S.Y.B.Com

COMMERCE PAPER - II

MANAGEMENT: FUNCTIONS AND CHALLENGES
MANAGEMENT: PRODUCTION & FINANCE

(SUPPLEMENT)

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Important Instructions

Dear Students,

1. The revised syllabus for the subject Commerce Paper II has become applicable for the IDOL students from the academic year 2019-20.
2. We are providing this supplement for newly added chapters in each module.
3. Following are some chapters omitted from the revised syllabus:
   a) **Module 4 Management Challenges in Competitive Environment** (Entire)
   b) **Module 8,** sub topic **Lease Financing: Meaning-advantages-types of lease**
4. Please follow the revised syllabus.
5. The Content Page in the old book is modified for easy understanding as:

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Institute of Distance and Open Learning
S.Y. B.Com.
Revised Syllabus
With Effect from the Academic Year 2019-20
Discipline Related Elective (DRE) Courses
COMMERCE –II
(MANAGEMENT: FUNCTIONS AND CHALLENGES MANAGEMENT: PRODUCTION & FINANCE)

Course Objectives:

1. To make the learners aware about conceptual knowledge and evolution of Management.
2. To familiarize the learners with the functions in Management.
3. To acquaint the learners with the basic concepts of Production Management, Inventory Management &Quality Management.
4. To provide basic knowledge about Indian Financial Systems.
5. To update the learners with the recent trends in Finance.

Section I

Sr. No.	Modules
1	Introduction to Management
2	Planning and Decision Making
3	Organising
4	Directing and Controlling

Sr. No.	**Modules**
1	**Introduction To Management** • **Management**- Concept, Nature, Functions, Managerial Skills & Competencies • **Evolution of Management Thoughts** Classical Approach: Scientific Management – F.W. Taylor's Contribution Classical Organisation Theory: Henri Fayol's Principles • **Neo Classical**: Human Relations Approach – Elton Mayo's Hawthorne experiments • **Modern Management Approach-**Peter Drucker's Dimensions of Management, Indian Management Thoughts: Origin & Significance of Indian Ethos to Management.

2	**Planning & Decision Making** • **Planning** - Steps, Importance, Components, Coordination – Importance • **M.B.O** -Process, Advantages, Management By Exception- Advantages; Management Information System- Concept, Components • **Decision Making** - Techniques, Essentials of a Sound Decision Making, Impact of Technology on Decision Making.
3	**Organising** • **Organising**-Steps, Organisation Structures – Features of Line & Staff Organisation, Matrix Organisation , Virtual Organisation, Formal v/s Informal Organisation. • **Departmentation** -Meaning -Bases, Span of Management- Factors Influencing Span of Management, Tall and Flat Organisation. • **Delegation of Authority**- Process, Barriers to Delegation, Principles of Effective Delegation. Decentralisation: Factors Influencing Decentralisation, Centralization v/s Decentralisation
4	**Directing And Controlling** • **Motivation** – Concept, Importance, Influencing factors. • Importance of Communication, Barriers to effective Communication • **Leadership-** Concept, Functions, Styles, Qualities of a good leader. • **Controlling** – Concept, Steps, Essentials of good control system, Techniques of Controlling -PERT, CPM, Budgetary Control, Management Audit.

Section II

Sr. No.	Modules
5.	Production & Inventory Management
6.	Quality Management
7.	Indian Financial System
8.	Recent Trends In Finance

Sr. No.	Modules
5.	**Production & Inventory Management** • **Production Management**: Objectives, Scope Production Planning &Control : Steps, Importance • **Production Systems**: Concept, Types - Continuous and Intermittent. Productivity: Concept, Factors Influencing Productivity, Measures for improving Productivity. • **Inventory Management**- Objectives, Inventory Control-Techniques. Scientific Inventory Control System - Importance
6.	**Quality Management** • **Introduction to Quality**: Dimensions of Quality, Cost of Quality: Types – Internal Failure Cost, External Failure Cost, Appraisal Cost, Prevention Cost, Quality Circle: Features. • **Quality Management Tools**: TQM – Importance, Six Sigma – Process, ISO 9000 – Certification Procedure, Kaizen – Process • **Service Quality Management:** Importance, SERVQUAL Model, Measures to improve service quality.
7.	**Indian Financial System** • **Indian Financial Market**: Structure, Primary Market – IPO Procedure Dematerialisation: Process, Role of Depositories : NSDL and CDSL • **SEBI**: Functions of SEBI, Investors protection measures of SEBI. • **Stock Exchange** – Functions, Speculators. • **Credit Rating**: Advantages, Credit Rating Agencies in India - CRISIL, CARE, and ICRA.
8.	**Recent Trends In Finance** • **Mutual Funds-** Advantages and Limitations, Types, Factors responsible for growth of mutual funds – Systematic Investment Plan. • **Commodity Market:** Categories, Derivatives Market: Types, Participants, Types of Derivative Instruments. • **Start-up Ventures** –Concept, Sources of Funding, Micro Finance – Importance, Role of Self Help Groups.

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PAPER PATTERN

Commerce Paper II

W.E.F. 2019-20

SECTION I

1.	Explain the terms **(Any five)**	10
2.	Answer **Any Three Out of six** questions	30
3.	Write notes on **Any two out of four**	10

SECTION II

4.	Explain the terms **(Any five)**	10
5.	Answer **Any Three Out of six** questions	30
6.	Write notes on **Any two out of four**	10

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SECTION I
MANAGEMENT:
FUNCTIONS AND CHALLENGES

Module 1
INTRODUCTION TO MANAGEMENT

Evolution of Management Thought

- **Introduction**

The evolution of management thought has originated when man started living in groups. The principles of management were used in the organization of the Roman Catholic Church and the organization of military forces in ancient Greece. These principles were practiced in different parts of the world since the dawn of civilization. After industrial revolution, the structure of industry became extremely complex and this gave rise to modern management thought and a formal theory of management came into practice.

- **Stages in Evolution**

The stages in Evolution of management thought - can be given as follows -

A. Pre-scientific management period.
B. Classical Approach / Scientific management -
    i) Taylor's scientific management theory
    ii) Fayol's principles of management
    iii) Bureaucratic model of Max Webber
C. Neo-classical Theory or Human Relations / Behavioural Approach
D. Modern Theory or Systems Approach.

A. Pre-scientific management period: Industrial Revolution revolutionalised the methods of production, tools & equipments, organization of labour and methods of raising capital. To manage the business became complex and complicated. All these changes in turn, brought about changes in the field of management, Traditional, conventional or customary ideas of management were slowly given up and management came to be based on scientific principles. Certain pioneers such s Prof. Charles Babbage, James Watt Jr, Robert Owens introduced new ideas and approaches to management - for taking decisions and solving business problems with the help of following -

1) Use of science and mathematics principles for taking decisions and solving business problems.
2) Improving working conditions and industrial relations
3) Combination of principles of engineering and economics to improve industrial productivity.
4) Need for labour welfare schemes for improving industrial relations.

B. Classical Approach / Scientific management - The use of scientific management started during the last decade of the 19th century. During this period, the advocates of the classical theory such as F.W. Taylor, and Henry Fayol are generally regarded as the founders of scientific management.

i) F.W. Taylors scientific management theory

He is known as the founder of scientific management as he was the first to recognize and advocate the need for adopting a scientific approach for managing any business enterprise. He basically studied the causes of low efficiency in industry and he observed and came to the conclusion that waste and inefficiency is due to the absence of order and system in the management of business. He noticed that there was absence of quota system and the best methods of doing the jobs. He therefore advocated that the managers should make use of 'scientific method' for achieving higher efficiency.

The scientific method should consist of the following **aspects of management.**

1) Management based on scientific approach and not rules of thumb.
2) Cordial relations among workers and management
3) Understanding and co-operation between the management and the workers.
4) Emphasis on improving efficiency and productivity by division of work & specialization.
5) Imparting training to workers in order to achieve their development.
6) Planning the work
7) Using the best tools, equipments & machinery
8) Time, motion & fatigue study.
9) Differential wage system
10) Use of scientific selection of workers.
11) Providing proper working conditions to achieve standard performance such as ventilation, safety measures etc.
12) Profit sharing among the workers.

The following are the **benefits of scientific management advocated by F.W. Taylor:**

1) Wider scope for specialization
2) Emphasis on planning the work
3) Use of standardized methods
4) Higher efficiency & productivity
5) Better quality of output.
6) Lower costs, minimum wastage of materials, time and energy
7) Cordial relations between management and workers.

However, there are certain **arguments against the use of scientific management** which can be given as follows -

1) Due to specialization and division of work, the workers can face monotony of work.
2) No scope for workers' initiative, innovativeness and creativity.
3) Reduction of employment opportunities.
4) Lesser importance to trade unions as important issues of wages and working conditions are decided by the management.
5) Exploitation of workers.
6) Need for heavy investment in business
7) Unsuitable for small scale firms

ii) Henry Fayol's principles of management

Henry Fayol is considered as the father of modern theory of general and industrial management. The following are the principles of management advocated by Henry Fayol:

1) **Division of work or specialization -** Division of work or specialization can improve overall efficiency and productivity because it makes a worker specialized to carry out a particular activity.

2) **Authority and responsibility -** Authority and responsibility are the two sides of the same coin. If any person is assigned a responsibility to complete a particular job, he also should be given necessary authority to help him to perform the job.

3) **Discipline -** Every employee should follow rules, regulations, the policies and procedures. There must be penalties / punishment for non-obedience or indiscipline. Any organization cannot function smoothly without discipline.

4) **Unity of Command -** Every employees of an organization should receive orders and instructions only from one superior to avoid confusion and conflicts.

5) **Unity of direction -** Every employee should work in one direction only and that is to achieve organizational objectives.

6) **Subordination of Personal interest** - Organisation's interest is supreme. Personal interest can be fulfilled only if organisation's interest is achieved.

7) **Remuneration -** Workers work in an organization for getting remuneration. Fair pay with non-financial incentives can motivate workers for better performance.

8) **Centralisation -** There must be a good balance between centralization and decentralisation of authority. Over or under centralization should be avoided.

9) **Scalar chain -** Organisation structure consists of steps / a chain or hierarchy of levels of management from the top to the bottom. All members of the organization are linked to each other with the scalar chain.

10) **Order -** Every activity in an organization should be performed with order and system. There has to be a standard procedure for performing routine activities.

11) **Equity -** An organization should treat all the parties connected to it in a fair or just manner.

12) **Stability of Tenure -** Every employee in an organization should be given security and stability of job within a certain period of time.

13) **Spirit of Co-operation -** An organization works better when there is co-operation or team spirit among the employees.

14) **Initiative -** Managers should encourage his subordinates to take initiative and develop innovativeness while performing the job.

Thus the functions of management involving planning, organizing, directing, co-ordination and controlling are based on the principles of management advocated by Henry Fayol.

iii) Bureaucratic model –

It was developed by Max Weber. It is a rigid model of an organization involving rules, regulations, hierarchy of authority, work procedures, division of labour and so on. Human element is absent in this model. It is suitable where change is not anticipated or where rate of change can be predicted. It is followed particularly in government organization.

C. Neo-classical Theory or Human Relations / Behavioural Approach –

This theory is an extension of classical theory. Classical theory focused on the job and improving efficiency and productivity whereas this theory gives importance to individual and group relationships in the workplace. It is interdisciplinary in approach and involves the study of sociology and psychology to understand individual and group behaviour of the workers.

Elton Mayo's Hawthorne experiments

In 1927, Elton Mayo and a group of researchers of the Harvard Business School were given a project to study the Hawthorme Plant of Western Electric Company at Chicago. They were of the opinion that behavioural science played an important role in the management of the business organization. In this experiment, the researchers tried to find out the relation between output and sufficient light, physical conditions length of the working day, rest hours, workers' attitudes towards work, working conditions, and supervision and group behaviour. It was observed that efficiency and productivity of employees depends more on employee's job satisfaction than the physical conditions of the work.

The important features of the Hawthorne Experiment are -

1) A business organization is a socio-economic system.

2) An employee is a human being and his behaviour is influenced by his emotions, feelings and attitudes. An employee has to be motivated by using both monetary and non-monetary incentives.

3) Management should co-operate with workers.

4) Productivity is the effect of employee satisfaction in any business organization.

5) While managing business, management should make use of sociology and psychology in order to understand individual and group behaviour.

6) Management should have communication skills in order to get employee participation.

7) Developing high morale is very important to achieve organisatinal goals.

D. Modern Management Approach

Modern theory considers any business as socio-economic organization. According to this theory, any business organization operates under the influence of various environmental factors such as social, political, economic, technological and so on and it has to adjust itself as per the changes taking place in environmental factors / forces. Modern theory is called Systems approach because any organization is a set of interconnected and inter-related elements or components to achieve certain goals. Any organization is coordinated efforts of shareholders, creditors, suppliers, management, employees, customers, society and so on. So it requires to consider interests of all these groups while achieving organizational objectives / goals.

i. Peter Drucker's Dimensions of Management :

Peter Drucker is known as the father of Modern Management. He has developed leadership terms and strategies that are still used today. In his book, 'The Principles of Management', he has defined management as it is a multi-purpose organ that manages business and manages managers and manages workers and work.

Peter Drucker's management theory includes many modern concepts which can be given as follows –

1) **Decentralisation -** Managers should decentralize their authority and responsibilities among his subordinates. It helps in creating a sense of responsibility and belongingness among the employees. However, if the decision is related to key areas of the business operations that is involving more funds and affecting goodwill and reputation of the organization, then it is generally taken at higher level of the management.
2) **Knowledge work -** Knowledge workers do jobs requiring handling or using information, such as engineers or analysts. According to P.F. Drucker, "The workers who solve problems and work creatively are valuable.
3) **Management by objectives -** Peter Drucker developed the concept of 'Management - by Objectives. It is a process in which goals & objectives are set, employees are encouraged to work together to achieve the targets, their performance is evaluated and employees are rewarded as per their performance. While setting objectives, care has to be taken to see that they are specific, measurable, achievable, relevant and time bound.

He advocated that management should give topmost priority to business ethics and morals while managing business activities.

- **Indian Ethos in Management**

Indian Ethos in management refers to the values and practices that the culture of India can contribute to service, leadership and management. These values and practices are rooted in Sanathana Dharma (the eternal essence), and have been influenced by various strands of Indian philosophy.

Work values that can be derived from the culture of India are:

1. **Paropakaartham Idam Shareeram** - The body is meant for serving others or for the higher common good,
2. **Atmano mokshartham Jagat Hitayacha -** Endeavors should be made considering the well being of the world too while considering the spiritual well being of oneself.

3. **Trikaranasuddhi** - To consider work as a means to grow oneself in 'Purity and Unity' of Thought, Word and Deed.
4. **Yognaya Charatha Karma** - To engage in work as a sacred offering.

Various texts of India are useful for deriving aspects related to management - theory and practice such as Autobiography of a Yogi, Thirukkural, Vedas, Upanishads, Manusmiriti, Arthashastra, Mahabharatha, Ramanayana and Bhagavad Gita

As per Indian ethos, Indians believe in accommodative attitude, self control, fulfillment of duties, advancement in spirituality, team achievement, protection of surrounding environment, respect of elderly, and the belief in trust.

Indian Ethos in management can be applied for undertaking business activities in fair and equitable manner. The management can follow ethical principles in carrying out various business functions such as production, marketing, finance and also Human Resources Management. It guides the management to put in their best efforts for the organization without having any selfish interest. It gives emphasis on giving due respect to everyone associated with the organization and performing duties to the best of one's abilities, Indian ethos places emphasis on positive attitude and having good thoughts and actions. It strongly believes that good thoughts lead to good feelings, emotions and attitude which ultimately results in good actions and good actions bring success to the organization. It teaches us to perform duties towards the society's well being. It helps the organization to undertake activities for achieving socio-economic objectives.

Exercise

1. Explain the stages in the evolution of Management Thought.
2. Write Short Notes
   a. Indian Ethos in management
   b. Elton Mayo's Hawthorne experiments
   c. F.W. Taylors scientific management theory
   d. Peter Drucker's Dimensions of Management
   e. Henry Fayol's principles of management

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Module 2
PLANNING AND DECISION MAKING

Co-ordination

- **Meaning**

Co-ordination means to integrate or being together all the activities of an organization. It is done for achieving the goals of an organization. There must be proper co-ordination throughout the organization. The functions of management i.e. planning, organizing, directing, controlling, staffing need to be coordinated to achieve organizational objectives. Also different levels of management and employees of the organization are required to coordinate.

- **Importance of Coordination**

The need and importance of co-ordination can be given with the help of following points.

1. **It helps in developing team spirit -** It encourages employees to work as a team by improving communication and cordial relations among them.
2. **It gives proper direction -** Co-ordination brings together various activities of the organization for achieving the common goals or objectives of the organization. So it acts as a direction to all the departments of the organization.
3. **It leads to motivating employees -** By improving inter personal relations, it leads to motivate employees through various monetary and non-monetary incentives.
4. **It facilitates optimum utilization of resources**: Proper co-ordination helps in optimum utilization of resources such as machinery, materials, money, manpower and management by avoiding wastages of all types.
5. **It leads to achievement of organizational objectives:** Co-ordination helps to achieve cordial relations among employees of the organization and thereby it facilitates smooth working of the organization. So it leads to achievement of organizational objectives.
6. **It can develop good relations in the organization:** Co-ordination among different activities / functions of the organization can be achieved by effective communication among employees of the organization and it helps to develop team spirit and cordial relations among employees.
7. **It leads to higher efficiency -** As co-ordination helps in optimum utilization of resources, it leads to higher efficiency by reducing costs, labour and time involved in doing the jobs in the organization.

8. **Co-ordination improves goodwill of the organization:** Co-ordination helps the organization to sell good quality products at reasonable prices and also to provide efficient after sales service and thereby it leads to improve goodwill and reputation of the organization.

Decision Making

- **Impact of Technology on decision making :**

Decision making is one of the most significant functions of management. It is a complicated and long process. It basically involves developing alternative courses of action and selecting the best alternative after taking into consideration objectives, resources and environment of the business. So sound decision making involves getting correct and required information and its analysis. Information technology helps the management in decision making in the following manner.

1. **Data availability:** It helps in searching for the required information for decision making from the huge amount of data available.
2. The data is made available faster so it saves time in getting required information.
3. Data warehouse have data mining tools which computerize the process of decision making.
4. Information Technology enables a group of employees to make quick and correct decisions by using a group decision support system.
5. Decision support system can be used in decision making when the problem is not structured.
6. Artificial Intelligence can be used to supplement human thinking and behaviour.

Exercise

1. Explain the meaning and Importance of Co-ordination.
2. Write short note on “Impact of Technology on decision making”
3. Explain the terms:
   a. Co-ordination b. Decision Making

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MODULE 3
ORGANISING

Organizing

- **Steps involved in Organizing:**

Main steps involved in organizing can be given as follows:

1. **Understanding of plans and objectives of the organization** - It is required to consider the objectives and short term and long term plans of the organization before starting organizing activities of the organization.
2. **Taking decision on the work activities** which are required to be undertaken for achieving the objectives.
3. After knowing the activities to be undertaken, the next step **is to group or classify them** into interrelated functional areas or departments.
4. When the activities are grouped or classified as per their general nature, then **they can be assigned to the right people in order to perform them**. The people are also required to be given appropriate authority in order to help them to perform the given jobs.
5. The last step is **to establish a hierarchy of authority and responsibility in the organization**. The highest authority and responsibility is Board of Directors Middle level authority and responsibility consist of Middle level divisional managers and lower level of authority and responsibility lies with departmental managers and their subordinates.

- **Distinguish between Tall and Flat Organisation:**

Tall Organisation	Flat Organisation
1. **Meaning:**	
Tall organization refers to the organization in which there are more levels in the management hierarchy. In this type of organization each manager has very few people /subordinates working under him.	**Flat organization refers** to the organization in which there are fewer levels in the management hierarchy. In this type of organization each manager has more people / subordinates working under him.
2. **Manager / Subordinate Relationship**	
As in Tall Organisation every manager has a few people working under him the relationship between manager and his subordinates is informal.	As in flat organization, the manager has many subordinates working under him, the relationship is generally formal.

3. **Span of Control**	
In tall organization, the span of control is narrow, as vary few subordinates report to the manager.	In flat organization, the span of control is wider, as many subordinates report to the manager.
4. **Discipline:**	
In tall organization the manager manages a few subordinates, so there can be better discipline among the subordinates.	In flat organization the manager manages many subordinates so it may not be possible for him to maintain discipline among subordinates.
5. **Cost:**	
Tall organization may be costly due to many levels in management hierarchy.	Flat organization may be less expensive due to fewer levels in management hierarchy.
6. **Decision making:**	
As tall organization has many levels decision making may take longer time.	Due to the fewer levels, in flat organization, decision making can be faster.
7. **Co-ordination & Control**	
The manager in tall organization can achieve better co-ordination and control among his subordinates.	Whereas the manager in flat organization, may not achieve proper co-ordination and control among his subordinates.

Delegation of Authority

- **Decentralization Meaning**

Decentralisation refers to the orderly delegation of authority throughout all the levels of management in an organization. It means allowing or assigning the managers of all levels to take decisions.

- **Factors influencing decentralization:**

The following are the factors determining the degree of decentralization.

1) **Importance of the decision :** If the decision is related to key areas of the business operations i.e. involving more funds and affecting goodwill and reputation of the organization, then it is generally taken at higher level of the management.

2) **Management's attitude :** The attitude of top-level management plays a significant role in determining the extent to which authority is delegated to lower levels. If the management's

attitude is traditional then they do not encourage delegation of authority to a larger extent whereas modern or professional management encourages delegation of authority to a larger extent.

3) **Size of the enterprise :** Delegation of authority to a larger extent takes place in large sized organizations than in small sized organizations.

4) **Availability of qualified manpower :** Availability of qualified manpower and training facilities of the organization also determines delegation of authority. An organization with more number of qualified and capable manpower and good training facilities can delegate authority to a larger extent.

5) **Impact of environmental factors :** They include factors like government control, fiscal policy of the country, national unions, policy of government purchases and so on.

Any organization can never be fully centralized or decentralized. The above given factors can decide the extent of decentralization in the organization.

Centralisation v/s Decentralisation :

Centralisation	Decentralisation
1. **Meaning**	
When the authority with respect to planning and decision making is hold by the top management it is known as centralization.	When the authority with respect to planning and decision making is dispersed to the various management levels, it is known as decentralization.
2. **Nature of authority**	
Centralisation is the systematic and consistent concentration of authority at the higher level of management.	Decentralization is the systematic delegation of authority to different levels of management in an organization
3. **Size of the organisition**	
The policy of centralization is suitable for small sized organizations	The policy of decentralization is used in large sized organization.
4. **The type of communication**	
Formal and vertical communication exists in the centralized organizations	Open and free communication exists in the decentralized organization.
5. **Leadership and Co-ordination**	
Leadership and co-ordination is better in centralized organizations	Leadership and co-ordination is less better in decentralized organizations than the centralized organizations

6. **Time taken for decision making**	
Decision making takes time in centralized organizations as it is done at higher level management.	Decision making is faster in decentralized organizations, as the decisions are taken much closer to the actions.
7. **Sharing of burden**	
In centralized organizations, planning and decision making is done at higher level of management	In decentralized organizations the burden of planning and decision making is shared by all levels of management.

Exercise

1. Distinguish between Centralization and Decentralization of Management.
2. Distinguish between Tall organization and Flat Organisation
3. Write short notes on:
    a. Factors influencing decentralization
    b. Tall Organisation
    c. Flat Organisation
4. Explain the steps involved in Organizing.

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MODULE - 4
DIRECTING AND CONTROLLING

Motivation

1. **Meaning :**

The word motivation is derived from the word ‘motive’ which means needs desires, wants or drives which encourages the people to do any particular activity to achieve the goals. At a work place, motivation can be defined as the willingness to put in more efforts to perform the particular job.

2. **Importance of Motivation:**

Employee motivation is highly important for every company due to it’s following benefits.

1. It helps the company to build a sense of responsibility, loyalty and commitment among the employees towards the organization.
2. It helps the motivated employees to get job satisfaction.
3. It helps the organization to achieve employee / HR development and the employees to achieve their personal career goals.
4. It helps to improve efficiency, productivity and thereby profitability of the organization.
5. It helps the organization to achieve employees co-operation in introducing organizational changes.
6. It helps the organization to retain capable and efficient employees so it leads to reduction of employee turnover.
7. Motivation promotes self-discipline employees maintain orderly behaviour without any fear of punishment.

3. Factors influencing Motivation:

The factors influencing motivation can be broadly divided into two groups

(A) Monetary factors and

(B) Non Monetary factors.

A) Monetary Factors:

Monetary factors of motivation refer to giving monetary or financial benefits to employees to encourage them to perform better and the factors are:

1. **Salaries or Wages:** An organization must pay reasonable salaries / wages to employees as compensation to the work performed by them. While fixing salaries, the organization may take into consideration certain factors such as lost of living,

company's ability to pay, capability of the employers, salaries paid by competitors and so on.

2. **Bonus:** Bonus refers to sharing of profits earned by the company among employees of the organization. It's a kind of incentive for performing better in the organization.
3. **Allowances:** Allowances are paid over and above salaries / wages paid to employees. Various allowances include traveling, education, house rent, entertainment etc. can be pain to the employees to motivate them.
4. **Special incentives:** Special incentives are given to employees who achieve their targets within a given period of time.
5. **Stock option:** Employees are given shares on a preferential basis, thus enabling them to share profits of the organization.

B) Non Monetary Incentives

They refer to encouraging employees by making use of non financial incentives and they are.

1. **Security of Service:** Employees can work bettering an organization if they are given security of service.
2. **Appreciation:** Employees should be appreciated by their superiors for good work done by them. Good words of appreciation can encourage employees for better performance.
3. **Workers participation:** If the employees are involved in day to day decision making, it helps to create sense of responsibility and belongingness among the employees.
4. **Job Enrichment:** Capable employees can be promoted to higher posts, thus motivating them to share higher responsibilities to undertake challenging jobs.
5. **Working conditions:** The organization can provide better working conditions in order to help the employees for better performance such as air-conditioning, better lighting, sanitation facilities, safety measures, repairs and maintenance of machinery, proper plant and / or office layout etc.
6. **Other factors** such as training to employees, proper job placement, promotions and transfers, proper performance appraisal, flexible working hours, proper welfare facilities such as canteen, recreation, sports facilities etc. will also motivate the employees.

COMMUNICATION

4. **Meaning:**

Communication at work place means the transmitting of information between one person or group and another person or group in an organization. It can include verbal and non verbal communication verbal communication involves usage of spoken words for giving messages. It can be one to one, over the phone or in group settings such as conducting meetings. Non verbal communication consists of written communication consists of written communication which can be in the form of written messages, documents, letters, text charts, emails, reports, SMS.

Good communication is an essential tool in achieving productivity and maintaining strong waking a relationship at all levels of an organization.

5. **Importance of Communication**

The following are the benefits of effective communication in an organization.

1. It improves overall company performance by improving employees' efficiency and productivity.
2. It helps in giving clear instructions to employees about the jobs and other related issues.
3. It helps to build team spirit in the organization.
4. It facilitates job satisfaction.
5. It also helps to reduce absenteeism and turnover.
6. It helps to encourages employees to come up with innovating ideas.
7. It helps to manage work force diversity.
8. It helps to solve recurring problems in the organization.
9. It helps to create a sense of loyalty and responsibility among the employees.
10. It helps to give good customer service and maintain good relations with several parties directly or indirectly associated with the organization such as shareholders, creditors, government, and the society at large.

6. Barriers to effective communication:

The common barriers to effective communication can be given as follows:

1. The **use of complicated**, unfamiliar and technical terms.
2. Some people may be unable to express their feelings or emotions and they **may feel awkward to receive any communication** as regards certain topics such as politics, religion, disabilities, sexuality and sex, racism, and so on.
3. **Lack of attention**, interest, distractions or irrelevance to the receiver.
4. **Differences in perception** and viewpoint.

5. **Physical disabilities** such as hearing problems or speech difficulties.
6. **Inability to see or understand non verbal communication** such as non-verbal cues, gestures, pasture, general body language etc.
7. Inability to understand the language and / or unfamiliar accents.
8. **Bias:** People sometimes hear what they expect to hear rather than what is actually said and derive incorrect conclusions.
9. **Cultural differences**: The norms of social interaction may be different in different cultures. Even emotions may be expressed differently in different cultures.

Leadership

7. **Meaning and Definition:**

Leadership is an important element of the directing function of management. It is an activity of influencing people to work voluntarily towards achievement of a common goal.

The term leadership has been defined as follows:
According to Koontz and O' Donnell, Leadership is the ability of a manager to induce subordinates to work with confidence and zeal.

Allford and Beaty defines it as the ability to secure desirable actions from a group of followers voluntarily, without the use of coercion.

George R. Terry defines it as the activity of influencing people to strive willingly for group objectives.

Thus in leadership function, the manager acts as a leader and influence his subordinates to put in their best efforts to achieve certain objectives A leader can function only when he has followers A leader has to take complete responsibility of the results. As leadership is a personal / human activity, it's style may change as per the person / situation.

8. Functions of a leader :

Following are the important function of a leader.

1. **Setting goals / targets:** Leadership is an activity of influencing people to work voluntarily towards the achievement of certain goals / objectives. So a leader has to set first goals / targets for his subordinates.
2. **Assigning jobs :** A leader has to assign the jobs to his subordinates as per their abilities. He also has to make

available facilities and work conditions to help the subordinates to perform their jobs effectively.

3. **Influencing subordinates to take actions :** A leader has to take initiative and required decisions to instruct employees to perform their jobs effectively.
4. **Co-ordination :** In an organization a particular job may be performed when many people put in their best efforts. So a leader has to co-ordinate the activities of the people in order to achieve the required performance.
5. **Direction and Motivation :** A leader has to direct and motivate his subordinates to put in their best efforts to achieve the desired goals / targets.
6. **Bridge between management and subordinates :** A leader has to work as a bridge between management and subordinates. He has to communicate the plans and policies of the management to his subordinates and he has to put forward problems and grievances of subordinates to the management.

9. Qualities of a good leader :

Leadership is a personal activity. A leader is required to have certain qualities to be a successful leader. The following are the qualities required by a good leader.

1. Good personality to influence others.
2. Ability to take initiative
3. Emotional Intelligence
4. Insight i.e. ability to foresee the future
5. Communication skills
6. Social skills
7. Administrative skills
8. Good understanding and judgement
9. Ability to take responsibility
10. Discipline
11. Honesty and good character
12. Self Confidence

10. **Styles of Leadership:**

Effective leadership is required to lead and guide the subordinates so that they can perform the jobs properly. Every leader / manager makes use of some pattern or style of leading the subordinates. So such styles differ from leader to leader from situation to situation and from organization to organization depending upon philosophy and values of the leader and the organization.

Following are the different styles of leadership:

1. **Autocratic Style:** In Autocratic style of leadership, the leader takes all decisions by himself and subordinates are expected to follow them. He is only responsible for all his decisions. The relations between superior and subordinates are formal.
2. **Bureaucratic Style:** This style of leadership is generally followed in government organizations. The leader follows rules and regulations of the organization. He has limited authority to take the decisions. He has to follow the scalar chain even in the case of urgency. The relations between superior and subordinates are formal. In this style, there is delay in decision making and taking actions.
3. **Consultative / Democratic Style of Leadership:** In this type, the leader consults his subordinates before taking decisions. He considers opinions, and views of his subordinates. The relations between superior and subordinates are informal.
4. **Participative Style of leadership:** In this style, the leader allows his subordinates to take part in decision making. The leader and his subordinates share the responsibility for taking the decision. So this type of leadership creates sense of responsibility and loyalty among the subordinates.
5. **Laissez - faire Style:** In this style, the superior allows the subordinates to take decisions. The superior acts as a friend, philosopher and guide while taking decisions.
6. **Paternalistic Style:** This style of leadership creates a family atmosphere within the organisation. The leader is respected and treated as a father figure by the subordinates. This style is mostly followed in Japanese organization.
7. **Sociocratic Style:** In this style, the leader is more concerned about the welfare of his subordinates rather than protecting organizational interests.
8. **Neurocratic Style:** The leader of this style is highly task oriented and concerned about getting the job done at any cost. He is highly sensitive about the job.
9. **Situational Style:** In this style, the leader is very professional in nature and changes / adjusts his style as per the situation. He may use autocratic style while taking urgent and important decisions. He may use consultative style for getting co-operation and views and opinions of subordinates and may make use of participative style when group decision making is necessary.

Controlling

11. Meaning:

Controlling is the last function of management. It comes after other functions of management such as planning, organizing staffing and directing. Planning function starts with setting objectives or standard results and deciding the future course of action. Organizing staffing and directing take care of the course of action and the organization gets results in terms of profits, net worth, goodwill and reputation and customer feedback. Controlling function relates to comparing actual results with the objectives. If the actual results are not in line with the objectives or standard results, corrective measures can be taken to improve the performance.

12. Steps:

Some of the essential steps of controlling are as follows:

1. **Setting performance standards:** The first step in the process of controlling is fixing performance standards. These standards are the basis for measuring the actual performance.
2. **Measurement of Actual Performance :** Once the standards are fixed, the next step is to measure the actual performance some of the ways for measuring the actual performance are -
   a) Appraisal reports of employees for measuring their performance.
   b) For measuring financial performance various ratios like gross profit ratio, debtor turnover ratio / return on investment, current ratio etc. can be used.
   c) Marketing performance can be measured with the number of units sold, increase in market share etc.
   d) Sample checking can be done to check the quality of the units produced.
3. **Comparing Actual Performance with standards :** This step involves comparing the actual performance with standard performance to find out the deviations from the standards fixed. The manager has to find out extent of deviation and has to focus on those deviations which are critical and important for business. Minor or non-important deviations can be ignored. Major deviations like replacement of machinery appointment of workers, quality of raw material, rate of profits are required to be studied and analysed.

Once the deviation is identified, a manager has to analyse various causes which have led to deviation. The cause can be wrong planning, lack of co-ordination, defective implementation of plans, ineffective supervision etc.

4. **Taking remedial actions:** Once the causes and extent of deviations are known / the manager has to take corrective measures to improve the performance. After taking the corrective measures, if the performance is not improved, then the manager can revise the targets.

13. Essentials of a good control system:

The essentials of a good control system are as follows:

1. **Focus on objectives:** The control system should be based on objectives of an organization because its primary aim is to help the organization to achieve its objectives by identifying the weaker areas and taking measures to improve upon them.
2. The control system **should be suitable** to the needs of the organization.
3. The control system **should be prompt or quick** in finding out the weaker areas. This can help the management to correct them quickly.
4. The control **system should be flexible**. It should change as per the company's plans, objectives, situations, environment, technology etc.
5. The control **system should be future oriented**. It should take into considerations the future requirements.
6. **Economical:** The control system should be economical. This means that the cost of the control system should not be more than the benefits.
7. **Simplicity:** The control system should not be complicated. It should be easy to understand and simple to use.
8. **Motivating:** The control system should be such that it should have certain measures to prevent the mistakes as prevention is always better than cure. It should encourage employees to perform better and attain their targets.
9. **Suggestive:** The control system should not only identify the problem but also give solutions to solve the problem.
10. **Realistic:** The control system should have proper standards. The standards should be very clear. They should be definite, verifiable, specific and measurable. They should not be too high or too low.

14. Techniques of Controlling:

Techniques of controlling can be grouped into two categories

A) Traditional Techniques	B) Modern Techniques
1) Personal Observation	1) Return on Investment
2) Statistical Reports	2) Ratio Analysis
3) Breakeven Analysis	3) Responsibility Accounting
4) Budgetary Control	4) Management Audit
	5) PERT and CPM
	6) MIS

A) Traditional Techniques - Traditional techniques refer to the techniques which are being used by business organizations for longer period of time and are still in use. Such techniques are.

1. Personal Observation / Inspection :

This is the most traditional techniques of control. It helps the manager to collect first hand information about the performance of the employees. It helps to improve the performance of employees as they become aware that they are being observed by the manager. It cannot be used in all types of jobs as it is very time consuming.

2. Statistical Reports :

Statistical analysis in the form of percentages, ratios, averages etc. in different areas provides useful information regarding performance of an organization over a period of time. It facilitates comparison of performance with the standards fixed and also with previous years performance.

3. Break-even Analysis :

The sales volume at which there is no profit, no loss is known as the break-even point. This analysis is useful to study the relationship between costs, volume and profits. It can show the overall picture of probable profit / losses at different levels of sales volume while analyzing the overall position.

4. Budgetary Control :

The budget can be defined as a quantitative statement prepared for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period.

The common types of budgets used by an organization are as follows:

a) **Sales budget:** A statement of what an organization expects to sell in terms of quantity as well as value.

b) **Production budget:** A statement of what an organization plans to produce in the budgeted period.

c) **Material budget:** A statement of estimated quantity and costs of materials required for production.

d) **Cash budget:** Anticipated cash inflows and outflows for the budgeted period.

e) **Capital budget:** Estimated spending on major long term assets like a new factory or major equipment.

f) **Research and Development budget:** Estimated spending for the development or refinement of products & processes. It is a controlling techniques because budgetary performance / results can be compared with actual performance / results and if there are any deviations, necessary measures can be taken.

B) Modern Techniques of controlling :

Modern techniques of controlling are those which are new and have been developed recently. They are

1. **Return on Investment:** It is a technique for measuring whether or not invested capital has been used effectively for earning a reasonable return on investment. It is used to control the overall performance of an organization or of its individual departments or divisions. Net income before or after tax may be used for making comparisons. Total investment is the investment made both in working as well as fixed capital.

2. **Ratio Analysis :** The most commonly used ratios as "controlling technique are liquidity ratios, solvency ratios, profitability ratios and turnover ratios.

3. **Responsibility Accounting:** It is a technique in which the managers / heads of different sections, divisions, and departments of an organization are made responsible for achieving the target set for his centre. Responsibility centres may be of the following types - cost centre, revenue centre, profit centre, investment centre.

4. **Management Audit:** Management audit refers to a systematic appraisal of the performance of different managerial functions during a certain period of time. The aim is to assess the efficiency and effectiveness of managerial plans and policies and to improve its performance in future periods.

5. **PERT and CPM:** the full form of PERT is Programmed Evaluation and Review Technique and the full form of CPM is

Critical Path Method. These are network techniques and are used while performing various managerial functions and also while implementing and reviewing various complex and complicated projects.

6. **MIS:** 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 in the 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). 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.

Exercise:

1. What is the meaning of motivation? Explain the Factors influencing Motivation.
2. Define the term communication and explain the barriers to effective communication.
3. Discuss the Techniques of controlling.
4. Elaborate the different styles of leadership.
5. Write short notes
   a. Importance of Motivation
   b. Importance of Communication
   c. function of a leader
   d. Qualities of a good leader.
   e. Modern Techniques of controlling
   f. Traditional techniques of controlling
6. Explain the terms
   a. Motivation
   b. Communication
   c. MIS
   d. Leadership
   e. Autocratic style of leadership
   f. Bureaucratic Style
   g. Democratic Style of Leadership
   h. Paternalistic Style

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SECTION II
Management: Production and Finance

Module 5
Production & Inventory Management

Production Management

11. Meaning

Production is the first and primary function of management because unless goods are produced, they can not be marketed. Production management includes planning, organizing, staffing, directing and controlling the activities of the production function. It involves taking all the decisions which are required to be taken for producing goods or services according to specifications at right time and costs.

12. Objective of the Production Management

So the objective of the production management is to produce goods and services of right quality and quantity at the right time and right manufacturing cost.

1. **Right quality:** The product quality is a relative term. The objective of production management is to produce goods of the quality which is required by the customers. The right quality is not necessarily best quality.
2. **Right Quantity:** The quantity of production should be decided after forecasting the demand of the product. The decision on the size of production should be a right decision to avoid both excess or deficit production.
3. **Right Time :** The goods should be produced and supplied when they are required by the customers.
4. **Right manufacturing cost :** Cost of manufacturing is decided before actually producing the product. This cost can be considered as standard or pre established cost. An attempt should be made to produce the product at this standard cost.

13. **Scope of production management :**

The scope of production management involves taking various decisions related to the production activities. These decisions are of two types.

A. Strategic decisions:

These decisions are taken for deciding the product and production system and

The strategic level decisions are:

1) **New Product Identification and Design :**

Constant changes take place in consumer likes & dislikes, tastes, expectations. The organization may require introducing a new product or innovating or modernizing the existing one in order to meet the changing needs and demands of the consumers so identifying and designing the new product is the strategic decision of production management.

2) Process Design / Layout and Planning :

It involves taking decisions as regards use of the appropriate technology for conversion of raw materials into products and planning of the process of production which can include deciding process design, determining the work stations and the flow of work.

3) Deciding Location for the production process :

Deciding the location for the manufacturing unit is very crucial one. It is taken after considering factors like supply of raw materials, nearness to market, availability of transportation facilities, and labour, climatic conditions and so on.

4) Design of Material Handling System :

Material handling system should be such as to minimize the cost and time and labour involved in material handling. The material handling system is decided after considering various factors such as the distance between the work stations, intensity of flow or traffic and shape and nature of materials to be handled.

5) Capacity Planning :

Deciding the size of production should be done after considering various factors such as demand forecasting, availability of resources, Government regulations, economies of large scale and so on.

B. Operating decisions:

These decisions are short term and which are acquired to be taken for smooth production process.

The operational level decisions are:

1) Production Planning:

It relates to taking production related decisions on day to day basis such as allocation of work among the workers, repairs and maintenance of machinery, fixing quotas and targets for the workers and so on.

2) Production Control:

Use of production control techniques aims at finding out whether the activities are carried out as per the plan. It involves comparing actual output with standard output and if the actual output is less than the standard output, then measures are taken to increase the output.

3) The other activities:

The other activities include inventory control, repairs and maintenance and replacement of machinery, cost reduction and cost control, time and motion study providing proper working conditions and so on.

14. **Importance of Production Planning and Control :**

Production Planning and control is the managerial function which includes deciding various issues related to the production process such as the use of human resource, raw materials, machines working conditions, training to workers, supervision, fixing of targets etc. It is the technique to plan each and every step in a long series of production process.

Importance of Production Planning and Control can be given with the help of the following points -

1) **Better service to customers:** It helps in providing better services to customers in terms of better quality of goods at reasonable prices and timely delivery of goods. It helps in improving customer relations.
2) It helps **in smoother, timely and efficient production process** and helps in maintaining necessary stock levels.
3) It facilitates **effective use of resources** such as labour, machinery & equipment, raw materials and thereby reducing the cost of production and requirement of working capital.
4) **Improvement in morale of the workers**. Efficient production planning & control helps the workers to do their jobs efficiently. It improves job satisfaction and thereby morale of the workers.
5) **Image of the organization:** A proper system of production planning and control helps in smooth production operations in an organization. It helps in timely delivery of standard quality goods, and improving customer satisfaction. Improved customer satisfaction results in increased sales, increased profits and ultimately good public image of the organization.
6) **Co-ordinates departmental activities:** Proper production planning and control helps in coordinating the activities of production dept with other departments such as finance, marketing, human resource departments.
7) **Helps to face competition:** With improved performance of production dept, the organization can improve marketing performance and thereby can face market competition effectively.
8) **Provides better work environment:** Production planning and control helps in providing better work conditions to the workers so as to improve their efficiency such as proper lighting, ventilation, canteen facility, safety measures and so on.

Production Systems

15. Measures for improving Productivity:

Improving productivity is essential for earning more profits and to be competitive in the business. Productivity in the manufacturing is basically the result of efficient employees, proper tools, equipment and machinery and processes so the management has to look into these areas for improving productivity. For this, the following measures can be suggested:

1. **Study and analysis of the existing system**: The management has to identify study and analyses the weak areas as for as the employees, technology and processes are concerned.
2. **Improvement in production process**: Production process can be improved by making proper utilization of resources such as workers, technology, materials, floor space and time available and so on.
3. **Providing training to workers** - Training has to be provided to workers from time to time to enhance their skills knowledge and attitudes with proper training, the workers can do their jobs efficiently and can get job satisfaction.
4. **Setting of realistic targets** - In order to improve worker efficiency it's important to set realistic, clearly defined objectives. It improves sense of responsibility and loyalty and job satisfaction of the workers.
5. **Use of modern technology** - In mechanical production, it is important to update technology, in order to improve productivity and competitiveness in an every changing business environment.
6. **Repairs and maintenance** - Tools, equipment and machinery are required to be repaired and maintained periodically in order to maintain smooth flow of production process and to ensure industrial safety.
7. **Optimum utilization of resources** - The managers has to ensure proper use of resources such as manpower, money, material and machinery. Wastage or misuse of any kind should be avoided.
8. **To encourage team spirit** - The manpower should develop proper co-ordination and communication among the workers so that they work as a team towards the achievement of common goals and targets.

Inventory Management

16. **Importance of Scientific Inventory Control System :**

The purpose of Scientific Inventory Control system is to avoid the dangers of over stocking and under stocking of materials, work-in-processes and finished products. The following are the advantages / benefits of Scientific Inventory Control System.

1. **It ensures smooth flow of production processes** by making right - quality of materials at right time.
2. **It reduces ordering cost** - There are certain overhead costs involved in ordering supplies. It is possible to avoid frequent ordering of requirements if the organization has scientific inventory control system.
3. **It minimizes locking up of working capital in inventories** - With proper inventory control system, it is possible to minimize the locking up of working capital in excess inventories and to improve the liquidity position of the firm.
4. **It helps in supply of goods as per the market demand**: If there is sufficient stock of goods in hand, it is possible to supply goods as per the demand. It helps to satisfy customers and improve the market image.
5. **It helps in getting quantity discounts**: For bulk orders the organization gets the benefits of trade discounts from the suppliers. These discounts can reduce the cost of goods and increase the profits.
6. **It helps in taking the advantage of price fluctuations** - The firm can make purchases in bulk lots, when the prices of raw materials are low, thereby reducing the cost of raw materials. The firm can also take the benefit by marketing goods when the prices are higher. Thus, by taking the advantage of price fluctuations, the firm can maximize profits.
7. **It helps in deciding timely replenishment of stocks** - Proper inventory control system helps in keeping up to date records of the inventories. It helps the firm to avoid thefts, wastages and leakages of inventories. These records also help in deciding about timely ordering of stocks.

Exercise

1. Explain the meaning and scope of production management.
2. Explain the Measures to be taken for improving Productivity.
3. Write short notes
   a. Objectives of the production management
   b. Strategic decisions
   c. Operating decisions
   d. Importance of Production Planning and control
   e. Scientific Inventory Control system
4. Explain the terms
   a. Operating decisions
   b. Strategic decisions

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MODULE 6
QUALITY MANAGEMENT

Introduction to Quality

17. Meaning

Quality is the degree to which a product, process or service satisfies a specified sets of attributes or requirements. It is a relative term because specifications or requirements different from person to person or organization to organization.

18. **Dimensions of Quality**

The following are the dimensions of quality which can be used to determine / decide the quality characteristics.

1. **Performance:** Performance of a product / service refers to a products primary operating characteristics. It decides whether it can perform well so as to fulfill the need or requirement of the consumer.
2. **Features:** Features are additional or supplementary characteristics that enhance utility or performance of the product / service. These features supplement the basic functioning of the product / service.
3. **Reliability:** Reliability indicates the specified working life of the product, and it's a kind of assurance that the product can be used for the specified period without fail.
4. **Conformance:** The dimension of conformance refers to the degree to which a product design and operating characteristics meet established standards. It is a kind of quality assurance given by the organization to the customers.
5. **Durability:** Durability refers to the length of a product's life. With proper handling, repairs and maintenance, the product's life can be increased to a certain limit.
6. **Serviceability:** Serviceability refers to how efficiently the organization can provide repairs and maintenance service to the customers, if the product fails to operate.
7. **Aesthetics:** Aesthetics is the relative / subjective term and it refers to how the product looks, feels, sounds, tastes and smells. It is clearly a matter of personal performance a judgment.
8. **Perceived Quality:** Very often consumers do not get or have complete information about a product's or service's attributes. They may select the particular brand based on other factors such as organisation's and brand's image, advertising message, feedback from the customers and so on.

19. Cost of quality :
Meaning and Types:
Cost of quality refers to the cost involved in activities and resources for preventing detecting and remediating manufacturing of poor quality of goods / services.

Quality costs are categorized into four main types and they are -

1. **Prevention Costs:** It is always better to take measures to prevent defects in manufacturing products. The costs which are incurred to avoid or minimize the defects in manufacturing costs are known as prevention costs. Such costs can include costs incurred for improvement of manufacturing processes, training to workers, repairs and maintenance of machinery etc.
2. **Appraisal Costs:** Appraisal or Inspection costs are those costs that are incurred to identify defective products before they are sold to customers. These costs basically include supervision or inspection costs for maintaining a team of inspectors. It helps to ensure the production of products with required quality standards.
3. **Internal failure Costs:** Internal failure costs are those costs that are incurred to remove defects from the products before selling them to customers. They include cost of rework, rejected products, scrap etc.
4. **External failure costs:** External failure costs are incurred if the defective goods are sold to customers. They include the costs like warranties replacements, sales returns, etc. It also covers the damages such as spoiling of market reputation & goodwill unsatisfied customers reduced sales and profits.

20. Features / Characteristics of quality Circles:
A quality circle is a small group of employees who voluntarily join hands to solve day to day work related problems such as wastage of materials, quality of raw materials, tools, semi finished and finished goods, work environment, scheduling, maintenance of machinery, safety measures and so on. They solve the problems with the guidance and advice of their supervisor.

The following are the characteristics / features of quality circle:

1. It is a group of workers / employees doing the similar kind of job.
2. It is a group of few members may be three to ten in order to achieve better communication and co-ordination.
3. Members join the circle voluntarily. They themselves feel the need to identify and solve the work related problems.
4. Generally meetings of the circle take place for at least an hour every week at the time suitable to all members.

5. The quality circle is formed basically to find out solutions to the work related issues / problems. So the supervisor, who is in charge of the work, generally acts as a leader of the group.
6. The members of the group are concerned only about the issues related to their work area only.
7. After studying and analyzing the problem related to the work, the members collectively find out the solutions for the problems and they are forward to the management for their approval.
8. After the management's approval, the circle members can implement the measures for overcoming the problems.

Quality Management Tools

21. Importance of Total Quality Management (TQM):

TQM is important for any organization as it offers the following benefits and advantages -

1. It helps the organization to face market competition effectively.
2. It helps the organization to adjust with changes in the business environment.
3. It helps to improve efficiency & productivity loyalty & retention.
4. It facilitates better market - image, customer.
5. It eliminates defects and wastages of all types.
6. It helps to reduce costs & improve profitability.
7. It helps to improve customer satisfaction.
8. It helps to increase job security employee moral and job satisfaction.
9. It improves shareholder and stakeholder value.
10. It helps to innovate and improve business processes.

Service Quality Management

22. **SERVQUAL Model :**

The Service Quality Model or SERVQUAL Model was developed and implemented by the American Marketing Experts like Valarie Zeithaml, A. Parasuraman and Leonard Berry in 1988. Its purpose is to measure the service quality experienced by customers.

Marketing of services is more challenging than marketing of goods. As services are intangible in nature they cannot be seen or touched. They can only be fell or experienced by the customers. So to measure the performance / quality of services is subjective and not easily quantifiable.

This model is basically a qualitative analysis. It finds out the short comings or weaknesses in the performance of services provided by the supplier.

In that sense, it is also called ‘GAP Analysis’. It compares the expected service quality and the service quality that has actually been experienced.

Thus the model helps to compare the expectations of the customers and satisfaction the customers have experienced after getting the service performance. If there is a difference in quality that is shown in the difference (the gap) between what was expected and what was actually experience the organization can take certain corrective measures to improve the service performance.

While studying and analyzing the performance of service quality, it was found out that basically the following ten dimensions of service quality are considered important service quality and they are reliability, responsiveness, competence, access, courtesy, communication credibility, security, knowing the customer and tangibles such as appearance of the staff and office.

So this model is certainly useful to organizations dealing in goods and services in order to survive in a competitive environment. They are to be conscious about the service quality provided by them to gain consumer satisfaction.

23. **Measures to improve service quality :**

Products are tangible in nature and so they have standard specifications and so measuring quality of products is rather easier whereas services are intangible in nature so measuring quality of services is rather a challenging task. However it is important to measure the service quality provided by the organizations in order to take decisions on measures to improve service quality and thereby consumer satisfaction.

The following are the measures to improve service quality -

1. The first step is to measure service quality as it is hard to improve that which is not measured.

2. The second step is to identify gaps between the customer’s expectations of service quality and the service provider’s desired level of performance.

3. In order to understand the customer expectations, efforts should be made to observe and interact with customers by conducting customer visits & surveys.

4. After knowing the customer expectations, the organization should create service quality standards.

5. Employees should be trained in performing the services.

6. The management to observe how services are being performed by the staff.

7. The organization should recruit skilled and knowledgeable staff and make efforts to retain and motivate them.

8. There has to be effective & prompt feedback customers in order to know their satisfaction levels.

Exercise

1. Explain the term Quality Circles and its Characteristics**.**
2. Write short notes on:
    a. Dimensions of Quality
    b. Cost of Quality
    c. Importance of Total Quality Management
    d. SERVQUAL Model
3. Explain the following terms:
    a. Quality
    b. Quality Circles

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Module 7
INDIAN FINANCIAL SYSTEM:

Indian Financial Market

24. IPO Procedure

The IPO (Initial Public Offering) process is the process through which a private company issues new and or existing securities to the public for the first time.

Private companies decide to convert themselves into Public Limited Companies to raise huge amount of capital in exchange of securities. So in order to offer its shares to the public, it has to go through the process of IPO. The IPO process is quite complicated. The entire process of IPO is regulated by the securities and Exchange Board of India. The following are the steps involved in the IPO proves.

1. Appointment of an investment bank:

A company appoints a team of underwriter's or investment banks to start the process of IPO. They are the specialized agencies to market the securities to the public. They study the financial position of the company and take the decisions on the amount that will be raised and the securities that will be issued. They are the managers to the issue of securities and do not share the risks involved in marketing of securities.

2. Register with SEBI :

The company has to submit a registration statement to SEBI, which includes a detailed report of it's financial position and business plans. It has to fulfill all the necessary requirements and satisfy all rules and regulations.

3. Preparation of the Prospectus :

The companies with the help of the underwriters, has to prepare the prospectus giving all the details of the company & its future plans and the expected share price range. The prospectus is meant for prospective investors who would be interested in buying the stock.

4. The Road show :

Once the prospectus is ready, underwriters and company officials plan countrywide road shows for promoting the company's IPO among selected few private buyers and also to get the idea about the response of the prospective investors.

5. SEBI's Approval :

Once SEBI is satisfied with the registration statement, it gives green signal to the IPO and a date to be fixed for the same.

Sometimes, it asks for certain changes in the prospectus before giving its approval.

6. Selection of a stock exchange/s –

The Company needs to select a stock exchange/s where it intends to sell its shares and get listed.

7. Deciding on Price Band and number of share to be issued :

After the SEBI approval, the company, with assistance from the underwriters decides on the price band of the shares and also decides the number of shares to be sold. The shares can be issued with the help of two methods - 1) Fixed Price IPO - In a Fixed Price issue, the company decides the price of the share issue and the number of shares being sold. 2) Book Building IPO - A Book building issue helps the company discover the price of the issue. The company decides a price band and it gives the investor an option to choose the price at which he / she wishes to bid for the company shares.

8. Available to Public for Purchase :

On the dates mentioned in the prospectus, the shares are made available to Public Investors fill up the IPO form and if it is a book building IPO, specify the price at which they wish to make the purchase and submit the application.

9. Determination of Issue Price and Share Allotment :

Once the stipulated time period for applying for IPO is over, the company, with the help of underwriting banks, determines the price at which shares are to be allotted to the prospective investors. The price would be directly determined by the demand and the bid price quoted by investors. Once the price is finalized, shares are allotted to investors based on the bid amounts and the shares available. In case of over-subscribed issues, shares are not allotted to all applicants.

10. Listing of shares :

The last step is the listing of shares on the stock exchanges.

25. Role of Depositories: NSDL & CDSL

Earlier share were issued in the form of physical certificates that the investor had to keep safe and then forward to the buyer once sold. This process was highly time consuming and gave rise to issues like fake securities and bad deliveries. Because of all these problems and the improvement in technology a new system of depositories and the electronic mode of holding and transferring shares have come up.

The electronic mode of holding and transferring shares is called dematerialization of securities. It is a process by which the physical certificates of an investor are taken up by the depositary and they are actually destroyed and an equivalent number of securities are credited in the depository account of the investor. The depository acts as a bank. It accepts the deposits of securities such as shares, debentures, bonds and government securities, in electronic form. Thus depositary holds the securities of investors and provides services to them.

In India, there are two companies which are acting as depositories and they are - 1) National Securities Depository Ltd. (NSDL) and Central Depository Service Ltd. (CDSL). The depositories provide their services to investors through their agents called depository participants (DP). A DP can be a bank, financial institution, a custodian or a broker. Just as one opens a bank account in order to avail of the services of a bank / an investor opens a depository account with a depository participant in order to avail of depository facilities.

The following are the functions of Depository -

1. **Dematerlisation :** One of the primary functions of depositary is to eliminate or minimize the movement of physical securities in the market. This is achieved through dematerilisation of securities.
2. **Account Transfer :** The depository keeps records of all transfers resulting from the settlement of trades and other transactions between various beneficial owners by recording entries in the accounts of such beneficial owners
3. **Transfer and Registration :** A transfer is the legal change of ownership of a security in the records of the issuer. For affecting a transfer, certain legal steps have to be taken like endorsement, execution of a transfer instrument and payment of stamp duty.
4. **Corporate Actions:** A depository may handle corporate actions in two ways. In the first case, it merely provides information to the issuer about the persons entitled to receive corporate benefits. In the other case, depositary itself takes the responsibility of distribution of corporate benefits.
5. **Pledge and Hypothecation:** Depositaries allow the securities placed with them to be used as collateral to secure loans and other credits.
6. **Linkages with clearing system:** Depository has linkages with the clearing system attached to a stock exchange that performs the functions of ascertaining the pay in (Sell) or payout (buy) of brokers who have traded on the stock exchange.

SEBI

26. Investor's protection measures of SEBI :

SEBI has been established with the primary objective of protecting the interests of investors in securities. An investor can invest his money safely and profitably if:

1) He knows how to invest.
2) He has full knowledge of the market.
3) The market is safe and there are no unfair practices.
4) There are arrangements for redressal in case of grievances.

Accordingly, SEBI's investor protection measures have four elements.

1. SEBI educates and trains investors to take informed investment decisions. It makes them aware of available information required for taking right investment decisions, to suit his specific investment goals. SEBI has been organizing investor education and awareness workshops. It has a special website for the investors. It gives precautionary messages through various media. It answers the queries of investors through telephone, emails and letters, and in person for those who visit SEBI office.

2. It has prescribed rules and regulations to the companies and intermediaries for disclosing relevant information to the public in order to helps them to take informed investment decisions.

3. It ensures that the market has systems and practices in order to make transactions safe and secured. It has introduced various measures such as screen based trading system, dematerialization of securities, T + 2 rolling settlement to protect the interests of investors in securities.

4. It facilitates redressal of investor grievances against intermediaries and companies. It has set up a comprehensive arbitration mechanism in stock exchanges and depositories for settlement of disputes of the investors.

Stock Exchange

27. Speculators of Stock Exchange Meaning:

The speculators are traders of securities on stock exchanges. They are engaged in buying and selling of securities with the intension of earning profits. They are not investors. They buy securities with a hope to sell them in future at a profit. They do not hold the securities for a longer period. They are more concerned with price movements on stock exchanges.

In reality, there is no much difference in a speculator and an investor. Each investor is to a certain extent - a speculator as he also buys the securities with a hope of selling them at a higher price in future. Similarly, every speculator to a certain extent is an investor because he may also hold the securities for some period with a hope of selling them at higher price. Thus, the difference between the two is a matter of degree only.

28. Types of Speculators

There are four types of speculators who trade on stock exchanges.

1. **Bull:** A bull is an optimistic speculator. He expects a rise in the price of the securities in which he deals. Therefore he buys the securities with a hope of selling them in future at a higher price and gain profits. If it happens he can sell the securities. Thus he is not required to take delivery of the securities.
2. **Bear:** A bear is a pessimistic speculator who expects a sharp fall in the prices of certain securities. He therefore enters into selling contracts in certain securities on a future date. If the price of the security falls as per his expectations he will get the price difference.
3. **Stag:** He is a cautions investor as compared to the bulls or bears. He only applies for IPOs of the companies with the objective of selling them at a premium or profit as soon as he gets the shares allotted.
4. **Lame Duck:** When a bear cannot fulfill his commitment immediately, he is called as a lame duck.

Exercise

1. Explain Initial Public Offering (IPO) process in detail.
2. Discuss the types of Speculators.
3. Write short notes
    a. Role of Depositories
    b. SEBI's investor protection measures
4. Explain the terms
    a. IPO
    b. Depository
    c. Speculators
    d. Bull
    e. Bear

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Module 8
RECENT TRENDS IN FINANCE

Mutual Funds

29. Advantages and Limitations of Mutual Funds

An investor must be aware of advantages and limitations of mutual funds in order to choose the best fund for investment. Advantages of Mutual Funds are as follows:

1. **Diversification of risks:** Mutual fund managers invest the funds in different sector and thus the risks of investing in securities gets reduced or diversified.
2. **Professional Management:** Investing in securities is not an easy task many factors are required to be studied and analysed before making an investment decision. The advantage of mutual funds is that they are managed by professional experts who can take right investment decisions.
3. **Simplicity:** Mutual fund dealers make available the required information about the funds easily such as level of risk, return on investment, and the price so the investor can choose the right type of mutual fund very easily.
4. **Liquidity:** Liquidity basically refers to the ability to convert your assets to cash with relative ease. An investor can get money by existing the mutual fund very easily and quickly.
5. **Cost:** Mutual funds are one of the best investment options considering the costs involved. A Portfolio Management Service may charge 2% to 3% of the total investment per year as its management fees. They may deduct a share from your profit. Mutual funds are relatively cheaper and deduct only 1% to 2% of the expense ratio. Debt mutual funds usually deduct even lesser.
6. **Tax efficiency:** Mutual funds are relatively more tax - efficient than other types of investment. Long term capital gain tax on equity mutual fund is zero. For debt funds, long term capital gains apply when you hold them for 3 years.
7. **Availability of more options:** Mutual funds are of different types based on period of investment and also sector wise. This allows investors to invest in particular types of funds, depending on their goals.
8. **Requirement of a small amount:** Mutual Funds allow you to begin with as small as Rs. 500 or Rs. 1000/- so a common man can also invest in mutual funds.
9. **Automated Investment:** In Systematic Investment Plan or SIP, the money gets automatically debited from investor's

account. So it is very convenient way of investing in mutual funds.

10. **Safe and Transparent:** Investments in mutual funds are very transparent. All mutual funds are regulated by SEBI and they need to make necessary disclosures.

11. Option to choose SIP or Lump sum mutual funds also give you the flexibility to invest through SIP or lump sum.

30. Disadvantages of mutual funds

The disadvantages of mutual funds are as follows :

1. **Costs:** Some mutual funds have a high cost associated with them. Mutual funds charge for managing the funds. Even when an investor exits from the mutual fund within a specified duration, there may be an extra cost as exit load. Thus investors should be aware that different funds have different expense ratios.

2. **Dilution:** Diversification has an averaging effect on your investments while diversification protects the investor from suffering any major losses, it also prevents from making any major gains. Thus, major gains get diluted.

31. Factors responsible for the growth of mutual funds

The various factors responsible for the growth mutual fund industry in India can be given as follows:

1. **Population:** In India, the percentage of young and working population is increasing at a higher rate. It results in higher per capita income, higher savings and investments in equity markets. Also there is growing awareness of the benefits of investments in mutual funds, both in urban and rural areas.

2. **Movement in Global Markets:** In India the performance of equity markets is far better than in other countries of the world. This has resulted in higher investments in mutual funds.

3. **Growing significance of service industry:** Service sector is growing faster than manufacturing sector. As a result, the professional services are available at reasonable costs in India.

4. **Inflation affects the Returns:** Inflation represents the general price level of the country and it is increasing over a period of time. It affects the returns on fixed income options such as bank deposits, PPF, National Service Certificates and so on. As a result, such traditional options of investing money are becoming unpopular.

5. **Other factors:** The other factors contributing to the growth of mutual funds in India are - change in the attitudes of people,

availability of several mutual funds even operated by public financial institutions, impact of globalization, and so on.

32. Systematic Investment Plan (SIP):

The terms SIP and mutual fund schemes are not synonymous. An SIP is only a scheme that helps the investor to invest regularly in a mutual fund schemes. Thus, SIP or systematic Investment Plan is a scheme in which an investor invests a fixed amount of money regularly in a mutual fund, generally an equity mutual fund scheme. An investor can start investing in a mutual fund scheme with a minimum of Rs. 500. He can invest a fixed amount of money monthly, bi-monthly or forthrightly, according to his convenience. In step-up SIP scheme, an investor can increase the SIP amount periodically. In Alert SIP, the mutual fund management sends an alert to the investor to increase his investment when the markets are down. In perpetual SIP; the investor can continue to invest periodically, without any end date. He can exit the scheme as his requirements.

The following are the benefits of investing in mutual funds by using a SIP scheme.

1. It is a very convenient and time saving as money gets automatically debited from an investor's account.

2. It helps to average purchase cost and maximize returns when an investor invests regularly over a period of time irrespective of the market conditions, he gets more units when the market is down and less units when the market is up. This averages out the purchase cost of mutual fund units.

3. It helps to build the habit of saving and invest regularly among the people.

4. When an investor continues to invest over a long period of time, his returns get compounded. After the expiry of a long period, he can accumulate a large sum of money which ultimately helps him to achieve his long term financial goal.

Commodity Market

33. Categories

A commodity market is market that trades in primary economic sector rather than manufactured products. Primary economic sector covers soft commodities which are agricultural products such as wheat, coffee, cocoa, fruits, sugar etc. whereas hard commodities are minerals such as gold, silver, oil etc. There are 50 major commodity markets all over the world in which financial transactions (derivatives) and physical trades take place. Financial transactions are becoming more popular as compared to physical trades in which goods are actually delivered. Future contracts is the oldest way of investing in commodities Futures are secured by physical assets commodity markets include physical trading and derivatives trading using spot prices, forwards, futures and options on futures.

There are **two types of commodity markets** - the normal futures market and the inverted futures market.

In a normal market, the prices of future contracts increase with the period of maturity. The contract with a shorter maturity period has the lowest price and the contract with a longer maturity period is quoted at the higher price.

In an inverted market, the price of future contracts decrease with the period of maturity. The contract with the shorter maturity period has the higher price and the contract with the longer maturity period is priced at the lower price.

Derivatives Market

34. Meaning

Derivatives are financial contracts whose value is based on the type of assets or a group of assets used for the contract. The commonly used assets are stocks, bonds, currencies, commodities and market indices. The value of the asset used changes as per the market conditions. The basic purpose behind exerting into derivative contracts is to earn profits by speculating on the price movements of the asset.

35. Participants in Derivatives Market

The following are the participants in derivatives market.

1. **Hedgers:** They are cautions traders in stock markets. They enter derivative markets to secure their investment portfolio against the market risk and price movements. They can achieve this by taking an opposite position in the derivatives market. In this manner, they transfer the risk of loss to those other who are ready to take it. To have this benefit, they are required to pay a premium to the risk taker.
2. **Speculators:** They are risk takers of the derivative market. They are ready to take risk in order to earn profits. If their anticipation of price movements proves to be correct, they can earn huge profits.
3. **Margin Traders:** A margin refers to the minimum amount that is required to be deposited with the broker to participate in the derivative market. It is used to compensate the losses if any, while trading in the derivative market.
4. **Arbitrageurs:** They deal in low risk, low priced securities to make profits. They buy low priced securities in one market and

sell them at higher price in another market. This can take place only when the same security is quoted at different prices in different markets.

36. Types of Derivative Instruments:

The following are types of derivative instruments which are commonly used.

1. **Forward Contracts:** A forward contract is an agreement between two parties a buyer and a seller to purchase or sell something in future at a price which is fixed at the time of an agreement. Such contracts take place in everyday life also.
2. **Future Contracts:** They are quite similar to forward contracts but they take place on organized exchanges called future markets. They are required to be settled daily. In the daily settlement system, the investor who incurs losses has to pay them to investors daily who make profits.
3. **Options Contracts:** Options contracts are of two types'- calls and puts. With call option contract, the buyer can buy a given quantity of the asset, at a given price on or before a given future date. With put option, the buyer can sell a given quantity of the asset at a given price on or before a given date.
4. **Swaps:** Swaps are private agreements between two parties to exchange cash flows in the future according to a predetermined formula. They can be regarded as portfolios of forward contracts.

The two commonly used swaps are interests rate swaps and currency swaps.

a. **Interest rate swaps:** These involve swapping only the interest related cash flows between the parties in the same currency.

b. **Currency swaps:** These involve 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.

Start-Up Ventures

37. Sources of start - up financing

It is always better to use different sources for financing the new business besides a bank loan. The following are typical sources of financing start-ups.

1. **Personal Investment:** While starting a new business an entrepreneur should have his own savings and / or assets as collateral security for investing in the business.
2. **Love money:** This is the money which an entrepreneur borrows from a spouse, parents, family or friends. He should be cautions

while borrowing love money as they may like to have equity stake in the business.

3. **Venture Capital:** Every entrepreneur cannot depend upon venture capital. Because generally venture capitalists are very selective in their approach and they prefer to invest in technology driven businesses and companies with high growth potential in sectors such as information technology, communications and biotechnology Venture capitalists also require to be given some ownership or equity stake in the business.
4. **Angels:** Angels are generally wealthy individuals or retired company executives who invest directly in small firms owned by others. They also contribute to the business by way of their expertise, experience and / or managerial knowledge.
5. **Business incubators:** Business incubators provide various services for new business such as sharing their premises and even laboratories as well as their administrative logistical and technical resources. Generally, the incubation phase last upto two years. Once the product is ready, an entrepreneur leaves the incubator's premises and starts its industrial production phase. Such services are available in sectors such as biotechnology, information technology, multimedia or industrial technology.
6. **Government Grants and Subsidies:** Government agencies finance venture capital in the form of grants and subsidies. An entrepreneur needs to go through long and complicated procedure to avail of grants and subsidies. He has to submit a detailed project report giving details like project description, significance of the project, cost structure, resources available, projected return on investment and so on.
7. **Bank Loans:** Bank loan is the major source of financing venture capital for small and medium sized business. It is important for an entrepreneur to select the bank that meets his specific needs. He has to fulfill various requirements for getting bank loans such as a detailed project report and the guarantee.

38. Role of Self Help Groups:

Self Help Groups generally operate in rural India. They are also found in other countries, especially in South Asia and South East Asia. It generally consists of 10-20 self employed rural women. Members of the group are encouraged to serve a small amount regularly and contribute to the common fund. After few months, when a sizable amount is accumulated the group starts lending back to the members as to others in the village for some purpose. In India, many SHGs are linked to banks for the delivery of micro credit. Micro credit refers to small loans that help the poor rural women to meet their immediate credit needs. Central and State

Government along with the National Bank for Agriculture and Rural Development are encouraging Self Help Groups in order to achieve women empowerment.

The role of SHGS in India can be given with the help of the following points -

1. They help in providing small loans to rural people who are deprived of the facilities of formal banking systems.

2. They help in empowerment of rural poor women.

3. They encourage self employment among the rural women.

4. They provide a platform for poor women to participate in mainstream economic activity.

5. They create awareness about various development and welfare programmes relating to women and child health in general and education of children in particular.

Thus they are of great help to achieve sustainable economic development in India.

Exercise

1. Explain Advantages and Limitations of Mutual Funds.
2. Explain the Sources of start - up financing.
3. Write short notes
    a. Factors responsible for the growth of mutual funds
    b. Systematic Investment Plan
    c. Commodity Market
    d. Participants in Derivatives Market
    e. Types of Derivative Instruments
    f. Role of Self Help Groups
4. Explain the terms
    a. Mutual Funds
    b. SIP
    c. Commodity Market
    d. Hedgers
    e. Speculators
    f. Arbitrageurs
    g. Forward Contracts
    h. Future Contracts
    i. Swaps
    j. SHGs

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