Supply chain management.
- Customer relationship management.
- Project management.
- Data retrieval applications.

4. Computer Based System:

MIS is a computer based system. It uses computers for storing entraliz and supply information. It also uses microfilms for storing information.

5. Unified and centralized system:

MIS involves data collection processing storing and transmission. All these activities must be integrated into a unified system. The unified system must be managed at a centralized place.

6. Used by all levels:

MIS is used by all three levels of management. i.e. top, middle, and lower. It is used for making business plans, policies and strategies. It also helps to solve business related problems and to take advantage of business opportunities.

7. Professional Approach:

In MIS, data must be collected analysed classified combined/compared and transmitted to managers by well educated, qualified and trained staff. The managers and MIs staff must be well trained and are enable to take various decisions relating to production finance, marketing and human resources.

8. Components of MIS: -

It includes: -

1. Hardware.
2. Software.
3. Procedures (Rules or guidelines for the use of MIS).
4. Personnel (Expert people).
5. Data (Information for decision making).

9. MIS is the future oriented:

It provides information for solving future problems.

10. MIS Helps in decision making:

MIS supplies up to data and accurate information. It helps managers to take quick and right decisions.

1.9.3 ADVANTAGES OF MIS

1. Decision making.
2. Identifies strength and weakness.
3. Identification of opportunities and threats.
4. Facilitates planning and control.
5. Helps to recognise trends.
6. Integration of information.
7. Optimum use of resources.
8. Accomplishment of an organizational objective.

1.10 MANAGEMENT BY EXCEPTION

1.10.1 Meaning:

Management by exception is a management style that where managers only intervene when employees fails to meet their standards of performance.

Management by exception is a management technique by which manager focus only on activities which deviate significantly from standards. Management by exception is one important and useful principle of managerial control. This principle is based on well accepted practical belief that an attempt to control everything result in controlling nothing. Management by exception is a policy by which management devotes it's time to inverting ling only those situations in which actual results is different significantly from planned result.

According to the principle of management by exception, only exceptional deviations from the standards decided should be brought to the notice of the higher level management. as long as actual performance is within the acceptable range of deviation from the standards decided, it need not be reported to higher level management for follow-up action as such action is not necessary. However, if the deviation is major as compared to be standards set. It should be brought to the notice of the higher level management for suitable remedial measures.

The concept of management by exception is used in large number of production units and organizations and is proved more practical and result orientated. It is also used in the financial department of the organization. The basic purpose of management by exception concept is to refer only most serious deviation to the level management to find out remedial measures towards the serious deviations. Thus the concept of management by exception on implies that top management should concentrate its attention, time, and effort on critical deviation only. The other deviation should be handled by lower level of management.

1.10.2 Advantages/Benefits of Management By Exception:

1. Management by exception is focus as productive work. Managers can focus as policy matters rather than focusing on the routine daily work.

2. Management by exception saves the time of managers as they have to deal only with exceptional matters, rather routine matters.

3. The basic advantage of management exception is that it enables the managers to use their talent and skills and attention to solve the major problems or serious problems rather than normal problems or routine problems.

4. Management by exception facilitates delegation of authority within the organization. Top management concentrates on strategic decision and delegates certain authority to middle and lower level management to take certain operational decisions.

5. Management by exception helps to motivate the employees to perform their activities in a best possible manner to fulfil the organizational objectives.

6. Optimum use of resources: - Management by exception enables the organization to use the available resource the in the best possible manner because all the employees of the organization are highly motivated to perform their responsibilities is a best possible manner to reduce the defects and also minimize the wastages.

7. Management by exception enables the firm to take a competitive advantage because management by exception enable the employees to take more interest and initiative in performing their activities. The employees come up with the innovative ideas to develop new products, new processes, new schemes with minimizing the risks and wastage.

8. Management by objective enables a firm to achieve higher performance. The employees of the organization work with the zeal and interest and trying to produce the defect free products or schemes. This facilitates to improve the image of the firm in

the minds of the stakeholders. Thus management by exception enables the firm to build up corporate image.

9. Management by exception enables the firm to achieve the growth and expansion of the business.

1.11 SUMMARY

After the above discussion is summarized as Management means doing various activities it is a continues process having the features like: continuous activity dealing with people, goal oriented activity, system activity, it is innovative, activity having different operation levels, dynamic, universal and having professional and multi-disciplinary approach.

A business cannot survive without management because management is its means of support. Management is concerned with maximum prosperity with minimum efforts. Management is essential wherever group efforts are required to be directed towards achievements of common goals.

Henry Fayol's fourteen principles of management have been a significant influence on modern management theory which are as follows: -Division of work, Authority and responsibility, Discipline, Unity of command, Unity of Direction, Subordination of Individual to General Interest, Remuneration, Centralisation, Scalar chain, Order, Equity, Stability of Tenure, Initiative, Esprit de corps. Planning, Organizing, Staffing, Directing, Coordinating, Reporting, and Budgeting are the main functions of management.

Due to globalization, increased competitions, growing demands of the customers and new innovations in the technology various new horizons are entered in the management process.

Management information system, or MIS, broadly refers to a computer-based system that provides managers with the tools to organize evaluate and efficiently manage departments within an organization. In order to provide past, present and prediction information, a Management Information System can include software that helps in decision making, data resources such as databases, the hardware resources of a system, decision support systems, people management and project management applications, and any computerized processes that enable the department to run efficiently.

Management by exception is the practice of examining the financial and operational results of a business, and only bringing issues to the attention of management if results represent substantial differences from the budgeted or expected amount. The purpose of the management by exception concept is to only bother management with the most important variances from the planned direction or results of the business.

1.12 QUESTIONS

1. Define Management. Explain the features of Management.
2. Discuss the functions of management.
3. What are the factors responsible for the New Horizons of management?
4. Write short notes:
   a. Importance of Management
   b. Management by Exception
   c. Features of MIS
   d. Management Skills

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2

PLANNING

Unit Structure

2.0 OBJECTIVES

After studying this unit student will be able

- To know planning and its importance
- To do the planning perfectly
- To understand the procedure for MBO and its advantage
- To Give suggestions for effective MBO

2.1 INTRODUCTION

The concept of planning is an old as history and have become very common in today's life. It is essential in every walk of life. It is not only important in human beings life but also in business units life. Its importance has grain up since the systematic study of management have undertaken by the business. It is most important aspect of every activity to complete it accurately and expertisely.

2.2 MEANING AND DEFINITIONS

Meaning:-

Planning is deciding in advance what is to be done. It is determination of a course and action for achieving a desired result. It is to look ahead and chart out the future course of actions. This is undertaken to identity the alternatives and select the best alternatives from the available one. It is also known as a blue-print of our actions. It is intellectual process where in the planner goes through certain steps and then come to a perfect conclusion. That is what his planning. As per fayol's opinion it is action at once and at the sometime the result envisaged. It is future picture where in proximate events are outlined with certain distinctness. Therefore for the purpose of planning one needs imagination foresight and sound judgment planning involves problem solving and decision making.

Planning is the first function of management without planning no business unit can survive, stare or progress and it passion will be like a blind person who is searching something in the dark. Here planning helps to management to set the objectives, decides how to achieve it, and guide it to what exactly it has to accomplish and how best to go about it.

In short we can conclude that planning is nothing but deciding in advance what to do how to do when to do where to do with whom to do, what will be cost of it etc. in another word answering all W and H questions related to business activity for its successful completion is known as planning.

Definitions of planning:

1) "Planning is the process of setting goals and establishing methods or paths reaching them" **Gray and Smeltzer.**

2) "Planning is the selecting and relating of acts and the making and using of assumptions regarding the future in the visualisation and formulation of proposed activities believed necessary to achieved desired results". "**George R Terry.**

3) "Planning is deciding in the present what to do in the future. It is the process whereby companies reconcile their resources with their objectives and opportunities" **Philip Kotlar.**

From the above meaning and definitions, the following points emerge highlighting the nature of planning.

2.3 NATURE OR FEATURES OF PLANNING

1. **Planning is a process:** It is not a single activity; or one shot function. To perform, it needs lots of thing that means it involves so many sub activities with which it gets completed.

2. **It is result oriented:** Planning has no meaning it there is no gain or result without result it becomes mental exercise.

3. **It is intellectual process:** Because the quality of planning will be decided as well as it varies, according to the planners caliber or intellectual capacity.

4. **Continuous:** Planning should be continuous. It should continuously collect, evaluate, and select data for scientific investigation and analysis of the possible alternative course of actions.

5. **Planning is all pervasive:** It is prime function of management. It is concerned with all functions of management without plan no management function performed by any level of management. So it is all pervasive

6. **It aims al co-ordination:** Because of planning all management function are co-ordinate and executed properly.

7. **Elasticity of in planning:** The planning should be flexible. It should be changed as per the situation demands. If it is not, then that plan never became success.

8. **Planning directs efficiency economy and accuracy:** A good plan always gives these three things with this a planner reconciles all companies research well, and it will be easy to complete the good.

2.4 IMPORTANCE OF PLANNING

Planning is a systematic and orderly approach to the management. It is as a basic function of management, it has wide significance in management. This will be explained with the help of following points

1. **Planning is a primary function:** It is primary function and management. Without planning there will be nothing to organize, direct, co-ordinate and control. All these functions are interrelated and independents so to have smooth function of all these is need of planning.

2. **Pervasive:** Planning is all pervasive, it means it touches considers to all aspect of business. It is necessary at all levels of management , The only difference between top level management planning function lower level

management planning function is that the earlier one is strategic planning in native and later are is operational planning.

3. **Planning is intellectual process:** Planning is an intellectual process of decision making. It involves thinking capacity, foresight and vision for that one needs brain capacity. Planning cannot be done on the balls of guess or it not a work of common people those who are lacking vision forecasting, no thinking capacity.

4. **It is realistic and objectives oriented:** Planning is realistic it means it is based on facts & figures. It we put proper inputs then the result is ought to be planning is always directed at a particular object If the objectives is attained then it will call planning otherwise it is not a planning.

5. **Planning raises accuracy, economy and efficiency:** With the plan business can do activity more better, systematically and with a low detects. As it has been planned activity, all sub activities are in a particular order & sequences, therefore low wastages are incurred. Its benefits are there is increased efficiency and low cost of operation.

6. **Planning is link between past-present-future:** While preparing plan, planner at first use to consider the post records its consequences, Then he thinks about the present position of the planning activity, and how it would be in future, in what way it will be considered in future are assured and accordingly planned. Therefore with the consideration of these the planning becomes perfect.

For the purpose of making a plan very successful & beneficial to the organisation planner should keep certain thinks in his mind while preparing plan. These things are known as essentials of good plan.

Essentials of good plan

I Simplicity

ii Clear objectives

iii Suitability

iv Flexibility

v Continuity

vi Unity of purpose & direction

vii Realistic and acceptable

2.5 STEPS IN PLANNING PROCESS

Planning may be done at corporate level or at ne depart more level. It may be short term as well as long term. Whatever may be the nature of planning, it involves the following steps.

1. Analysis of external environment:

The manager must carefully analyse external environment as these environmental for uses one not controllable. He has to see factors of external environment like social, economical, and political nature of competition exists in the region or country and accordingly prepare plan, polices or programmes as per the need of The business unit.

2. Analysis of internal environment:

Internal environment factors are residing within the business and are controllable. Here manager needs to adjust them as per plans policies programming and accordingly go for planning. Generally internal environ mental factors consists of men machines materials, fiancé, methods of production know how etc

3. Establishing objectives:

After having analyse the internal and external environmental forces, planner need to set objectives for entire enterprise and for each and every department objectives are the end paints, which shows what is to be achieved. These objectives are at the root of planning process course of action and shape the future policies while planning objectives are to be set in multiple objectives in different areas of the business.

4. Determining the planning premises (forecasting):

Planning premises are nothing but assumption and predictions about the future business situation. These premises supply relevant facts, information or data to business based on business use to lay dawn the specific course of action. Forecasting is an assessment of the future. It is systematic attempt to know probable events to provide against the future it works in relation to activities and working of an enterprise. There are three types of premises do exist in business

i) Controllable premises

ii) Sem-controllable premises

iii) Uncontrollable premises

5. Determining alternatives plans:

Here the planner must prepare and keep ready alternative plans, which are suitable for business under different situations. And the best one is to be used for actual execution. The preparation of alternatives plan is essential as one plan is not sufficient or adequate to business under different conditions. Therefore business unit prepare certain plans. Generally preparation of alternative plans is subject to the availability and collection of data i.e. primary and secondary data. It data is enough and good related to different business situation. Then more alternatives plans can be prepared

6. Evaluating alternative plans:

After seeking out alternative courses and examining. Their strong and weak point, the next step is to weighing them in light of premises and goals. One alternative plan may appear to be most suitable and profitable but at the same time it may require home amounts of funds. Another one may require low funds but not profitable, and may have risk. Here proper evolution is to be done and then suitable plans need to be accepted.

7. Selecting the best plan:

It is the real point of decision-making. Once the evaluation is over the best & fittest plan is to be select. It is to be done in The light of objectives and planning premises.

8. Preparing derivative plans:

Derivative plans are related to different department plans and are supporting to main plan of the business. It is important to easy execution of the whole plan

9. Formulating the plans:

For implementation of plans managers have to perform managerial functions, like organising, directing and controlling. Proper duties & responsibilities are to be assigned to employees with proper communication & explanation of the plan. then manager has to after follow-up. It gives periodical review of the execution process. It also helps to understand actual progress and deficiencies in the processed of execution of the plan. this also help to adopt the suitable remedial measures as & when requited.

2.6 COMPONENTS OF PLANNING

In the planning process, several plans are prepared. These plans are arranged in a hierarchy within the organisation. These are known as elements or components of planning and are classified into two board categories.

Components of plan

1. Standing plans

a) Mission
b) Objectives
c) Policies
d) Procedures
e) Rules
f) Strategies
g) Forecasting

2. Single-use-plans

a) Programmes
b) budgets
c) schedules
d) projects
e) standards

1. Standing Plans or Repeated-use plans:

Standing plan is also known as one time plans once it is prepared then it will be used by business in future as & when it required. They are used over long period of time therefore it is known as long term plans. Components of standing plans are:

a) Mission:

Mission is the basic or fundamental reasons for the existence of an organisation. Every business must has definite mission to undertake and make organisation meaningful. Mission also points out beliefs and philosophy of the management. It gives long run commitment of the organisation.

b) Objectives / goals:

Objectives are end points of not only planning but also all functions of management. It provides basic foundation to built up plans. They help in achieving consistency in decision-making in the long run. They help in measuring the efficiency of the individuals working in the enterprise. They prevent the people from deviating from the positions they have set for them.

c) Policies:

Policy is verbal written or implied statements, which are followed as guide to action by managers and employees of an organisation policies guide managers and provide stability to an organisation. They are like well-prepared solutions to identical problems. Policies are intended to pre-decide the issue, avoid repeated analysis and give a unified structure to other types of plans. Policies define and delimit the area within which the subordinate managerial personnel can take decision, permitting them to exercise their judgment and initiative.

d) Procedures:

Procedures indicate the specific manner to handle a situation. It is closely related to policies and useful for conducting activities in a systematic manner.

It avoid the burden on lower staff as it lay downs of standard path to be followed to action rather than thinking. They detail the exact manner in which a certain activity must be accomplished its essence is chronological action required.

e) Rules:

It is the simplest and most specific type of standing plans. It guides what may or may not be done. A rule demands a specific action. It is more rigid than a policy rules which are pertaining to the administrative area of a procedure. Rules demand strict compliance.

F) Strategies:

The term strategy is basically used in military science and is an art of a military General leading on army strategy means a plan based on the anticipated moves of the opponent.

In corporate, strategy means preparation of a comprehensive plan, will enable company to meet any type of situation effectively. Here competitors plan are used as a background for preparation of a strategy. The strategy is necessary as future events in business are unpredictable strategies will help management to win the race in the competitive market.

g) Forecasting:

A forecast is a prediction. It is the estimate of probable events. Fore casting does not involve decision making but helps in decision making by providing tips about what is likely to happen in future. In short forecasting is a systematic attempt to investigate the by inference from known facts.

2. Single- Use-Plans (Non- repetitive plans):

As its title suggest that it is prepared for a single activity. Once the activity get over plan becomes null & void. It cannot use for other activities. Therefore there are formulated to meet unique, novel and non-repetitive situations.

a) Programmes:

Programme is a sequence of activities designed to implement policies and accomplish objectives. The programmes may be minor. Generally programmes are a complex of goals, policies, procedures rules, steps to be taken resources to be employed and other necessary elements to carry out given course of action. Programmes are supported by budgets.

b) Budget:

Budget is estimation of expected income and expenditure. It may be for cash, revenue or capital expenditure. Budget provides a standard to the activity by setting a standard and in any variation. Then it will be checked. Therefore it is also known as planning instrument and controllable device.

c) Schedule:

Schedule is a time table of a work. It is a process of establishing sequence of work to be done schedule prescribes exact time require by a activity to complete and start it. Scheduling helps to honour delivery of goods. It helps to maintain inventory too.

d) Projects:

It is scheme for investing resources. It can be evaluation an independent unit. It is a work-plan established through scientific investigation and analysis.

e) Standards:

Standard is a criteria against which a programme is compared and evaluated. It is guide for performance evaluation. A company may set up variety of standards expressing the anticipated results of the plans. There are two types of standards known as

i) Qualitative standards

ii) Quantitative standards.

Check Your Progress

1. "Planning is a basic function of management having wide significance". Explain.

2. Define the following terms:

   Planning
   a. Standing plans
   b. Single use plan
   c. Mission
   d. Policies
   e. Strategies
   f. Schedule
   g. Standards

3. Enlist the features of Planning.
4. What are the steps in the planning process?

2.7 MANAGEMENT BY OBJECTIVES (MBO)

2.7.1 CONCEPT OF MBO:

Management by Objective term is developed by peter Drucker in the year 1954 in the "The practice of management". The concept of MBO is very closely connected with the planning. It is dynamic system of management. Its core meaning is working together, with each other's involvement and attaining The pre-decided goal by superior and subordinate. This type of work is needed as to integrates The individuals needs and organisational needs. MBO insists to the manager to be very clear about his objectives before he starts a task It he is not sure about The task to be attain, Then there would not success of MBO. Its process starts from Top level management and passed on to middle and down level of managements.

In short whole idea of MBO is based on the assumptions that collaboratively set objectives elicit subordinates commitment, which leads to improved or increased performance. In other word it is establishment of goals by managers and their subordinates and assigning authority for achieving the goals with constant performance monitoring

Definitions:

1. MBO is regarded " As a system for improving performance both the individual managers and enterprises as a whole by setting of objectives at the corporate, department and individual manager's level.

Peter ducker.

2. "MBO is a result-centred, non-specialist, operational managerial process for the effective utilization of material, physical and human resources of the organisation by integrating the individual with the organisation and the organisation with the environment."

Prof. S. K. Chakravarty.

2.7.2 STEPS IN MBO / PROCESS OF MBO:

MBO as a process it consists of certain steps which are as follows.

1. Setting of organisational goal:

In the process of MBO, the first step is to set up the organizational goals which need to be verifiable; this is generally decided by top management with the consultation of other managers. The goals should be set up in "Key-Result areas" (KRA) in a clearly defined manner and it should be made known to each & every member those who one involved in the process. Here the term "Key-Result-Area" means which are considered critical to the firm's long term success. These areas also affects on business survival & growth too. For example, reducing wastages of raw material by certain percentages (say 4%) leads to its survival, or increasing production by certain % age. Generally key areas are included profitability, market standing, productivity Financial & physical resources, manager's & worker's performances and innovations research & development.

1. **Matching goals & resources:**

Management should think of about the resources available and the goals to be accomplished and according the allocation of resources is to be made. For example it he goal has set in production area then, the resources like raw material, should be of quality and in adequate quality, here management responsibility is to see whether this is available with the organisation then set goals. In the some way it should happen with tools equipments and machinery.

2. **Manager – sub ordinate involvement:**

The success of MBO is depend upon the involvement of managers and subordinates in the chosen task. It both are loyal toward their authority and responsibility. The task will complete without any hurdles.

3. **Developing action plan:**

After objectives are set, action plans must be developed. Action plans focus on the methods or activities required or necessary to reach objectives. In other word it suggest that how, when, What, Where and with whom the task is to be complete. It also focuses on production planning and control.

4. **Establishing check up plains / standards of performance:**

In the process of MBO, periodic meetings between managers and subordinates are required to review the progress for accomplishing the organisation goal. In this case superior use to establish certain paints to check subordinate's performance These paints are defined quantitatively.

5. **Implementation of plan:**

After developing action plan and establishing check up points, the task is to undertake, or start implementing while working on whenever subordinate felt/faces difficulties, they can seek guidance or clarification on particular points from the superior.

6. **Periodic Review of progress:**

The superior must make a periodic review of the progress in achieving subordinate's objectives and as & when needed guide them so that the whole work can move smoothly & smoothly.

7. **Feedback:**

Feedback is last but not least important stage in MBO. Here superior gives comments on sub-ordinates performance based on their evaluation. Sometimes the superior use to make changes in MBO programme with consultation of top management.

2.7.3 ADVANTAGES OF MBO:

MBO's care concept is to together, Share responsibility and accomplish the organizational goal. It is also known management by task. While implementing it in the organisation it gives benefits to organisation, and employees. This will be male clear with the help of following points.

1. Participation and collaboration:

In MBO, The departmental objectives are consistent with organizational objectives. Here every participant by clarifying, his role and responsibility, and knowing his contribution needed by business, participate and involved in the process. There is no need that superior keep on insisting the employee to do the work. That is way is beneficial of organisation.

2. Better management of Resources:

MBO is important as in MBO resources are put in such a way that they give food results.

3. MBO is result-oriental approach:

It is important because practically it is result oriental. It does not favour management by crisis. Here individual and common goals are developed and executed well.

4. Definite and clear goals:

In MBO, the goals are clearly defined and they are veritable and measurable. General they focus on problematic areas.

5. Higher productivity:

MBO leads to higher productivity because it always concentrates on the important task of increasing productivity, decreasing costs and minimising wastages.

6. Personal leadership:

MBO is important because in this process the individual leadership is developing to a large extent. Every individual has given freedom to think express, and work on. Here conceptual skill is also developed among the subordinates.

7. Efficient Communication:

In the process of MBO frequent interaction between superior and subordinates work place This leads to mutual faith and understanding between them.

8. Performance appraisal:

MBO provides objectives yardsticks for evaluation of performance. In addition superior use to have periodic review of subordinates performance. This enables the subordinate to know how well they are doing.

2.8 SUMMERY

Management planning is the process of assessing an organization's goals and creating a realistic, detailed plan of action for meeting those goals. The basic steps in the management planning process involve creating a road map that outlines each task the company must accomplish to meet its overall objectives. Planning is one of the most important project management and time management techniques. Planning is preparing a sequence of action steps to achieve some specific goal. When following a plan, you can always see how much you have progressed towards your project goal and how far you are from your destination. Knowing where you are is essential for making good decisions on where to go or what to do next.

Management by objectives (MBO) is a systematic and organized approach that allows management to focus on achievable goals and to attain the best possible results from available resources. Here the organization has to define its objectives clearly that are agreed to by both management and employees. A key tenet of management by objectives is the establishment of a management information system to measure actual performance and achievements against the defined objectives. The major benefits of MBO are that it improves employee motivation and commitment, and ensures better communication between management and employees.

2.9 QUESTIONS

1. Define the term planning and bring out its importance.
2. What are the components of plan? Explain it in details.
3. What are essentials of good plan?
4. What do you mean by MBO? Explain the importance of MBO.
5. Discuss the steps involved in MBO.
6. Write short notes:
   a. MBO
   b. Components of planning
   c. Standing Plans or Repeated-use plans
   d. Single use plans

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3

DECISION MAKING

Unit Structure

3.0 OBJECTIVES

After studying the unit the students will be able to:

- Define the term Decision Making.
- Explain the essentials of sound Decision Making.
- Understand the process of Decision Making.
- Discuss the techniques of Decision Making.

3.1 INTRODUCTION

Decision Making is very important aspect of business management, rather it is important in human beings life. It is needed every walk of the individual as well as corporate life. It is sold that no business can survive without decision-marking. Further it is started that a manager's life is filled with making decisions and decisions. Therefore in every business managers are always wasted or spending their more time on this activity. It is integral part of management. Without decision no planning, no controlling, no coordinating or no organising and no directing. it works at all levels of management in a continued manner. Managers, without of making decisions, they are unable to lank means and ends, it means they can't accomplish their objectives well. Therefore every manager or anyone who is involved in this process has to take certain decisions.

3.2 MEANING AND DEFINITION OF DECISION-MAKING

Decision making is nothing but choosing a course of action from several alternative courses of action. The word decision is derived from the Latin word ‘deciso’, which means cutting away or cutting off or in a practical sense to come to conclusion. In fact it is a process of selecting course of action which needs to take in other word it is part of planning. So it is called a step in planning. A decision is something that takes place before the actual performance of a course of action that has been chosen.

As per Peter Druckers opinion decision means “whatever a manager does” because he does through making decisions. It is a course of action which is consciously chosen for achieving a desired result or goal. It relates to the end or means or both. For example in some cases end may be given and the manager has to decide. It considers all functions of management. Therefore it is stated that no business can survive without effective decision making.

Definitions:

1) **As per Haynes and Massie’s opinion,** “A decision is a course of action which is consciously chosen for achieving a desired result”.
2) **The oxford dictionary defines the term decision making as,** “ The action of carrying out or carrying into effect,”

3.3 ESSENTIALS OF SOUND DECISION-MAKING

While taking decisions the manager needs to conscious alert about some aspect of decisions. With the consideration of it if it is taken then the decision becomes more reliable or perfect. The following points should be consider as an essentials of decision making

1. Availability of alternatives:

For perfect decision there is need of availability of various alternatives. If it is then decision maker can choose the right, which is very much suitable and beneficial in given situation. If it happens then that decision will be more effective

2. Diagnosing the problem:

It is in other word, indentifying and defining the problem. If the proper identification and its diagnosis have done, then manager can take a better decision. Like a health doctor, before treatment use to diagnose the disease and then give medicine to patient.

3. Rationality:

Decision making is manager's central job. His ability and capacity is judged on the basis of the quality of the decision he has taken. So whenever he takes decision that time he should have to be rational. Rational means by knowing all pros and cons of the situation as well as the means and ends, the decision is to be taken.

4. Use Communication:

The taken decision should be communicated, that too, on time, to the concerned parties so that it would be executed well by them. If it happens then only that decision can stood as a best decision, otherwise its effect will be lower, or sometime no effect.

5. Use of creativity and consider new sources of information:

Decisions are mostly based on the information required on the specific problem. If relevant information is gathered accurately by using new means, or sources of information, sources, with newly developed technologies then it will be more reliant information and the decision based on it would be perfect decision. While taking decisions it should be logically suiting to the arisen situation and should to some other relevant activity, it should be in different way.

6. Integration of interest:

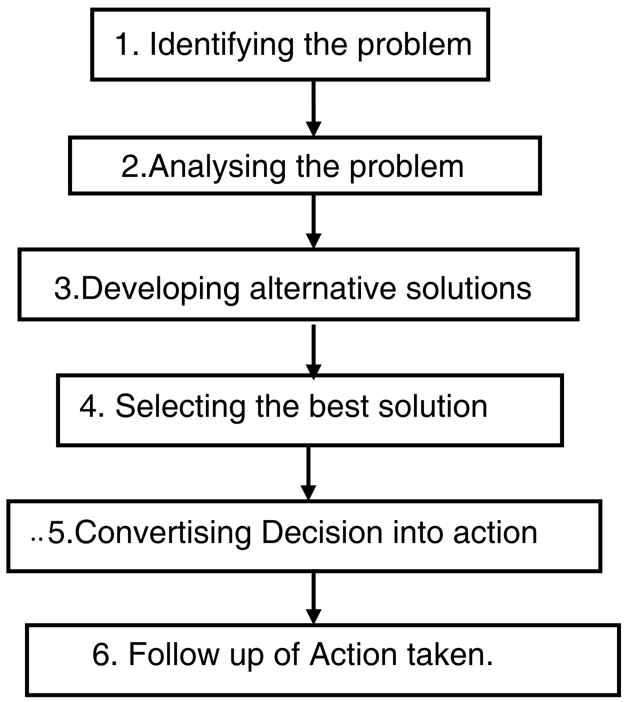
In the organisation, two types of interests are existing. One is personal interest and second is organizational interest. Manager, while taking decisions gives priority to organisation interest as computer to personal interest. Then definitely that decision becomes more effective, and beneficial to organisation.

7. Stress on feedback:

Feedback is a process of telling manager that how you feel about the decision taken by managers. If feedback is good then manager feels somehow it is against or negative then it may lead to chances confusion and resentment.

3.4 STEPS/ PROCESS OF DECISION MAKING

Decision making is very important aspect of management. It is said that manager takes may decision in a day. Some are routine and some are very crucial. So while taking such decisions he needs to be very cautious and alert so that he can take perfect decision which will helpful and beneficial to the organisation. While taking perfect or rational decision maker should to go through the following steps



1. Identifying and defining the problem:

The decisions are taken only when there is problem difficulty or undesirable situation. So the decision maker should understand that what is exact problem and where and what he want to do something good or better, so that business activity can run softly and smoothly and there will be favourable atmosphere (environment) to the business when he does so then it is known as identification of the problem for example it the business sales is declining day by day, then managers needs to identify why the sales is declining. Whether is because of non quality product, on efficiency of sales force or lack of promotion.

Defining problem is a later step. After identifying manager should have defined, the problem it means he has to go up to the root cause of the problem. For example if sales is declined by inefficiency of the sales force the way sales force are in efficient what are reasons for etc.

2. Analysing the problem:

After proper diagnosing or identifying and defining the problem, the next step comes, is analyzing the problem. Analysing means considering problems depth, sort out of various aspect of the problems like who will take decisions regarding different aspects of the problem, who is suppose to inform about its decision, what would be the scope of decision taken and its impact, and how it help to achieve over all organizational goal, etc, All these parts are to examine minutely and according get ready to have a fruitful decision, this is known as analysis of the problem. The analysis will be made on the basis of collecting relevant data, that too reliable, true data, which will help to conclude the solution of the problem this data gives clarity to the problems solution.

3. Developing alternative Solution:

Here the decision maker first specify the objectives that are to be achieved and based on it, he has to develop alternative solutions.

Developing or generating alternative solution means find different way to solve the problem and finally picking up the best solution for implementation for example suppose there is declining in organisational sales. Now this could be because of either lower quality of a product, higher price, lack of warranty lacking in promotional activity of may be due to inefficiency of the intermediaries Now here to increase sales manager must see all These aspects and according he has to do some select one beneficial in every area and boost the sale of the company.

4. **Convertising Decision into Action:**

After developing and selecting the best alternative solution, the next step is to convert the selected decision into an effective action. Here the manager has to convert or put his skilled leadership and his loyal sub ordinates. If it happen then only there is use of that decision otherwise it may remain as a simple academic exercise.

5. Follow up of Action Taken:

It is last but not least important step in decision making. It's simple meaning is to see that whatever is decided, is implemented and the objectives are achieved what activities were decided are taken are justifying through their result or not. Here for this purpose manager need to set up or establish a feedback chain, and continuously, be informed, and whenever and where ever there is need according take corrective steps so that the taken decision will execute well.

Check Your Progress:

1. Give the definitions of Decision Making.
2. Draw the chart showing the steps in the process of Decision Making.
3. "While taking decisions the manager needs to conscious alert about some aspect of decisions". Discuss.

3.5 TECHNIQUES OF DECISION- MAKING

The techniques of decision making are classified into two broad categories

A) Traditional techniques and

B) Modern Techniques

A) Traditional techniques:

Traditional techniques are also known as non-programmed decision techniques. In other word these techniques are not based on adequate and reliable information, There is no structured format or predetermined guide lines to take decision. These decision are of complex nature and requires unusual solutions. Here creativity past & experience is a vital ingredient in successful decision making.

Following are same techniques

i) Creativity techniques
ii) Quality listing techniques
iii) Brain storming techniques
iv) Delphi techniques
v) Nominal group techniques

B) Modern techniques:

Modern techniques are on routine, repetitive and are of complex nature. These decision are made with the reference to a predetermined set of procedures, rules, and guidelines.

These decisions are more precise, accurate, reliable and scientific. There decision help to manager in the basic tool used is mathematical modeling these techniques are also known as operation Research", and includes following techniques

1) Linear programming
2) Probability decision theory
3) Pay off matrix
4) Decision tree etc

The above noted two types of techniques of decision making are shown as under and explained:

Techniques of Decision- Making

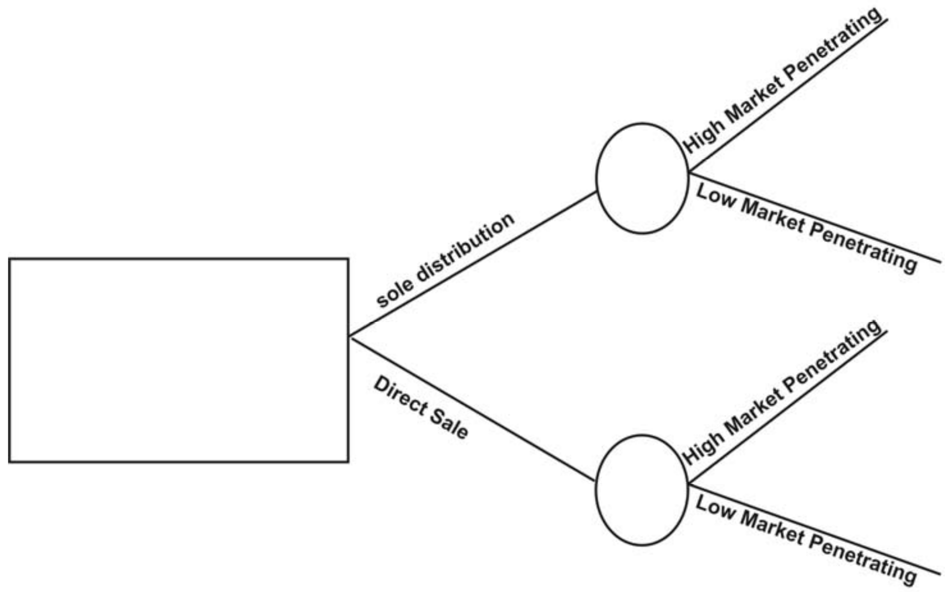
Programmed Decisions	**Non-programmed Decisions**
(Modern techniques)	**(Traditional techniques)**
Decision Tree	Brainstorming
Game Theory	Delphi
Linear programming	Heuristics
Network Techniques	Nominal group
Queuing technique	Quality circles

A. Programmed Decisions (Modern Technique)

1. Decision tree:

Decision tree is a diagrammatic or graphical representation of the decision-making problem. It displays the information at a glance in a more easily understandable way. This diagram indicates the number of future chance events which affects decision-making. The value of the events arrieved at for predicted outcomes of each possible decision and the decision which has highest value graphical devices are based on course of action available to him. It is being mathematical tool, it enables manager to take decision tree as it shaped in tree form This tree is in horizontal instead of vertical form.

Suppose a company wants to self is product in the market. Then it has to alternative options available one is by appointing sole selling agents and second is by undertaking direct sale of the product in the market in this situation every option every option has high or low market penetration and market share. Here the selection of the best option will be on the basis of its desired results. This will be made clear with the help of following diagram



Here every option has its value. If sole selling options has high value 06. & low value 0.4 then its total will be 88.0. it is arrived by multiplying by 100%.

Then in case of direct sale the market penetration value is 0.8 at Rs 60 & low market penetrate value is 0.4 Rs 50 so here its pay off value is 68.0

1. Game Theory:

It is a mathematical theory that deals with the general features of competitive situation. Generally there are two types of factors residing during of competitive situation known as zero sum game and non zero sum games. This emphasis on decision making process of the adversaries. It is like placing strategies and counter strategies so that eventually wining strategy is decided.

2. Liner Programming:

This also mathematical technique of determining the best combination of limited resources with quantified and measured set of objectives of the business e.g. while allocating jobs to limited machineries. Here every job has varied time to be ready. So manager use to use the machineries as per the job time requirement i.e. less time requirement job will be take up fine and so on and good combination of attainment of objects as well as machineries.

3. Queuing Theory (Waiting line):

This technique is useful for determining the optimum number of services facilities booking big lone on cash counter in the bank etc. Here in this case the problem is in balancing services and cost incurred in regards.

For example if banks open a new counter for remittance of money, here by open a new counter how much benefit the bank has, is to seen. If the expenses new counters are more then it the services gives benefit then it is not advisable to open new counter.

4. Network Technique:

These techniques is used for project planning and control that too of a complex nature and involving considerable time and cast. Here the sequence of activities is arranged in such a way. The cost & time will be minister and the project will complete in time or before time PERT AND CPM are two important techniques used in this methods.

A. Non-Programmed Decision (Traditional techniques):

These techniques are on novel and non-repetitive problems. There problems are more complicated & challenging and needs to be taken urgently in these technique something different is done There is creativity and original thinking is required. So here managers' needs to be open minded. These techniques are generally used by top level management. These techniques includes

1. Brain Storming Techniques:

Brain storming techniques was developed by Alex F. Osborn. Under this technique, a group of persons/managers is given complicated problem and they are asked and encouraged to suggest whatever solutions come to their mind Again there will be discussion on the given solution hill The very fair idea / solutions gain. In brain storming criticism is not allowed, but peoples/ managers are allowed & ask to generate as much as solutions they can do.

a. The brain storming technique encourages to the group members to think independently on the complex problems and give creative solutions. For purposeful brain storming session, attention should be given to the following points:
b. Encouragement to group member for suggesting new ideas / solutions.
c. Critic on solution is to be avoided.
d. Stress should be given on quality or uniqueness of ideas.
e. The Final idea should be accepted by all members.

2. Delphi Technique:

This technique is similar to brain storming technique. Here difference is the members are not having face to face communication. They are residing at different places and connected with the help of Internet, video conferencing etc. The information will be collected in the form of responses to the questionnaires. This has set to each member for reaction and reassessment. This process will continue till the new solution emerges.

3. Heuristic Techniques:

This is trial and error technique of decision making. Here certain rules of thumb (Heuristic) are developed to take decision. It is used only when the problem under consideration is complex and adequate information is not available. The environment for rational decision making is extremely uncertain and may prove wrong in future. For example consumer durable companies sell on installment basis on the assumption that people can regularly pay in installments rather than in lump-sum at one time. However it is not a scientific technique of decision making. So it is used rarely in decision making process.

4. Nominal Group Technique (NGT):

This is another technique of decision making with the help of group members. Here in the group one person is acting as a group leader and he explains the problem to the group members. Then each group member writes his/her ideas or solution independently and present it to all. In addition to this there will be group discussion. The purpose of this technique is to give more chance to member to think independently and contribute in decision making. The interaction between group members will take place only after ideas are presented. So every group member has given chance of creative ideas and then these creative ideas are integrated.

5. Quality Circle:

This concept is popularised by Dr. Ishikawa Kaoru in early 1960’s in Japan. Quality circle is a small group of employees from the same department. The group members are meeting regularly for the purpose of identifying, analysing and solving work related problems. These members gave suggestions to management to improve the efficiency or to give solution to the problems. Therefore it is known as democratic and progressive decision making techniques.

3.6 SUMMARY

Decision making is a mental process selecting a course of action from a set of alternatives. There is no exception for decision. Corporate decision making process is the most critical as an effective and successful decision makes profit to the company and unsuccessful ones make losses.

In the process of decision making, we may use many tools, techniques and perceptions. Decisions are taken by using proper technique. The techniques are classified as: Modern techniques and Traditional techniques. Modern techniques include: Decision Tree, Game Theory, Linear programming, Network Techniques, Queuing technique. Traditional Techniques include: Brain storming, Delphi, Heuristics, Nominal group, Quality circles

3.7 QUESTIONS

1. Point out the importance of decision making.
2. Define decision making. Explain the steps involved in decision making.
3. What are the techniques of decision making? Enlist and explain.
4. Discuss the essentials of sound decision making.
5. Explain the advantages of sound decision making.
6. Write short notes:
   a. Traditional Techniques of decision making
   b. Modern techniques of decision making
   c. Essentials of sound Decision Making

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4

ORGANIZING I

Unit Structure

4.0 OBJECTIVES

After studying the unit the students will be able to:

- Define the term Organisation.
- Explain the structure of Organisation.
- Discuss about the types of Organisation.

4.1 INTRODUCTION

Three important factors organization management and administration are considered essential for the success of any business. Plans and policies are designed in the administration while the work of their execution is of the management, the decision about which work should be done by whom in the process of execution is the work of organization there are different opinions about the organization. Accordingly the organization is found in two ways:

1. Formal organization and
2. Informal organization.

According to some authors organization is a process while other says that it is a system of directing business.

We are going to see the meaning of organization from all these views in this unit. Different organs in our body are supplementary to each other and ultimate aim of all them is one. Such type of work goes on in the business.

4.2 MEANING AND DEFINITION OF ORGANIZATION

4.2.1 Meaning:

The term “organization” is derived from the word “organism” which means arranging the ways and means for execution of a business plan. To conduct any activity-business or non-business there is need for an organization if there is no organization; it is not possible to conduct activities. It is a internal process of management organization is the structure where all people work collectively in order to achieving certain objectives.

It is a second step of management. After planning manager focus on the arrangement of organizing resources. An organization

Deals with number of internal part which define relationship between the number of a group the continuity and success of management depends upon strong organization only.

4.2.2 Definitions:

F. kart and S Rosenweing define organization as a structure “organization structure is the established pattern relationship among the components or part of an organization.”

Louis Allen defines organization as “the process of identifying and grouping of the work to be performed defining and delegating authority and responsibility and establishing a pattern of relationship for the purpose of enabling people to work most effectively together in accomplishing objects”.

4.3 ORGANIZATION STRUCTURE

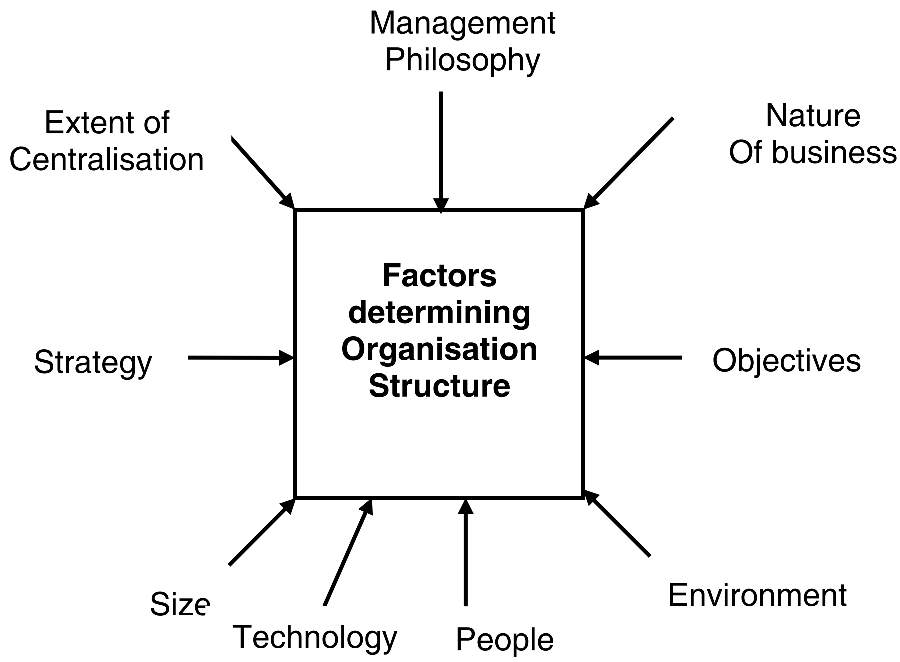
4.3.1 Meaning of organization structure:

Organisation structure refers to a pattern of relationships among individuals and departments in an organization.

F. Kast and s Rosenweing define “Structure is the established pattern of relationship among the components or part of an organization”.

4.3.2 Factors determining organization structure:

Organization structure divided into two parts, viz. formal and informal organization. Every business organization helps the management in achieving the business goals and objectives. The factors determining the organization structure have explained with the help of following chart:



1. Management philosophy:

Management philosophy directly affects the organization structure. Every organization structure broadly depends on the management philosophy. Small scale organizations some of the line organization structure. The work by levels of management. Top level to lower level in the other hand large scale organizations follows by decentralized organization structure the carry the business activities with principle of delegation of Authority,

2. Nature of business:

Business organization divided into number into number of parts, nature of business directly influence / affected organisation structure. A large scale business organisation followed by the staff of matrix organisation. A small size business organization followed by line organization. So the nature of business directly define the structure of organization

3. Goal's- / common objectives:

Every organization exists to achieve certain goal's The overall goal's of the organization are decided by top level management. All the business organization set their own goals if the goal's are limited the management may adopt line organization structure so goals play an important role is defining organizational structure.

4. Environment:

Every organization depends on the internal as well as external factor of environment. Some of the small organization which manufacturing & producing routine products may be less affected by the environmental factors but large organization followed by decentralized structure they larg on followed by decentralized structure they largely depends on the external environment factor.

5. People:

The people is one of the most important factor in the business organization all the business activities done through people. The larger number of individual & group develop the structure of organization e.g. line, line & staff or, matrix organization structure. So it is important factor to determining internal organizational structure.

6. Technology:

The business firms must constantly monitor changes in the technology, it may have an impact. This is because impact a change in technology may have an impact on form business through the research and development the organization come with new method, new machines and technologies. This can be effectively used for business activities technological factor play an important role in developing line staff & matrix organization structure

7. Size:

The organization structure depends on the size of the organization generally larger size of organization, their level of management more & large number of departments & units therefore, in large organization, line & staff or matrix structure can be followed in other hand small organization follow line organization structure.

8. Strategy/ planning:

It is a plan of business firms to achieve certain aims & objectives. In large firm top level manager formulate specific plans & policies to obtain the objectives of organization strategy internal part of management. It would works on organizational tasks & choice of technology this factors mostly use in the planning process to determining organizational structure strategy use to find out strength & weaknesses of the organization.

9. Extent of centralization:

Organization of structure divided into two parts such as centralised & decentralised structure when the organization is more centralised it may follow line organization structure in other hands. If the organization is more decentralised then they follow line & staff organization structure most of the large scale firms are decentralised structure.

4.4 TYPES OF ORGANIZATIONS

The many types of organization are observed. However the right type of organization is selected after taking into account the size of undertaking kind and need. So many changes are observed in organization structure in modern days. In addition the basic concept of organization is seen changed very much according to the situation. The organisation structure can be classified in to following types

1. Formal and informal organization
2. Line organization
3. Line and staff organization
4. Matrix organization
5. Virtual organization

1. **Formal and informal organization:**

In any set-up the existence of relationship, which may be formal or informal or both. The same concept applies also to the classification of organization and accordingly organization may be formal organization and informal organization. The formal organization is official form where as informal organizations are unofficial and operate along with the formal organization.

A. Formal organization:

Meaning:

If the management has created a big industrial organization inspired with a particular objective then all the activities in that formal organization are run with the help of inspiration of that particular objective. According to Chester Barnard "An organization is formal, when two or more persons are consciously co-ordinate toward a common objective.

Features:

The features of formal organizations are as follows.

i) All the policies and objectives in this organization are pre determined

ii) The rights, duties of every one are properly defined and therefore every one can make their work maximum efficient separately due to it.

iii) The place of a person in the organization is fixed and clear indications are given regarding which how much, in what way and the work has to be performed by each employee

iv) The mutual relations among the employee in the organization are clearly indicated regarding which responsible to whom who has to report to whom and who is eligible to order whom.

v) Each one is related with his present work, which is related with the ultimate objective of the business. The employee can't interfere in other matters leaving their own work in it

vi) The organization has its own set of rules and regulations. These rules are to be followed by the people working in the organization.

B. INFORMAL ORGANIZATION:

Meaning:

Informal organization structure refers the pattern of activities, interactions and human relationships developed spontaneously due to social & phychological force operating at the work place. All these employees are not bounded by any rules or policies in it according to Keith Davis "Informal organization is a network of personal and social relations not established or required by the formal organization but arising spontaneously as people associate with one another"

Features:

The features of Informal organization are as follows

i) Informal organization is self-inspired and voluntarily created

ii) There is good communication system in this organization for the purpose of inspiring human power

iii) Such type of organizations fulfill the social need satisfactorily

iv) It exists within a formal organization and reflects human relationships

v) It brings people together to realize common interests, however its membership is voluntary

vi) There is no questions of granting authority and no need for a system of co-ordination.

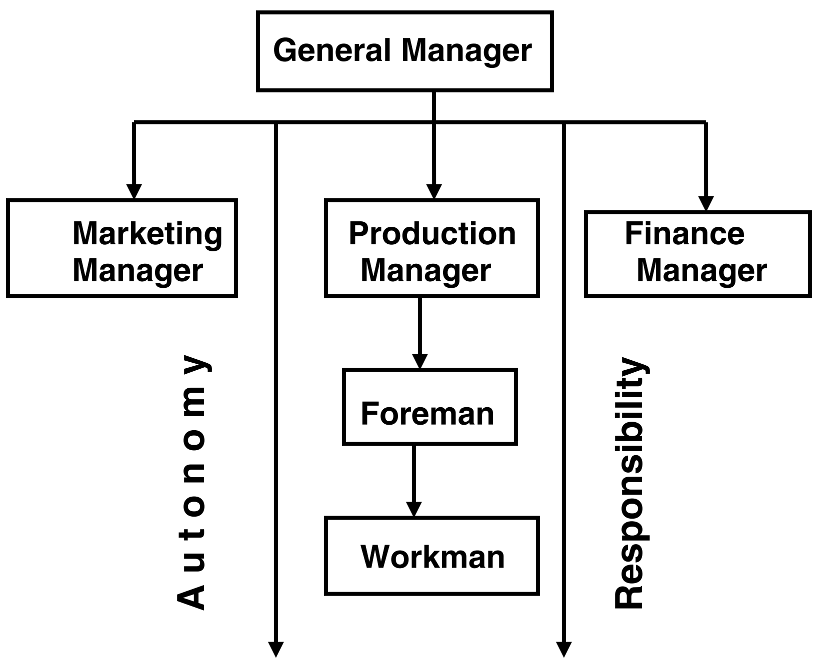
III) Formal v/s informal organizations

Point	Formal Organization	Informal Organization
I) meaning :-	It is a planned structure in which works rights duties and responsibilities are	It is an organistion created with self inspiration and voluntarily
ii)objective :-	It exists to achieve well defined and particular objectives	The main purpose is to develop personal and social relations.
iii) Motivation:-	Economic motivation such as promotions, increase in wages etc	Fulfillment of social and personnel needs and acquiring self satisfaction.
iv) Relationship :-	The superior-sub-ordinate relationship is clearly defined and exist	The wuperior sub-ordinate relationship is absent
v) Responsibility:-	There is a balance between authority and responsibility	There is no responsibility in this form.
vi) communication :-	The communication is normally through formal channels of communication	The communication is normally through grapevine form of communication.
vii) stability :-	Formal organization is a stable type of organisation Structure	There is no stability to informal organizations.
viii) Reward and punishment	It is in the form of monetary and non-monetary, where as punishment is for breaking rules.	Reward is continuation of group membership where as punishment may be removed from the group.
Ix) Termination:-	It may be terminated by organizational process	It is difficult to terminate by the organizational process of when relationships becomes sour

2. Line Organisation:

Meaning:

Line organization is simplest & oldest form of organization. It is also called as military scalar organization or vertical organization structure there is direct flow of authority from top level in the organization. All the major decision taken by the top management & then process pass order to their subordinates, the subordinates in the turn directly responsible to the manager this type of structure is application / suitable in any in small scale organizations. The following diagram indicates line organization.



- **Feature of line organization**

→ Direct flow of authority
→ Clear responsibility
→ Unity of command
→ Suitability
→ Co-ordination
→ Relationship
→ Growth & expansion
→ Decision Making
→ High employee moral

a. Direct flow of authority:

There is direct downward flow of authority form top level to lower levels in this type of organization all authority and order send by top level manager to lower levels sub ordinates so it is called direct flow of authority all the organization decision taken by top level manager and sub-ordinate in turn are directly responsible to the superior every small scale organization follow the structure of line organization

b. Clear responsibility:

In line organization every manager is responsible about business board of directors pass responsibility to general manager than after general manager pass to another different heads of manager and finally authority and responsibility passed to general sub ordinate. They are responsible for scheduling work the top management has the responsibility to train and motivate each and every sub ordinate.

c. Unity command:

In line organization follow the principle of unity of command very effectively. A sub ordinate should received order from only one superior. In turn sub ordinate should report to any one superior. The principle provides proper guideline to manager and sub ordinate. It enables to improve the superior and subordinate relationship.

d. Suitability:

The line organization is suitable to small scale organization. The structure of line organization is small because production capacity is low as compare to sharply conduct of large organization. Manager sharply conducts ass activities in organization. They easily send authority to subordinate.

e. Co-ordination:

It refers to integration of activities or actions of the sub ordinates by superior there is need for co-ordination in the line organization co-ordination is basic responsibility of the manager. The top level manager are responsible to co-ordinate the activities of sub ordinate. It is small organization so manager easily conducts all the activities.

f. Relationship:

In line organization there is a chain of relationships among different part of department. There is a need for relationship between superior and sub ordinates various level affect relationship to improve the corporate image and growth of organization. It plays great role in raising moral of sub ordinate successful organization largely depends on the superior/subordinates relationship

g. Growth and expansion:

Lien organization is restricted in its growth and expansion. This is because of limitation of capacital, lack of managerial skill of adoption and traditional approach that are necessary for the expanding line organization manager find difficulty in expansive and growth because of limited organization structure.

h. Decision making:

Quick decision making is possible, however, the quality of decision without consulting others in the line organization, manager gives clear authority to delegate work, sometime there is often delay in decision making but line quality of decision making is superior.

i. High employee Moral:

Line organization increase moral among the staff. This because of good Relationship between superior and subordinates sometime sub-ordinates carry the business activities in trust of superior it enables raising moral of the sub ordinates and they work effectively.

3. Line and Staff Organization:

Meaning:

Line & staff organization is a combination of two systems in order to avoid the defects & to achieve the common organizational objectives this type of organization structure is suitable to large scale organizations. The line Managers takes the decision on the advice or Recommendation of the staff officer.

Definition:

According to Louis Allen "line refers to those position elements of the organization which have responsibility & authority & are account able for accomplishment of primary objectives staff elements are those which have responsibility & authority for providing advice & service to the line in attainment of objectives."

Features:

a. Systematic planning and control:

Line and staff organisation structure is applicable only to the large scale firms. The staff experts are planning activities. They set up plan and policies for the organisation . the implementation of that's plans and policies systematically the line manager effective control over the plans and policies when the plans are well defined & clear it would be easy to organize resources and to take proper control by line manager.

b. Sound decision making (quality decision):

It is a sound decision making organisation. This is because of line manager take a quality decision after receiving opinion and view from staff specialist. The specialist staff provides accurate information about feature problem. In quality decision making they use democratic method.

c. Suitability:

Line & staff organisation structure is suitable to large scale firms. In large firm there production capacity is higher. This type of organisation line executive are The decision makers he takes the positive decision where as the staff are members are planning the activity it is useful in expanding the business.

d. Specialization / scope for specialization:

This type of organisation specialize in nature the staff concentrates on formulation of plan & also play the role of advisors the line manager focus on taking decision & implementation of plans & policies. It is a combination of two structure of organisation play significant role in the development of large scale organisation.

e. Authority & Responsibility:

In this type of organisation follow the principle of authority & Responsibility. The line Manager has to follow the principle significant. The staff officers are planning the activities and delegation of work is given to line manager here line manager get clear Responsibility about the work so both organisation follow this principle.

f. Possibility of conflict's :

Conflicts between staff & line manager are quite common in this organisation the line managers are not responsible to the advice offered by staff experts. Secondary aware that line managers lack knowledge of new view & ideas. This leads to rise in the problem of the conflicts.

g. Overdependence of staff:

In line & staff organisation line manager largely depends on the staff expert. The staff focus on the Research & planning elements of business activities. They play important role in formulation of plans & policies of business sometimes line manager depends of staff experts for minor problem of business so dependery of line managers arises, it creates conflicts in organisation.

h. Crisis management:

The line & staff organisation play significant role in crises management both organisation handle the crisis situation effectively. The staff officers providing proper & valuable advice to line manager to solve these crises. Then line manager take appropriate decision in solving this situation. In this way both organisation manager difficult situation in the organisation.

i. Confusion:

This type of organisation line & staff conflicts is common due to lack of communication between both the line & staff organisation. They both do not follow the principle of authority & Responsibility. There is a possibility of confusion in the organisation, confusion arises due to line manager overdependence on staff experts & staff provides increases incorrect advice to the line manager.

3. Matrix Organisation

Meaning:

The concept of matrix organisation was first introduced in 1960 in aerospace industry in USA. This form of structure combines the functional organisation with that project organisation. This project can also call as Multi-project organisation.

Depts / Projects	Dept. A Manager	Dept. B Manager	Dept. C Manager	Dept. D Manager
Project A Manager				
Project B Manager				
Project C Manager				
Project D Manager				
Project E Manager				

When there are several projects to be completed. Then the project manager takes the help of staff to complete the project. The employee Received order from both managers & similarly they have report functional as well as project Manager.

Definition:

According to Kenneth Knight, "matrix organisation is a balanced compromise between departmentation on the basis of functions & departmentation on the basis of specific product to be completed".

Features :

a. Hybrid / Compromise Structure:

In this type of organisation combined between functional organisation & project organisation. Both organizations work in the single organisation is known as matrix organisation. The goals & objectives both organisation are equal They beep to each other for achieving common target.

b. Responsibility / Role of project managers:

Project manager play effective role in conduct the administrative tusks project manager has a responsibility to co-ordinate the activity of functional department & also other activities. Related to project they set up/ prepare schedule of project work. He has Authority to central administrative aspects of the project.

c. Responsibility/Role of Functional Managers:

Functional manager has a Responsibility to control functional aspects of the project they play significant role in technical part of the project & they given responsibility to handle the entire matrix organisation. They set up time table of sub ordinate to project work.

d. Suitability:

Matrix is a complex organisation but is suitable to large scale business organisation of the in this type of organisation attempts to solve complex problems With high quality solutions it is mostly used for large construction project that construct server building in different areas different constructive side managed by different project manager with the support of functional department.

e. Specialisation:

Matrix organisation facilitates specification. The functional heads / manager focus on the technical parts of the project where as the projects manager fours on all the administrative tactic / aspect of the project both organisation specialize in our area & play significant role in department of matrix organization.

f. Development skill :

In the matrix organisation employee develop their skill & knowledge proper training of managers & sub ordinates is essential for effective working of matrix organisation the process of job rotation facilitates self development both the managers play important role in proper training to employee.

g. Problem of unity of command :

Internal operations under matrix organisation are difficult & complicated this is due to rules & procedures are not followed uniformly in all departments employees received order from functional heads as well as project manager This leads to increase problem of unity of command in organisation.

h. Need of effective communication:

The matrix organisation uses two or more co-existing structure in this organisation need of effective communication for development of organizational structure effective communication between manager to sub ordinates leads to increase proper work in firms.

i. Inter-departmental co-operation:

Due to vertical & horizontal communication the project manager co-operate many inter department aspect of a particular project this co-operation leads to effective control over operation.

4. Virtual Organization:

Meaning of virtual organisation is a temporary alliance between two or more organisations that come together to active specific objectives. The participant's in virtual organisation are inter dependence to each other in this type at organisation participant's may changing day by day, It can be composed differently every day.

It is a project organisation formed for particular project, it gets winding up once the target active. It may remain functional as long as consumer demand exists their collaborative beneficial.

Definition :

Virtual organisation refers to a new organizational form characterized by a temporary or permanent collection.

Features of virtual organization:

a. No separate entity:

Participating organisations haven't clear rules contrasting to traditional organisation. It will have neither central officer nor organizational chart that is dependent on information communication and technology.

b. Interdependence:

Virtual organisation is mostly interdependence in nature it is a temporary alliance between two or more organisation that are come together to achieve a specific objective the participants in virtual organisation are interdependence to each other making it possible to deliver a product collaboratively all the alliance partners used combining working method for proper development of organisation.

c. Temporary in nature:

Vertual organisation is generally temporary in nature it is a project organisation formed for particular project organisation formed for particular project it gets winding up once the target achieve. It may remain functional as long as consumer demand exists their collaborative beneficial limited duration required to virtual organisation for complication of project so. This organization always temporary in nature.

d. Information & communication technology :

Virtual organisation is largely depends on the ICT for developing & diversification of organisation informational networks will provide for flunged companies to link up work together from start to finish it is possible to communication within few seconds an world wide net so, it is covered geographical border easily.

e. Changing participants :

In this type of organisation participants may changing day by day it can be composed differently every day one day a some organisation may be a part of a network formulating virtual organisation along with others networks the following day virtual organisation could be composed of other organisation.

f. Excellence :

In the virtual organisation each partner brings its core competence to the joint efforts this facilities increase efficiency in the organisation virtual organisation can provide excellence performance in a particular project or product every feature & process or the product may be world class something that no single company could probably achieve its generates team work in organisation.

g. Trust & Respect :

Mutual trust & respect play important role in development of virtual organisation all the partners need to have complaint trust each other of the same time the alliance member must respect to everyone expansion & modification of virtual organisation largely depends on the trust of the members to each other.

Challenges of vertical teams:

a. Challenges of diverse technological skills :

Virtual organisation is often associated with such terms as virtual teams vertical teams face several challenges it explain with the help of fallowing points.

b. Challenges of Diverse Technological Skills:

It is a one of the most important challenges faced by virtual teams. Diverse technological skills unable increases conflict among the team a member that is virtual teams primary fours in improve team work in the organisation proper training develop trust & team work unable virtual organisation achieve the goals & targets. It may be great impact on expansion & modification of organisation.

c. Challenges of leadership :

Leadership play significant role in development of the virtual organisation it is alliance of two or more teams so here appropriate leadership can result in the failure of virtual team the leadership problem arises due to lack of communication therefore team members focus on exception were & co-ordination away the team members it may solve the problem of leadership.

d. Challengers of communication:

The members of virtual team may not be located in one country however they can discuss each other through medium of information technology devices such communication always quick but in case poor communication among the team of organisation so it is biggest challenges that any virtual team face proper communication easily solve this challenges.

e. Challenges of incompetent team member :

It is a alliance of two or more team so here the experienced team member are important factor on successful organisation project are more time in fail due to lack of co-ordination among member & incomplete knowledge about the project it may negative effect on the other team maintain proper team weak maintain proper team weak are important challenge of virtual team.

f. Challenges of developing Trust:

Trust and mutual understanding are two basic requirements of successful functioning of virtual team's absence of co-ordination with the team affect the speed and orderly execution of the project very team primary focus on to build trust among the team members. Trust unable Reduce conflict among the teams so it is important challenge of the virtual teams.

g. Challenges of decision – making:

Every virtual team can take strategic decision and plan for business expansion activities based on project because of proper decision making. When it is difficult to build trust and to manage conflict when team member take poor decision so, decision making by virtual teams can be a great challenge for its members.

h. Challenges of time zones:

The members of virtual team communicate through portable communication tools including video conferencing meetings are arranged quick if the need arises however there are different time zones it becomes difficult co-ordinate and to hold virtual meeting. Therefore it directly impacts on the work a project time zones are great challenges of virtual teams.

4.5 SUMMARY

Organizational structure is a system used to define a hierarchy within an organization. This structure is developed to establish how an organization operates and assists in obtaining its goals. The base of organisational structure is distribution of work. The distribution can be formal or informal. Formal organisational structures are categorised as: Line organisational structure, Staff or functional authority organisational structure, Line and staff organisational structure, Committee organisational structure, Divisional organisational structure, Project organisational structure, Matrix organisational structure and Hybrid organisational structure. A line organisation has only direct, vertical relationships between different levels in the firm. An organisation where staff departments have authority over line personnel in narrow areas of specialization is known as functional authority organisation. In the Line and Staff Organisational Structure there are direct, vertical relationships between different levels and also specialists responsible for advising and assisting line managers.

Most large organisations belong to this type of organisational structure. A project organisation is a temporary organisation designed to achieve specific results by using teams of specialists from different functional areas in the organisation.

4.6 QUESTIONS

1) What are the factors determining organisation structure?
2) Explain the features of formal and informal organisation.
3) Distinguish between formal and informal organisation .
4) What are the feathers of line organisation?
5) Explain the challenges of virtual teams.
6) What is meant by organisation structure? state the types of internal organisation structure.
7) Write notes on the following
   a. Line and staff organization
   b. Organisation structure
   c. Matrix organization
   d. Virtual organisation

*****

5

ORGANISING II

Unit Structure

5.0 OBJECTIVES

After studying the unit the students will be able to:

- Define the concept Span of Control and explain the features of Span of control.
- Explain the factors included in the span of control and the advantages of span of control.
- Discuss about the concept Delegation, its process, advantages principles and barriers.
- Know the meaning of Departmentation.
- Explain the bases of departmentation in detail.

5.1 INTRODUCTION

In an organisation, a number of activities are performed. These activities are required to be coordinated. Organisation structure is designed for division of tasks, grouping of activities and coordinating and controlling the tasks of the organisation. The detailed study of all components and dimensions of organisational structure is required for creation of efficient and stable structure. Well designed organisation structure facilitates the smooth functioning of the organisation. The four design decisions related to Division of labour, departmentation, span of control and delegation of authority results in a structure of organization.

'Span of control', is also known as 'Span of Management', 'Span of supervision' and 'Span of responsibility'. An organisation performs different types of activities. These activities have to be performed efficiently to achieve organisational objectives. Therefore, the executives in charge of excuting the activities of the organisation have to perform them efficiently. However, the executives are human beings and they have limited physical, psychological and intellectual abilities and capacities to control or supervise subordinates directly. Therefore, it is necessary to determine the optimum number of subordinates under one executive, which is known as Span of Management. More precisely, the term 'Span of Management' refers to the number of subordinates who can be effectively and efficiently supervised directly by a superior. The span of management is the range of direct reporting by subordinates to a superior above them. The span of management determines the shape of organisational structure. If the span of management is smaller the number of managerial level will be more and if the span of management is large the number of levels will be small.

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

In every organisation managers are assigned lot of work and manager alone cannot perform all the work. He divides the work among different individuals working under him according to their qualification and gets the work done from them. The manager begins with sharing of his responsibilities with his subordinates. He deliberately passes some of his responsibilities to his subordinates. After passing the responsibilities the manager also shares some of his authority, i.e., power to make decision with his subordinates so that the responsibilities can be carried on properly. To make sure that his subordinates perform all the work effectively and efficiently in the expected manner the manager creates accountability and this whole process is known as delegation.

5.2 MEANING AND FEATURES OF SPAN OF CONTROL

5.2.1 Meaning of Span of Control:

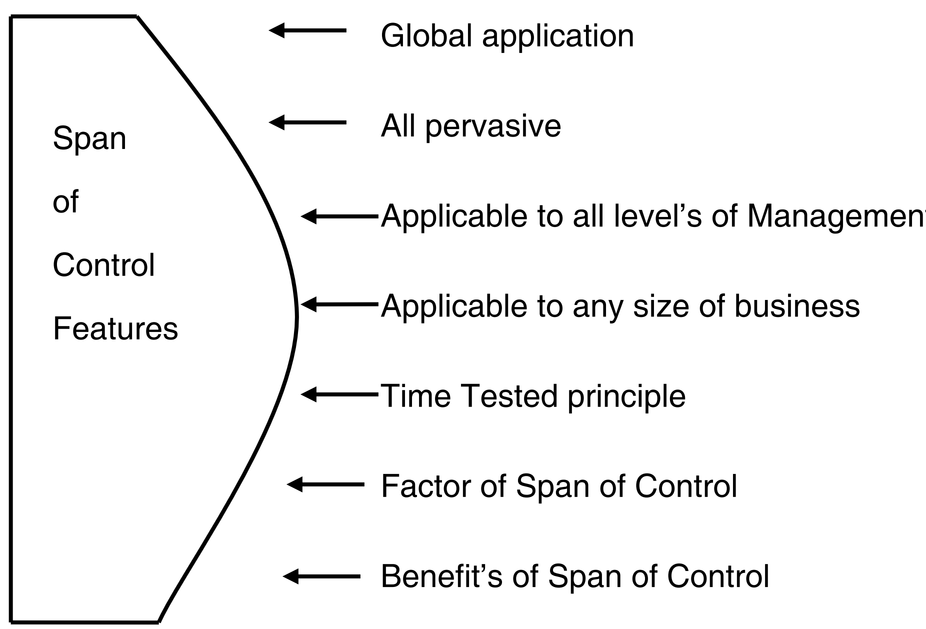
Span of control refers to the numbers of subordinates that can be supervised of managed effectively Sir Ian Hamilton

Introduces the concept of span of control. Later on it was popularised by V.A Graicunus & Lyndall urwick.

It is a universal process in this process number of subordinate manage by single person is known as manage here number of subordinate should not be too large or too small if the number of subordinate is too large. Person cannot supervise effectively and its enable to lose control on the subordinate. If the number of subordinate too small result in strict control on the members and its enable to reduce efficiency of the subordinate (worker).

5.2.2 Features:

Features of Span of Control:-



1. Global Application: Universal applicable:

The principle of span of control has global application. This principle applicable to all type of organisations. It's play significant role in countries developing condition span of control enable increase efficiency of the manager of worker.

2. All pervasive - / Applicable to all:

It is applicable to public sector organisation as well as to private sector organisation. In the different field of organisation commonly use the principle of span of control so it is important principle of management.

3. Important Principle of Organising :

Span of control play the important role in organising this principle provides appropriate information about how to supervise / manage the number of subordinate in particular time. It plays great role in lever of management top level to lower level of management. Effective span of control enable raising moral of the management to subordinate.

4. Applicable at all levels of Management:

The principle of span of control applicable at all levels of management. It is applicable at top level, middle level and lower level. The member of top level depends on middle level & vice versa. So the principle of span of control more effective in all level of management.

5. Applicable to any size of business:

The principle of span of control is applicable to sole trader to Joint Stock Company. It's directly affected the any size of organisation. For e.g. A smaller organisation employing about so needs to have various section & each section follow the concept of span of control also a large organisation employing over a thousand of employees needs to adopt the concept of span of control for effective of span of control of the business.

6. Time Tested Principle:

The principle of span of control is time tested all the business & non business organisations have used the principle of management. It includes educational institution, hospitals, hotels etc. in this Means nature of work depends on the specific Time.

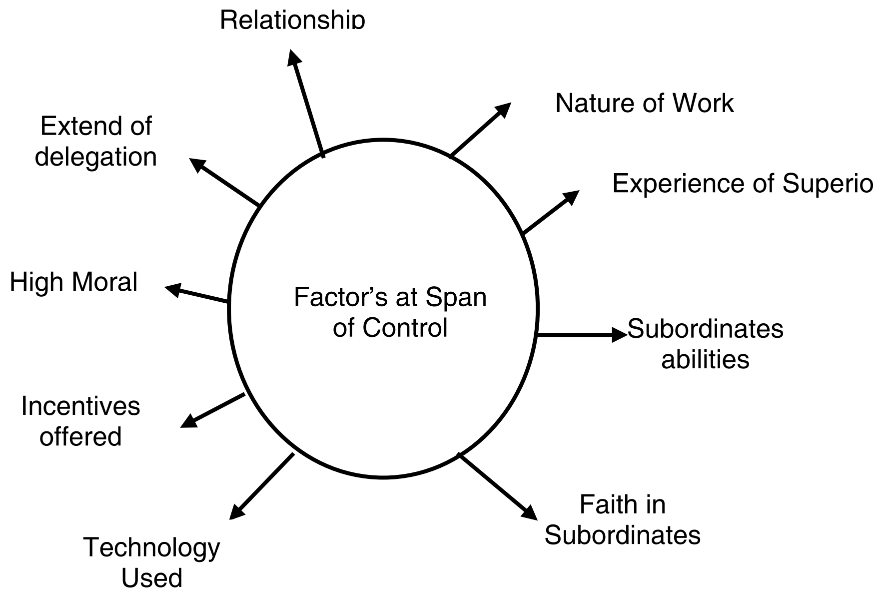
5.2.3 Advantages of Span of Control:

The concept of span of control play curtail significant role in organisation. Some of the benefits are as follow:

1) Improvement in superior – subordinate relationship
2) Optimum utilization of resources.
3) Improvement of goodwill and reputation of organisation
4) Reduce absentecism
5) Property motivated employee
6) Development of leadership ability

5.3 FACTOR'S OF SPAN OF CONTROL

The factor of span of control play significant role in developing principal of span of control process. Some factors affected directly and some are indirectly. We can understand with the help of following diagram.



1. Nature of Work:

Nature of work divided into a two parts such as routine repetitive nature & complex nature if the work is of routine & repetitive nature the span of control may be more other band work performed by sub ordinates is of comply nature, there should be fewer sub ordinates. So routine method directly affected the principle of span of control.

2. Experience & Capacity of Superior:

Normally more the experiences of the superior the more is the span of control if the manager is capable & experienced be easily handle the number of sub ordinates he gives respect from sub ordinates & also improve standard of living of sub ordinates. Thus the span of control depends on the experience & capacity of the superior.

3. Subordinated abilities:

The span of control depends on the ability of subordinates it includes nature & experiences of subordinates if the subordinates are well trained & experienced. They requires less time for supervision & therefore the superior can have more span of control experience subordinate enable the increases the efficiency of the worker.

4. Training and Faith on subordinates:

Trained subordinates can do the work quickly. Ultimately the span of control is more proper training enable subordinates work is proper position right time if the manage has faith and trust in sub ordinates the span can be wider if the positive relationship between manager to sub ordinates enable the span of control can be made wider.

5. Use of Communication Technology:

It is a one of the most important factor to determining principle of span of control electronic devices & equipments help in increasing the span of management manager use proper electronic devises in daily work to ultimately subordinate can do work effectively in organisation.

6. Incentives offered:

Incentives is prime factor to determining span on control if the manager offered good incentives of control more number of sub ordinate similarly due to the incentives offered. The sub ordinates are easily motivated & increasing working habits of employees.

7. High Moral:

Proper working condition & incentives offered enable raising moral of the subordinate manager always focus on the expectation of the subordinate it increasing the working habits of employees.

8. Effective delegation of Authority:

When a manager delegates clear specific and adequate authority to his subordinates it become possible to increase span on control.

9. Relationship:

If the direct relationship between manager and subordinate the manage may be in position to supervise and control number of sub ordinates. However if the inverse relationship between manage and subordinate the span of control is low.

5.4 DELEGATION

5.4.1 Meaning and Definition of Delegation:

Meaning:

Delegation of authority is one of vital organizational process, it is a process by which a superior transfer's authority to his sub ordinate. Delegation means assigning of certain responsibilities along with the necessary authority by a superior to his sub ordinate manager. It is a universal process applicable to all.

Definition:

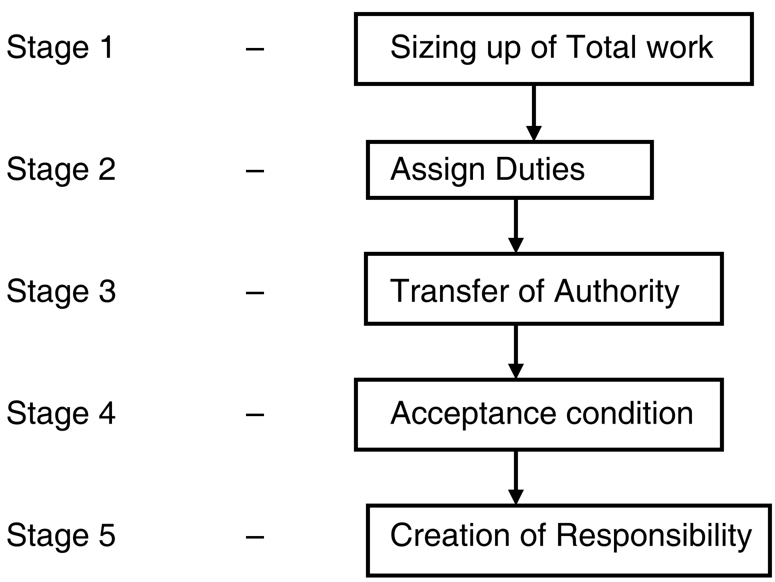
1. According to F.C. Moore "Delegation means assigning work to the other & giving them authority to do so."

2. John Pearce & Richard Robinson define delegation of authority as " A process by which a manager assigns tasks & authority to subordinates who accept responsibility for those jobs."

5.4.2 Process of delegation:

There are five stages in the delegation process. This steps shows with the help of following chart

Process of delegation



Stage 1 – Sizing up of Total work:

It is a first & important stage in process of delegation every manage must see the sizing up of work, then he decides how to manage & divided working in subordinates when a total work is more the need for delegation arises every manage focus in the nature of total work.

Stage 2 - Assigning duties:

Before delegation superior must identify the work or activity. The manager must select right subordinate to delegate the activity this is responsibility of the manager to find out right subordinate. The manager must communicate clearly & discuss the duties at sub ordinate & also given proper guidelines about the nature of work assigning duties enable increasing moral of the subordinate is relation to work.

Stage 3 – Transfer of Authority:

In the third stage manager must be transfer authority to the sub ordinate appropriate authority enable subordinate take right decision in any time. It enable delegation of work effectively limited authority will bring about only limited performance so the manage always focus on the transfer of authority to right sub ordinate.

Stage 4 – Acceptance / Rejection of Delegation:

In this Fourth stage the sub ordinate has to follow acceptance or rejection of delegation of authority when the sub ordinates rejects the authority. The process of delegation has to be restarted again.

The sub ordinate may not accept delegation on the following grounds

- Poor relation with the manager
- Lack of self confidence
- Internal politics
- Increasing responsibility to compare to other subordinates
- Lack of incentives

Stage 5 – Creation of Responsibility:

In this last stage in the process is the creation of an obligation on the part of the subordinate to perform duties & used assigned authority properly.

In this stage manager & sub ordinate have authority to complete the duties & responsibility. It is a duty of the delegator (manager) to assist the delegate (sub ordinate) a sub ordinate gives positive reply of the work to manager about the work or task at this stage. Process of delegation of authority completed.

5.4.3 Barriers to Delegation:

Delegation authority outwardly appears to be a simple process with number of benefits. Some of barriers face by supevior & sub ordinate it explain with the help of following points.

a. Difficulties / Barrier's on the part of Manager / Superior:

1. Fear of Competition:

The Manager may feel that subordinate can be a treat to his position. If the subordinate performs delegated were effectively. We get a promoting ahead of the superior. Some time superior fear about the competition if the organisation fear of sub ordinates excellence may came few the way of delegation.

2. Fear of losing control:

Some time manager fear of losing control over their sub ordinate because of superior gives some order to sub ordinates & therefore they may not depend on the superior for here manager face difficulties. If relation to delegation of were educated sub ordinate done work effectively at a superior level so that's way manager fear of losing control over subordinate.

3. Fear of Subordinate excellence:

It is perpetuate barriers at the part of superior some time educated & well knowledge subordinate done were effectively as compare to superior so here clones of sub ordinate do well excellence that's why superior may feel that subordinate can be threat to his position.

4. Lack of confidence in subordinate:

Poor superior–subordinate relationship creates lack of confidence if subordinate manager may have this skill & the expertise to take quite decision about the particular were but he feel that his subordinate is not competent to deal with the problem it may be reduce the confidence of superior to sub ordinate the delegation of work.

5. Lack of ability to direct / inability to direct:

Every time manager delegation authority but some time may not be able to do it effectively because of lack of ability to direct subordinate inexperience manager lazy face this problem of proper directing subordinate.

6. Desire to dominate:

Manager normally have desire to dominate their subordinate they prefer to dominated subordinate all subject / matter of organization. So they do not proper delegate authority they also feel that to delegation most of the subordinate know their managerial ability.

7. Fear of being exposed:

The fear of being exposed due to personal short coming may cut as on obstacle for the delegation. Delegation may expose the manager of his corrupt practices because of where is delegated subordinate that get knowledge about such malpractices.

b. On the port of Subordinate

1) Fear of criticism:

Every subordinate express unwillingness to accept delegated authority because the fear of criticism. The subordinate do not delegated work properly it may chances of criticism if they commit mistake.

2) Lack of Information:

Some subordinates lack of information about delegated work it may reduce efficiency of the employee about particular work if a subordinate does not get full information about work he may not accept authority.

3) Lack of self confidence:

Some subordinate take quick and wrong decision because of lack of self confidence about delegated work. Negative managerial behavior may reduce own confidence of subordinate it may directly affect to the actual work.

4) Fear of losing Job:

It is a important barriers of subordinate. Most of the subordinate may feel that it they do not delegated were properly be may lose his job therefore they do not delegated authority.

5) Overdependence on superior:

Most of the subordinate overdependence on superior about delegated work they do not directly interfere if authority and responsibility of superior is prepare to delegated work sub ordinate why is not confidence about his were ability will certainly manage the responsibility.

6) Difficulty in decision making:

Subordinate facing a problem at decision making. Most of the time all order decision taken by superior. So subordinate may not have use skill and experience to take decision it may arises problem of delegation.

7) Poor superior – subordinate relations:

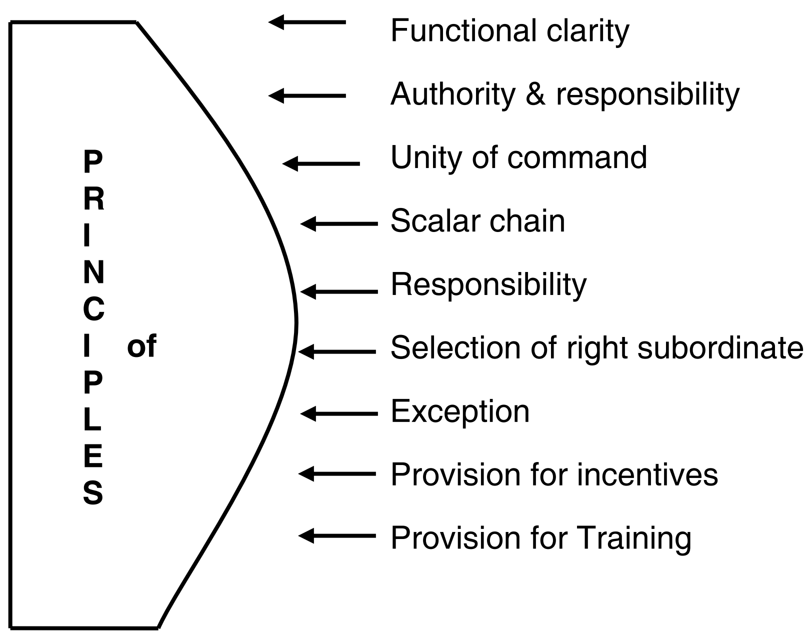
Inverse relationship between superior subordinate may directly impact on the process of delegation of authority most of the bad things reduce the superior subordinate relation such as lack of communication to each other interfearce by superior in subordinate where.

8) Fear of being exposed:

Some subordinate feel that they have limited capacity to accept the challenges which are bound to come due to delegation therefore they may not accept delegation for the fear of being exposed of their ineffectiveness.

5.4.4 Principles of delegation:

Principle play important role in the process of delegation. Some of the important principles explain with the help of a following figure.



1. Principle of Functional clarity:

Before delegation authority the sub ordinates should be made to understand their duties and responsibilities. Sub ordinates followed rules & regulation & completed the work in the period they play positive role in this process. Sub ordinates followed the principle of functional clarity.

2. Principle of Authority & responsibility:

This principle of delegation suggests that the sub ordinate followed authority of manager & their responsibility to complete them every manager & sub ordinate are especially responsible about their work there should be proper balance between authority & responsibility.

3. Principle of unity of command:

The sub ordinate should received instruction & order by one superior to undertake the delegated work. This principle suggest that all sub ordinate follow order by one manager or boss unity of command enable every organisation done the work effectively. Sub ordinate do maximum work in minimum time because of unity of command in other side reporting to more than one manager will create problems & there may be confusion.

4. Principle of scalar chain:

This principle suggest that give authority from the manager to sub ordinate principle of scalar chain included three tends top level, middle level & lower level therefore order may be depends on the chain the sub ordinate should know who delegates authority to whom be should contact for matter's beyond his authority.

5. Principle of absoluteness of responsibility:

This Principle of delegation suggests that it is only the authority which is delegated & not the responsibility. Manager always responsible about their authority manager send the order to sub ordinate about the work in the time. Sub ordinate about the work effectively at a time responsibility face by superior as well as sub ordinate not all the burden goes in head of sub ordinate so superior always responsible about the total work.

6. Selection of Right sub ordinate:

The superior always select right sub ordinate to delegate work sub ordinate play important role in the delegation of work trained & educated sub ordinate completed work effectively superior always focus in that kind of sub ordinate they reduce the maximum burden of the other subordinate. So the selection of subordinate important principle of delegation.

7. Principle of exception / use of exception principle:

The superior always delegated authority to subordinate in that time they should be interference work of subordinate some of the exceptional cases the superior refocus in the working condition of subordinate. This is normal method /rule applied by the superior, here they keep sub ordinate about delegation of work. So it is a significant principle of delegation of authority.

8. Provision for incentives / reward effective delegation:

In the process of delegation sub ordinate is always focus on needs of sub ordinate in that needs incentives is important part of worker they adopt some innovative activities for raising moral of sub ordinate.

9. Provision of Training:

The principle of training suggests that all sub ordinate provide right technique to delegate work training would help to improve skill & knowledge to manage the work trained sub ordinate enable reduce the burden of superior & raising working nostrils.

5.4.5 Advantages of Delegation of Authority:

The following are the advantages of the process of delegation of authority, which gives the answer to why delegation is needed?

1. Management Function:

When the area and nature of business is very large then management can function properly due to the delegation of authority.

2. Trust & opportunity:

It becomes very easy and possible to the officer to get the various works done by putting trust on the assistants. Similarly assistants get the opportunity to perform the work separately.

3. Challenging jobs:

The work load on the officers is reduced and they can concentrate on other important functions and more challenging jobs.

4. Cordial relationships:

The superiors trust subordinates and give them necessary authority. The subordinates accept their accountability and this develops cordial relationships between superior and subordinate.

5. Team Spirit:

Due to delegation effective communication develops between the superiors and subordinates .The subordinates are answerable to superiors and the superiors are responsible for the performance of subordinates.

6. Leads to motivation of subordinates:

Subordinates are encouraged to give their best at work when they have authority with responsibility. As result it leads motivation of subordinates.

Check Your Progress

1. Draw the figures showing:
    A. Factor's at Span of Control
    B. Features of Span of control
    C. Principles of Delegation
    D. Process of Delegation
2. Enlist the barriers of Delegation.
3. Enlist the advantages of Delegation.

5.5 DEPARTMENTATION

5.5.1 Meaning of Departmentation:

Departmentation is a systematic process of dividing an organisation into smaller units called departments. It includes grouping of activities, tables and process and resources. Departmentation is useful in all type of business organisation. It creates principle of division of work.

Definition of departmentation :

According to Jamed & Stoner, "Departmentation is the grouping of functions so that similar & logical related activities occur together"

According to Pearce & Robinson, “Departmentation is the grouping of Jobs, Process & resources into logical units to perform some organisational task”

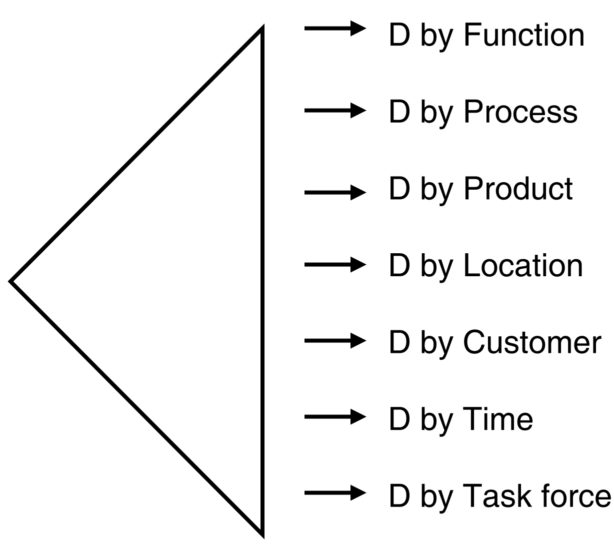
According to Koontz and O’Donnell, “A department is a distinct area, division or branch of an enterprise over which a manager has authority for the performance of specified activities.”

It can be defined "as the process by which activities or functions of enterprise are grouped homogeneously into different groups."

5.5.2 Bases of departmentation:

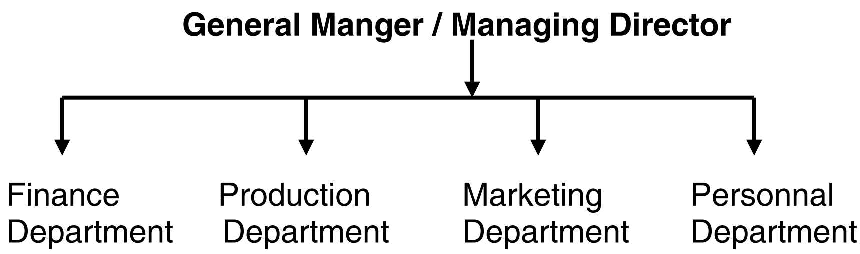
Departmentation play important role in the development of business organisation. Such bases include function performed development of area production patter number of customers & time activities.

The bases of departmentation are shown with the following chart.



1. Departmentation by Functions:

It is the most common means of departmentation function plays the significant role in sub units of departments such as finance, production , marketing person etc. this is shown in the following taste

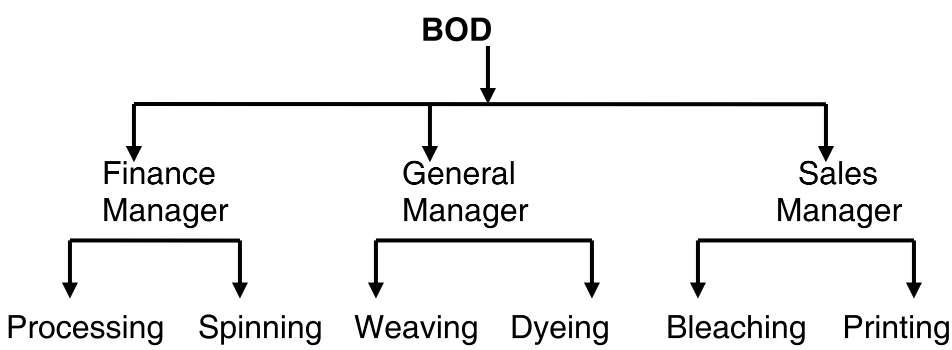


Benefits of departmentation by function:

- It is a logical method
- Facilities effective control & co-ordination
- It Facilitates optimum utilization of resources

2. Departmentation by process:

In this type the organisation is divided basic of the process of manufacturing units. For example of textile mill the process can be spinning, weaving, dying, bleaching & printing.



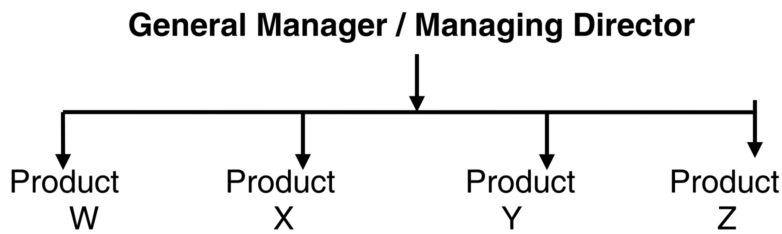
Merits / Benefits of Departmentation by process:

1) It is easy & suitable process for manufacturing products.
2) It enables maximum utilization of resource
3) It requires costly equipments but give more benefits in manufacturing products.

3. Departmentation by product:

The most of the multinational companies or large industries dealing with the number of products time or types of brands. Departmentation largely depends on the types of products of brands.

In this type of organisation different mange work on different product the entire manager getting responsibility on the kind of product.



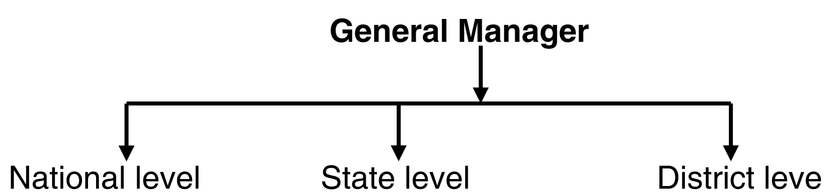
Merits / Benefits of departmentation by product :

1) It can generate competition between the firms brands
2) It enables organisation get maximum profit
3) Encourages companies corporate image

4. Departmentation by / Geographical area / Location:

This is the most important method undertaken by the departmentation in this method business activities covered by geographical areas.

In India government banking sector has number of departments such as national bank, state bank, district bank, schedule bank & so on . This is shown in the following chart:

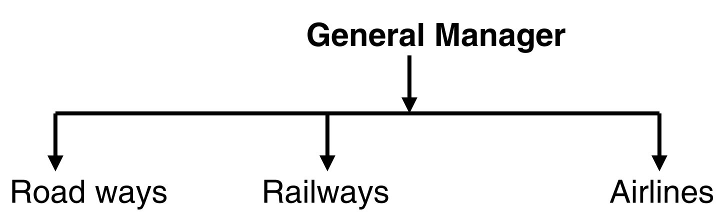


Merits & benefits are:

1) It improves standard of living of people
2) Development of bank word areas & also expansion of business to various part of the nation.

5. Departmentaion by Customer:

All types of department directly & indirectly depends upon the nature of customer for instant a cloths product supplying firm may divided the organisation all the bans.

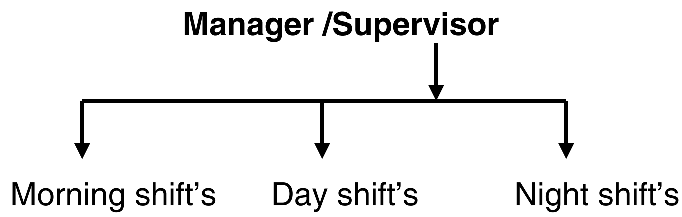


Benefits are:

1) It helps organisation to earn maximum profits & improve corporate image
2) Customer get maximum satisfaction

6. Departmentation by Time :

Most of the private sector department use this means of departmentation. It includes financial institution, educational institution, hotels etc. in this means Nature of work depends on the clock or specific Time . Every organisation set up particular time on the work.



7. Departmentation by Task Force:

In this means of departmentation involves the assigning of a project to a specific team of subordinate. The group of subordinate is known as Task Force. Each task has its own leader.

5.5.3 Advantages of Departmentation :

1. Division of work:

Division and specialization of work resulting in increasing overall efficiency.

2. Co-ordination:

Autonomy to departments for raising efficiency supplemented by co-ordination among different departments.

3. Responsibility:

Targets can be assigned to departments and fixation of responsibility on departmental heads.

4. Management Development:

It leads to management development as executives can have self development

5. Resources utilization:

Departmentation ensures optimum utilisation of resources.

5.5.4 Limitations of Departmentation :

1. Costly:

Departmentation is costly as it raises the administrative and operative cost of the organisation. This is due to duplication of work, equipment facilities and staff.

2. Co-ordination and control difficulties:

Departmentation creates a new problem of establishing effective co-ordination and control over the departments created , which affects overall efficiency of organisation.

3. The autonomy given to departments may prove to be dangerous.

5.6 SUMMARY

Span of control is simply the number of staff that report to a manager. Span of Control means the number of subordinates that can be managed efficiently and effectively by a superior in an organization. It suggests how the relations are designed between a superior and a subordinate in an organization. In reality, the ideal span of control depends upon various factors, such as: Nature of an organization, Nature of job, Skills and competencies of manager, Employees skills and abilities, The kind of interaction that takes happens between superiors and subordinates, etc

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

Departmentation is a part of the organizational process. It involves grouping of common activities on the basis of function of an organization under a single person’s control. The process of grouping of activities into units for the purpose of administration is called departmentation. The followings are the basis of departmentation: Departmentation by Function, Departmentation by Product, Departmentation by Territory or Geographic Area, Departmentation by Customer or Market, Departmentation by Process or Equipment.

5.7 QUESTIONS

1) What are the features of span of control
2) Explain the factors determining the span of control
3) State and explain the steps of delegation of authority
4) What are the principals of delegation
5) Why delegation is needed?
6) What are the merits & demerits of Departmentation?
7) What are the obstacles to delegation?

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6

MANAGEMENT CHALLENGES IN COMPETITIVE ENVIRONMENT I

Unit Structure

6.0 OBJECTIVES

After studying this student will be able -

- To know the concept of CSR
- To know the significance of CSR and its scope
- To understand the concept of knowledge management

6.1 INTRODUCTION

Business cannot live in its isolation. It means it needs support from all walks of the society. Because without societies or its elements, it cannot, establish, survive or run. So as it takes support from society, in the same way it is its responsibility to give something to society, for its development. This has been realised by certain business units. Even before and after industrialization and according as per the requirement they do something for the good of the society. This is known as corporate social responsibility. The basic of corporate social responsibility rest on the fact that not only public policy but even corporate should be responsible enough to address social issues. Therefore companies deal with certain issues and challenges along with the public policy or state.

In fact when we look in the history, we will find that India has a very old tradition of CSR yet there is need to make the

Indian entrepreneurs aware of CSR as an important segment of their business activity. If this has been done then the CSR approach of corporate will be in line with their attitudes mainstream business. The companies may set clear objectives, undertaking potential investments, measuring and reporting performance publicity.

The CSR has gained its glory during the independence movement. In that period, there was increased stress on it industrialists to demonstrate their dedication towards the progress of the society. In the same period Mahatma Gandhi introduce the concept of “trusteeship”. According to this concept the businessmen should manage their wealth so as to benefit the common man. Its impacts were as such that the business man established trusts for school and college and also set ups training and scientific institutions. These institutions were working to abolish untouchability, encourage empowerment of women and rural development. Since then up to till date the concept of CSR do exists, but it is in different forms.

6.2 MEANING AND DEFINITION

Corporate Social Responsibility (CSR) is a voluntary activity undertaken by a business unit. It is the activity where business are managed to bring about the overall impact (positive) on the communities, societies cultures and the environmental factors in which business operates. It is company’s commitment in which business operates. It is company’s commitment to the values and benefits of society as well as stokes holders.

Definition:

1. “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large”.

Lord Holme & Richard Watts.

2. “CSR is a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment.”

6.3 SCOPE OF CSR

Scope of CSR means where we can implement this concept and works it for the betterment of that area. In fact responsibility is an obligation so business uses to shoulders its **obligation** in the following areas.

1. Economics Responsibility:

It is related to financial or monetary aspect of the stake holders. So business needs to satisfy their expectation by offering certain advantages in terms of money, or economic gain. Generally following members or stakeholders do expect their benefit in the following way.

a) **Customer: -** Here customers do expect that they should get product or goods and services at the fair and reasonable prices.

b) **Shareholders** are vested with good rate of return and their wealth maximization.

c) **Employees** are expecting good salaries / wages. They also do expect some incentives.

d) **The government** expects that business as a part of social responsibility should pay taxes and dues to the government on time so that, these fund will be used for developmental work.

e) Last but not last stockholders like suppliers, dealers and investors are also having expects of their on time payment and other needs so it is business responsibility to met it property.

In this way business unit by giving appropriate responses to every stakeholder use to shoulder its corporate social responsibility.

2. Legal Responsibility:

Legal responsibility of business refers to legal compliance. As we know business unit has different activities, and each activity is govern by specific act or law. So when business applicable rule, regulations and law should be strictly followed. If any **amendment** is there, it would be considered and implemented for e.g. as per Company Act whose net profit is more than Rs 5000 crore, or net worth of Rs 500 crore or revenue is more than 1000 crore should spent 2% of its net profit towards corporate social responsibility.

3. Ethical Responsibility:

Ethics means find out the good. Fair and piousness of the activity means ethics. In other words while doing work sometimes business units by going beyond the rule and regulations or laws, should of have to do something good for society, for its betterment and development. Here society expects the company's proactiveness for its goodness.

4. Environmental Responsibility:

Environment is atmosphere the existence of different components of the air, which are helpful to all including that the business units. As per this obligation it is expected that the business units should not dilute the air, by giving up certain harmful gasses into the air. This may lead to create health problems of living beings as well as non living beings may also affects. For the sake of protection of environment businesses should undertaker corrective measures like do not use pollution creative material, Refuse it. It is necessary then used it in very low quantity or uses the same material for creating low pollution, if possible etc.

5. Law and order Responsibility:

Here business unit should support to Government to maintain law and order. The business should not promote anti-social elements, it should not give donations or certain fund to such groups so that they do not indulge in anti-social activity.

6. Upliftment of weaker sections:

In fact, it is discretionary responsibility of the business firms. But they should have to come forward and gave certain upliftment to weaker section by providing reservation for some posts, giving helping hands to physically challenged persons like blind, deaf and dumb etc.

7. Philanthropic responsibility:

It is also discretionary responsibility of the companies; however the Company Act 2013 has made CSR compulsory to some companies, based on its earnings or capital invested.

Philanthropy means folk welfare. The society does expect that the business should come forward and contribute to some noble cause like education, health care, cultural and sport development etc.

Some of the Indian business fulfills this responsibility by contributing to education, health care, earth quake rehabilitation, or any other events which damages the common life.

6.4 ADVANTAGES OF CSR

Corporate social responsibility is an activity which benefits to the business firm as well as society. Following are some of the advantages:

1. Good public relations:

Good public relations mean having fair and cordial relations with people. Every company tries to develop and maintain good relations with people so that they have positive feeling towards business. This kind of relation will be established with the help of CSR. Corporate social responsibilities will be exposed off by the Medias and the Medias exposure spreads the companies good work undertaken under social responsibility and gives positive impact on people's mind as they have done something good for people. This leads to create and establish good public relation. For example during 2001 to 2013, Azim Premji, the Wipro company's owner donated Rs. 26,000 crore for education. This has created a different impact on peoples mind.

2. Motivation to employees:

The companies, which are socially responsible, use to undertake different activities as social responsibility are liked by workers. Most of the employees feel proud and satisfaction to work such company. They develops positive attitude towards organization. Their satisfaction leads towards higher productivity, improved performances and ultimately increased profit. So here we can conclude that CSR works as motivation to employees.

3. Customer satisfaction:

Customer's satisfaction means customer's happiness and delightness. It is consumers' positive attitude towards company. By the research it is found that CSR improves consumers' attitude toward company.

4. Costs Reduction:

The CSR initiatives may helps to reduce costs. For the sake of customers' satisfaction company starts developing green products, water harvesting etc. company use to use Refuse, Recycling, etc where cost cutting will be done.

5. Product differentiation:

Due to social responsibility business units have started manufacturing eco friendly products. In market, these products are more demand. Though the products are charged high price then to consumers use to purchase these product so because of environmental friendly. These product are differentiated that of the conventional products.

6. Business expansion:

Corporate social responsibility Facilitates growth and expansion of business. The introduction of CSR follows business ethics. This ethics develops confidence trust among consumers' employees, investors and stakeholders, where business units gets greater support from all these elements, it helps to grow business.

7. Triple bottom line:

Triple bottom line means consideration of their major elements of business for manufacturing and selling i.e. people, planet, and profit. CSR enable business to achieve triple bottom line. How it will be is explained as under.

i) People:

People means all those who are related to business. It includes customers, employees and society in general. All these people do deserve that they should get fair and beneficial practices from business. And this will be given through Corporate Social Responsibility.

ii) Planet:

Here planet refers to sustainable environmental practices. Here it is expected that the business unit should not create harmful products. It should not damage environment by giving up toxic gases or chemicals in to air and dilute pollution. The company should care for conservation of natural resources and recycling of wastages. So all these activity can be undertaken by company through CSR.

iii) Profit:

Profit means income over expenditure. Here company, as it has good response in market use to able more products in the market and are able to earn more profit. The profit is very essential to any business for its survival and prospers.

6.5 KNOWLEDGE MANAGEMENT

Introduction:

Knowledge is actionable wisdom that results from facts, information. In general knowledge means information, it is very important in every one's life. Knowledge enhances the level or status of human being. It made men self reliant, confident, good judgment or all round personality person.

Knowledge management has long history. It was existing during 18th & 19th century too. It was existing in the form of job discussion, formal apprenticeship or discussion forums as well as professional trainings. It was very much helpful to business to accomplish its tasks defect less and on time.

Knowledge management means where business units consciously and compressively gathers, organizes, shares and analyzes its knowledge in terms of resources, documents, and people skills. It is believed that the business units are very good in its operation only when, if they are having compressive knowledge management practice. Nowadays there are certain new developed technologies to share information and execute information.

Knowledge management is a data mining and methods of pushing information for proper operations. Knowledge management plans, involves data mining and some method of operation to push information to users. A knowledge management plan involves a survey of corporate goals and a close examination of the tools, both traditional and technical, that are required for addressing the needs of the company.

In short, we can conclude that it is a systematic process of providing knowledge to managers with the ability of organizing and locating relevant content and the expertise required to address specific business task and projects.

As per P**rof. L . M. Prasad** opinion "KM is creation, distribution and utilisation of knowledge at individual, group, organization and community level through harnessing of people, processes, and technology for the benefits of those involved and affected by it."

"KM is a process of organizing and distributing an organization's collective wisdom so that the right information gets to the right person at the right time".

\- **Stephen p Robbins**

\-

"KM is the art of adding or creating value by systematically capitalizing on the know-how, experience and judgment found both within and outside the organization"

John w. slocum

6.6 FEATURES OF KNOWLEDGE MANAGEMENT

Following are the main features of KM:

1. Process:

It is a systematic process of managing internal as well as external information for the purpose of decision making and action. As it is a process it includes identifying the resources of knowledge, capturing the relevant knowledge or information then organizing in the form of catalogue, indexing and processing the information. At the last, the information is to be transmitted to the right person.

2. All pervasive:

All pervasive means it requires everywhere. The knowledge management can be used by business firm as well as non-business firm irrespective of their size. Business firm may use it for decision making and action in all key arias i. e. production, marketing and finance as well as human resource management. And non-business organizations may use it for effective implementation of operations.

3. Continuous in Nature:

It should be a continuous activity. Knowledge creation, knowledge sharing and knowledge utilization are not one time activity. It is required as long as the organization exists.

4. Management of explicit and tacit knowledge

Knowledge Managements requires explicit and tacit knowledge which can be easily shared with others and can be easily documented, demonstrated and disseminated to others. It is of two types:

a) **Declarative knowledge** which means facts and principles are declared and explained to others.

b) **Procedural knowledge** which facilitates the implementation of procedures.

Tacit knowledge is the knowledge which is gained from experience, learning and research, it is expert knowledge. It could be difficult to document and share with others. However organization needs it for quality decisions. For e.g. - expert doctors, inspiring teachers and so on.

5. Essentials of knowledge management:

There are certain pre-requisites to make knowledge management effective. Some of the pre requisites are as under:

a) Knowledge management should have openness, trust, corporation and mutual respect, so for organizational culture is concern

b) K.M should be creative ,sharing and learning

c) There is a need for integration of knowledge and organizational practices throughout the organization.

d) There is a need for active support from top management to make K.M a reality.

6. Art and science:

KM is both art as well as science. When we talk about art as it deals with talent and judgment for creating, acquiring and sharing knowledge.

When we talk about science, it involves systematic procedures for identification, collection and transmission of knowledge to the right person at right time.

7. Challenges of K. M:

Managers while practicing K.M use to face following challenges:

1) Generally, knowledge creator may not be in position to explain the gained knowledge clearly. Specifically it happens in case of tacit knowledge.

2) The knowledge creator sometimes may be unveiling to share to share his knowledge with others for different reasons.

3) K.M requires with culture of trust, openness, corporation and mutual respect. But sometimes it seems to be difficult to executive in the organization.

8. Strong leadership:

K M needs strong leadership to influence is important source of power, therefore people can influenced easily by capturing and sharing knowledge in the organisation.

6.7 SUMMARY

Corporate social responsibility (CSR) refers to a business practice that involves participating in initiatives that benefit society. As consumers' awareness about global social issues continues to grow, so does the importance these customers place on CSR when choosing where to shop.

CSR practices include focus on environment. Businesses also practice social responsibility by donating to national and local charities. By treating employees fairly and ethically, companies can also demonstrate their corporate social responsibility.

"Knowledge management is the process of capturing, distributing, and effectively using knowledge." The challenge of Knowledge Management is to determine what information within an organization qualifies as "valuable." He main features of KM are: It is directly linked with people; it uses only the information that is the most meaningful, practical, and purposeful, it is a fluid, ongoing process, it is value-added, it is visionary and it is complementary.

6.8 QUESTIONS

1. Define Knowledge Management. Explain its features.

2. Discuss about the scope of Corporate Social Responsibility.

3. What is CSR? Explain is advantages.

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7

MANAGEMENT CHALLENGES IN COMPETITIVE ENVIRONMENT II

Unit Structure

7.0 OBJECTIVES

After studying the unit the students will be able to:

- Explain the concept Management of Change and its process.
- Discuss about the barriers to change.
- Define the concept Corporate Governance
- Understand the need of Corporate Governance.
- Know Corporate Governance tests.
- Understand the meaning of Stress and its effects.
- Understand how to manage the stress.

7.1 INTRODUCTION

No organization or individual can escape change. But the thought of Change raises anxieties because people fear economic loss, inconvenience, uncertainty, and a break in normal social patterns. Almost any change in structure, technology, people, or strategies has the potential to disrupt comfortable interaction patterns. For this reason, people resist change. The strategic management process itself can impose major changes on individuals and processes. Reorienting an organization to get people to think and act strategically is not a.n easy task.

If the business is accepting changes it means it is competitive means your business is doing as well or better than others offering similar products or services. But customers can always take their business elsewhere. The challenge for business owners and managers is staying competitive. And that requires, among other assurances, a skilled workforce, enough cash flow to keep the business going and the latest technological tools.

7.2 MANAGEMENT OF CHANGE

7.2.1 Introduction and Meaning:

Organizational change is any alteration that occurs in the environment of organization. It means alternation to aim and objectives, strategies, procedures, technology, structural arrangement, job design, and people. It means changes in any aspects of organization. It may be small one or big one. It also includes restructuring, mergers, amalgamations, expansion, modernization, diversification etc. A change does bring about subsequent change in the organizational set up or management.

Any organization goes through two types of changes:

1. Structural change:

In the structural change the whole organization goes through some or a drastic change in the whole structure. Here some new divisions or departments may be formed or some may be completely shut down or modified to some extent. Some may even be merged with others.

2. Behavioural change:

Behaviourable change is another type of change an organization can go through. This should be done so that the company can survive the external and internal impacts.

7.2.2 Features of Organizational Change:

1. Pervasive in nature:

A change is one part of the organization and organization cannot avoid it. It may affect other part of the organization also. Organizational activities cannot be static in nature, there are bound to be changes in the organizational set up. All the departments and their activities are subject to change. Some parts may be largely affected than other parts. Some parts may have direct impact or some parts may have indirect impact. For example, if new machines are installed in the factory, then HRD department has to train its staff, marketing department has to bring about necessary changes in its marketing appeal to match with the improved products etc.

2. New management set-up:

Any change, big or small affects the organization's existing set-up. So Management has to bring about new management set up to incorporate the new changes. New changes can be just incorporated in the old and existing management activities. The set-up depends upon the degree of change and its overall impact on the management.

3. Continuous in nature:

Organizational change is continuous in nature. It is not static. As long as, there is organization, changes are bound to occur. Some changes may be minor one or some may major ones but they are going happen, as in the World nothing is static, and organization is not exception for it.

4. Reactive and Planned:

A change may be reactive or planned. Reactive change is unplanned and it takes place due to changes in the environment. For example, competitor may change its marketing strategies; similarly company has to make changes in its marketing strategies. This is reactive change. Some change may be planned and proactive. These changes are outcome of deliberate planning on the part of organization.

5. Change and Innovation:

Change is different from innovation. All innovations are change but changes are not innovations. Innovations take place when any organization makes first use of idea to introduce the product, to develop new techniques, method or process etc. But change means an alterations or modifications in organization's existing set-up.

6. Several factors:

An organizational change takes place due to several factors. These factors can be internal or external. The internal factors include management, workers, job design, strategies etc. External factors include competition, government, customers, suppliers, dealers etc.

7.2.3 Process of Management Of Changes:

A change does not occur immediately. It goes through different stages, they are as follows.

1. Identify need for a changes:

The first step in the process of management of change is to identify the need for change in the organization. One should not introduce any change just for the sake of doing it. Any change should bring out desired change in the organization.

Many times a changes arises due to internal or external factors. External factors include technological development, change in competitors' strategies, change in government policies, change in the customer's taste or preference etc.

Internal factors include fall in sales or profit, high cost of production, increase in labour turnover, high maintenance cost etc. These factors force the management to bring out necessary changes in the organizational set-up.

The management has to identify the need for change. It depends upon the gap between the actual results and the desired results. This gap can be identified by comparing the actual performance with the planned performance.

2. Decision on elements to be changed:

After identifying the need for change, the next step is to decide on the elements of organization which requires change. It depends on the need for change. For example, if there is fall in sales, then organization have to undertake a detailed study of the problem to find out causes of **such fall** in sales.

The causes for fall in sales may be

- High Price
- Low Quality of the products
- Poor advertising campaign
- Defective marketing strategy
- Poor distribution strategy

After undertaking thorough study of the problem management should identify the element or factors which require change. For example, if fall in sales is due to poor pricing strategies, then management should bring out necessary changes in its pricing strategies.

3. Planning for change:

After identifying the elements that require a change, the management should plan for change. Planning for a change would involve answering various questions, they are as follows -Who should introduce a change? When to introduce a change? How to introduce a change?

Normally the department concern and the top management is responsible to introduce a change. Secondly, there should be proper timing to introduce a change. Some change has to be introduced immediately or some changes are introduced in future considering the proper timing. Similarly management has to list out different activities to introduce a change. Management should not only list out the activities but also decide how they have to be undertaken.

4. Assessing change forces:

The management should assess the impact of change on internal and external forces. For example, management has to find out how would the change affect the people within an organization? Would they resist the change? If yes, management has to create necessary environment to manage such resistance to change. This environment can be created by proper communication, discussion and involvement of people in introducing the change.

The management should find out impact of change on the external factors such competitors, government, customers, dealers, suppliers etc. If organization is going to change its pricing strategy, then it must find out how would a change in price affect competitors, customers? Whether customers would react positively or negatively?

5. Introducing a change:

After communicating the change to the organization people and securing their active support, management has to introduce the change. For introducing the change sometimes, management may have to keep old ideas, views, methods, activities aside because old ides or methods have failed to bring desired results. News ideas and practices are accepted and learnt by the employees and put into action.

6. Review:

There must proper review to find out whether the change has been successful to bring desired results. Management should try to understand whether the introduction of change bring out positive effects in the company's performance. If not, management has to handle the situation; it should rethink the whole situation and should bring out new changes in the activities of the management.

7.2.4 Reasons for Organizational Change:

There are various causes or reasons for organizational change, they are as follows:

1. Technological and Organizational change:

There is always development in existing technology. Hence technology is the most important factor responsible for organizational change. Developments in technology bring out changes in production, communication and various management activities. To succeed in the market, an organization to up-grade itself with the developing technology.

2. Change in management philosophy:

Sometimes management philosophy may change from traditional management philosophy to professional management philosophy. Subsequently change has to introduce in strategies, decision making process, communication, production activities etc. Change in philosophy of the management can have major impact on the organizational activities.

3. Management personnel:

There may be change in management personnel. For example, the Chief Executive Officer or Departmental Head may be changed. As each person has its own perspective, the change in personnel may bring out changes in organizational structures, policies, aim and objectives etc.

4. Business cycle:

Every business passes through different phases such introduction phase, growth phase, maturity phase and decline phase etc. Due to changes in business cycle, necessary changes have to be introduced. For example in decline phase, organization may concentrate only on profitable products and may drop unprofitable products; it may change its marketing strategy by reducing its promotional expenditure etc.

5. Environmental forces:

There may be changes in the environmental forces such competitor's strategies, change in customers taste and preference, change in government policies etc. Any change in the environmental forces requires a change in the business organization so as to adjust with the changing environmental forces. For example due to change in customer's taste and preference, company has to change its product quality, pricing strategy, marketing appeal etc.

6. Problem in the Organization:

There may be problems in the organization. For example, the technology may be old and obsolete; employees may not be trained and expert, problem in organizational strategies etc. In order to survive in the market and to face the competition organization have to change its existing defective setup, otherwise organization may have closed down.

7. Growth and Expansion:

When organization plans for its growth and expansion, it has to bring out necessary changes in the organizational activities. With the existing organizational set up it is not possible to achieve growth' and expansion of the organization.

8. Entry in new business or new market:

Sometimes organization may enter in new business or new market. For example, a company presenting dealing in consumer durables, may plan to enter in customer finance, company operating at national lever may enter in international market. For such new business and new market company has to introduce changes in its policies, structures, strategies etc.

7.2.5 Causes or Factors of Resistance / Barriers to Change:

In any organization, there is resistance to change. There are various chases for such resistance to change

1. Traditional Management philosophy:

Traditional managers do not like to introduce changes in the organization. They are satisfied with present performance of the organization. They support their existing set up and do not think about organization's future prospects

2. Problem of Responsibility:

Managers are held responsible for the results of changes. Every change in the business activities has some sort of risk. There is no guarantee that change would bring out positive effects, so managers do not want to take risk and do not want to take responsibility. Sometimes they are afraid of the failure arising out of introduction of change in the organization.

3. Shortage of Resources:

Every organization needs to adjust to changes in the external environment. For instance, if there are technological changes, which need to be introduced in the organizations for better performance, organizations may find it difficult to introduce the technological changes due to resource constraints. In other words, an organization may not have adequate funds, and manpower to introduce the technological changes.

4. Stability of Systems:

Organizations tend to develop certain systems, which bring benefits to the organization. The organization may be so used to the system that it may find it difficult to replace with new and better system, even though the new system may bring better results than the existing one. For instance, most educational institutes are comfortable with the present system of education, where the students are passive receivers of knowledge from the teachers, and as such emphasis would not be placed on interactive learning system, wherein the students plan an active role in the learning exercises.

1. Organizational Agreements:

Sometimes, an organization may enter into agreements with another associations or organization, in respect of certain matters. For instance, an organization may enter into an agreement with its trade union, not to introduce changes that would reduce the size of workforce. As a result of such agreement, it would be difficult to introduce changes such as automation, which would results in the reduction of workforce.

2. Redundancy of Jobs:

Employees may feel that a change can make their jobs redundant and as such they may lose their jobs, which in turn would affect their economic security. For instance, when computers were first introduced in between 1970s and 1990s in several organizations in India, employees including managers resisted the changes for the fear of losing jobs and consequently their economic security

3. Problem of Incentives:

At times, a change would reduce incentives of employees such as over-time pay and as such they resist change. For instance, automation in the industry reduces the need for over-time of employees, and therefore, they may resist introduction of labour saving devices in the organization.

4. Inconvenience:

Individuals may resist change, which is likely to cause inconvenience, make the life more difficult, reduce freedom of action or result in increased workload.

5. Fear of unknown:

Individuals may resist change for the fear of unknown. For instance, a firm may introduce new technology, and an individual employee may resist such changes may be because of the fear of non exposure to new technology. He/she may feel that the new technology may be difficult to handle and as such he/she may avoid accepting the new technology.

6. Problem of Ego

Some individuals enjoy present status in the organization. They satisfy their ego needs with the present position or status in the organization. A change in the organization may affect their position or expose their weakness. As such, individuals may resist change in the organization.

7.2.6 Ways to Overcome Resistance to Change:

Management has to manage resistance to change. It is real challenge to overcome resistance to change. Strategists can take a number of positive actions to minimize managers and employees resistance to change. For example, individuals who will be affected by a change should be involved in the decision to make the change and in decisions about how to implement the change, Strategist should anticipate changes and develop and offer training and development workshops so that managers and employees can adapt to those changes. They also need to communicate the need for change effectively.

The following are the-various ways to overcome resistance to change.

1. Participation and Involvement:

The management should secure involvement of employees who would be affected by the change. This would involve explanation and then discussion on the proposed change. The management should try to find out reaction, opinions and suggestions of the employees in respect of the proposed change. It is generally observed that as the participation increases, resistance to change tends to decrease. Since the needs of the employees are considered, they feel secure in a changing situation.

2. Leadership:

Managers should have strong leadership skills to influence the employees to willingly accept the changes in the organization and work for the accomplishment of the organizational goals. Managers must provide performance - related reasons for the change. It is generally believed that change is more likely to be successful, if the leader has high expectations of its success.

3. Shared Rewards:

Management should promise sharing of rewards arising out of the proposed change. When employees are assured of rewards they would be willing to accept the implement the changes in the organization. Employees need to be provided both with monetary and non-monetary incentives. The management may introduce group rewards as well as individual rewards so as to implement the change effectively.

4. Employee Security:

Existing employees must be provided with security. A guarantee of employee security would result in overcoming the resistance to change on the part of employees. Management should guarantee workers protection, seniority rights, and opportunities for promotion and other such benefits.

5. Education and communication:

Management can introduce change in the organization through education and communication. Effective communication between management and employees is required for the successful implementation of change. Management should educate the employees regarding the benefits of the proposed change. Education and' communication can reduce misunderstanding and improve' trust and confidence between the management and employees.

6. Training and Counseling:

Management can introduce training programme so as to upgrade knowledge, skills and attitudes of the employees. Employees should be trained to become familiar with change, and it's working. At times, management may provide psychological counseling to develop a positive attitude towards change.

7. Union Consultations:

Management should consult the worker's union in introducing the change in the organization. Union representatives should be involved before the change is introduced in the organization. Such involvement is required not only to avoid resistance but also secure willing cooperation and commitment of the workers towards the changes in the organization.

8. Group Dynamics:

A change not only affects individual members but also the groups in the organization. Therefore, the management should understand the impact of group dynamics. The management may find out the important and influencing members of the group, and through them may introduce the change in the organization. The influencing members of the group, the so-called group representative can exert strong pressure on the group members to accept the change.

Organizational change should be viewed today as a continuous process rather than as a project or event. The most successful organization today continuously adapt to changes in the competitive environment, which themselves continue to change at an accelerating rate.

7.3 CORPORATE GOVERNANCE

7.3.1 Introduction and Meaning:

The concept of corporate governance did not receive much attention till 1990s. However its need and importance increased considerable thereafter. This was due to mismanagement and failure of many corporations and widespread dissatisfaction with the functioning of many corporations at the global level. The Cadbury Committee was appointed to define a code of good corporate governance and to suggest ways and means to implement it.

Corporate governance is about ethics in business. It is a system by which companies are directed and controlled, placing the board of directors in centre. It also includes the relationships among the stakeholders involved and the goals .for which the corporation is governed. Corporate governance is concerned with the problem that arises from the separation of ownership and control. It relates to the arrangement made by the financiers i.e. shareholders and lenders to induce managers to care for their interest. Thus corporate governance refers to the overall control of activities in a corporation.

DEFINITION:

1. **According to UK Cadbury 1992 and South African King Report 1994,** "Corporate Governance is the system by which the companies are directed and controlled."
2. Corporate Governance may be defined as “a set of rules, regulations, procedures' and practices to be adopted by a firm's management to manage its affairs in the best interest of its stakeholders i.e. shareholders, investors, customers, employees, suppliers and others”.
3. Corporate Governance may be defined as “a set of systems and processes which ensures that the company is managed to the best interest of all the stakeholders”.

In short good corporate governance means:

1. To run the companies in an open and honest manner.
2. To improve overall market confidence.
3. To increase efficiency of international capital allocation.
4. To contribute to the nation's overall wealth and welfare.

Reports on corporate governance:

A number of reports and codes on the subject of corporate governance have already been published. Some of the important reports are:

- The Report of the Cadbury Committee
- The Report of the Green bury Committee
- The Combined Code of London Stock Exchange
- The OECD Code on corporate governance
- The Blue Ribbon committee on corporate governance in US
- CM Code of corporate governance in India
- The Report on corporate governance by K.M.Birla committee

7.3.2 Features of Corporate Governance:

1. Major stakeholders:

The major stakeholders in the area of corporate governance are management, shareholders, employees, financial institutions, banks, customers, suppliers, society etc.

2. Factors of corporate governance:

The corporate governance depends upon the two main factors:

- Commitment of the board of directors and management towards integrity and transparency in business operations
- The legal and administrative framework of the government.

3. Objective of corporate governance:

The main objective of corporate governance is the enhancement of shareholder value, keeping in view the interests of other stakeholders. Therefore there is need to have a proper balance between shareholder's wealth and interests of stakeholders.

4. Disclosure and transparency:

Companies must clarify and notify their responsibilities as members of board and management to provide shareholders with a level of accountability. They should also implement procedures. They must also disclose important matters concerning the company.

5. Social consciousness:

Corporate governance is the formal system of accountability of company management to shareholders and society as a whole. It is essentially for making business enterprises socially conscious through acceptance of social responsibility concept.

6. Value of ethics:

Corporate governance has its own philosophy based on ethical and moral standards. It emphasizes that ethics are important as other factors. Attention to ethical and moral aspects deserves high importance.

7. Universal application:

The importance of corporate governance has been suggested by international agencies. In many countries, legal recognition is given to this concept. All companies are expected to honor this concept on voluntary basis.

8. Systematic approach:

Corporate governance relates to laws, procedures, practices and rules that determine a company's ability to take improved managerial decisions from social point of view. Good corporate governance protects the interests of investors of all categories. They contribute to the efficiency of the company and eventually country's upliftment.

7.3.3 Need of Corporate Governance

Corporate governance is essential to fulfill the following needs:

1. To enhance the long term value of the company for its shareholders and all other parties directly a indirectly associated with it.
2. To provide norms for the relationships between company management, its board, shareholders, owners, employees, suppliers, customers and the public.

3. To promote the goodwill and reputation for the company and the esteem of its management.
4. To attract, employ and retain talented and motivated employees by encouraging participative Style of Management.
5. To create and adopt code of conduct whole hearted commitment and improve the moral and ethical standards to performance of the utmost level.
6. To have a right balance knowledge and competence, to set strategies and lead the organisation.
7. To use the available resources in most economic, efficient & productive manner for the benefit of shareholders an well as for the society at large.
8. To set the high standards of business ethnics based on humanity, honesty and hard work.
9. To improve the standard of living of the society.
10. To generate accurate and reliable information.
11. To make decision making process transparent.

7.3.4 Importance of Corporate Governance:

1. Good corporate governance leads to good performance in the form of higher returns and maximized value of shareholder's wealth.
2. Corporate governance improves communication and break down barriers to flow of information between the management and stakeholders.
3. Corporate governance gives rise to quality decisions.
4. It helps to create and develop a positive image of the company.
5. It helps in providing comfort to all stakeholders and society.

7.3.5 Corporate Governance Practices In India:

In India, there are six mechanisms to ensure corporate governance.

1. The Company's Act :

Companies in India are regulated by the Indian Companies Act., 1956, as amended from time to time. To ensure corporate governance, the Act confers legal rights to shareholders as under.

i. To vote on every resolution placed in an Annual General Meeting.

ii. To elect directors who are responsible for specifying objectives and laying down policies.

iii. To determine remuneration of directors and the CEO.

Iv. Removal of directors and.

V Take active part in the annual general meetings.

2. Securities Law:

The Primary Securities Law in our country is the SEBI Act. Since its setting up in 1992, the board has taken a number of initiatives towards investor protection. One such initiative is to mandate information disclosure both in the prospectus and in the annual accounts. While the Companies Act itself specifies certain standards of information disclosure, the SEBI Act has added substantially to these requirements in an attempt to make these documents more meaningful.

3. Discipline of the Capital Market:

Capital market itself has considerable impact on corporate governance. The minority shareholders can play an effective role in this regard. They can refuse to subscribe to the capital of a company in the primary market and in the secondary market. They can sell their shares, thus depressing the share prices. A depressed share price makes the company an attractive takeover target.

4. Nominees on Company Boards:

Development banks hold large amount of shares in companies which have been given long term loans. Being equity holders, these investors have their nominees on the Board of Companies. These nominees can effectively control resolutions, which may be detrimental to their interests.

5. Statutory Audit:

Statutory Audit is yet another mechanism directed to ensure good, corporate governance. Auditing enhance the credibility of financial reports prepared by any enterprise. The auditing process ensures that financial statements are accurate and complete, thereby enhancing their reliability and usefulness for making investment decisions.

The above mentioned mechanisms are regulatory in approach. They are governed by law and violation of any provision can invite penal action. But legal provisions alone cannot ensure good corporate governance. What is actually need is self regulation on the part of directors.

Check Your Progress

1. "Manage resistance to change is a real challenge to for management". Discuss.
2. Enlist the corporate governance practices in India.
3. "A change does not occur immediately. It goes through different stages". Explain.

7.4 STRESS MANAGEMENT

7.4.1 Meaning and Definition of Stress Management:

A potential for stress exists when an environmental situation is perceived as presenting a demand which threatens to exceed the person's capabilities and resources for meeting it, under conditions where she/he expects a substantial differential in the rewards and costs for meeting the demand versus not meeting it.

In many ways, this definition incorporates what most theorists see as the main ingredients in stress, namely, subjective appraisal of a demanding environment, a realisation that demands may outstrip resources, and that the consequences of not coping are important. In the absence of a universally agreed definition of stress, the widely accepted protocol of describing environmental factors as "stressors", individual responses as "strains", and the vast gamut of mediating activity in the form of cognitive processing and personality dispositions as "intervening variables" can usefully be adopted.

"The term 'Stress' refers to the body's physical, mental, and chemical reactions to circumstances that confuse, endanger, frighten or irritate the individual". In fact, stress is concerned with the branch of Engineering. But this word has been used in the field of social science by Hans Selye in 1936. Many words are used to denote work pressure like stress, strain, conflict and pressure, but stress is the most common.

Stress may be defined as "a state of psychological and/or physiological imbalance resulting from the disparity between situational demand and the individual's ability and/or motivation to meet those demands".

According to Beehr and Newman job stress as, "A condition arising from the interaction of people and their jobs and characterized by changes within people that force them to deviate from their normal functioning".

Stress is an adaptive response to an external situation that results in physical, psychological and/or behavioural deviations for organisational participants.

1. Stress is not simply anxiety.
2. Stress is not simply nervous tension.
3. Stress is not necessarily something damaging bad or to bd avoided.

7.4.2 Symptoms of Stress:

Symptoms of stress are generally into the following two categories:

1. **Physiological Symptoms:** Some of the physiological symptoms of stress are :
   - i Increase in blood pressure,
   - ii Increase cholesterol,
   - iii Frequent cold and fever,
   - iv Increase biochemical substances such as uric acid and catecholamine.

2. **Psychological Symptoms** : Psychological symptoms of stress are :
   - i Anger,
   - ii Frustration,
   - Iii Irritation,
   - iv Depression,
   - v Fatigue,
   - vi Lower job satisfaction,
   - vii Loss of self-esteem.

7.4.3 Causes Of Stress:

The isolation and loneliness are responsible for domestic stress and mental illness. Dirt, smell, chemical pollution and cigarette smoke can be stressful. The chemicals in our foods, drinks and drugs contribute to stress. In modern times alcohol helps the body and mind relaxes but taken in excess it acts, damaging the liver and impairing brain.

The various causes that led to stress are as follows:

1. Extra-organizational Stressors:

It refers to factors outside the organization which lead to stress. These factors do affect the organization and are affected by the organization as well. Some of these factors are as follows:

a. **Social and Technological Changes:** The speed at which changes are taking place results in stressful condition; It is difficult to get adjust quickly to such rapid changes which make- life disrupted.

b. **Financial Problems**: In a city like Mumbai, where accommodation is expensive and the standard of living is high, then financial problem can be a cause of stress, wherein a person needs to earn extra money for that needs to work additional or the wife has to earn some money, which reduces domestic family life and increases the potential for stress.

c. **Family Problems:** Family problem may be something serious such as strained relationship between the spouses or parents, and the children. Another problem could be mentally retarded children, handicapped child, etc.

d. **Race, Religion and Sex of a Person:** Factors such, as sex, religion can be stressors. Women have more stress than men because the world is dominated by men.

e. **Civic Amenities:** The area where one lives, the water supply, air pollution, noise pollution, electricity supply "etc. all these are extra-organizatiohal factors which can cause stress.

2. Organizational Stressors:

Stressors inside the organization are:

a. **Occupational Demands:** Some jobs are monotonous and complex; some are highly repetitive and require constant vigilance is more stressful. For example, job of a fire fighter, policeman air pilot etc.

b. **Personal v/s. Organizational Life:** When the family and personal needs interfere with organizational demands, it leads to stressful conditions. For example, a manager is promoted and given prestigious posting abroad but need to resume on duty immediately at the same time one of the family members is very sick and needs him at home.

c. **Career Concern:** If an employee is too much concerned about his own career and feels that there are no opportunities for self-growth, he might feel stagnant and experience stress.

d. **Role Conflict:** Different people do have different expectation which results in role conflict, i.e. a manager in the organization is a link between management and workers and often faces role conflict.

e. **Role Ambiguity:** Employees experienced stress when they are provided with ambiguous idea or information about their work which creates confusion in minds of the workers and results in stress.

f. **Work Overload and Under load :** Work overload refers doing too much of work in allotted time. 'Work overload can be of two types:

g. **Quantitative Overload:** In which the employee is asked to do more work as compared to he can complete in a specific period of time.

h. **Qualitative Overload:** Wherein employee feels that he do not possess required skills or abilities to perform the job Work under load refers to too little work to do can also result in stress.

i. **Responsibility for Others:** It observed that people who are responsible for other people experience higher level of stress.

j. **Organizational Process:** Office, politics, lack of information, poor communication etc. results in organizational stressors.

k. **Organizational Policies:** Frequent transfers, inflexible rules, pay inequity, work shift, unfair performance appraisals systems can also cause stress.

l. **Working Conditions:** Excessive heat or cold, distracting noise, poor lighting, inadequate safety measures, unpleasant smells and such conditions do affect the employees and lead to stress.

m. **Lack of Cohesiveness and Social Support:** Lack of togetherness i.e. no unity between the members can result in stressors. Lack of social support within the members may also lead to stressors.

7.4.4 Coping with Stress / Measures of Managing Stress:

It is perhaps impossible to eliminate stress altogether, but by controlling or reducing stress on the job, an organization can become a more productive an healthy working place.

1. Measures at Individual Level:

a. **Regular Exercise:** Regular exercising such as walking, jogging etc. reduces the chances of heart disease and keep oneself physically fit.

b. **Relaxation Training:** A type of training which makes relaxed or release from tension.

c. **Meditation:** It is a form where an individual takes a sitting position, closes his eyes and concentrates on some mantra again and again helps to reduce stress.

d. **Social Support:** Gaining social support from family members and co-workers often helps to reduce stress.

e. **Behavioural Self-control:** This strategy involves the individual to control the stressful situation instead of allowing the situation to control him.

f. **Bio-feedback:** It is a technique where a stress victim, under medical guidance, learns to influence symptoms of stress such as headache.

g. **Personal Well-being:** Some preventive measures such as self-assessment, time management can also be taken to minimise the effects of stressors.

2. Organizational Strategies to Combat Stress :

a. **Change in Organizational Structure:** Proper means of communication, making rules that are flexible, helps in combating stress.

b. **Working Environment:** Appropriate working environment should be provided such as sufficient lighting, ventilation facilities, adequate safety and security measures, facilities for rest and recreation can be provided to reduce the impact of stress.

c. **Decentralisation of Authority:** Another strategy used is decentralization of authority i.e. increasing the active participation of subordinates in decision making and reducing the involvement of seniors.

d. **Changing the Nature of Job :** The redesigning of the nature of some job can helps to solve the problem of stress i.e.

   i. Boosting employee morale and enhancing motivation of employee.
   ii. Minimising work overload and under load.
   iii. Removing unpleasant and risky elements from the organizations.
   iv. Increasing qualitative features of the job.
   v. Encouraging the employees in active participation in decision making etc

7.4.5 Effects of Stress:

Some of the important effects of stress are described below:

1. Effect on Individual:

Stressful situations which are prolonged produce serious physical and psychological disorders.

a. Physical Health: Individual experiencing prolonged stress situation suffers from heart disease. It also gives Vise to high-blood pressure, ulcers, arthritis, headache etc. It has been found that more than 50% of the physical illnesses are partly caused by stress.

b. Psychological Health: Stress has an adverse effect on employee's attitude and behaviour. It has effects such as anxiety, nervousness, anger, depression, boredom etc. The change in employee's behaviour has an adverse effect on job performance. It affects self-esteems, reduces job satisfaction.

c. Alcoholism and Drug Addiction: Many people gets addicted to alcohol or drug in order to escape from the ill effects of high level stress. It may lead to negative effects on the health of that particular individual. It may also lead to increased absenteeism, loss of production, increased work accidents.

d. **Burnout:** A syndrome of emotional, physical and mental exhaustion resulting from prolonged exposure to intense stress. The symptoms of burnout are loss of energy, a person looks tired, experiences frequent headaches, nausea, backpain, sleeplessness, feeling of depression, holds negative attitude towards job, loss of self-confidence.

2. Effect of Stress on Organization Behaviours :

- **i.** It affects the performance level of an employee.
- **ii.** Person experiencing high level of stress result in low level of performance, loss of self-confidence.
- **iii.** It leads to increase in absenteeism and turnover.
- **iv.** It leads to alcoholism, drug abuse, smoking etc.

7.5 SUMMARY

Change management is a systematic approach to dealing with change, both from the perspective of an organization and on the individual level. Generally it has three different aspects: adapting to change, controlling change, and effecting change. Successful adaptation to change is as crucial within an organization as it is in the natural world. The more effectively you deal with change, the more likely you are to thrive. Adaptation of changes establishing coping mechanisms for responding to changes in the workplace. Resistance to change can be considered the single greatest threat to successful strategy implementation. Resistance in the form of sabotaging production machines, absenteeism, filing unfounded grievance, and an unwillingness to cooperate regularly occur in organization. People often resist strategy implementation because they do not understand what is happening and why changes are taking place. In that case, employees may simply need accurate information. Successful strategy implementation hinges upon manager's ability to develop an organizational climate conducive to change. Changes must be viewed as an opportunity rather than as a threat by managers and employees.

Corporate governance relates to laws, procedures, practices and implicit rules that determine company’s ability to take improved managerial decisions from social point of view. It is basically a system of making directors accountable to shareholders for effective management of the company along with concern for ethics and values. It is a process or a set of systems and processes to ensure that a company is managed to suit the best interests of all. The systems include structural and organisational / matters. The stakeholders may be internal state holders (promoters, members, employees and executives) and external state holders (promoters, members, customers, lenders, vendors, bankers, community, government and regulators).

Stress is a state of psychological and/or physiological imbalance resulting from the disparity between situational demand and the individual's ability and/or motivation to meet those demands. However, a prolonged presence of intense stress is certainly not beneficial to individual as well as organization. There are outside forces which have tremendous impact on the job. Like societal/technological change, the family, relocation economic and financial conditions, race and class and residential or community conditions. As well as Group Stressors are there those divided into three areas. Lack of group cohesiveness or togetherness, Lack of social support and Intra individual, interpersonal and intergroup conflict.

7.6 QUESTIONS

1. Explain the meaning of Management of Change and its process in detail.
2. “Resistance to change can be considered the single greatest threat to successful strategy implementation”. Discuss.
3. What are the barriers to change?
4. Define Corporate Governance and explain the need of Corporate Governance.
5. What is the meaning of Stress Management? Elaborate the measures of managing stress.
6. Write short notes:
    a. Corporate Governance Tests/ practices
    b. Effects of Stress
    c. Causes of Stress
    d. Ways to overcome resistance to change.
    e. Features of management of Change.

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8

PRODUCTION PLANNING AND CONTROL

Unit Structure

8.0 OBJECTIVES

After studying the unit the students will be able to:

- Know the concept production planning and control.
- Understand definition and objectives of production planning and control.
- Study the various steps in production planning and control.
- Explain the production system and its types.
- Evaluate the term productivity and the factors influencing productivity.

8.1 INTRODUCTION

Production is the centre of the entire business organisations. Production planning and control functions look after the complete manufacturing activity. In the management of any task planning and control are the two basic and interrelated and managerial functions. Planning is a pre-operation activity while control is the post-operation function and involves initiating production comparing it with standard, finding out the variation if any and taking necessary corrective measures.

8.2 DEFINITION OF PRODUCTION PLANNING AND CONTROL

8.2.1 Definitions:

According to Alford and Breatty, "production planning and control comprise the planning, routing, scheduling, dispatching and follow up functions in the production process so organised that movements of material are directed and co-ordinate as to quantity, quality, time and place".

Production planning and controlling is concerned with planning and controlling production activities. The following are the main objectives of production planning and control.

8.2.2 Objectives of Production Planning and Control:

a) Continuous flow of production:

Production planning and control facilitates continuous production as per the production plan. This is possible as all operations are planned properly and also well in advance. Since all the machines are put to maximum use, there is regular production. This helps to provide regular supply of goods to the customers.

b) Optimum utilisation of plant capacity:

Proper production planning and control ensures effective utilisation of plant capacity. All the resources i.e. men, materials, machines, etc. are put to maximum use. This results in reduced cost and higher returns to the organisation.

c) Estimate of resources:

Production planning and control helps to estimate required resources. Production is planned according to sales forecast. On the basis of this forecast proper quantity and quality of resources is decided. Thus, it avoids excess or shortage of resources.

d) Minimising wastages:

Because of proper inventory of raw materials, there is proper material handling. This helps in minimising wastages of raw material. Also because of effective control, there is production of quality goods. This results in minimum rejects. Thus, proper production planning and control results in minimum wastage.

e) Team work:

Proper production planning facilitates team work among various departments. The production department works in close cooperation with other departments such as purchase, marketing, finance, etc.

f) Achieve goals:

The objective of production planning and control is to achieve goals of the firm quickly. The resources of the organisation are scarce so it is necessary to plan properly as it will facilitate achievement of goals. Production goals are generally qualified which facilitates achievement.

g) Improvement in labour productivity:

There is maximum utilisation of man power. If requires training is provided to the labour. Benefits of profitable operations are passed on to the workers in the form of increased wages and incentives. Workers are motivated to perform the best. This results in increase in labour productivity.

h) Efficient service to customers:

As there is regular flow of production, it is possible to fix delivery dates as production proceeds in time. Therefore, the company can supply the goods in the market on time. This brings goodwill and customer satisfaction.

i) Facilitates quality improvement:

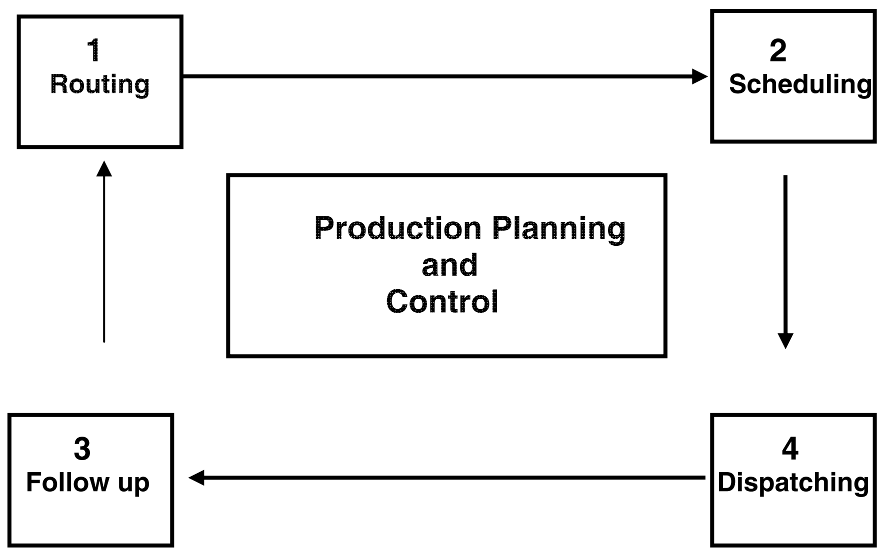
Proper production planning and control facilitates quality improvement as necessary checks are undertaken at regular intervals. Quality can be upgraded through training sessions, suggestion, schemes, quality circles, etc.

j) Better work environment:

Proper production planning and control provides better work environment by providing better working conditions, proper working hours, leaves and holidays, increased wages and incentives etc.

8.3 STEPS IN PRODUCTION PLANNING AND CONTROL

The production department has to follow the following steps in respect of production planning and control. These steps are shown in the following diagram.



1. ROUTING:

a) Meaning:

Routing is the first step in production planning and control. It involves selection of path of work and the sequence of operations for the completion of production process in an orderly manner.

b) Objective:

The basic objective of routing is to move the work through a variety of combinations of machines capable of performing the operations required. It determines the best and the cheapest sequence of operations.

c) Procedure:

1. Determining what to make and what to purchase.
2. Determining the material required.
3. Determining the manufacturing operations and their sequences.
4. Determining scrap factor.
5. Preparation of production control forms.
6. Determining lot sizes.
7. Preparation of route sheets.

2. SCHEDULING:

a) Meaning:

Schedule means a plan for carrying out a task. It includes list of intended event and time. Scheduling refers to deciding the starting and the finishing date and time of each operation in the manufacturing process. It involves the preparation of time table of production activities. Scheduling aims at achieving the required output with a minimum of delay and disturbance in the production process.

b) Objective:

The main objective of scheduling is to ensure the completion of each operation or activity on time. Scheduling ensures continuity in production process.

c) Procedure:

1. Preparation of time table.
2. Listing out all production activities.
3. Finalizing list of all production activities.
4. Determining starting time of every activity.
5. Determining finishing time of every activity.
6. Availability of plant capacity, number of operators and materials required.

3. DISPATCHING:

a) Meaning:

Dispatching is concerned with the execution of production plan. It is based on the route sheets and schedule sheets. Production orders are issued to the factory or department and instruction are issued to execute the planned production. Dispatching is the action element of production planning and control.

b) Objective:

The purpose of dispatching orders and instructions is to see that the machine operators understand what is expected of them and that they do not right things at the right time and complete the production on time.

c) Procedure:

1. Arranging machines and tools in a proper manner.
2. Procuring raw materials as per the requirement.
3. Assigning work to the machine operators and others.

4. Issuing orders and instructions to the workers.
5. Maintaining a proper record of the start time and finish time of each operation.
6. Dispatching procedure may be centralised or decentralised.
7. Expediting work as per original plan.
8. Control of progress of all operations.

4. FOLLOW-UP:

a) Meaning:

Follow-up refers to monitoring of actual performance. It helps in taking the necessary corrective measures to obtain the right quality and quantity of production.

b) Objective:

The basic objective of follow-up is monitoring actual work in the production process and to introduce remedial measures.

c) Procedure:

1. Measuring actual production.
2. Comparing actual production with planned targets.
3. Finding out causes of deviations, if any.
4. Listing out various corrective measures to correct deviations.
5. Studying or analyzing the corrective measures.
6. Selecting the best corrective measures.
7. Implementation of corrective measures.
8. Review of corrective measures.

8.4 PRODUCTION SYSTEM

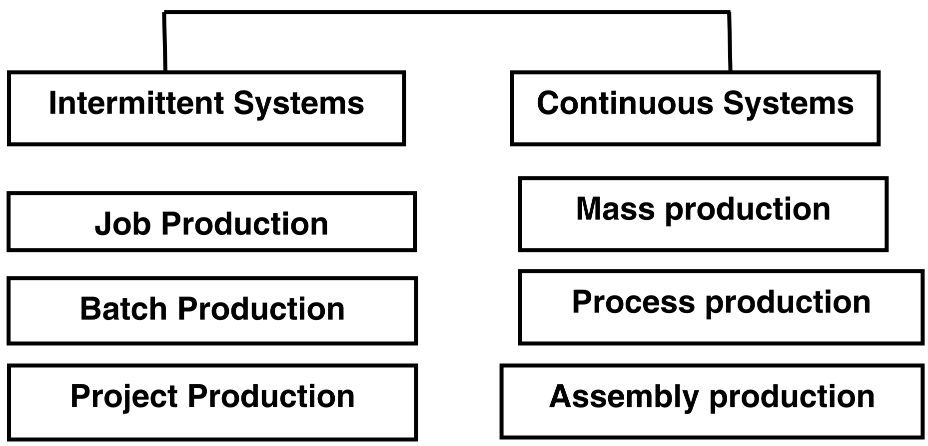
Production is a process by which goods and services are produced for consumption. A typical production system comprises of three main components i.e. inputs, conversion process and output. A combination of various production operations employed to produce goods and services is known as production system. Production system is a group of sub systems. Each sub system performs a distinct function.

According to Buffa and Sarin, production system may be defined as "the means by which we transform resource inputs to create useful goods and services as outputs".

8.5 TYPES OF PRODUCTION SYSTEM

The production systems can be broadly divided into two groups:

Types of Production System



1. INTERMITTENT SYSTEMS:

In this system, goods are manufactured to supply the customers as per their orders. In this case, there is intermittent flow of materials.

a) Job production:

In jobbing production one or few units of a product are produced to consumer's requirement within the given date. The price is fixed prior to the contract. Here, the manufacturer accepts and executes customer's orders e.g. printing of visiting cards, calendars, diaries, key chains etc.

b) Batch production:

Batch production is the production of a number of identical units according to specific orders or on the basis of demand forecasts. The items are produced in batches or lots. There exists more standardization and generally there are repeat orders. Products are demanded in fairly large quantities e.g. manufacturing of medicines, chemicals, lubricants etc.

c) Project production:

In project production, a single assignment of complex nature is undertaken for completion within the given period and within the estimated expenditure. For example, construction of building, roads, dams, ship building etc.

2. CONTINUOUS SYSTEM:

Continuous production is a method used to manufacture, produce, or process materials without interruption. Here, goods are produced constantly as per demand forecast. Goods are produced on a large scale for stocking and selling. They are not produced on consumer's order. The inputs and outputs are standardised along with the production process and sequence.

a) Mass production:

In mass production items are produced on a large scale and are stocked in warehouses till they are demanded in the market. The items are manufactured with the help of single operation or a series of operations. Example of mass production systems include manufacture of toothpaste, soaps, dairy products, textile units etc.

b) Process production System:

In process production system, a single product type is produced and stocked in warehouses till it is demanded in the market. The flexibility if such plant is almost zero as only one product can be produced. Examples of process production system include steel, cement, paper, sugar, electronic items, toys etc.

c) Assembly production:

Assembly production system developed in the automobile industry in the USA. A manufacturing unit prefers to use assembly line as it helps to improve the efficiency of production. Production cost comes down due to the use of flow production methods. Assembly line production system is convenient when a limited variety of similar products is to be manufactured on a mass scale or in large batches on a continuous basis. The assembly production system is employed in the manufacturing of automobiles, radios, T.V. and other electronic products.

Check Your Progress

1. Define the following terms:
   a. Production Planning and Control
   b. Routing
   c. Scheduling
   d. Dispatching
   e. Follow up

f. Intermittent Systems
g. Continuous system

2. Enlist the objectives of Production Planning and Control.
3. Draw the chart showing the steps of Production Planning and Control.
4. Give the examples of the following production systems:
   a. Job Production
   b. Batch production
   c. Project production
   d. Mass production
   e. Assembly production

8.6 PRODUCTIVITY

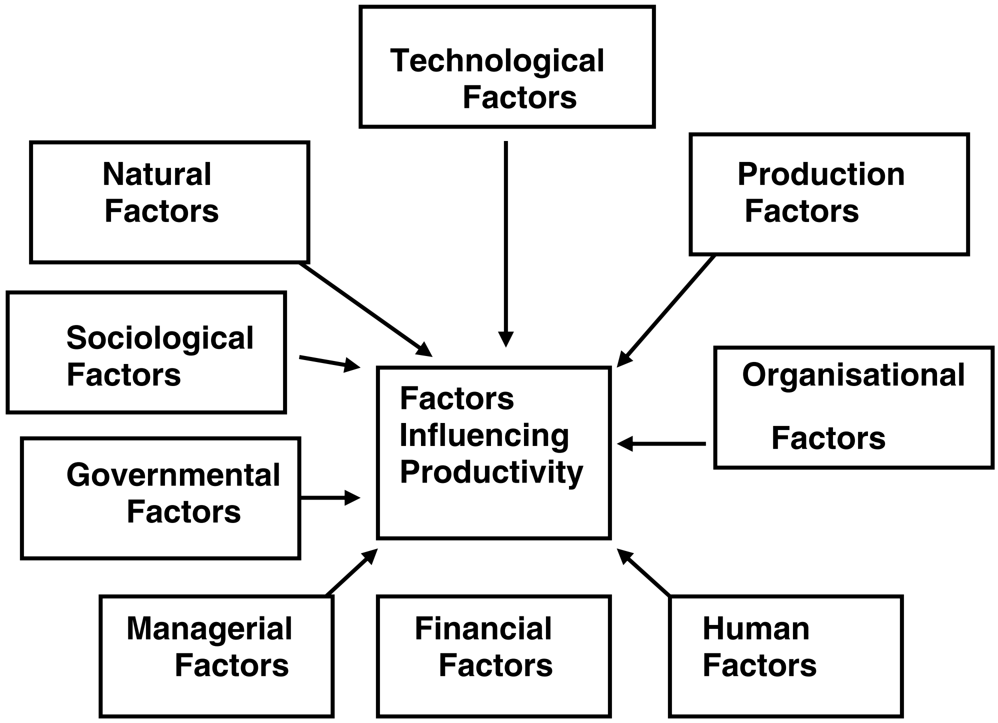
Productivity is the ratio of output to inputs. It refers to the volume of output produced from a given volume of inputs or resources. It is the amount of output per unit of input. Productivity reflects the amount of product created by one unit of a factor of production over a specific period of time. Productivity expresses the relationship between the outputs from a system and the inputs which go in its creation. Productivity can be found out by the following formula

$$\textbf{Productivity} = \frac{\text{Output}}{\text{Input}}$$

According to Peter Drucker, "productivity means that the balance between all factors of production that will give the greatest output for the smallest effort".

8.7 FACTORS INFLUENCING PRODUCTIVITY

The factors influencing productivity is shown in the following diagram:



The factors influencing productivity are explained below:

a) Technological factors:

Technological factor is the most important factor. It includes proper location, layout and size of the plant and machinery, correct design of machines and equipment, research and development, automation, and computerisation, etc. If the organisation uses the latest technology then their productivity will be high.

b) Production factors:

The production of all departments should be properly planned, co-ordinated and controlled. The right quantity and quality of raw materials should be used for production. The production process should be simplified and standardised. All this will increase the productivity.

c) Organisational factors:

A simple type of organisation should be used. Authority and responsibility of each individual and department should be clearly defined. The line and staff relationships should also be clearly defined. So, conflicts between line and staff should be avoided. There should be division of labour and specialisation as far as possible. All this will increase the productivity.

d) Human factors:

The right men should be selected for the right posts. They should be given proper training and development. They should be provided with very good working conditions and working environment. They should be properly motivated by financial, non-financial and positive incentives; Incentive wage policies should be introduced. Job security should be given. Workers should be given importance. There should be proper transfer, promotion demotions and other personnel policies. All this will increase the productivity of the organisation.

e) Financial factors:

Finance is the life-blood of modern business. There should be a proper control over both fixed and working capital. There should be proper financial planning. Capital expenditure should be properly controlled. Both over and under capitalisation should be avoided. The management should see that they get proper returns on the capital which is invested in the business. If the finance is managed properly the productivity of the organisation will increase.

f) Managerial Factors:

The management should be scientific, professional, enlightened, future oriented sincere and competent. They should possess organisational capacity, imagination, judgement and willingness to take risk. They should make optimum use of the available resources to get maximum output at the lowest cost.

They should use the recent techniques of management and production. They should develop better relations with the employees and the trade unions. They should encourage the employees to give suggestion. They should provide a very good working environment and they should motivate the employees to increase their productivity. Efficient management is the most significant factor to increasing productivity and decreasing cost.

g) Governmental factors:

The management should have a proper knowledge about the government rules and regulations. They should also maintain good relations with the government monetary facilities, tax concessions for research and development activities, subsidies, facilities for technology transfer etc should be provided by the government. Government has to provide encouragement and facilities to make productivity movement popular in the country.

h) Sociological factors:

Productivity also depends on sociological factors such as attitude and behaviour of investors, customer, suppliers, etc. Attitude of workers and society towards new inventions, social values of the society, community differences, caste, race and religion etc.

i) Natural factors:

Productivity also depends on natural factors such as geographic locations, climatic conditions availability of different kinds of natural resources etc.

8.8 SUMMARY

From the above discussion it is clear that production management is one of the important aspects of management especially in manufacturing organisation. It is also clear that production planning and control is used in manufacturing organisations. It covers objectives and steps of production planning and control. We also understood types of production system and the concept of productivity. As well as how the different factors are influencing on productivity.

8.9 QUESTIONS

a) Explain the objectives of production planning and control.

b) Discuss the steps in production planning and control.

c) What are the different types of production system? Explain it.

d) What is productivity? Discuss the factors influencing productivity.

e) Explain the types of intermittent systems.

f) Discuss the types of continuous systems.

g) Write short notes

    i) Production planning and control

    ii) Production system

    iii) Productivity

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9

INVENTORY CONTROL

Unit Structure

9.0 OBJECTIVES

After studying the unit the students will be able to-

- Understand the concept Inventory Control.
- Define the meaning of Inventory Control.
- Know the objectives of Inventory Control.
- Make the students aware about the techniques of Inventory Control.
- Elaborate methods/types of Inventory Control System.

9.1 INTRODUCTION

Inventory control is very important in product or in service oriented business. It is necessary to have right quantity of material. Over stocking as well as under stocking is bad. While over stocking can lead to blockage of funds, under stocking can lead to shortage of supply and may even result in stoppage of production. In the end it may result into improper service to the customer, and have an adverse effect on the goodwill of the organisation.

Production managers are responsible for controlling costs of operations. Inventory cost includes amount invested in raw materials, supplies, work in process and finished goods. High investment can increase operating costs and decrease production efficiency.

Inventory control is necessary as actual performance may not conform to planned performance due to changing environmental variables. Inventory control includes location, stores and recording of inventories. It supplies these inventories to the different departments whenever required. It keeps a record of each item of inventory. It gives quick and quality service to all the departments. It not only maintains inventories at the lowest costs but also avoids over stocking and under stocking of materials.

9.2 MEANING AND OBJECTIVES OF INVENTORY CONTROL

9.2.1 MEANING:

"Inventory control is the process whereby the investment in materials and parts carried in stocks is regulated within the pre-determined limits set in accordance with the inventory policy established by the management".

9.2.2 OBJECTIVES:

The main objectives of inventory control are as follows,

a) Protection of Stores:

Inventory control is directed towards providing protection to stores against theft, unauthorised use and wastage. This can be done by making it difficult for employees to gain unauthorised possession of materials.

b) Better service to customers:

If the company maintains a proper inventory of raw materials, then it can deliver its production in time. So, it can deliver the finished goods to the customers in time. Similarly, if the company has a proper inventory of finished goods then it can satisfy the additional demand of the customer.

c) Continuity of production operations:

Proper inventory control helps to maintain continuity of production operations. This is because it maintains a smooth flow of raw materials. So, there are not shortages of raw materials.

d) Better returns on investment:

Shareholders wealth can be maximised and a better return on their investment is possible if the inventory is at on optimum level. Inventory control ensures proper use of limited funds.

e) Buffer to reduce uncertainty:

There can be irregular supply of raw materials due to transportation problem or even due to natural causes. In such a scenario there arises a need to have a buffer stock to protect against such vagaries. Buffer stock may be even sometimes necessary to meet unexpected surge in demand.

f) Ensures continuity of supply:

Inventory control explains when to order and how much to order. It ensures continuity of supply of uniform quality of goods at lowest cost. It is possible to calculate fluctuations in the supply of new materials and take preventive steps to build the inventories.

g) Useful during peak season:

Some companies adopt a strategy of producing during slack season when the cost of production is less. This excess stock can be effectively sold at a higher price during peak season, The reduced cost during slack season more than offsets the cost of maintaining inventory.

h) Avoid duplication in ordering:

Inventory control avoids duplication in ordering of stock. This is done by having a separate purchase department. This department will do all the purchasing for the organisation. No other department is allowed to do purchasing.

i) Focus on Inventory:

In a production unit, inventory control focuses on materials control because the main concentration is on the physical product. In the service sector, focus is on service which is consumed promptly. The main concentration is more on supply of service and less on materials. For example banks, transport companies, educational institutions etc.

j) Avoid wastage:

Inventory control helps to maintain a check on the loss of materials due to carelessness or pilferage. If there is no proper inventory control, then there are more chances of carelessness and pilferage by the employees, especially in the store-keeping departments.

9.3 TECHNIQUES OF INVENTORY CONTROL

There are several techniques of inventory control. Some of the commonly used techniques are as follows.

a) ABC Analysis:

ABC (Always Better Control) analysis is a basic technique of inventory control. This technique can be used for all aspects of materials management such as verification of bills, purchasing, receiving, inspection, store-keeping, issue of stores, inventory control, etc. ABC analysis, classifies all the items in the inventory into the three groups i.e. A group, B group and C group

A group of items have high value although their number may be low. B group of items are in between with average value and number. C group of items have very low value but their number may more.

ABC analysis provides a basis for selective inventory to small number of items which account for most of its inventory costs. So, it can concentrate on controlling these items, on the other hand low cost, and high volume items need not be closely controlled.

b) Economic Order Quantity (EOQ):

In Economic order Quantity, the fixed order quantity of materials is ordered when the stock on hand reaches the re-order point. The re-order point is the inventory level at which the stock should be re-ordered for the smooth flow of production.

c) Just-in-Time (JIT):

Just-in-Time technique was started by a Japanese company. Here the company does not have a warehouse and it does not maintain any inventories at any stage of production. The exact quantities of materials are purchased at the right time at each stage of production. A truck delivers raw materials at one gate at the same time truck will take finished goods from another gate to the market.

This system can't be used by all companies for all materials. However, in India, Maruti Udyog Ltd, and Food specialist Ltd have successfully used JIT technique.

d) CARDEX system:

In Cardex system, cards are vertically arranged in a tray and kept in cabinets. Posting in this card may be done manually. However, nowadays computers are taking over the place of manual posting. The cards known as 'stock control cards' are of different types, sizes and colours. The cards indicate the position of stock which includes stock of items ordered, stock items received from suppliers, stock of items issued, balance of stock, etc.

e) The maximum-minimum system:

It refers to the maximum-minimum quantity of inventory. Maximum inventory is that quantity which the company must keep in stock, when the stock reaches at its minimum quantity, order is placed to bring the stock up to the maximum level.

f) Two-Bin system:

Here the materials are kept in two-bins. The first bin is locked and kept as reserve stock. The second bin is kept open, matorials are used from the second bin for the production process. When the material from this bin is over, an order is placed for purchasing more materials. Then the first bin is opened and the materials are used from this bin.

g) MAPICS (Manufacturing Accounting and Production Information Control System):

MAPICS is a computerised common data based system for manufacturing information and control. In simple words entire data relating to manufacturing i.e. the inventory required, the production schedule, type of stock, the cost involved etc is stored in the computer. Control over stock becomes easy as any information relating to stock level is readily available.

In this system there are various modules for control. Modules can be relating to product data management, material requirements planning, inventory management and so on.

h) Inventory turnover Ratio (ITR):

This technique of inventory control uses accounting ratios such as Inventory Turnover Ratio. This technique establishes the relationship between average inventory and cost of inventory consumed or sold during a fixed period. The following formula is used to calculate inventory turnover ratio.

$$ITR = \frac{\textbf{Cost of goods consumed or sold during the year}}{\textbf{Average inventory during the year}}$$

When consumption is made between current years inventory ratio with those of past years, it will reveal the information such as obsolete, fast-moving items and slow-moving items.

Check Your Progress

1. Enlist the objectives of Inventory Control.
2. Define the following terms.
   a. Inventory control
   b. EOQ c. JIT
   d. Cardex System
   e. ABC analyses
   f. MAPICS
   g. ITR

9.4 METHODS/TYPES OF INVENTORY CONTROL SYSTEM

While designing an inventory control system, three questions are taken into account namely: -

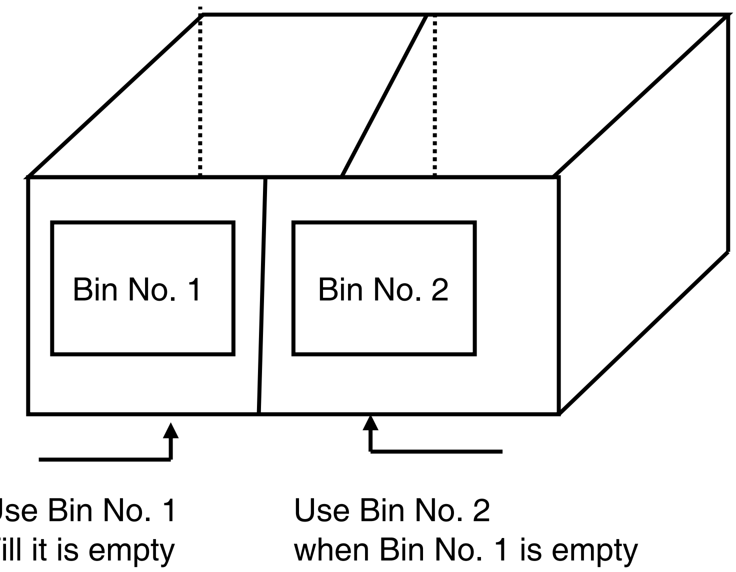
1) How often the assessment of stock should be made?
2) When should the replenishment order be placed?
3) What should be the size of the order?

The following are the methods/types of inventory control system.

a) The two-bin system:

The two-bin system is one of the oldest systems of inventory control. It provides answer to two questions i.e. 1) when the order should be placed? 2) How much quantity should be ordered?

This system is illustrated as follows:



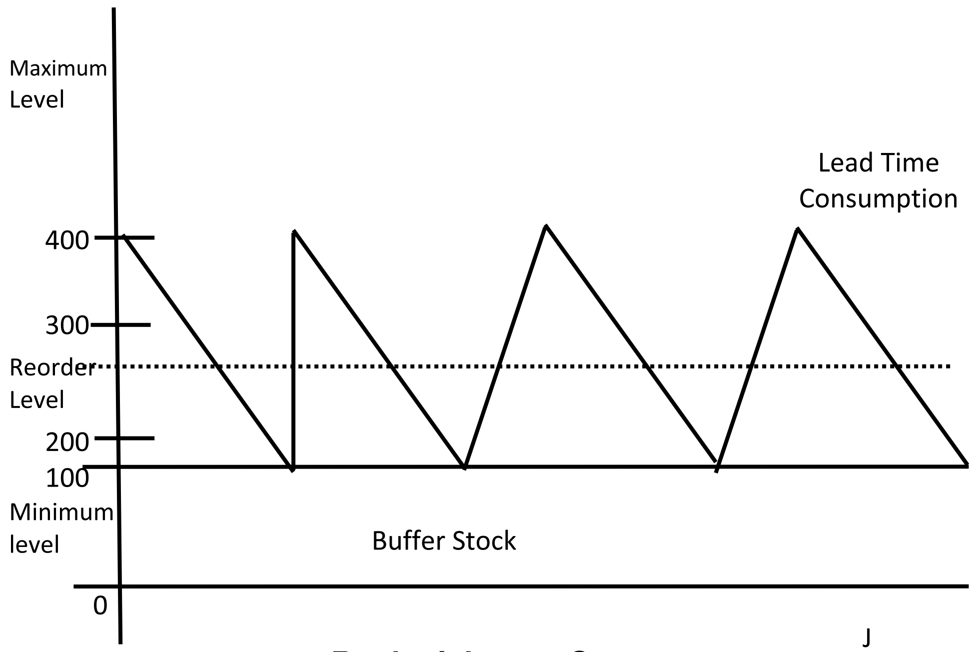
In this system, two-bins are used and the stock is divided into two-bins. The first one is used for satisfying current demand and the second one is used during the replenishment period. The second bin is used only when the first bin is empty and the replenishment order is placed. When the replenishment order is received, first the second bin is filled and then the balance is put in the first bin.

b) Open-access Bin System:

Open-access Bin System, the operators access the material directly without maintaining any records. This saves their time which can be used productively for the production purpose. It in the organisation a number of such open access bins are used, a stores vehicle can move around these bins at fixed intervals to replenish the stock. In this method, the quantity replenished is assumed to be the quantity consumed.

c) Re-order Level System:

In this system, maximum level and minimum level are fixed. Here re-ordering is done after a period of review and order or re-order is placed when the quantity reaches a certain level. The following graph shows a typical stock replenishment system.



Replenishment System

The above diagram represents an average rate of consumption of 100 units per month. The supplies are purchased once in three months (300units). The minimum level/Buffer stock is maintained at 100 units i.e. equivalent to one month's consumption. The lead time in this case is 45 days. This means that when the stocks reach a level equal to 45 days consumption above the minimum level, replenishment order is placed. The re-order level is at 250 units. The maximum stock held is 400 units.

In reality, it is not necessary that the consumption curve may be as smooth as illustrated above. In order to assess the consumption level it is necessary to take into account the sales forecast and past experience to arrive at monthly consumption pattern.

The above system is also referred to as maximum-minimum reorder system or fixed quantity system.

d) Fixed Time system:

In this method, instead of considering the stock level, the time factor is taken into account. Here, orders are placed at regular intervals of time say15th of March, June etc. This method is also called as the constant cycle system. The time for replenishment order is chosen purely from the point of view of administrative convenience. The number of orders to be placed is determined on the basis of EOQ formula.

e) Impress stock control:

This is the simplest method of the inventory control and here the maximum level for the bin is determined and periodic inspection of stock level in the bin is undertaken. As and when the stock is used the bin is replenished immediately to the maximum level. This method is restricted to material of low value (classification 'C' material). A stock-out situation can be easily rectified as the stock is easily available.

9.5 SUMMARY

Inventory control has been a must in running a business or an organisation. Inventory management is primarily about specifying the size and placement of stocked goods. The scope of inventory management also concerns the fine lines between replenishment lead time, carrying costs of inventory, asset management, inventory forecasting, inventory valuation, inventory visibility, future inventory price forecasting, physical inventory, available physical space for inventory, quality management, replenishment, returns and defective goods and demand forecasting. Balancing these competing requirement leads to optimal inventory levels, which is an on-going process as the business needs shift and react to the wider environment.

Inventory management functions techniques related to the tracking and management of material. This would include the monitoring of material moved into and out of stock room locations and reconciling of the inventory balances. Also may include ABC analysis, JIT, lot tracking, cycle counting support etc.

Management of the inventory, with the primary objective of determining/controlling stock levels within the physical distribution function to balance the need for product availability against the need for minimizing stock holding and handling costs. Therefore design an inventory control system by the way i.e. the Two-bin system, open access Bin system, Re-order level system, Fixed time system and Impress stock control.

9.6 QUESTIONS

1) Define inventory control. Explain the objectives of inventory control.
2) Discuss the techniques of inventory control.
3) What are the methods/types of inventory control system? Explain it.
4) Write short notes

   i) Inventory control ii) ABC Analysis iii) JIT

   iv) The Two-Bin system v) Re-order level System

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10

QUALITY MANAGEMENT

Unit structure

10.0 OBJECTIVES

After studying the unit the students will be able to

- Know the concept of quality management
- Understand the concept of quality control
- Makes the students aware about the techniques of quality control.
- Study the concept quality circle.
- Evaluate the process of quality circle.

10.1 INTRODUCTION

Quality management takes measures to control the quality of the future output. ISO 9000 is the only internationally accepted standard for quality management. The development of quality management has seen four phases i.e. a) quality planning b) quality control c) quality assurance and d) quality improvement. Quality management improves competitiveness and reputation of the firm. It ensures satisfaction to customers through guarantee of goods, safe performance, efficient service and prompt delivery.

Quality management is basically concerned with the quality production through regular inspection during the process of production. Quality is a combination of characteristics pertaining to the manufacture of the product and control is the correction in the quality of the product as and when the deviations in the product are more than expected. A good quality item is one which confirms to some standard specifications. These specifications are determined by the expectations of consumers and also by the availability of processes and materials.

Definition of Quality Management:

"Quality management uses quality assurance and control of processes as well as products to achieve more consistent quality".

10.2 QUALITY CONTROL

10.2.1 INTRODUCTION:

In every manufacturing concern quality control play a very important role. In most of the organisations there are separate quality control division with well equipped tools, machines etc. Before producing the actual product its design has to be prepared. Product quality is the degree to which such actual output conforms to the design. It is physically impossible to make all the items alike. There is always variability in the product. When variability becomes noticeable its result in scraps, rework and losses, thus adding to the cost. Quality control takes measures to control the quality of the future output. Quality control is basically concerned with the quality production through regular inspection during the process of production.

10.2.2 DEFINITION OF QUALITY CONTROL:

According to Alford and Beatty, "Quality control is that techniques by which products of uniform acceptable quality are manufactured".

10.3 TECHNIQUES OF QUALITY CONTROL

The following are the techniques of quality control

a) Inspection:

Inspection is an important technique of quality control. It means testing of a product to ensure that it meets its design specifications. It involves critical appraisal involving examination, measurement, testing, gauging, and comparison of materials or items. An inspection determines if the material or item is in proper quantity and condition and if it conforms to the applicable or specified requirements.

Inspection can be defined as "an act of monitoring or observing a process, procedure or service to ensure compliance with the operational definition and to ensure that all customer requirements or internal pre requisites are met.

b) Just-In-Time (JIT):

Just-In-Time is an important technique of quality control. Quality of finished products depends on the quality of raw materials. Manufacturers enter into contract with the suppliers to supply raw materials Just in time and enable to manufacture quality products in time and economically. Just-in-time assumes use of sophisticated technology to maintain high quality of production.

Just-in-time supports adoption of preventive maintenance of the plant to avoid machine breakdowns. Preventive maintenance goes a long way to ensure continuous production. Due attention should be given to train and develop employees who are largely responsible to provide quality goods and services.

c) Total Quality Management (TQM):

Total Quality Management (TQM) is a management approach that originated in the 1950's and has steadily become more popular since the early 1980's. It is an integrated organisational effort designed to improve quality at every level. In a TQM effort, all members of an organisation participate in improving processes, products, services and the culture in which they work.

At its core, TQM is a management approach to long - term success through customer satisfaction. It seeks to improve quality and performance which will meet or exceed customer expectations. This can be achieved by integrating all quality-related functions and processes throughout the company. TQM looks at the overall quality measures used by a company including managing quality design and development quality control and maintenance, quality improvement, and quality assurance. TQM takes into account all quality measures taken at all levels and involving all company employees. TQM is undertaken on a continuous basis.

TQM can be defined as "an integrative philosophy of management for continuously improving the quality of products and processes".

d) Quality at the source:

Under quality at the source technique, each employee is made responsible to produce quality parts before they are given to the next operation. Each employee is expected to conduct self-appraisal of work. He should evaluate his own performance, note defects and introduce corrective actions. In case the defect in the product continues, he is allowed to stop his part of work rather than continue to make defective parts. In situations of this nature, quality circle is of great help to mutually work out suitable solutions.

e) Statistical Quality Control (SQC):

In today's economic activity, the need to make the optimal use of resources for the manufacture of goods and services of high quality at a low cost and to market them at a competitive price has acquired great significance. Consequently, there has been a growing demand for persons trained in the techniques and approach of quality control. The Statistical Quality Control (SQC) process relates to the use of statistical methods of monitoring and control in order to reduce wastes in the production activity and make sure that confirming goods are being produced. Although this process has been mostly applied in the control of manufacturing lines, its applicability can be extended to any process with a measurable output.

SQC evaluates the quality of a product, service or process. It is used to analyze the quality problems and solve them. It is used by quality professionals.

f) Quality circles:

Quality circle is based on the concept of participative management. It assumes that improvement in quality is possible by uplifting morale and motivation through consultation and discussion in informal groups. The circle consists of operators, supervisors and managers who come together to improve ways to make quality product or deliver the service. Members are trained in problem-solving techniques. Members forward recommendations to the management for implementations.

Check Your Progress

1. Define the following terms:
   a. Quality management
   b. Quality control
   c. Inspection
   d. JIT
   e.TQM
   f. Quality at the source
   g.SQC

10.4 QUALITY CIRCLE

This concept was first introduced in Japan by Mr. Kaoru Ishikawa. Quality circle was formed for the purpose of promoting the concept of quality. The concept of quality control is based on the management's faith in the capabilities of employees. Quality control is a small voluntary group of people from the same work area who meet on a regular basis for the purpose of identifying, selecting, analysing and solving work related problems of quality, productivity, cost reduction, safety, customer service etc. The Quality circle members select problems in their immediate work environment through the process of discussion and deliberation identify possible solution for the same. Quality circle is a people building philosophy, providing self motivation and happiness in improving environment without any compulsion or monetary benefits.

10.4.1 Meaning:

Quality circle is a small group of volunteered employees from same work area, doing similar work, who meet regularly to identify, analyse and solve problems in their work field.

10.5 PROCESS OF QUALITY CIRCLE

Quality circle is a team work for quality improvement. It is a voluntary and self-service activity useful to company, employees and national economy. This concept has its own philosophy with wide meaning and significance. Quality circle needs suitable organisational structure for effective internal communication and efficient functioning. Quality circles are not merely for studying, analysing and suggesting solutions but for implementation of concrete results in relation to quality, cost and productivity. Quality circle is based on workers' initiative. Strictly, it is a participative programme on purely voluntary basis.

The following are the process of Quality circle

a) Listing of problems:

The first step in the process of quality circle is listing of problems. It means list out the problems. Such listing of problems can be done by management or employees.

b) Selection of problem:

The second step in the process of quality circle is selection of problem. It involves discussion over the list of problems. The quality circle members select one problem at a time to work on.

c) Analysis of problem:

The problem selected by the members is thoroughly analysed. The quality circle can approach management with a request to provide an expert or consultant so that the analysis gets professional touch.

d) Generating Solutions:

As members of the quality circle discuss only quality matters it is possible to arrive at a workable solution. Sometimes technical issues may drag on and solution is obtained in more than one sitting. The circle is allowed to work out more than one solution. Alternative solution need to be evaluated in the light of specified objectives. Compare costs and benefits of each solution and the quality circle should recommend the best solution to top management.

e) Recommendations:

As a practice, the quality circle recommends the solution to its departmental head which finally reaches the top management. The decision of top management will be final. Top management will also consider the recommendation of the quality circle. Nowadays the quality circle provides audio-visual presentation. The presentation should be self-explanatory. Nothing is left to the imagination of top management and every point is well illustrated and explained.

f) Acceptance of Recommendations:

The management will closely scrutinise the solution. They will consider pros and cons of the solution. They will also evaluate its practical utility. If the management is convinced about the soundness of the solution it will approve the project and sanction the requisite amount.

g) Implementation:

The management then implements the decision. Implementation often requires help from other workers who are not the members of quality circle. The team spirit among the work-force ensures proper implementation of the decision.

h) Rewarding the employees:

The quality circle member are recognised and rewarded for their positive and fruitful recommendations.

10.6 SUMMARY

Quality management is concerned with controlling activities with the aim of ensuing that products and services are fit for their purpose and meet the specifications.

Quality control takes measure to control the quality of the future output. Quality control is basically concerned with the quality of production through regular inspection, Just-in-time, total quality management, quality at the source, statistical quality control, and quality circle techniques during the process of production. The main objective of quality control is to ensure that the business is achieving the standards it sets for itself. Quality circles are designed to improve employee morale, Job efficiency, management procedures and the quality of a firm's products. Although most commonly found in manufacturing environments, quality circles are applicable to a wide variety of business situations and problems. They are based on two ideas, that employees can often make better suggestions for improving work processes than management, and that employees are motivated by their participation in making such improvements.

10.7 QUESTIONS

a) Explain the techniques of quality control.

b) Discuss the process of quality circle.

c) Write short notes

i) Quality management	ii) Quality control
iii) Quality circle	iv) Inspection
v) Just-In-Time (JIT)	vi) Total Quality management (TQM)
vii) Quality at the source	viii) Statistical quality control (SQC)

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11

CONTEMPORARY TRENDS IN QUALITY MANAGEMENT

Unit structure

11.0 OBJECTIVES

After studying this chapter the students will be able to-

- Understand the meaning and features of total quality management.
- Know the meaning and features of six sigma as well as the steps in six sigma.
- Bring out the meaning and procedure of ISO 9000.
- Elaborate the kaizen process.
- Evaluate service Quality management and its importance.

11.1 DEFINITION AND FEATURES OF TOTAL QUALITY MANAGEMENT

11.1.1 MEANING AND DEFINITION:

Total Quality Management is a comprehensive concept and not related only to the quality of goods and services. It is a wide term which is concerned with overall improvement of system, techniques and staff of the organisation. Total quality management is a preventive approach and not a corrective one. It aims at producing best possible product and service through regular innovation. It believes in doing right things first time. TQM is a strategic approach to produce the best possible product and service through constant innovation and timely action. It is always focused on requirements of the customers both internal and external.

TQM is a management philosophy the places emphasis on continuous improvement in quality in the interest of the organisation and that of its customers.

Definition:

According to prof K.K.Chaudhari "TQM represents a customer-oriented, quality focused management philosophy".

11.1.2 FEATURES OF TOTAL QUALITY MANAGEMENT

The following are the main features of Total Quality Management

a) Continuous process:

Total Quality Management is a continuous process. The managers are continuously trying to find out new methods and techniques for improving the quality. They also encourage the employees to give their ideas and suggestions for improving the quality. Quality improvement helps the organisation to face the challenges of the competitors and to meet the requirement of the customers.

b) Customer Focus:

TQM gives great importance to customers. It tries to give maximum satisfaction to the customers. TQM tries to give the customers a regular supply of good quality goods and services at a low cost. It tries to avoid wastage, rejection etc. It tries to protect the customers in all ways. TQM believes that if the organisation cannot satisfy and protect the customers, then the customers will be attracted by the competitors.

c) Defect - free Approach:

TQM place emphasis on the defect - free work most of the time. It follows a zero - defect approach. i.e., It tries to produce goods with zero (no) defects. TQM aims for perfection. It works hard to achieve perfection. It gives more importance to prevention and less importance to rectification. i.e., it tries to prevent errors and mistakes. It tries to be "right first time" and all times.

d) Employees Involvement:

TQM is possible only through participative management. Under TQM, employees will be motivated to participate actively in the process of quality improvement through incentives, rewards and recognition. TQM creates teamwork where workers are trained and motivated properly. In TQM everyone is involved in the process form the managing director to the junior clerk or worker in the organisation.

e) Lenkage of quality and productivity:

TQM technique is useful for improving quality as well as productivity. The method used in TQM programmes for example, zero defect production makes all employees responsible for quality maintenance and improvement. It also leads to higher productivity.

f) Recognition and Rewards:

In TQM, the employees are encouraged to improve the quality. They are encouraged to give suggestions about how to improve the quality. TQM offers recognition and rewards to the employees for improving quality.

Recognition means to encourage an individuals and groups by giving them letters of thanks, merit certificates, inviting them for lunches, dinner's etc.

Rewards means to encourage an individuals and groups by giving them financial benefits such as merit pay, promotion with higher status and pay, etc.

g) Synergy in Team Work:

The Japanese are great believers in Synergy. Synergy means to work together. In Japan there is no status difference between a engineer and an ordinary worker. Both are treated equally by each other. They work side by side as a team. So, TQM gives importance to team work. Without team work, we can't have TQM.

h) Techniques:

TQM needs the use of various techniques such as quality circles, value engineering, statistical process control, quality assurance etc. With the help of such techniques it is possible to improve the quality and reduce time-consuming low value activities.

i) Management involvement:

TQM is a system approach for managing business and improving performance. Management participation is necessary for the success of TQM. It requires total commitment from the top management to provide good leadership to the whole approach.

11.2 SIX SIGMA

11.2.1 Meaning:

In 1986, Bill Smith, a Motorola engineer, developed the six sigma programme. Six Sigma is a set of tools, techniques and strategies designed for process improvement. Six Sigma attempts to improve the quality of process output by identifying and removing the cause of defects or errors. It minimises variability in manufacturing and business processes. Under six Sigma Motorola defined six standard deviations of variation which could be squeezed within the limits defined by their customer's specification.

11.2.2 Features of Six Sigma

The following are the main features of Six Sigma.

a) Problem solving approach:

Six Sigma adopts a structured approach towards problem solving. The most commonly used version of the problem solving methodology is known as DMAIC. It stands for D-Define M-Measure A-Analysis I-Improve C-Control an acronym for the phases of Six Sigma improvement. This methodology defines a problem and works to find a solution.

b) Reduced process variation:

Process variation takes up when the production activities are uneven, In order to maintain uniformity in production firms use Six Sigma. It brings about stable and predictable process results. As a consequence, process variation gets reduced.

c) Based on Factual Data:

There is no place for assumptions and guesswork in Six Sigma. The entire operation of Six Sigma is based on factual data and statistical methods. All decisions are taken only when reliable data is collected, analysed and interpreted. Such finding must reflect ground reality. Only then it can be put into practice.

d) Team Based:

Six Sigma is team based and the structured nature of this approach required extreme discipline within the organisation which includes time management and pro-active leadership but the real challenge lies in the ability to plan and execute projects which deliver specified financial benefits.

e) Improved market Image:

As quality products are rolled out consumers get money's worth and they continue their patronage for the same product. Moreover the name of the company gets established in the market as the maker of quality products. Improved market image continues to rope in new customers.

f) Customer Focus:

Six Sigma has a very strong customer focus. The targets are set keeping in mind the requirements of the customers. The customer focus is fundamental to the Six Sigma approach. The quality improvement and control standards are based on the explicit customer requirements.

g) Organisational commitment:

Six Sigma should not be used as a decorative piece. It must be based on active support, involvement and commitment of management and employees. Top management is committed to improve quality. The managers must display their capabilities from planning to work to planning for accomplishment of specific goals.

h) Better Approach:

Six Sigma enables to measure, analyse, control and improve the manufacturing process. Even total business operations are kept under control. Six Sigma is a better approach because it is result-oriented.

i) Continuous Improvement:

Six Sigma is all about continuous improvement. Like all other quality improvement initiatives, its ultimate aim is to refine the processes within the organisation leading to the improvement of the quality of the produced output. Therefore management must decide priority areas of improvement.

11.3 STEPS IN SIX SIGMA

The steps in Six Sigma are as follows

1. DEFINE PHASE:

There are five high-level steps in the application of Six Sigma to improve the quality of output. The first step is Define. During define phase the important major takes are undertaken i.e. formation of project team, document customers core business processes, develop a project charter and develop the Suppliers, Input, Process, Output, Customers (SIPOC) process map. This step help to know who the customer or end user is, their resistance issues, and requirements. You should also have a clear understanding of goals and the scope of the project including budget, time constraints, and deadlines.

2. MEASURE PHASE:

The second step or phase of Six Sigma is a measure phase. During measure phase, the overall performance of the core business process is measured.

There are three important part of measure phase

i) Data collection plan and data collection:

A data collection plan is prepared to collect required data. This plan includes what type of data needs to be collected, what are the sources of data etc. The reason to collect data is to identify areas where current processes need to be improved.

ii) Data evaluation:

At this stage, collected data is evaluated and Sigma is calculated. This gives approximate number of defects.

iii) Failure mode and Effects Analysis (FMEA):

The final segment of the measure phase is called FMEA. This refers to preventing defects before they occur. The FMEA process usually includes rating possible defects, or failures.

3. ANALYSE PHASE:

Six Sigma aims to define the causes of defects, measure those defects, and analyse them so that they can be reduced. There are five specific types of analysis that help to promote the goals of the project. These are source analysis, process analysis, data analysis, resource analysis and communication analysis. The proper procedure is the one that works best for your team, provided that the end result is successful. Analysis helps to reduce the defects.

4. IMPROVE PHASE:

If the project team does a thorough job in the root causation phase of Analysis, the Improve phase of DMAIC can be quick, easy, and satisfying work. The objective of Improve phase is to identify improvement breakthroughs, identity high gain alternatives, select preferred approach, design the future state, determine the new sigma level, perform Cost/benefit analysis, design dashboard/scorecards, and create a preliminary implementation plan.

5. CONTROL PHASE:

The last stage or phase of DMAIC is control, which ensures that the processes continue to work well, produce desired output results, and maintain quality levels. There are four specific aspects of control i.e. quality control, standardisation, control methods and alternative, and responding to defects. The project team determines how to technically control the newly improved process and creates a response plan to ensure the new process maintain the improved sigma performance.

11.4 INTERNATIONAL STANDARDS ORGANISATION (ISO 9000)

Meaning:

ISO is the International Organisation for standardisation, located in Switzerland. It has been established to develop common international standards worldwide. The term ISO 9000 refers to a set of quality management standards. Currently ISO 9000 is supported by national standards bodies from nearly 150 countries including India. ISO currently includes ISO 9000, ISO 9001, ISO 9002, ISO 9003 and ISO 9004. These five series are applicable to a group of products or services and are not specific to a product or service.

ISO 9000 is essentially a mark of quality assurance. The purpose of ISO is to facilitate international trade by providing a single set of standards that people worldwide would recognize and respect. It is to be noted that there is no compulsion to obtain ISO certification and use ISO 9000 standards, except in some cases where governments or regulatory authorities impose them for public security reasons, or where they are required in contractual terms. However, the demand for these standards has been increasing in the global markets and avoiding them will soon become impossible. It is also be noted that the ISO registration does not automatically extend to other plants of a company, even if the same product or the same service is been offered.

11.5 PROCEDURE TO OBTAIN ISO 9000

The following is the procedure to obtain ISO 9000 certification-

a) Preliminary Investigation:

The Company wishing to obtain ISO 9000 certification should first conduct self-evaluation to determine its quality control infrastructure. This work can be entrusted to a team of specialists working with the firm the company can appoint an ISO steering team to evaluate the existing quality procedures prevailing within the firm.

b) Submission of application:

Exporters can apply on the prescribed proforma in triplicate to the nearest regional office of BIS along with the prescribed non-refundable application fee. The Company has to give information about name, location and structure of the company, size of the business, range of products, type of manufacturing process, name of products etc.

c) Audit of quality manual:

The existing quality manual is audited to determine how it compares with the twenty elements of ISO 9000 standard. A report is prepared on the findings. Deficiencies, if any are corrected and the manual is resubmitted for approval by the auditing body the quality manual would provide guidelines to the employees of the firm so as to maintain quality standards.

d) Selection of Registrar:

A registrar is an independent body with knowledge, skills and experience to evaluate a company's quality system. Registrars are approved and certified by accreditors. The company should make an application to the accredited agency along with necessary documents which includes quality manual undertaking to pay the required fee etc.

e) Pre-assessment meeting:

Company representative would hold a pre-assessment meeting with the registrar of the agency. Pre-inspection meeting may look for sufficient document as per the standards, implementation of documented procedure, and whether implementation is effective.

f) Preliminary visit:

The accredited agency, normally, arranges for a preliminary visit to the firm and notifies the company of any significant omission or deviations from the prescribed requirements, so that any suitable modification or changes can be made prior to the assessment visit.

g) Actual Assessment visit:

The actual assessment visit is a practical evaluation to check that the company's systems are functioning effectively. Assessment team from the BIS will visit the firm to assess firms compliance to the procedures as mentioned in the quality manual. The assessment will go through the opening meeting, conducting assessment, closing meeting and presenting report.

h) Issue of certificate:

The assessment team should ensure whether the company has complied with the ISO 9000 standard. A verbal feedback is given to the company at the time of assessment. The assessment team, if satisfied will submit favourable report to the registration board. When the registration board approves the registration, the registrar issues a certificate which enables the company to use ISO 9000 mark.

Check Your Progress

1. Define the following terms:
   a. Six Sigma
   b. TQM
2. Enlist the steps in Six Sigma process.
3. "Total quality management is a preventive approach and not a corrective one". Discuss.
4. Enlist the steps in the procedure to obtain ISO 9000 certification.

11.6 KAIZEN

11.6.1 Meaning:

The concept of Kaizen was made popular by Massaki Imai in his book Kaizen: - The key to Japan's competitive success. Kaizen in Japanese means 'change (kai) for good (zen)'. Kaizen technique places emphasis on continuous improvement in varied aspects of the organisation such as quality, corporate culture, safety, technology, process, productivity, and leadership. Kaizen is applicable not only to manufacturing units but also service organisations as well as non-profit organisations.

Definition: - According to Sumuel Kho," Kaizen is a programme, a philosophy and a strategy to improve quality of goods and services of an organisation".

11.6.2 Kaizen Process:

The following are the steps in the Kaizen process

a) Define the problem:

Kaizen is of utility only when, at the initial stage, the problem is correctly defined. When defining the problem we often notice gap in performance. It means there is a difference between the ideal situation and current level of performance. In the process of defining the problem we may notice deviation in performance.

b) Document the current situation:

The management must analyse the current situation in terms of organisation structure, Superior-Subordinate relationships, employee selection procedures, training policies and practices, the production facilities, corporate culture, technology, production process and so on. A proper analysis of the current situation may enable the management to have a re-look at the causes of the problem. In order to solve the problem, it is important to correctly assess the current situation.

c) To find the root cause:

Kaizen is built on the premises that it is vital to locate the root cause in order to rightly solve the problem. Root cause analysis is the central theme of Kaizen. Once the cause of the problem is identified, under Kaizen, it is not accepted instantly but several efforts are made to confirm that the cause thus established is the real one. Root cause analysis uses problem solving techniques.

d) Define measurement Targets:

There is a need to define measurement targets at which the outcomes or results can be compared. For example, the measurement target for complaints of the customer can be stated as Reduction in customer. Customers from the current level of 60 per month to 15 in the first month of the implementation and finally to near zero at the end of three month period.

e) Brainstorm Solutions to the problem:

The management needs to generate ideas to develop effective solution to the problem. As far as possible, multiple solutions need to be generated. This can be done through various techniques i.e. obtaining suggestions from the employees, analysis of solutions for similar problem and adopted by other organisation, organising brainstorming sessions involving representatives of the management and the employees, etc. The knowledgeable people call for find the solution.

f) Develop Kaizen plan:

There is a need to prepare a Kaizen plan to bring continuous improvement in the organisation in at all levels and in all departments. Kaizen plan includes the areas or activities, responsible persons, period, process and the amount of funds that can be utilized for improvements during the plan period, etc.

g) Implement plan:

Once the solution is selected, and the plan is prepared to implement the solution, the management needs to implement the solution. Implementation of the solution would involve i.e. arrangement of resources, directing the employees and motivating the employees.

h) Measurement of outcomes:

The management must measure the outcomes of the solution. The actual outcome needs to be recorded and compared against the set targets. The comparison is required to find out whether the organisation is on the right track to achieve the Kaizen success.

i) Review:

Regular review of the implementation of the measures needs to be done. This will establish if implementation was done correctly and the problem solved. The review will indicate that implementation was so done that it solved the problem in totality. The results can be found out in view of the organisational goals.

j) To establish a new standard:

A standard is a specification by which results are measured, when the problem is solved and the system is working well, the next step is to establish a new standard. Once the problem is solved or the desired objective is achieved, the new standard will deliver the expected results.

11.7 SERVICE QUALITY MANAGEMENT

11.7.1 MEANING:

Service quality is understood in terms of the satisfaction that the customer derives and whether it is in keeping with service desired. Service quality management is undertaken to improve the quality of services on a continuous basis to enhance customer satisfaction and loyalty. It is to be noted that service firms must consider the trade-off between incremental costs involved in service quality improvement and the incremental revenues. It makes no business sense to improve the quality dimensions when the customers are not willing to pay extra for the added quality dimensions.

Definition:

Service quality management refers to the monitoring and maintenance of end-to-end Services for specific customers or classes of customers.

11.7.2 Importance of Service Quality Management (Sqm)

The importance of Service quality management is as follows

a) Customer Satisfaction:

Service quality management leads to improvement in the quality of services. Therefore, Service quality management leads to customer satisfaction. Customer satisfaction takes place when service performance meets customer expectation. At times, service quality management may lead to customers delight. Customer delight takes place when service performance is much more than customer expectation. Service providers prosper on the continued support of customers.

b) Earning goodwill:

Service quality management offering high quality service earn goodwill in the market. They retain competitive advantage in the market place. Goodwill is not earned overnight but over a long period of time. These SQM's offer consistently high quality service which ensure them consumer loyalty.

c) Efficiency:

Efficiency is the ratio of returns to costs. A service organisation would be more efficient when it gets higher returns at lower costs than before. Service quality management helps to reduce internal costs, and at the same time the organisation is likely to get higher return due to the efforts of trained and motivated employees.

d) Premium price:

Customers looking for reliable and satisfactory service are prepared to pay higher price provided the quality of service is as per their expectations. In services like medical, travel and tourism, entertainment etc. customers want better service and show readiness to pay premium price.

e) Corporate Image:

Service quality management helps to improve the image of the organisation. Due to good quality services, the organisation may get higher performance, on account of higher performance the image of the organisation improves in the mind of various stake holders i.e. customers, employees, shareholders and others.

f) Commitment of top management:

Service quality must be based on active support, involvement and commitment of top management to accomplish specific goals. Top management must not restrict its prosperity in terms of profits but must also give equal importance to service performance to keep the customers loyal to the business.

g) Economies of Scale:

Service quality management may also generate economies of scale. The service organisation may adopt latest technology for its operations. The use of technology reduces the need for more manpower as it expands. Therefore, the service firm may get economies of large scale operation.

h) Self-Service:

Service quality management helps to make service transactions prompt, convenient and accurate with the help of advanced technology. Because of the use of advanced technology customers have prefer for self-service. For example, ATM's of banks, automatic vending machines at railway stations, online purchase of tickets and hotel booking. They make service transactions prompt, convenient and accurate.

i) Expansion of business:

Service quality management facilitates to expansion of business. Due to higher performance, and corporate image, a service organisation can enter into new markets. This means a service organisation can expand from local level to regional level to national level and national level to international level.

11.8 SUMMARY

Total Quality management is a strategic approach to produce the best possible product and service through constant innovation and timely action. It places emphasis on prevention rather than rectification. Total quality management focused on consumer, process, employees, quality, productivity, techniques etc.

Six Sigma is a set of tools that a company adopts to achieve dramatic improvement in its profits. The uses of these tools cut down costs and remove inefficiencies in production or in use of resources. Six Sigma helps a company to re-tool and re-create itself with a view to prevent problems and defects. Six Sigma help to solve problem, reduced process variation, use factual data, improve market image, customer focus, organisational commitment, better approach and continuous improvement. Six Sigma approach can be explain with the help of DMAIC (Define, Measure, Analyse, Improve and Control) methodology.

Quality standard recognised at the global level is called ISO 9000. It provides common standards of products and services worldwide. ISO 9000 is essentially a mark of quality assurance. It has a good amount of procedure to obtain ISO 9000 certification.

Kaizen puts emphasis on process-oriented thinking as opposed to result oriented thinking. The ultimate goal should be that not a day should pass without some kind of improvement made somewhere in the organisation. Small improvement on a continuous process is the bottom line of Kaizen.

Service quality management is of great importance because it ensures repeat visit from clients. There appears to be some agreement that the important practices are unavoidable to ensure better service quality management i.e. customer satisfaction,, Earning goodwill, efficiency, premium price, corporate image, commitment of top management, economies of scale, self-service, expansion of business etc.

11.9 QUESTIONS

1. Define TQM. Explain the main features of TQM
2. Define Six Sigma. What are the features of Six Sigma?
3. Discuss the steps or phases of Six Sigma.
4. Explain the procedure of ISO 9000.

5. Explain the process of Kaizen.
6. Discuss the importance of Service Quality Management.
7. Write short notes:
    a. TQM
    b. Six Sigma
    c. ISO 9000
    d. Kaizen
    e. Service Quality Management

*****

12

FINANCIAL SYSTEM

Unit Structure

12.0 OBJECTIVES

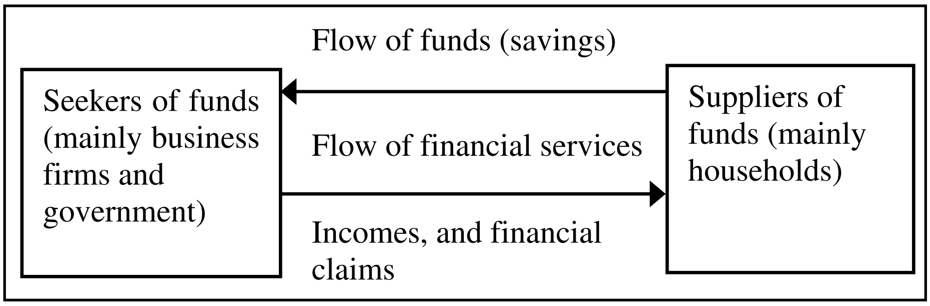
After studying the unit the students will able to:

- Know the meaning of Financial System.
- Explain the structure of Indian Financial System.
- Understand the components of Indian Financial System.
- Understand the classification of Financial Market.
- Discuss the types of Securities Markets

12.1 INTRODUCTION

The economic development of a nation is reflected by the progress of the various economic units, broadly classified into corporate sector, government and household sector. There are areas or people with surplus funds and there are those with a deficit. A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. A Financial System is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions and claims and liabilities.

Financial system comprises of set of subsystems of financial institutions, financial markets, financial instruments and services which helps in the formation of capital. It provides a mechanism by which savings are transformed to investment.



12.2 MEANING OF FINANCIAL SYSTEM

12.2.1 MEANING

The word "system", in the term "financial system", implies a set of complex and closely connected or interlinked institutions, agents, practices, markets, transactions, claims, and liabilities in the economy. The financial system is concerned about money, credit and finance -the three terms are intimately related yet are somewhat different from each other. Indian financial system consists of financial market, financial instruments and financial intermediation.

A financial system functions as an intermediary between savers and investors. It facilitates the flow of funds from the areas of surplus to the areas of deficit. It is concerned about the money, credit and finance. These three parts are very closely interrelated with each other and depend on each other.

12.2.2 FUNCTIONS OF FINANCIAL SYSTEM

Following are the main functions:

1. To mobilize savings and channelize them into productive activities.
2. To make provision of money and monetary assets for the production of goods and services.
3. To provide a payment system for the exchange of goods and services.
4. To facilitate pooling of funds for undertaking large scale enterprises.
5. To provide mechanism for temporal transferor resources.

12.3 STRUCTURE OF INDIAN FINANCIAL SYSTEM

12.3.1 INTRODUCTION TO INDIAN FINNCIL SYSTEM (IFS)

The IFS has experienced an impressive growth in the post 1950 era. Until the early 1990s, the role of the financial system in India was primarily restricted to the function of channeling resources from the surplus to deficit sectors. As a result of the reforms and initiatives taken by Government and the Regulators, the market structure has been refined and modernized. This is visible from the following:

- Introduction of variety of schemes and instruments for mobilizing savings.
- Emergence of wise variety of financial institutions to provide variety of services.
- Expansion in the network of commercial banks and operations of financial institutions.
- Remarkable growth in the primary and secondary segments of the capital market.
- Introduction of new intermediaries and new instruments in the capital market.
- Nationalization of banks, establishment of UTI, establishment of term lending institutions, institution for agricultural finance, institution for housing finance, growth of mutual fund industry, venture capital institutions etc.

Financial structure refers to shape, components and their order in the financial system. The Indian financial system can be broadly classified into:

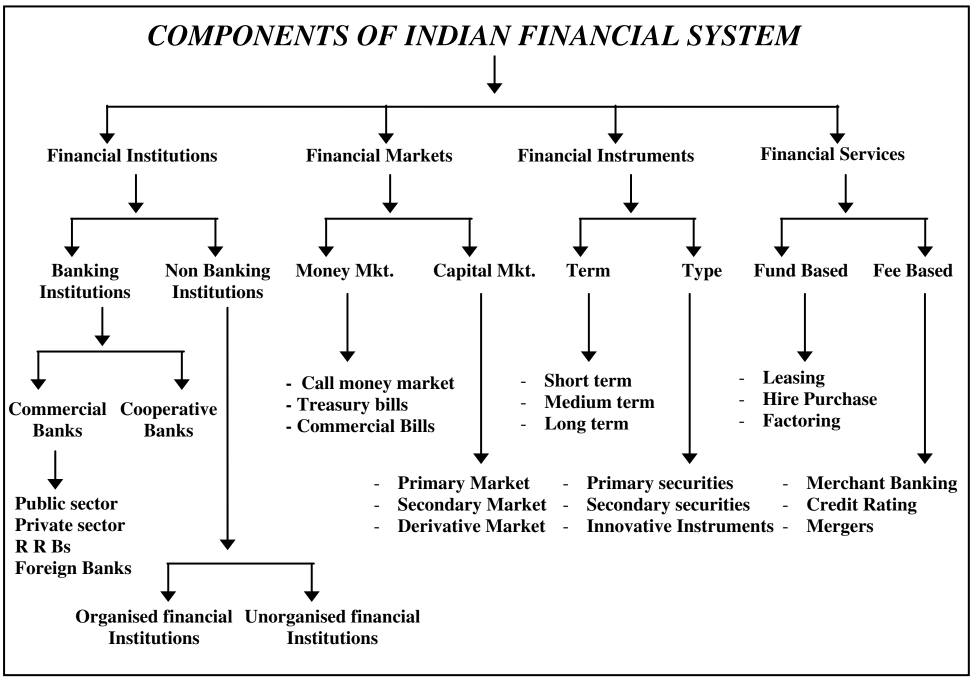
1. Formal (organised) Financial System and
2. Informal (unorganised) Financial System.

The formal financial system comprises of Ministry of Finance, RBI, SEBI and other regulatory bodies. The informal financial system consists of individual money lenders, groups of persons operating as funds or associations, partnership firms consisting of local brokers, pawn brokers, and non-banking financial intermediaries such as finance, investment and chit fund companies.

12.4 COMPONENTS OF INDIAN FINANCIAL SYSTEM

Components of Formal Financial System:

The formal financial system comprises financial institutions, financial markets, financial instruments and financial services. These constituents or components of Indian financial system may be briefly discussed as below:

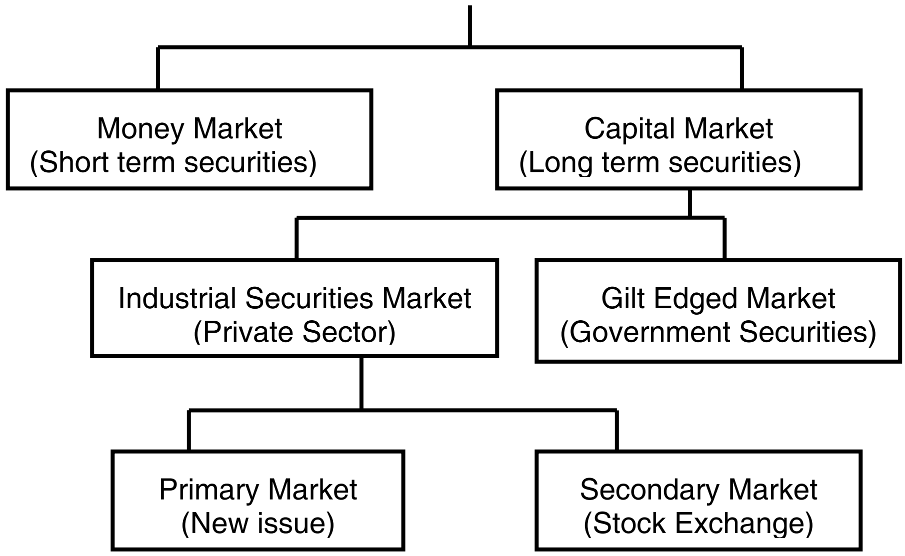


Indian financial system is a broad term which includes following components:

1. Financial markets
2. Financial intermediaries
3. Financial instruments

1. Financial Markets:

A financial market is a market in which financial assets are created or transferred. It provides funds for undertaking business activities. Following is the structure of financial market:



a) Money market:

Money market deals with short term funds. There are two sectors in money market i.e. organized sector and unorganized sector. RBI has control on the organized sector whereas it has no control on the unorganized sector. The money market is wholesale debt market for low risk, highly liquid and short term instrument. Funds are available in this market for periods ranging from a single day up to a year. This market is dominated mostly by government, banks and financial institutions.

b) Capital Market:

Capital market is a market for long term debt and equity shares. The transactions taking place in this market is generally more than a year. It includes industrial securities market which is classified into primary market and secondary market. Primary market deals with new issue and secondary market deals with trading of securities i.e. stock exchanges.

2. Financial Intermediaries:

Financial intermediaries are banks, financial institutions and brokers. When the borrower of the funds approaches the financial market to raise funds, he needs to have full details about the issue, issuer and the security should be passed on. There should be a proper channel within the financial system to ensure such transfer. To serve this purpose, role of financial intermediaries is important. These financial intermediaries include investment bankers, underwriters, stock exchanges, registrars, depositories, custodians, mutual funds, portfolio managers, primary dealers etc.

3. Financial instruments:

Financial instruments include money market instruments and capital market instruments. The financial instruments in money market are generally for short term i.e. up to one year. Some of the important money market instruments are Notice Money, Term Money, Treasury Bills, Certificate of Deposit, Commercial Papers etc. Whereas the capital market generally consists financial instruments of long term i.e. more than one year. Some of the important financial instruments in capital market are equity shares, preference shares, debentures, bonds, security deposits, treasury bills etc.

12.5 FINANCIAL MARKETS

12.5.1 INTRODUCTION:

Financial market is an important component of Indian Financial System. Efficient financial markets are essential for speedy economic development. The vibrant financial market enhances the efficiency of capital formation. It facilitates the flow of savings into investment. Financial markets bridge one set of financial intermediaries with another set of players. Financial markets are the backbone of the economy. This is because they provide monetary support for the growth of the economy. The growth of the financial markets is the barometer of the growth of a country's economy.

Financial market deals in financial securities (or financial instruments) and financial services. Financial markets are the centers or arrangements that provide facilities for buying and selling of financial claims and services. These are the markets in which money as well as monetary claims is traded in.

Financial markets exist wherever financial transactions take place. Financial transactions include issue of equity stock by a company, purchase of bonds in the secondary market, deposit of money in a bank account, transfer of funds from a current account to a savings account etc.

The participants in the financial markets are corporations, financial institutions, individuals and the government. These participants trade in financial products in these markets. They trade either directly or through brokers and dealers.

In short, financial markets are markets that deal in financial assets and credit instruments.

12.5.2 FUNCTIONS OF FINANCIAL MARKETS:

The main functions of financial markets are outlined as below:

a. To facilitate creation and allocation of credit and liquidity.
b. To serve as intermediaries for mobilisation of savings.
c. To help in the process of balanced economic growth.
d. To provide financial convenience.
e. To provide information and facilitate transactions at low cost.
f. To cater to the various credits needs of the business organisations.

12.5.3 CLASSIFICATION OF FINANCIAL MARKETS:

There are different ways of classifying financial markets. There are mainly five ways of classifying financial markets.

a. Classification on the basis of the type of financial claim:

On this basis financial markets may be classified into debt market and equity market.

1. Debt market:

This is the financial market for fixed claims like debt instruments.

2. Equity market:

This is the financial market for residual claims, i.e., equity instruments.

b. Classification on the basis of maturity of claims:

On this basis, financial markets may be classified into money market and capital market.

1. Money market:

A market where short term funds are borrowed and lend is called money market. It deals in short term monetary assets with a maturity period of one year or less. Liquid funds as well as highly liquid securities are traded in the money market. Examples of money market are Treasury bill market, call money market, commercial bill market etc. The main participants in this market are banks, financial institutions and government. In short, money market is a place where the demand for and supply of short term funds are met.

2. Capital market:

Capital market is the market for long term funds. This market deals in the long term claims, securities and stocks with a maturity period of more than one year. It is the market from where productive capital is raised and made available for industrial purposes. The stock market, the government bond market and derivatives market are examples of capital market. In short, the capital market deals with long term debt and stock.

c. Classification on the basis of seasoning of claim:

On this basis, financial markets are classified into primary market and secondary market.

1. Primary market:

Primary markets are those markets which deal in the new securities. Therefore, they are also known as new issue markets. These are markets where securities are issued for the first time. In other words, these are the markets for the securities issued directly by the companies. The primary markets mobilise savings and supply fresh or additional capital to business units. In short, primary market is a market for raising fresh capital in the form of shares and debentures.

2. Secondary market:

Secondary markets are those markets which deal in existing securities. Existing securities are those securities that have already been issued and are already outstanding. Secondary market consists of stock exchanges. Stock exchanges are self regulatory bodies under the overall regulatory purview of the Govt. /SEBI.

d. Classification on the basis of structure or arrangements:

On this basis, financial markets can be classified into organised markets and unorganized markets.

1. Organised markets:

These are financial markets in which financial transactions take place within the well established exchanges or in the systematic and orderly structure.

2. Unorganised markets:

These are financial markets in which financial transactions take place outside the well established exchange or without systematic and orderly structure or arrangements.

e. Classification on the basis of timing of delivery:

On this basis, financial markets may be classified into cash/spot market and forward / future market.

1. Cash / Spot market:

This is the market where the buying and selling of commodities happens or stocks are sold for cash and delivered immediately after the purchase or sale of commodities or securities.

2. Forward/Future market:

This is the market where participants buy and sell stocks/commodities, contracts and the delivery of commodities or securities occurs at a pre-determined time in future.

3. Other types of financial market:

Apart from the above, there are some other types of financial markets. They are foreign exchange market and derivatives market.

4. Foreign exchange market:

Foreign exchange market is simply defined as a market in which one country's currency is traded for another country's currency. It is a market for the purchase and sale of foreign currencies.

5. Derivatives market:

The derivatives are most modern financial instruments in hedging risk. The individuals and firms who wish to avoid or reduce risk can deal with the others who are willing to accept the risk for a price. A commonplace where such transactions take place is called the derivative market. It is a market in which derivatives are traded. In short, it is a market for derivatives. The important types of derivatives are forwards, futures, options, swaps, etc.

CHECK YOUR PROGRESS

1. Fill in the blanks
   a. Primary Markets are also known as -------------------- markets.
   b. Forwards, futures, options, swap, etc. are the examples of -----------------market.
   c. A market for the purchase and sale of foreign currencies is known as ---------------------------market.
   d. the market where the buying and selling of commodities happens for cash is called as -------------market.
   e. When the financial transactions take in the systematic and orderly structure it means it is a----------------market.

2. Draw the figure explaining the components of Indian Financial System.
3. Define the following terms:
   a. Forward market
   b. Unorgnised market
   c. Money market
   d. Capital market
   e. Primary market
   f. Secondary market
   g. Financial system.

12.6 SECURITIES MARKETS

A Securities market is an exchange where sale and purchase transactions of securities are conducted on the base of demand and supply. A well-functioning securities market should be able to provide timely and accurate information on the past transactions, liquidity, low transaction costs (internal efficiency) and securities prices that rapidly adjusted to all available information (external efficiency).

There are two levels of securities markets Primary and secondary market:

1. Primary Market

Primary Market is the market for new securities issues and is facilitated by underwriting groups. The companies sell their securities to the public directly to the investors through the underwriters (normally investment banks for stock and bond issuance). When the firm is issuing shares for the very first time, it is called Initial Public Offering (IPO). New shares issued by firms whose shares are already trading in the market are called seasoned or secondary issues. Issuing company receives cash from the sale and uses it to expand or fund the operations. After the initial sale, the securities trading will be conducted on the secondary market.

The primary market is the part of the capital market that deals with issuing of new securities. Companies, governments or public sector institutions can obtain funds through the sale of a new stock or bond issues through primary market. This is typically done through an investment bank or finance syndicate of securities dealers.

The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is an Initial Public Offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. Primary markets create long term instruments through which corporate entities borrow from capital market.

Once issued the securities typically trade on a secondary market such as a stock exchange, bond market or derivatives exchange.

Features:

Features of primary markets are:

1. This is the market for new long term equity capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called the new issue market (NIM).

2. In a primary issue, the securities are issued by the company directly to investors.

3. The company receives the money and issues new security certificates to the investors.

4. Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business.

5. The primary market performs the crucial function of facilitating capital formation in the economy.

6. The new issue market does not include certain other sources of new long term external finance, such as

loans from financial institutions. Borrowers in the new issue market may be raising capital for converting private capital into public capital; this is known as "going public

1. Secondary Market:

Secondary market, also known as the aftermarket, is the market where the trading of the previous issued securities is conducted. On a secondary market, an investor buys securities from another investor instead of the issuer. It is important that the secondary market provides liquidity and therefore provides continuous information about the market price of the securities.

Secondary markets are mainly organized in two ways. One is to form a centralized and organized exchange where all buyers and sellers (or their representative agents) meet and conduct trading.

The more investors participate in a market, the greater the centralization of that market, and the more liquid the market. Some examples of this form of secondary markets are New York Stock Exchange (NYSE) and American Stock Exchange (AMEX). The other way is Over-the-counter (OTC) market which a secondary market where securities are traded directly between two parties. Trading occurs via dealers who carry inventories of securities and contact each other by computer, telephone or other electronic network instead of a physical trading floor. Over-the-counter dealers quote a bid price at which they would buy, and an ask price at which they would sell. An example of an over-the-counter securities market is the National Association of Securities Dealers Automated Quotations System (Nasdaq).

The secondary market, is the financial market in which previously issued financial instruments such as stock, bonds, options, and futures are bought and sold.

The term "secondary market" is also used to refer to the market for any used goods or assets, or an alternative use for an existing product or asset where the customer base is the second market (for example, corn has been traditionally used primarily for food production and feedstock, but a "second" or "third" market has developed for use in ethanol production).

With primary issuances of securities or financial instruments, or the primary market, investors purchase these securities directly from issuers such as corporations issuing shares in an IPO or private placement, or directly from the federal government in the case of treasuries. After the initial issuance, investors can purchase from other investors in the secondary market.

Function:

In the secondary market, securities are sold by and transferred from one investor or speculator to another. It is therefore important that the secondary market be highly liquid (originally, the only way to create this liquidity was for investors and speculators to meet at a fixed place regularly; this is how stock exchanges originated, see History of the Stock Exchange). As a general rule, the greater the number of investors that participate in a given marketplace, and the greater the centralization of that marketplace, the more liquid the market.

12.7 DIFFERENCE BETWEEN PRIMARY AND SECONDARY MARKET

Primary markets are those where securities are offered to the public in the form of subscription with the intention of raising money. On the other hand, secondary market refers to the market where trading of already existing securities take place. The secondary market is often referred to as dealer market or an auction market. Examples of an auction market is the stock exchange whereas an OTC or over the counter exemplifies a dealer market. In a primary market, the securities, stocks or bonds are bought directly from the company issuing all of the above. These are usually bought at a "par value". In the secondary market, the existing securities, bonds or stocks are traded again. For instance, if an individual had purchased bonds or any other investment instruments from the primary market a year back and the individual now wants to avail of the principal amount the bonds may be sold off in secondary market.

In the event when the price of the bonds rise, the individual intending to dispose off the bonds needs to do it at a discounted rate. On the other hand, if the price of bonds increases, the individual selling the shares will be benefited and may sell it at a premium rate.

12.8 ROLE OF FINANCIAL MARKETS

The role of financial markets is as follows:

1. Capital formation:

The financial markets encourage capital formation in the country. The financial markets mobilize savings of the households and of the industrial concerns. Such savings are then invested for productive purposes. Thus, savings and investments lead to capital formation in the country.

2. Economic Growth:

Financial markets facilitate the growth of the industrial sector, as well as the other sectors of the economy. The capital market makes it possible to lend funds to various projects, both in the private sector as well as in public sector. The productive use of capital fund leads to economic development in the country.

3. Development of Backward areas:

The financial markets provide funds for the projects in backward areas. For instance, entrepreneurs can obtain funds by way of long term loans, debentures, shares, etc. for investment in backward areas. This facilitates the economic development of backward areas.

4. Greater employment:

Financial markets generate employment in the country:

Direct employment in the financial markets related activities such as stock markets, banks, and financial institutions.

Indirect employment in all the sectors of the economy because of the funds provided for developmental projects.

5. Foreign Capital:

The financial markets generate foreign capital. Indian firms are able to generate capital funds from overseas markets by way of bonds and other securities. Such foreign exchange funds are vital for the economic development of the nation.

6. Development of Stock Market:

Financial markets facilitate the development of stock markets. A number of investor invests in primary securities such as shares and debentures in the secondary market. This facilitates the development of stock markets.

7. Development of Role of Financial institutions:

The financial institutions play an important role in financial markets, they are:

- Provides medium and long term funds to various sectors.
- Refinances the commercial banks.
- Rediscount the bills of commercial banks.
- Merchant banking services.
-

8. Investment opportunity:

Financial markets provide an excellent investment opportunity to the members of public. Due to financial markets, the public has alternative sources of investment. The public can invest not only in bank deposits, but also in shares and debentures issued by public companies. Investors can get handsome returns from stock markets, if they invest wisely in blue chip companies.

9. Revival of sick units:

The financial markets facilitate the revival of number of sick units in India, the commercial and FIs provide financial assistance to viable sick units to overcome their industrial sickness. The banks and FIs may also write off a part of loan, or they re-schedule the loan, so as to offer payment flexibility to the weak units, which in turn help the weak units to overcome financial industrial sickness.

10. Easy liquidity:

The secondary market makes it possible for the investors to sell off their holdings in for of shares and debentures and convert them into liquid cash. The commercial banks also allow investors to withdraw their medium term and long term deposits, as and when they are need of funds, subject to certain conditions.

12.9 SUMMARY

From the above discussion the structure of Indian Financial System and its working is clear. Economic growth and development of any country depends upon a well-knit financial system. Financial system is a set of complex and closely interlinked financial institutions, financial markets, financial instruments and services which facilitate the transfer of funds. The financial system provides a mechanism by which savings are transformed into investments and it can be said that financial system play an significant role in economic growth of the country by mobilizing surplus funds and utilizing them effectively for productive purpose.

Financial System of any country consists of financial markets, financial intermediation and financial instruments or financial products. Financial market is the market that facilitates transfer of funds between investors and borrowers. It deals in financial instruments like bills of exchange, shares, debentures, bonds, etc. It provides security to dealings in financial assets, liquidity to financial assets for investors and ensures low cost of transitions and information. It consists of two major segments: (a) Money Market; and (b) Capital Market. While the money market deals in short-term credit, the capital market handles the medium term and long-term credit.

12.10 QUESTIONS

1. What is financial system? Explain the structure of Indian financial System.
2. Distinguish between Primary Market and Secondary market.
3. Explain in detail the role of financial markets.
4. Explain the classification of Financial Market.
5. What are the components of Indian financial System?
6. Write Short Notes;
   a. Primary Market
   b. Secondary Market
   c. Role of Financial Market
   d. Financial System
   e. Financial Market

*****

13

INDIAN FINANCIAL SYSTEM - II

Unit Structure

13.0 OBJECTIVES

After studying the unit the students will be able to:

- Explain the role, functions and objectives of SEBI.
- Know about the Stock Exchange and its functions
- Discuss about the concept Dematerialization and its process.
- Understand the meaning of Credit Rating Agencies and its functions and advantages.
- Know about CRISIL.

13.1 INTRODUCTION

In 1991, India opened its economy for outsiders. The globalization and liberalization policies introduced by the government increased the volume of business in both the primary and secondary market. As the securities market started growing so also the number of malpractices in these markets such as manipulation of security prices, price rigging, insider trading, delay in listing, delay in settlement etc. It was necessary to curb these malpractices and promote healthy capital markets. The government felt the need to take measures for developing and regulating the Indian Financial sector. As a result various bodies came into existence. Stock Exchange, SEBI and Credit Rating Agencies are the fruits of these efforts.

13.2 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

13.2.1 INTRODUCTION

The Securities and Exchange Board of India (frequently abbreviated SEBI) is the regulator for the securities market in India. It was established in the year 1988 and given statutory powers on 12 April 1992 through the SEBI Act, 1992.

SEBI has its Headquarters are at the SEBI Bhavan, Bandra Kurla Complex, Bandra East, Mumbai- 400051, and has Northern, Eastern, Southern and Western Regional Offices in New Delhi, Kolkata, Chennai and Ahmedabad respectively and is planning to open offices at Guwahati, Bhubaneswar, Patna, Kochi and Chandigarh in Financial Year 2013 - 2014. The SEBI is a vital component in improving the quality of the financial markets in India, both by attracting foreign investors and protecting Indian investors.
The SEBI is managed by its members, which consists of following:

- The chairman who is nominated by Union Government of India.
- Two members, i.e. Officers from Union Finance Ministry.
- One member from The Reserve Bank of India.
- The remaining 5 members are nominated by Union Government of India out of them at least 3 shall be whole-time member

13.2.2 REASONS FOR ESTABLISHMENT OF SEBI

With the growth in the dealings of stock markets, lot of malpractices also started in stock markets such as price rigging, 'unofficial premium on new issue, and delay in delivery of shares, violation of rules and regulations of stock exchange and listing requirements. Due to these malpractices the customers started losing confidence and faith in the stock exchange. So government of India decided to set up an agency or regulatory body known as Securities Exchange Board of India (SEBI).

13.2.3 PURPOSE AND ROLE OF SEBI

SEBI was set up with the main purpose of keeping a check on malpractices and protect the interest of investors. It was set up to meet the needs of three groups.

1. Issuers:

For issuers it provides a market place in which they can raise finance fairly and easily. With the achievement of this objective it becomes easy for the New Companies to enter the Financial Markets.

2. Investors:

For investors it provides protection and supply of accurate and correct information. This helps the to Maintain the trust and Confidence among the Investors which tends to more and More money inflow in the market which helps in the growth and development of the economy.

3. Intermediaries:

For intermediaries it provides a competitive professional market which facilitates the increase in efficiency of the Intermediaries.

13.2.4 OBJECTIVES OF SEBI

The overall objectives of SEBI are to protect the interest of investors and to promote the development of stock exchange and to regulate the activities of stock market.

The objectives of SEBI are:

1. To regulate the activities of stock exchange.

2. To protect the rights of investors and ensuring safety to their investment.

3. To prevent fraudulent and malpractices by having balance between self regulation of business and its statutory regulations.

4. To regulate and develop a code of conduct for intermediaries such as brokers, underwriters, etc.

13.2.5 FUNCTIONS OF SEBI

The SEBI performs functions to meet its objectives. To meet three objectives SEBI has three important functions. These are:

1. Protective Functions:

These functions are performed by SEBI to protect the interest of investor and provide safety of investment. As protective functions SEBI performs following functions:

a. It Checks Price Rigging:

Price rigging refers to manipulating the prices of securities with the main objective of inflating or depressing the market price of securities. SEBI prohibits such practice because this can defraud and cheat the investors.

b. It Prohibits Insider trading:

Insider is any person connected with the company such as directors, promoters etc. These insiders have sensitive information which affects the prices of the securities. This information is not available to people at large but the insiders get this privileged information by working inside the company and if they use this information to make profit, then it is known as insider trading, e.g., the directors of a company may know that company will issue Bonus shares to its shareholders at the end of year and they purchase shares from market to make profit with bonus issue. This is known as insider trading. SEBI keeps a strict check when insiders are buying securities of the company and takes strict action on insider trading.

c. It prohibits fraudulent and Unfair Trade Practices:

SEBI does not allow the companies to make misleading statements which are likely to induce the sale or purchase of securities by any other person.

SEBI undertakes steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities.

d. SEBI promotes fair practices and code of conduct in security market by taking following steps:

SEBI has issued guidelines to protect the interest of debenture-holders wherein companies cannot change terms in midterm.

SEBI is empowered to investigate cases of insider trading and has provisions for stiff fine and imprisonment.

SEBI has stopped the practice of making preferential allotment of shares unrelated to market prices.

2. Developmental Functions:

These functions are performed by the SEBI to promote and develop activities in stock exchange and increase the business in stock exchange. Under developmental categories following functions are performed by SEBI:

- **a.** SEBI promotes training of intermediaries of the securities market.
- **b.** SEBI tries to promote activities of stock exchange by adopting flexible and adoptable approach in following way:
- **c.** SEBI has permitted internet trading through registered stock brokers.
- **d.** SEBI has made underwriting optional to reduce the cost of issue.
- **e.** Even initial public offer of primary market is permitted through stock exchange.

3. Regulatory Functions:

These functions are performed by SEBI to regulate the business in stock exchange. To regulate the activities of stock exchange following functions are performed:

- **a.** SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries such as merchant bankers, brokers, underwriters, etc.
- **b.** These intermediaries have been brought under the regulatory purview and private placement has been made more restrictive.
- **c.** SEBI registers and regulates the working of stock brokers, sub-brokers, share transfer agents, trustees, merchant bankers and all those who are associated with stock exchange in any manner.
- **d.** SEBI registers and regulates the working of mutual funds etc.
- **e.** SEBI regulates takeover of the companies.
- **f.** SEBI conducts inquiries and audit of stock exchanges.

13.3 STOCK EXCHANGE

INTRODUCTION:

Stock Exchange also called Stock Market or Share Market. It is one important constituent of capital market. Stock exchange is an organized market for buying and selling corporate and other securities. It is convenient place where trading in securities is conducted in systematic manner i.e. as per certain rules and regulations. The securities include shares and debentures issued by public companies which are duly listed at the stock exchange and bonds and debentures issued by government, public corporations and municipal and port trust bodies. London stock exchange (LSE) is the oldest stock exchange in the world. Similar Stock exchanges exist and operate in large majority of countries of the world.

Definitions of Stock Exchange:

According to **Husband and Dockerary**, "Stock exchanges are privately organized markets which are used to facilitate trading in securities."

The Indian Securities Contracts (Regulation) Act of 1956, defines Stock Exchange as, "An association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."

Stock Exchange plays an important role in capital market. Stock exchanges basically serve as:

1. Primary markets where corporations, governments, municipalities and other incorporated bodies can raise capital by channeling savings of the the investors into productive ventures; and
2. Secondary markets where investors can sell their securities to other investors for cash.

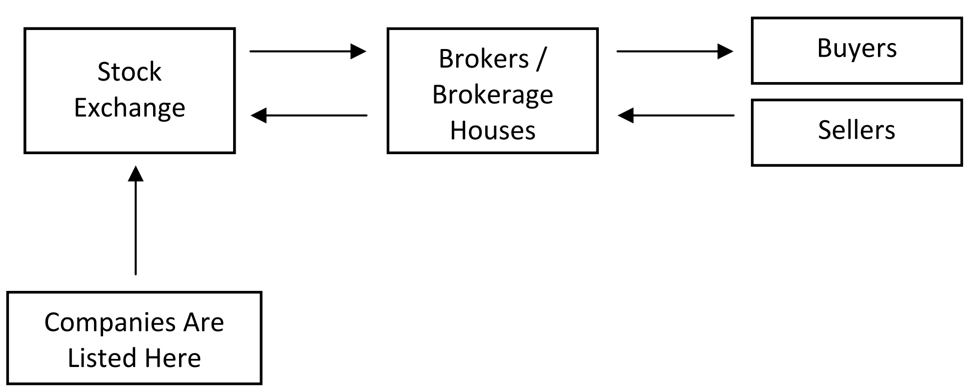
On modern exchange trades are conducted over telephone or online. Almost all exchanges are 'auction exchanges', where buyers enter competitive bids and sellers enter competitive orders through a trading day. Some European exchanges, however, use 'periodic auction' method in which round-robin calls are made once a trading day. The first stock exchange was opened in Amsterdam in 1602. The three largest exchanges in the world are (in the descending order) New York Stock Exchange (NYSE), London Stock Exchange (LSE), and the Tokyo Stock Exchange (TSE).

A stock exchange does not own shares. Instead, it acts as a market where stock buyers connect with stock sellers. Stocks can be traded on one or more of several possible exchanges such as the Bombay Stock Exchange (BSE). Although you will most likely trade stocks through a broker, it is important to understand the relationship between exchanges and companies, and the ways in which the requirements of different exchanges protect investors. To be traded, every stock must list on an exchange where buyers and sellers meet. The two big U.S. exchanges are the BSE and NSE. Companies listed on either of these exchanges must meet various minimum requirements and baseline rules concerning the "independence" of their boards. But these are by no means the only legitimate exchanges. Electronic communication networks are relatively new, but they are sure to grab a bigger slice of the transaction pie in the future. Finally, the OTC market is a fine place for experienced investors with an itch to speculate and the know-how to conduct a little extra due diligence.

The primary function of an exchange is to help provide liquidity; in other words, to give sellers a place to "liquidate" their share holdings.

Stocks first become available on an exchange after a company conducts its initial public offering (IPO). In an IPO, a company sells shares to an initial set of public shareholders (the primary market). After the IPO "floats" shares into the hands of public shareholders, these shares can be sold and purchased on an exchange (the secondary market).

The exchange tracks the flow of orders for each stock, and this flow of supply and demand sets the stock price. Depending on the type of brokerage account you have, you may be able to view this flow of price action. For example, if you see that the "bid price" on a stock is Rs.200, this means somebody is telling the exchange that he or she is willing to buy the stock for Rs.200. At the same time you might see that the "ask price" is Rs.200, which means somebody else is willing to sell the stock for Rs.210. The difference between the two is the bid-ask spread.



Company:

When a company requires capital to expand, it can either approach a financial institution to borrow money or ask the general public to invest in the company. In case of the latter, the company has to approach an investment bank, which will help it get listed on the stock exchange. Shareholders, traders and brokers can trade the company's stock once it is listed on the stock exchange.

Stock exchange:

A stock exchange serves as a platform that helps companies raise capital by issuing stocks to retail/institutional investors. Stock that is issued keeps trading handset the exchange even after the company is listed. The price of the stock is determined by the demand, supply and market demographics at a particular time, and keeps changing by the minute.

Buyers/Sellers:

When a company is listed on the stock exchange, traders/investors buy and sell stocks with the aim of making money through price fluctuations. These traders/investor can be individuals, corporate entities, governments, etc.

Brokers:

Brokers or brokering houses are middlemen between the buyers/sellers and the stock exchange. They have the authority to carry out a transaction on the behalf of the buyer or seller. It is mandatory for the investor to have a brooking account in order to trade/invest in stocks. Brokers charge an additional fee for the service they provide, which is known as brokerage.

13.4 IMPORTANCE OR FUNCTIONS OF STOCK EXCHANGE

We discuss about major functions of stock exchange under these headings:-

1. Providing a ready market:

The Organization of Stock Exchange provides a ready market to speculators and investors in industrial enterprises. It thus, enables the public to buy and sell securities already in issue.

2. Providing a quoting market price:

It makes possible the determination of supply and demand on price. The very sensitive pricing mechanism and the constant quoting of market price allow the investors to always be aware of values. This enables the production of various indexes which indicate trends etc.

3. Providing facilities for working:

It provides opportunities to Jobbers and other members to perform their activities with all their resources in the stock exchange

4. Safeguarding activities for investors:

The Stock Exchange renders safeguarding activities for investors which enable them to make a fair judgment of securities. Therefore directors have to disclose all material facts to their respective shareholders. Thus innocent investors may be safeguard from the clever brokers.

5. Operating a compensation fund:

It also operates a compensation fund which is always available to investors suffering loss due to the speculating dealings in the stock exchange.

6. Creating the discipline:

The Members are controlled under rigid set of rules designed to protect the general public and its members. Thus this tendency creates discipline among its members in their social life also.

7. Checking functions:

New securities are checked before being approved and admitted to the listing. Thus stock exchange exercises rigid control over the activities of its members.

8. Adjustment of equilibrium:

The investors in the stock exchange promote the adjustment of equilibrium of demand and supply of a particular stock and thus prevent the tendency of fluctuation in the prices of shares.

9. Maintenance of liquidity:

The Banking and Insurance companies purchase large number of securities from the stock exchange. These securities are marketable and can be turned into cash at any time. Therefore banks prefer to keep securities instead of cash in their reserve. It facilitates the banking system to maintain liquidity by procuring marketable securities.

10. Promotion of the habit of saving:

Stock exchange provides a place for saving to general public. Thus it creates the habit of thrift and investment among the public. This habit leads to investment of funds incorporate or government securities. The funds placed at the disposal of companies are used by them for productive purposes.

11. Refining and advancing the industry:

Stock exchange advances the trade, commerce and industry in the country. It provides opportunity to capital to flow into the most productive channels. Thus the flow of capital from unproductive field to productive field helps to refine the large scale enterprises.

12. Promotion of capital formation:

The Stock Exchange plays an important part in capital formation in the country. The publicity regarding various industrial securities makes even disinterested people feel interested in investment.

13. Increasing Government Funds:

The Government can undertake projects of national importance and social value by raising funds through sale of its securities on stock exchange.

13.5 BOMBAY STOCK EXCHANGE

Established in 1875, BSE Ltd. (formerly known as Bombay Stock Exchange Ltd.), is Asia's first Stock Exchange and one of India's leading exchange groups. Over the past 137 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital-raising platform. Popularly known as BSE, the bourse was established as "The Native Share & Stock Brokers' Association" in 1875. BSE is a corporatized and demutualized entity, with a broad shareholder-base which includes two leading global exchanges, Deutsche Bourse and Singapore Exchange as strategic partners.

BSE has won several awards and recognitions that acknowledge the work done and progress made like The Golden Peacock Global CSR Award for its initiatives in Corporate Social Responsibility, NASSCOM - CNBC-TV18's IT User Awards, 2010 in Financial Services category, Skoch Virtual Corporation 2010 Award in the BSE StAR MF category and Responsibility Award (CSR) by the World Council of

Corporate Governance. Its recent milestones include the launching of BRICSMART indices derivatives, BSE-SME Exchange platform, S&P BSE GREENEX to promote investments in Green India.

BSE forecast for 2014:

The BSE Sensex is forecast to scale new highs next year after elections, attracting offshore funds despite an expected rough period for emerging markets when the U.S. Federal Reserve shifts monetary policy, a Reuter's poll showed.

The poll predicts a better performance than this year's 9 percent increase but far more modest than the 25 percent surge in 2012 when foreign investors bought a massive $24.4 billion worth of Indian stocks.

Uncertainty about the outcome of the elections, due by May, has prompted many investors and businesses to delay decisions as there are no clear favorites among leading parties to win a majority when India goes to elections.

Starmine data shows seven of the 30 companies that make up the index will likely see earnings drop next fiscal year. Six of those are companies in the heavy machinery and power sectors which have traditionally been reliant on government policies, subsidies and tax exemptions.

13.6 DEMATERIALISATION AND ITS PROCESS

13.6.1 Introduction:

During the late eighties, the common man used to stay away from the stock market because of the sheer complexity of the paperwork involved in trading at the market. This resulted in a very low mobilization of funds in the market. Besides this, the paper based system also gave rise to a number of problems duplication of shares, fake shares, fake signatures, signature mismatches and transfer problems. Stock certificates became the major reason for rising arbitration cases and investor disputes. This fact created a need of more technologically advanced system to maintain records of all the transactions. The government of India decided to bring a fully automated system for book-keeping, in order to eliminate all the risks that came along with the paper based certificates. The depository system was introduced by the Depository Act, 1996 which helped in eliminating the paper based system and made way for the safer electronic system in which every investor made transactions using a DEMAT Account.

A concept of reducing the quantity of materials required to serve economic functions. Signifies conversion of a share certificate from its present physical form to electronic form for the same number of holding. It attempts to avoid the time consuming and complex process of getting shares transferred in the name of the buyers.

Dematerialization of shares is optional and an investor can still hold shares in physical form. However**,** he/she has to DEMAT the shares if he/she wishes to sell the same through the Stock Exchanges. Similarly, if an investor purchases shares, he/she will get delivery of the shares in DEMAT form only.

It offers scope for paperless trading through state-of-the-art technology, whereby share transactions and transfers are processed electronically without involving any share certificate or transfer deed after the share certificates have been converted from physical form to electronic form.

13.6.2 Process of Dematerialisation :

Any person should open a DEMAT account with any Depository Participant (DP). The DP acts like an agent between the investor and depository. The process is as follow:

1. He/she has to fill up online DEMAT account opening form and needs to surrender the certificate(s) to the DP. The DP then sends the form and the original share certificates and the documents for proof of his identity and address and self attested passport size photograph to the concerned Registrar & Transfer (R&T) agent. To avoid any misuse of the share certificates, the investor must ensure that they are defaced by marking "Surrendered for Dematerialization" on the face of the certificates.
2. The person will have to sign a pact with his DP in which all the rules and regulations will be written to be followed by the investor and DP both. The DP gives the copy of the agreement to the investor.
3. After signing the agreement and the verification of the documents, in about 15 days the person will get his online at account number. It is also known as BO ID that is Beneficiary Owner's Identification Number. All your future transactions will be done with this ID.
4. The R&T agent holds the details about the shares. He checks with signature of the applicant

and processes it and intimate about this to company & NSDL.

5. On receiving intimation from the R&T agent, NSDL or CDSL credit the securities in the depository account of the client with the DP and inform the client accordingly. It should not take more than 30 days from the date of submission of a DEMAT request to get the holdings dematerialised. Finally the investor gets the DEMAT shares through his/her DP.

A person having a DEMAT account, can step into the world of stock exchange and start investing the money in mutual funds, shares, debentures, insurance, retirement funds etc. Unlike the bank account the person has not to keep a minimum balance, DEMAT account does not require minimum number of securities.

13.6.3 Key Concepts involved in the process of Dematerialisation :

1. Depository:

Regulates and control the various activities of the Depository Participants. **There are two depositories in India :**

- NSDL – National Securities and Depositories limited
- CDSL – Central Depositories Securities limited

2. Depositary Participant:

This is a representative for the depository and it acts as an interface between the clients and depository.

- **Functions of DP:**

a. DEMAT Account opening
b. Dematerialisation of securities
c. Account statement
d. Pledging
e. Process delivery Instruction slip

3. Registrar:

He keeps record of applications and money received from investors. Assisting issuing companies in determining the basis of allotment of securities , dispatching allotment letters, dispatching of refund order, shares, etc.

4. Transfer agents:

He keeps Record of holders of securities on behalf of the company , handling all matters related to transfer and redemption of securities of the company.

5. Beneficiary account:

A beneficiary account is an account opened by the investor with the DP. Every beneficiary account will be given a unique ID.

In NSDL, BO ID number is of 8 digits and in CDSL it is of 16 digits.

6. DEMAT account:

This account is like bank account and it shows the shares we have. Like cheque leaf in bank, here we have Delivery Instruction Slip to transfer our shares to some other persons.

13.6.4 Advantages of Dematerialisation:

- Reduces brokerage charges.
- Eliminates the risks involved with physical certificates like forgery, loss, theft, damage of certificates, etc.
- There is no paperwork involved which has greatly reduced the time required.
- Traders don't need to visit the stock market again and again as they can operate it from anywhere as system is electronised.
- The system reduces the cost incurred by the company in issuing and distributing shares.

13.6.5 Disadvantages of Dematerialisation:

- Trading in securities may become uncontrolled.
- The biggest limitation is that in order to have a DEMAT account one needs to be internet savvy and therefore people who are not that literate with internet will find it hard to operate their DEMAT account and therefore they tell their brokers or sub brokers to transact on behalf of them which sometimes lead to fraud

and mismanagement of funds by the sub brokers.

- Another limitation is that since stocks are dematerialised individuals tend to keep looking the stock price more often than they would have if stocks were in paper form and therefore they end up doing trading instead of investment.
- Multiple regulatory frameworks have to be confirmed.
- Agreements are entered at various levels in the process of dematerialization. These may cause worries to the investor desirous of simplicity.
- There is no provision to close a demat account, which is having illiquid shares.

Check Your Progress

1. Define the following terms;
   a. SEBI
   b. Stock exchange
   c. DEMAT account
   d. Depository
   e. Beneficiary account
   f. Dematerialization
2. Enlist the functions of stock exchange.
3. Explain the management structure of SEBI.

13.7 CREDIT RATING AGENCIES (CRA)

13.7.1 INTRODUCTION:

Credit rating is an analysis of the credit risks associated with a financial instrument or a financial entity. It is a rating given to a particular entity based on the credentials and the extent to which the financial statements of the entity are sound, in terms of borrowing and lending that has been done in the past. Usually, is in the form of a detailed report based on the financial history of borrowing or lending and credit worthiness of the entity or the person obtained from the statements of its assets and liabilities with an aim to determine their ability to meet the debt obligations. It helps in assessment of the solvency of the particular entity.

Definition:

"Credit Rating is an opinion expressed by an independent rating agency about the credit quality of the issuer of a debt instrument".

Credit rating of a debt security essentially reflects the probability payment of interest and repayment of principal amount by a borrower.

"A credit ratings agency is a company that assigns credit ratings to institutions that issue debt obligations".

Credit rating measures credit worthiness, or the ability to pay back a loan. Credit rating is done for debt instruments such as debentures, fixed deposits, commercial papers, bonds etc. The company which issues debt instruments is called an issuer or issuing company. Investor looks at the credit rating of instrument and issuer before investing. If the credit rating is a high, investor will invest in the company. That is, he will purchase the debentures, bonds, etc. issued by that company. If the credit rating is low, investor will not purchase the debentures, bonds, etc. of that company. So credit rating guides the investor while investing. Credit rating is an opinion about a debt instrument and its issuer. It tells an investor, whether the debt instrument is safe or risky. It tells whether the issuer will be able to pay the interest and repay the principal amount in time. Credit rating is only an opinion. It is not a recommendation. It does not ask an investor to buy, hold or sell an instrument.

13.7.2 ROLE OF CREDIT RATING AGENCIES:

1) Collection of financial information:

Credit rating agencies collect valuable information relating to credit quality of an issuer of a debt security. The collected information is analysed and summarized in a simple and readily understood manner. The rating agency, is likely to provide unbased information.

2) Supply of information:

The information about credit quality of an issuer is provided to the public. This helps them in taking investment decision. The information is also supplied to others like SEBI, bankers government etc.

3) Provides basis for assessing risk and return:

The ratings are evaluated and revised from time to time, and as such it helps the existing investors to decide whether or not to hold on to the security or to dispose it off. The information provided to the potential investors enables them to decide whether or not invest in the debt securities.

4) Corporate Discipline:

Credit rating imposes healthy discipline on corporate borrowers. Firms would naturally prefer a better credit rating as higher credit rating tends to enhance corporate image and visibility of the firms. Therefore, they maintain financial discipline i.e. regular payment of interest and repayment of debt on time.

5) Guidance to institutional investors:

Credit rating agencies facilitates formulation of public policy guidelines on institutional investment. This helps them to plan their investment portfolios easily and earn better returns.

6) Provide Greater Credence:

Credit rating agencies provide greater credence to financial and other representations. When credit rating agency rates a particular securities, its own credibility is at stake and as such it would make all possible efforts to collect proper financial information about the credit quality of the issuer and that of the debt instrument.

At times, it has been observed that the companies that provide debt products and services are rating the debt instruments by them.

The providers of securities like the companies, the governmental organizations at the state and central level and special purpose entities are the major clients of the credit rating agencies. The non-profit seeking organizations and the national governments also avail the services of the credit rating agencies.

13.7.3 BENEFITS OF CREDIT RATINGS COMPANY:

1. Improves corporate image
2. Lower cost of borrowings
3. Wider audience of borrowings
4. Good for non popular companies
5. Act as marketing tool
6. Helps for growth and expansion

13.7.4 Credit Rating and Information Services of India Ltd. (CRISIL):

CRISIL is India's global analytical company providing ratings, research, and risk and policy advisory services. CRISIL's businesses can be divided into three broad categories - Ratings, Research and Advisory. CRISIL Ratings has assessed over 61,000 entities in India. Its rating capabilities span the entire range of debt instruments and it has worked across the corporate strata, from large corporate in the country to the SMEs.

CRISIL was established in 1987. The world's largest rating agency Standard & Poor's now holds majority stake in CRISIL. It has been promoted by Industrial Credit and Investment Corporation of India Ltd. (ICICI) and Unit Trust of India Ltd. (UTI) as a public limited company with its headquarters at Mumbai.

Under Research, CRISIL Global Research and Analytics serves global investment banks and financial institutions with high-end research, risk, analytics and equity and credit research services. Its credit research supports 80 per cent of the global structured finance market, and over 60 per cent of the global credit markets. The company's equity research covers over 90 per cent of the global trading volumes and 88 per cent of the global market capitalisation. In India, CRISIL Research is an independent and integrated research house. It provides following information:

13.7.5 Functions of Crisil

1. It provides growth forecasts, profitability analysis, emerging trends, expected investments, industry structure and regulatory frameworks. CRISIL's rating experience covers more than 24654 entities, including 14,500 small and medium enterprises.

2. CRISIL offers domestic and international customers with independent information, opinions and solutions related to credit ratings and risk assessment; energy infrastructure and corporate advisory; research on India's economy, industries and companies; global equity research; fund services; and risk management.

3. CRISIL Infrastructure Advisory is a division of CRISIL Risk and Infrastructure Solutions (CRIS) Limited, a wholly owned subsidiary of CRISIL Limited. It helps shape policy and establish viable frameworks to improve the risk profile of infrastructure projects. It works with government agencies in enhancing their capacity, capabilities and internal financial viability, and support implementation of infrastructure improvement initiatives.

4. CRISIL Risk Solutions (CRS), the other division of CRIS, provides a range of risk management tools, analytics and solutions to financial institutions, banks, and corporate, in India, and across the world.

The rating is an opinion on the future ability and legal obligation of the issuer of securities to make timely payments of principal and interest on a specific fixed income security such as debentures.

13.7.6 Crisil Role:

The role of CRISIL can be divided into two groups:

- Specific Roles
- General Roles

1. Specific Roles :

CRISIL's businesses can be divided into four broad categories:

- Ratings
- Research
- Advisory
- Risks Management

2. General Roles:

The general roles of CRISIL are as follows:

a) It supplies credit rating information to public.

b) It provides the basis of assessing risk and return for an investment.

c) It imposes good discipline on corporate borrowers.

d) It facilitates formulation of public policy.

e) It protects investor interests.

Thus, CRISIL was the first credit rating agency in India, which was set up in 1987. There are also other credit rating agencies such as CARE and ICRA. Investors rely on credit ratings and invest in good performing firms or firms with good potential. Therefore, firms are in a position to raise medium term to long term funds from the capital markets. This gives a big boost to capital markets in India.

13.8 SUMMARY

The Securities and Exchange Board of India describes the basic Functions of as, "...to protect the interests of investors in securities and to promote the development of the securities market, and to regulate the securities market and for matters connected therewith or incidental thereto".

Stock Exchange is an association of people organized to provide an auction market among themselves for the purchase and sale of securities. It is one important constituent of capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security.

CRAs play a key role in financial markets by helping to reduce the informative asymmetry between lenders and investors, on one side, and issuers on the other side, about the creditworthiness of companies. CRISIL is the largest credit rating agency in India

13.9 QUESTIONS

1. 'In to-day's commercial world, SEBI performs many vital functions which leads the investors towards positive environment.' Explain how by giving any reasons.
2. Define stock exchange. Describe the role of stock exchange in an economy.
3. Briefly explain dematerialisation and its benefits.
4. Discuss the role and functions of Securities and Exchange Board of India.
5. “SEBI is set up to protect the interest of investors”. Discuss.
6. What is credit rating? Explain the functions of credit rating.
7. Write a detailed note on Credit Rating Agencies in India.
8. Write Short notes:
   a. Credit Rating Agencies
   b. CRISIL
   c. SEBI
   d. Bombay Stock Exchange.

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14

CONTEMPORARY PRACTICES IN FINANCIAL MARKET

Unit Structure

14.0 OBJECTIVES

After studying the unit the students will be able to:

- Understand the Concept of Lease Financing.
- Explain the advantages and types of lease.
- Understand the concept Mutual Fund.
- Discuss about the factors responsible for the growth of
- Mutual Fund and its types.
- Define Derivative Market.
- Explain the types of Derivative Market and the participants in the Derivative Market
- Define Venture Capital and Micro-finance.
- Discuss about the features of Venture Capital.
- Elaborate the role of Micro Finance.

14.1 LEASE FINANCING

14.1.1 INTRODUCTION:

Lease financing denotes procurement of assets through lease. The subject of leasing falls in the category of finance. The use of leasing as a finance device began in1940. It was first made in USA. In India; it emerged in analysis organized manner in early seventies.Leasing has grown as a big industry in the USA and UK and spread to other countries during the present century. In India, the concept was pioneered in 1973 when the First Leasing Company was set up in Madras and the eighties have seen a rapid growth of this business. Lease as a concept involves a contract whereby the ownership, financing and risk taking of any equipment or asset are separated and shared by two or more parties. Thus, the lessor may finance and lessee may accept the risk through the use of it while a third party may own it. Alternatively the lessor may finance and own it while the lessee enjoys the use of it and bears the risk. There are various combinations in which the above characteristics are shared by the lessor and lessee.

14.1.2 Importance Of Lease Financing:

A lease transaction is a commercial arrangement whereby an equipment owner or Manufacturer conveys to the equipment user the right to use the equipment in return for a rental. In other words, lease is a contract between the owner of an asset (the lessor) and its user (the lessee) for the right to use the asset during a specified period in return for a mutually agreed periodic payment (the lease rentals). The important feature of a lease contract is separation of the ownership of the asset from its usage.

Lease financing is based on the observation made by Donald B. Grant: “Why own a cow when the milk is so cheap? All you really need is milk and not the cow.”

Leasing industry plays an important role in the economic development of a country by providing money incentives to lessee. The lessee does not have to pay the cost of asset at the time of signing the contract of leases. Leasing contracts are more flexible so lessees can structure the leasing contracts according to their needs for finance. In short, lease provides a person the right to use and to have a control over the asset of another person without receiving title to it. For this a specific consideration has to be paid.

The person who lets the asset to be used by another person is called the Lesser and the person who utilizes it is called the Lessee.

The term ‘Lease’ represents a contractual agreement whereby the lesser grants the lessee the right to use an asset in return for periodic lease rental payments lease financing is provided by financial institutions, non banking financial institutions are other organizations. Lease agreement is signed by the lesser and the lessee. It specifies their legal rights and obligations.

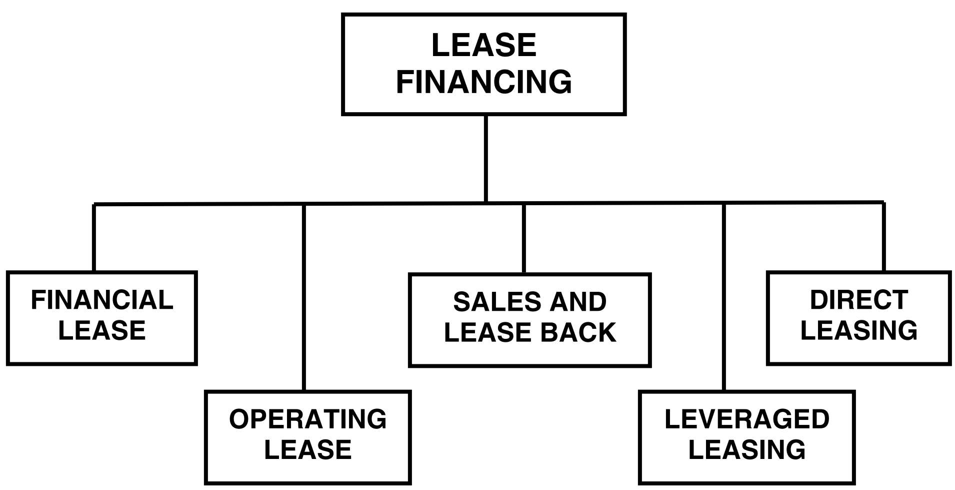
14.1.3 Definitions:

1) **The international accounting standard define as** "an agreement whereby the lesser conveys to the lessee in return for rent the right to use the asset for an agreed period of time."
2) **According to Jack Broyles**, "Lease is the method of acquiring the right to use equipment of real property for consideration.

Today, most of us are familiar with leases of houses, apartments, offices, etc.

14.1.4 Types Of Lease Agreements:

Lease agreements are basically of two types. They are (a) Financial lease and (b) Operating lease. The other variations in lease agreements are (c) Sale and lease back (d) Leveraged leasing and (e) Direct leasing.



1. Financial Lease:

Long-term, non-cancellable lease contracts are known as financial leases. The essential point of financial lease agreement is that it contains a condition whereby the lessor agrees to transfer the title for the asset at the end of the lease period at a nominal cost. At lease it must give an option to the lessee to purchase the asset he has used at the expiry of the lease. Under this lease the lessor recovers 90% of the fair value of the asset as lease rentals and the lease period is 75% of the economic life of the asset. The lease agreement is irrevocable. Practically all the risks incidental to the asset ownership and all the benefits arising there from are transferred to the lessee who bears the cost of maintenance, insurance and repairs. Only title deeds remain with the lessor. Financial lease is also known as ‘capital lease’. In India, financial leases are very popular with high-cost and high technology equipment.

The characteristics of a financial lease area are: -

1) The lessee has the option of renewing the lease for the further period for nominal lease rents.
2) The lease is fully a mortised during the primary lease period. In other words, during the initial period the lesser recovers through the lease rentals, his investment in the asset along with an acceptable rate of return.
3) The lessee is responsible for maintenance, insurance and taxes.

1. Operating Lease:

An operating lease stands in contrast to the financial lease in almost all aspects. This lease agreement gives to the lessee only a limited right to use the asset. The lessor is responsible for the upkeep and maintenance of the asset. The lessee is not given any uplift to purchase the asset at the end of the lease period. Normally the lease is for a short period and even otherwise is revocable at a short notice. Mines, Computers hardware, trucks and automobiles are found suitable for operating lease because the rate of obsolescence is very high in this kind of assets.

The features of an operating lease are: -

1) It can be cancelled at a short notice.
2) The lesser is responsible for maintenance, insurance and taxes.
3) It is a short term lease. The lease period is lesser than the useful life of the asset.
4) The lease is not fully amortised. In other words, the lease rentals payable during the lease period are not sufficient to recover the cost of the asset along with an acceptable rate of return.

2. Sale and Lease back:

It is a sub-part of finance lease. Under this, the owner of an asset sells the asset to a party (the buyer), who in turn leases back the same asset to the owner in consideration of lease rentals. However, under this arrangement, the assets are not physically exchanged but it all happens in records only. This is nothing but a paper transaction. Sale and lease back transaction is suitable for those assets, which are not subjected depreciation but appreciation, say land. The advantage of this method is that the lessee can satisfy himself completely regarding the quality of the asset and after possession of the asset convert the sale into a lease arrangement. The sale and lease back transaction can be expressed with the help of the following figure.

3. Leveraged Leasing:

Under leveraged leasing arrangement, a third party is involved beside lessor and lessee. The lessor borrows a part of the purchase cost (say 80%) of the asset from the third party i.e., lender and the asset so purchased is held as security against the loan. The lender is paid off from the lease rentals directly by the lessee and the surplus after meeting the claims of the lender goes to the lessor. The lessor, the owner of the asset is entitled to depreciation allowance associated with the asset.

4. Direct leasing:

Under direct leasing, a firm acquires the right to use an asset from the manufacturer directly. The ownership of the asset leased out remains with the manufacturer itself. The major types of direct lessor include manufacturers, finance companies, independent lease companies, special purpose leasing companies etc

14.1.5 Advantages of Leasing:

There are several extolled advantages of acquiring capital assets on lease:

1. Saving of capital:

Leasing covers the full cost of the equipment used in the business by providing 100% finance. The lessee is not to provide or pay any margin Manufacturer Lessor Lessee Lender 232 money as there is no down payment. In this way the saving in capital or financial resources can be used for other productive purposes e.g. purchase of inventories.

2. Flexibility and convenience:

The lease agreement can be tailor- made in respect of lease period and lease rentals according to the convenience and requirements of all lessees.

3. Planning cash flows:

Leasing enables the lessee to plan its cash flows properly. The rentals can be paid out of the cash coming into the business from the use of the same assets.

4. Improvement in liquidity:

Leasing enables the lessee to improve their liquidity position by adopting the sale and lease back technique.

5. No security required:

Leasing provides 100% financing of the cost of capital goods. Since the lesser owns the leased assets, there is no necessity for security. Further, unlike hire purchase system, to heavy down payments are required.

6. Release from unprofitable investments:

Companies purchases assets in order to make their business profitable not all are in a position to do so. Under, such a situation, the company many want to get rid of the assets purchased for the business. But there is a risk of the assets not getting sold resulting in serious losses. However, in case of lease, the lessee is able to return the asset to the lesser if the asset is found to be unprofitable or not satisfactory.

7. Tax benefits:

Lease rentals are fully tax deductible. The cost of a fully owned asset is written off by depreciation, which is often very low on the other hand, by the fully tax deductible rentals, the cost of the asset is written off in the books rapidly.

8. Increase in credit capacity:

A lease is not a borrowing. There is no accounting necessity to record a lease obligation I the balance sheet of the lessee. Moreover, it is not shown as a debt in the balance sheet. This helps to maintain a lower debt – equity ratio of the lessee.

9. Avoid obsolescence Risks:

At times, an equipment becomes obsolete before its service life has completed. As a result, it is sold at a considerable loss. Under lease financing, this risk of obsolescence is transferred from the lessee to the lesser.

Leasing In India:

Leasing has grown by leaps and bounds in the eighties but it is estimated that hardly 1% of the industrial investment in India is covered by the lease finance, as against 40% in USA and 30% in UK and 10% in Japan. The prospects of leasing in India are good due to growing investment needs and scarcity of funds with public financial institutions. This type of lease finances is particularly suitable in India where a large number of small companies have emerged more recently. Leasing in the sphere of land and building has been in existence in India for a long time, while equipment leasing has become very common in the recent times.

14.2 MUTUAL FUND

14.2.1 Meaning of Mutual Fund:

Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document.

Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unit holders.

The profits or losses are shared by the investors in proportion to their investments. The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates securities markets before it can collect funds from the public.

Mutual funds represent one of the organisational forms of the delegated portfolio management, in which fund shareholders delegate the task of allocating their money to the fund manager. Since the manager's objective are not necessarily identical to those of the fund's shareholders, a potential agency problem arises: the agent may not pursue investment policies optimal for the principals (fund shareholders)

Mutual funds are typically organised as corporations and have a board of directors or trustees, which is elected by the shareholders.

In contrast to most business corporations, mutual funds are very limited internal resources and rely on the provision of the specific services by affiliated organisations and independent contractors. In particular, the board of directors hires a separate entity- the investment advisor/ management company- to provide all management and advisory services to

a fund for a fee, which is usually based on a percentage of the fund's average net assets.
In practice, however, the usual procedure is for the management organisation to create mutual funds. To mitigate a potential conflict of interest, the ICA requires that an investment advisor must serve under a written contract approved initially by a vote of the shareholders and thereafter approved annually by the board of directors.

14.2.2 History of Mutual Funds:

Unit Trust of India was the first mutual fund set up in India in the year 1963. In early 1990s, Government allowed public sector banks and institutions to set up mutual funds.

As far as mutual funds are concerned, SEBI formulates policies and regulates the mutual funds to protect the interest of the investors. SEBI notified regulations for the mutual funds in 1993. Thereafter, mutual funds sponsored by private sector entities were allowed to enter the capital market. The regulations were fully revised in 1996 and have been amended thereafter from time to time. SEBI has also issued guidelines to the mutual funds from time to time to protect the interests of investors.

All mutual funds whether promoted by public sector or private sector entities including those promoted by foreign entities are governed by the same set of Regulations. There is no distinction in regulatory requirements for these mutual funds and all are subject to monitoring and inspections by SEBI. The risks associated with the schemes launched by the mutual funds sponsored by these entities are of similar type.

14.2.3 Types of Mutual Funds:

There are 3 principal types of mutual funds are:

Open-end funds, unit investment trusts (UITs), and closed-end funds. Exchange-traded funds (ETFs) are open-end funds or unit investment trusts that trade on an exchange; they have gained in popularity recently. While the term "mutual fund" may refer to all three types of registered investment companies, it is more commonly used to refer exclusively to the open-end type.

1. Open-end fund:

Open-end mutual funds must be willing to buy back their shares from their investors at the end of every business day at the net asset value computed that day. Most open-end funds also sell shares to the public every business day; these shares are also priced at net asset value. A professional investment manager oversees the portfolio, buying and selling securities as appropriate. The total investment in the fund will vary based on share purchases, share redemptions and fluctuation in market valuation. There is no legal limit on the number of shares that can be issued.

2. Closed-end funds:

Closed-end funds generally issue shares to the public only once, when they are created through an initial public offering. Their shares are then listed for trading on a stock exchange. Investors who no longer wish to invest in the fund cannot sell their shares back to the fund (as they can with an open-end fund). Instead, they must sell their shares to another investor in the market; the price they receive may be significantly different from net asset value. It may be at a "premium" to net asset value (meaning that it is higher than net asset value) or, more commonly, at a "discount" to net asset value (meaning that it is lower than net asset value). A professional investment manager oversees the portfolio, buying and selling securities as appropriate.

3. Unit investment trusts:

Unit investment trusts or UITs issue shares to the public only once, when they are created. UITs generally have a limited life span, established at creation. Investors can redeem shares directly with the fund at any time (as with an open-end fund) or wait to redeem upon termination of the trust. Less commonly, they can sell their shares in the open market. Unit investment trusts do not have a professional investment manager. Their portfolio of securities is established at the creation of the UIT and does not change.

4. Schemes according to investment objective

Besides these, there are other types of mutual funds also to meet the investment needs of several groups or investors. Some of them include the following:

a) Income oriented schemes:

The fund primarily offers fixed income to investors. Naturally enough, the main securities in which investment are made by such funds are the fixed income yielding ones like bonds.

b) Growth oriented schemes:

These funds offer growth potentialities associated with investment in capital market namely: 1) high source of income by way of dividend and 2) rapid capital appreciation, both from holding good Quality scrip's. These funds, with a view to satisfying the growth needs of investors, primarily concentrate on the low risk and high yielding spectrum of equity scrip's of the corporate sector.

c) Hybrid schemes:

These funds cater both the investment needs of the prospective investors- namely fixed income as well as growth orientation. Therefore, investment targets of these mutual funds are judicious mix of both the fixed income securities like bond and debentures and also sound equity scrip's. In fact, these funds utilize the concept of balanced investment management. These funds are thus, also known as "balanced funds".

d) High Growth Schemes:

As the nomenclature depicts, these funds primarily invest in high risk and high return violate securities in the market and induce the investors with high degree of capital appreciation. Aggressive investors willing to take excessive risks are the normal target group of such funds.

e) Capital Protection Orientated Scheme:

It is a scheme which protects the capital invested in the mutual fund though suitable orientation of is portfolio structure.

f) Tax Saving Schemes:

These schemes offer tax rebates to the investors under tax laws as prescribed from time to time. This is made possible because the government offers tax incentive for investment in specified avenues. For example, Equity Linked Saving Schemes (ELSS) and pension scheme.

g) Special Schemes:

This category includes index schemes that attempt to replicate the performance of a particular index such as BSE, Sensex or the NSE-50 or industry specific scheme (which invest in specific industries) or sectoral schemes (which exclusively in segment such as 'A' group or initial public offering). Index und schemes are ideal for investors who are satisfied with a return approximately equal to that of an index. Sectoral fund schemes are ideal for investors who have already decided to invest in particular sector or segment.

h) Real Estate Funds:

These are close ended mutual funds which invest predominantly in real estate and properties.

i) Off-shore Funds:

Such funds invest in securities of foreign companies with RBI permission.

j) Leverage Funds:

Such funds, also known as borrowed funds, increase the size and value of portfolio and offer benefits to members from out of the excess of gains over cost of borrowed funds. They tend to indulge in speculative trading and risky investment.

k) Hedge Funds:

They employ only their funds for speculative trading i.e., for buying shares whose prices are likely to rise and for selling shares whose prices are likely to dip.

l) Fund of Funds:

They invest only in units of other mutual funds. Such funds do not operate at present in India.

m) New Direction Funds:

They invest in companies engaged in scientific and technological research such as birth control, anti-population, oceanography etc.

n) Exchange Traded Funds:

A relatively recent innovation, the exchange-traded fund or ETF is often structured as an open-end investment company, though ETFs may also be structured as unit investment trusts, partnerships, investments trust, grantor trusts or bonds (as an exchange-traded note). ETFs combine characteristics of both closed-end funds and open-end funds. Like closed-end funds, ETFs are traded throughout the day on a stock exchange at a price determined by the market. However, as with open-end funds, investors normally receive a price that is close to net asset value. To keep the market price close to net asset value, ETFs issue and redeem large blocks of their shares with institutional investors.

o) Money Market Funds:

These funds invest in short-term debt securities in the money market like certificate of deposit, commercial papers, government treasury bills etc. Owing to their large size, the funds normally get a higher yield on such short term investment than an individual inventor.

p) Infrastructure Debt Fund:

They invest primarily in the debt securities or securitized debt investment of infrastructure companies.

Check Your Progress

1. Define the following terms:

a. Operating Leasing
b. Financial Leasing
c. Sale of Lease back
d. Leverage lease
e. Mutual Fund
f. ETF
g. Open end fund
h. Close end fund

2. Enlist the types of mutual funds which meet the investment needs of several groups or investors.
3. Write the points of advantages of lease financing.

14.3 DERIVATIVES MARKET AND MEANING AND TYPES OF DERIVATIVE

14.3.1 Derivatives Market:

The Derivatives Market is meant as the market where exchange of derivatives takes place. Derivatives markets are markets that are based upon another market, which is known as the underlying market. Derivatives markets can be based upon almost any underlying market, including individual stock markets (e.g. the stock of company XYZ), stock indices (e.g.

the Nasdaq 100 stock index), and currency markets (i.e. the forex markets).Derivatives markets take many different forms, some of which are traded in the usual manner (i.e. the same as their underlying market), but some of which are traded quite differently (i.e. not the same as their underlying market).

14.3.2 Derivative Market and Financial Risk:

a. Derivatives play a vital role in risk management of both financial and non-financial institutions. But, in the present world, it has become a rising concern that derivative market operations may destabilize the efficiency of financial markets.

b. In today's' world the companies the financial and non-financial firms are using forward contracts, future contracts, options, swaps and other various combinations of derivatives to manage risk and to increase returns.

c. It is true that growth of derivatives market reveal the increasing market demand for risk managing instruments in the economy.

d. But, the major concern is that, the main components of Over the Counter (OTC) derivatives are interest rates and currency swaps. So, the economy will suffer surely if the derivative instruments are misused and if a major fault takes place in derivatives market.

e. HEDGING: One of the key features of financial markets is extreme volatility. Prices of foreign currencies, petroleum and other commodities, equity shares and instruments fluctuate all the time, and poses a significant risk to those whose businesses are linked to such fluctuating prices. To reduce this risk, modern finance provides a method called hedging. Derivatives are widely used for hedging.

14.3.3 Meaning Of Derivative:

Derivatives are one type of securities whose price is derived from the underlying assets or derivatives are products whose value is derived from one or more basic variables called underlying assets or base.

In simpler form, derivatives are financial security such as an option or future whose value is derived in part from the value and characteristics of another an underlying asset.

Derivative contracts can be standardized and traded on the stock exchange. Such derivatives are called exchange-traded derivatives. Or they can be customised as per the Over-the-counter (OTC) derivatives.

A Derivative includes:

(a) A security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security;

(b) A contract which derives its value from the prices, or index of prices, of underlying securities.

The primary objectives of any investor are to bring an element of certainty to returns and minimise risks. Derivatives are contracts that originated from the need to limit risk. Value of these derivatives is determined by the fluctuations in the underlying assets. These underlying assets are most commonly stocks, bonds, currencies, interest rates, commodities and market indices.

As Derivatives are merely contracts between two or more parties, anything like weather data or amount of rain can be used as underlying assets. The Derivatives can be classified as Future Contracts, Forward Contracts, Options, Swaps and Credit Derivatives. Futures, options, and swaps are complicated instruments. However, they have found their way into the risk management options of just about every major financial institution.

Derivatives are used for the following:

- Hedge or mitigate risk in the underlying, by entering into a derivative contract whose value moves in the opposite direction to their underlying position and cancels part or all of it out.
- Create option ability where the value of the derivative is linked to a specific condition or event (e.g. the underlying reaching a specific price level)
- Obtain exposure to the underlying where it is not possible to trade in the underlying.
- Provide leverage (or gearing), such that a small movement in the underlying value can cause a large difference in the value of the derivative.
- Speculate and make a profit if the value of the underlying asset moves the way they expect (e.g. moves in a given direction, stays in or out of a specified range, reaches a certain level)
- Switch asset allocations between different asset classes without disturbing the underlining assets, as part of transition management
- Avoid paying taxes. For example, an equity swap allows an investor to receive steady payments, e.g. based on LIBOR rate, while avoiding paying capital gains tax and

keeping the stock.

14.3.4 Advantages of Derivatives:

1. They help in transferring risks from risk adverse people to risk oriented people.
2. They help in the discovery of future as well as current prices.
3. They catalyse entrepreneurial activity.
4. They increase the volume traded in markets because of participation of risk adverse people in greater numbers.
5. They increase savings and investment in the long run.

14.3.5 Types of Derivative:

In broad terms, there are two groups of derivative contracts, which are distinguished by the way they are traded in the market:

1. Over-the-counter :

(OTC) derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. Products such as swaps, forward rate agreements, exotic options – and other exotic derivatives – are almost always traded in this way. The OTC derivative market is the largest market for derivatives, and is largely unregulated with respect to disclosure of information between the parties, since the OTC market is made up of banks and other highly sophisticated parties, such as hedge funds. Reporting of OTC amounts is difficult because trades can occur in private, without activity being visible on any exchange. According to the Bank for International Settlements, who first surveyed OTC derivatives in 1995, reported that the "gross market value, which represent the cost of replacing all open contracts at the prevailing market prices, ... increased by 74% since 2004, to $11 trillion at the end of June 2007 (BIS 2007:24)." Positions in the OTC derivatives market increased to $516 trillion at the end of June 2007, 135% higher than the level recorded in 2004. the total outstanding notional amount is US$708 trillion (as of June 2011). Of this total notional amount, 67% are interest rate contracts, 8% are credit default swaps (CDS), 9% are foreign exchange contracts, 2% are commodity contracts, 1% are equity contracts, and 12% are other. Because OTC derivatives are not traded on an exchange, there is no central counter-party. Therefore, they are subject to counterparty risk, like an ordinary contract, since each counter-party relies on the other to perform.

2. Exchange-traded derivatives:

(ETD) are those derivatives instruments that are traded via specialized derivatives exchanges or other exchanges. A derivatives exchange is a market where individual's trade standardized contracts that have been defined by the exchange. A derivatives exchange acts as an intermediary to all related transactions, and takes initial margin from both sides of the trade to act as a guarantee. The world's largest derivatives exchanges are the Korea Exchange (which lists KOSPI Index Futures & Options), Eurex, and CME Group.

For a better conceptual understanding derivatives and the most common types of derivatives are classified as forward contracts, future contracts, options contract and swap contracts. These are the most commonly use types of derivatives:

A. Forward Contracts:

A forward contract is an agreement between two parties – a buyer and a seller to purchase or sell something at a later date at a price agreed upon today. Forward contracts, sometimes called forward commitments, are very common in everyone life. Any type of contractual agreement that calls for the future purchase of a good or service at a price agreed upon today and without the right of cancellation is a forward contract.

B. Future Contracts:

Market in standardized contracts for future delivery of various goods. A futures contract is an agreement between two parties – a buyer and a seller – to buy or sell something at a future date. The contact trades on a futures exchange and is subject to a daily settlement procedure. Future contracts evolved out of forward contracts and possess many of the same characteristics. Unlike forward contracts, futures contracts trade on organized exchanges, called future markets. Future contacts also differ from forward contacts in that they are subject to a daily settlement procedure. In the daily settlement, investors who incur losses pay them every day to investors who make profits. It arose in the mid-1800s in Chicago and institutionalized an ancient form of contracting called forward contracting. In 1842, Chicago Board of Trade was founded.In1871, Fire destroyed all records.

C. Options Contracts:

Options are contractual obligations Derive their value from some underlying asset .Options are of two types – calls and puts. Calls give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date. Puts give the buyer the right, but not the obligation to sell a given quantity of the underlying asset at a given price on or before a given date. In options on future contracts, the contractual obligations call for delivery of one futures contract.

D. Binary contracts:

Binary contracts are contracts that provide the owner with an all-or-nothing profit profile.

E. Warrant:

Apart from the commonly used short-dated options which have a maximum maturity period of 1 year, there exists certain long-dated options as well, known as warrant. These are generally traded over-the-counter.

F. Swaps:

Swaps are private agreements between two parties to exchange cash flows in the future according to a prearranged formula. They can be regarded as portfolios of forward contracts. The 1st major swap occurred in August of 1981. The World Bank issued $290 million in Eurobonds and swapped the interest and principal on these bonds with IBM for Swiss francs and German marks. The two commonly used swaps are interest rate swaps and currency swaps.

1. **Interest rate swaps:** These involve swapping only the interest related cash flows between the parties in the same currency.
2. **Currency swaps:** These entail swapping both principal and interest between the parties, with the cash flows in one direction being in a different currency than those in the opposite direction.

Forward Markets V/S Future Markets:

a. Forward Contract transaction in which two parties agree in advance on the terms of a trade to be executed later whereas future contract is trade in an organised exchange.
b. Forward contracts are non-standardized contract terms whereas future contracts are standardized contract terms
c. Forward contracts are more flexibility as compared to future contracts.
d. Forward contracts are difficult to find a trading partner but in case of future contracts, contract guaranteed by

exchange.

14.4 VENTURE CAPITAL

14.4.1 Introduction and Meaning:

Venture capital is an important source of fund. It refers to the financial investment in highly risky new projects with a desire to earn a high rate of return. It is very important for new firms who find it difficult to raise funds from the capital markets. It refers to capital investment, both equity and debt, which carries substantial risk and uncertainties. The risk envisaged may be so high as to result in total loss or very so as to result in high gains. The investor making such an investment is called a Venture Capitalist. They finance business in 'turnaround' situations. They only invest in projects with high growth potential. They receive not only a major equity stock in the company but also demand seats on the board of directors. They are involved in major decision making.

The venture capital investment helps for the growth of innovation projects. It has developed as a result of the need to provide non – conventional, risky finance to new ventures based on innovative entrepreneurship In India. The origin of venture capital can be traced to the setting up of Technology Development Fund (TDF) in the year 1987 to provide financial assistance for innovative and high risk technological programs through Industrial Development Bank of India. The Indian Venture Capital Association was set up in 1992 and has become the nodal centre for all venture fund activities in the country. In 1996, new guidelines were given by SEBI on venture capital funds as a result of which bureaucratic hassles were removed and foreign funds were allowed to enter into India.

14.4.2 Definitions of Venture Capital:-

a. Money made available for investment in innovative enterprises or research, especially in high technology, in which both the risk of loss and the potential for profit may be considerable. Also called risk capital.

b. Money that is invested or is available for investment in a new company especially one that involves risk.

c. Funds flowing into a company, generally during pre-IPO process, in the form of an investment rather than a loan. Controlled by an individual or small group known as venture capitalists, these investments require a high rate of return and are secured by a substantial ownership position in the business.

d. Startup companies with a potential to grow need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital and the investors are called venture capitalists.

e. **According to International Finance Corporation (IFC),** venture capital is equity or equity featured capital seeking investment in new ideas, new companies, new production, new process or new services that offer the potential of high returns on investments.

f. **Jane Koloski Morries** defines Venture Capital as "Providing seed; start- up and first stage financing" and also "funding the expansion of companies that have already demonstrated their business potential but do not yet have access to the public securities market or to credit oriented institutional funding sources."

g. **The European venture capital Association describes it as** "risk finance for entrepreneurial growth oriented companies". It is investment for the medium or long term return seeking to maximize medium or long term for both parties. It is a partnership with the entrepreneur in which the investor can add value to the company because of his knowledge, experience and contract base.

Thus venture capital is the capital invested in young, rapidly growing or changing companies that have the potential for high growth. The VC may also invest in a firm that is unable to raise finance through the conventional means. Professionally managed venture capital firms generally are private partnerships or closely-held corporations.

14.4.3 Venture capitalists generally:

- Finance new and rapidly growing companies;
- Purchase equity securities;
- Assist in the development of new products or services;
- Add value to the company through active participation;
- Take higher risks with the expectation of higher rewards;
- Have a long-term orientation.

14.4.4 Advantages For The Company:

Venture capital provides the following advantages to the company.

1. The venture capitalist helps in stimulating the growth of the funded company through active strategic support and constructive involvement. Thus he gives benefit of his own experience as well as his business network.
2. Venture Funding provides easier access to additional capital, if required.
3. In most leveraged buy- outs and start – ups it is the principal source of financing. It also finances turnaround projects.
4. Because the investment is in the form of capital, the company's financial structure and financial ratios are improved accordingly, giving the entrepreneur the necessary flexibility and financial capacity to achieve his objectives.
5. Such a funding is not repaid in the short term. Hence the capital invested and funds generated internally can be used exclusively to accelerate the company's growth.
6. New firms find it difficult to raise funds from capital markets. Venture capital is thus a very important source of funding for such firms.

Check Your Progress

1. Fill in the blanks:

a. The origin of venture capital can be traced in ------------------ in the year 1987.
b. Venture Capital is also called as ----------------------.
c. The ----------------------is the nodal centre for all venture fund activities in the country.
d. Agreement between two to purchase or sell something at a later date at a price agreed upon today means ----------.
e. --------------- are non-standardized contract terms.
f. ------------------- are standardized contract terms.
g. The two commonly used swaps are ---------------- and -----------------.

2. "Venture capital is the capital invested in young, rapidly growing companies having the potential for high growth". Discuss.

3. Explain the types of Options – calls and puts.

14.5 MICRO-FINANCE

14.5.1 Introduction:

Microfinance is a general term to describe financial services to low-income individuals or to those who do not have to access to typical banking services. Microfinance is also the idea that individuals are capable of lifting themselves out of poverty if given access to some of the financial services. The two main mechanisms for the delivery of financial services to such clients are:

- Relationship-based banking for individuals entrepreneurs and small business ; and
- Group-based models, where several for individual entrepreneurs come together to apply for loans and other services as a group.

"Microfinance is the supply of loans, savings, and other basic financial services to the poor." As these financial services usually involve small amounts of money - small loans, small savings, etc. - the term "microfinance" helps to differentiate these services from those which formal banks provide.

14.5.2 FEATURES OF MICROFINANCE:

1) It is an essential part of rural finance.
2) It deals in small loans.
3) It basically caters to the poor households.
4) It is one of the most effective and warranted Poverty Alleviation Strategies.
5) It supports women participation in electronic activity.
6) It provides an incentive to grab the self-employment opportunities.
7) It is more service-oriented and less profit oriented.
8) It is meant to assist small entrepreneur and producers.
9) Poor borrowers are rarely defaulters in repayment of loans as they are simple and God-fearing.
10) India needs to establish several Microfinance Institutions.

14.5.3 Importance Of Microfinance:-

Microfinance institutions are those which provide credit and other financial services and products of very small amounts to poor in rural, semi-urban and urban areas for enabling them to raise their income and improve their standard of living.

1. Credit to Rural Poor:

Usually rural sector depends on non-institutional agencies for their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound.

2. Poverty Alleviation:

Due to micro finance poor people get employment. It also helps them to improve their entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty.

3. Women Empowerment:

Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economical resources. It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.

4. Economic Growth:

Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.

5. Mobilisation of Savings:

Microfinance develops saving habits among people. Now poor people with meager income can also save and are bankable. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to its members. Thus microfinance helps in mobilisation of savings.

6. Development of Skills:

Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.

7. Mutual Help and Co-operation:

Microfinance promotes mutual help and co-operation among members. The collective efforts of group promote economic interest and helps in achieving socio-economic transition.

8. Social Welfare:

With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare or betterment of society.

14.5.4 Microfinance Institutions:

A microfinance institution (MFI) is an organization that provides microfinance services. MFIs range from small non-profit organizations to large commercial banks. In the 1990s, many of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach.

14.5.5 Profitability and Sustainability of MFIs:

Some worry that an excessive concern for profit in microfinance will lead MFIs away from poor clients to serve better -off clients who want larger loans. It is true that programs serving very poor clients are somewhat less profitable than those reaching better-off clients, but this may say more about managers' objectives than an inherent conflict between serving the very poor and profitability. Microfinance programs like Bangladesh Rural Advancement Committee and ASA in Bangladesh have already demonstrated that very poor clients can be reached profitably both institutions had profits of more than 4% of assets in 2000."There are cases where microfinance cannot be made profitable, for example, where potential clients are extremely poor and risk-averse or live in remote areas with very low population density. In such settings, microfinance may require continuing subsidies. Whether microfinance is the best use of these subsidies will depend on evidence about its impact on the lives of this client

14.5.6 Role and Functions Of Micro Finance Prorammes:

Microfinance programs have generally targeted poor women. By providing access to financial services only through women-making women responsible for loans, ensuring repayment through women, maintaining savings accounts for women, providing insurance coverage through women-microfinance programs send a strong message to households as well as to communities.

1. Poverty reduction tools:

Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, build their assets gradually, and develop their microenterprises. Microfinance is only a means and not an end. The ultimate goal is to reduce poverty.

2. Self Employment:

Poverty reduction through self employment has long been a high priority for the Government of India. Microfinance is an experimental tool in its overall strategies. Most of poor people manage to optimize resources over a time to develop their enterprises. Financial services could enable the poor to leverage their initiative, accelerating the process of generating incomes, assets and economic security.

3. SHG-bank linkage programme:

Indian micro finance is dominated by the operational approach Self-help Groups (SHGs). The approach is popularly known as SHG-Bank linkage model. This model is the dominant model, initiated by the NABARD in the early 1990s. Today the SHG model also links the informal groups of women to the mainstream system and it has the largest outreach to micro financial clients in the world. SHGS comprise a group of 15-20 members.

In India more than 70% of the population lives in villages and most of these villages are underdeveloped. Government, NGOs and other financial institutions have introduced various welfare schemes and activities to reduce poverty.

14.5.7 Types of Mf Providers:

The different legal forms under which MF can be provided in India are:

1. Commercial Banks
2. Cooperative Banks
3. Regional Rural Banks (RRBs)
4. Local Area Banks (LABs)
5. Cooperative Societies, SHGs and Federation
6. Societies
7. Trusts
8. Sec 25 (Not-4-pft) company
9. Non-Banking Finance Companies (NBFCs)
10. Organisations under Business

14.6 SUMMARY

A lease is a contract calling for the lessee (user) to pay the lessor (owner) for use of an asset. A rental agreement is a lease in which the asset is tangible property. Leases for intangible property could include use of a computer program, or use of a radio frequency.

Mutual funds raise money by selling shares of the fund to the public and use it to purchase various investment vehicles, such as stocks, bondsand money market instruments. In return for the money they give to the fund when purchasing shares, shareholders receive an equity position in the fund and, in effect, in each of its underlying securities. For most mutual funds, shareholders are free to sell their shares at any time. Benefits of mutual funds include diversification and professional money management. Mutual funds offer choice, liquidity, and convenience, but charge fees and often require a minimum investment. Every Mutual Fund / launches different schemes, each with a specific objective

The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. There are two kinds of derivative instruments – futures and options. Futures contracts, forward contracts, options and swaps are the most common types of derivatives.

Venture capital is the term for money invested in young, fast growing companies. Venture capital is provided as seed funding to early-stage, high-potential, and growth companies. To put it simply, an investment firm will give money to a growing company. The growing company will then use this money to advertise, do research, build infrastructure, develop products etc. The investment firm is called a venture capital firm, and the money that it gives is called venture capital. Venture Capital is a form of “risk capital”. In other words, capital that is invested in a project where there is a substantial element of risk relating to the future creation of profits and cash flows. Risk capital is invested as shares rather than as a loan and the investor requires a higher “rate of return” to compensate him for his risk. Venture capital provides long-term, committed share capital, to help unquoted companies grow and succeed.

14.7 QUESTIONS

1. Explain the types of leasing.
2. Define venture capital and state its advantages for company
    a. Define Micro Finance and Elaborate the role and functions of Micro Finance.
    b. What is Derivative Market? Explain in detail the types of Derivative Market.
3. Write short notes:

    A. Leasing

    B. Financial Lease

    C. Operating Lease

    D. Venture Capital

    E. Derivative Market

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