

THAKUR COLLEGE OF SCIENCE AND COMMERCE

TYBAF

Management -II

Module 1. Marketing Management

- ❖ Meaning and Definition of Marketing – 4 Ps of Marketing, Importance
- ❖ Product Management – Meaning & Definition – Product Development Strategies,
- ❖ Product life cycle
- ❖ Branding- Meaning, Factors influencing branding
- ❖ Price Management – Meaning and Definition – Factors affecting pricing decisions,
- ❖ Pricing Strategies
- ❖ Place (Distribution) Management – Meaning and Definition – Factors Governing
- ❖ Distribution Decisions – Types of Distribution Channels
- ❖ Promotion Management – Meaning – Promotion Strategies,
- ❖ Integrated marketing communication

MARKETING

Meaning: The term marketing is derived from the term market, and implies a process that involves some activities which creates value for customers, clients and society as a whole.

Marketing is an **instrumental** to create demand for firms products.

Anything is of value to the other can be marketed. It can be a product, service, a person, a place an idea, an event, an organization experience or properties.

Example. Physical products : DVD player, Motor cycle, iPods

Services : Insurance, Health care, BPO, computer

Education Ideas : Polio vaccination, family Planning, donation of blood.

Persons : For election of candidates for certain post.

Experience : Lunch with a celebrity

Place : Visit Kerala “ Gods own country

Definition:

Chartered Institute of Marketing defines “**Marketing is the management process of identifying, anticipating and satisfying customer requirements profitably.**”

Philip Kotler Define “ Marketing management as the Art and science of choosing, target markets and getting, keeping, growing, customers through creating, delivering and communicating superior customer value.FEATURES OF MARKETING

1. Systematic process: Marketing is a systematic process of designing the product, fixing right price, promotion of product distribution of product.

2. Ideas, Goods and services:

Physical products: DVD player, Motor cycle, iPods

Services: Insurance, Health care, BPO, computer, banking

Ideas: Polio vaccination, family Planning, donation of blood, Aids awareness Campaign

3. Target Market: It focused on Target market.

Example: Marketers cannot sell luxurious Cars and Bikes to every customers.

4. All Pervasive: It is applicable to business and non- business organization.

Example: In Educational institution may adopt marketing they offer right courses, charge right fees, promote the courses, provides at right place.

Thakur college of science and Commerce

Course: TYBCOM SEM V

Fees : 15670/-Rupees

Promotion: Prospectus

Place: Classroom

5 Customer satisfaction: It focus on Customer satisfaction.

When Product performance = Expectations of customers – Satisfied

When Product performance < Expectations of customers – Dissatisfied

When Product performance > Expectations of customers – Delighted

6. Marketing Environment : Marketing influenced by various environmental factors such as customer preferences, competitor strategies, Government policies.

Example: At the time of designing new product marketers have to conduct Research and Development to find out likes, suggestions and dislikes of customers.

7. Integrated Approach: Marketing needs to integrate/ coordinate with the other functional areas of the organization.

There is need for integration of various departments such as finance, production, Human Resources.

Example: a decision to increase advertising would require supports from the finance department, to introduce a new model requires active coordination between production and marketing department.

8 Societal Interest: Marketing aims at balance between : **Profits + Customer satisfaction + Societies Welfare.**

9 Organisational Objectives: Effective marketing enables the firm to achieve marketing objectives.

➤ **Increases in Profits**

➤ **Increase in Market share**

➤ **Enhance brand Loyalty**

➤ **Improved Image**

10. Evolutionary Concept: The concept of marketing has evolved over period of time. In olden days sellers adopt the exchanged concept and nowadays large professional firms practice the holistic concept of marketing.

❖ **MARKETING MIX**

Meaning: Marketing mix refers to the marketing variables which are combined to sell products to the target market(customer).

In **1960, E.JEROME MC CARTHY** in his book “**Basic Marketing**” popularized a four factor classification, the so called - “**4Ps**”: **Product, Price, Place (Distribution) and Promotion.**

Definition: Marketing-mix

“The basis of marketing operations is the Co-ordination of four key variables, namely: product, price, place, promotion.”

- **E.Jerome**

McCarthy.

“Marketing mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market.

- **Philip Kotler**

❖ **Elements of Marketing Mix**

1. PRODUCT – Product can be defined as anything that is offered to the market for consumption that can satisfy a need or want. A product can be **IDEA,GOODS OR SERVICE** that can be generate customer satisfaction.

2. PRICE- Price is Exchange **Value** of Product. It is the **Mmonetary value** at which seller sells and buyer buys. The Price must be Right.

If Price is too high then customers will prefer competitor’s product.

If Price is too Low then customers will think product is of low quality.

3. PROMOTION- It involves all the activities which Company undertake to promote and inform about the new product in the market to the customers. Promotion mix consist of **Advertising, Public relation, Sales Promotion, Personal selling.**

4. PLACE- All the activities that company performs to make a Product available to the target audience is place.

Place mix involves **Distribution channels, dealer relations ,areacoverage,transport channels, locations, etc.**

5. **PACE**- It is the **Speed** at which the marketing decisions and actions are taken by Marketing Manager due to tough competition to gain competitive advantage.

Example: Patanjali launched new line of products at the right time and right price and place to increase sales and remain in market.

6. **PACKAGING**- Packaging Consist of all the materials that used to protect goods before they sold.

7. **POSITIONING**- Product positioning aims at creating distinct image of the brand in the minds of target market. Effective positioning helps firm to achieve higher sales and profit. Positioning techniques include- **specific product features** and **use of product**.

8. **PEOPLE**- Quality of Service is judged by customers on the basis of **Executives** who are providing it. Therefore, company spends on recruiting, selecting, placement, promotion.

9. **PROCESS**- It indicates How a service product is delivered to the customer's. It involves the methods, sequence of action with which the firm delivers the service.

10. **Physical Evidence** – It plays an important role in creating a good impressions on the customers.

❖ IMPORTANCE OF MARKETING

1. **Competitive Advantage:** Marketing helps to face competition in the market.

2. **Corporate Image:** Marketing helps firm to build good image in the minds of customers.

3. **Customer Satisfaction:** Marketing generated customer satisfaction.

Example: Customer satisfaction towards Bata India Limited

4. **Customer Relationship** : Marketing helps maintaining good relationship with customers and enhance Brand Loyalty. Marketing Techniques adopted to maintain Customer relationships.

➤ Satisfaction Survey

➤ Loyalty

5. **Expansion of Business:** Marketing enables firm to expand its business from local to national and even international.

Marketer chose following strategy to expand the business.

➤ **Product development strategy:** Introduce new product in existing market.

➤ **Market development strategy** : Enter in new markets with existing products or new products

➤ **Market penetration strategy:** increasing marketing efforts in current markets.

6. Economies of Scale: Discount on large scale production and distribution.

7. Efficiency: Formula: Efficiency = Output (Profit) /Input (Cost)

Marketing helps to get Higher Profits.

Higher profits invested in: Research and development, Technology up gradation, Training and Development

8. Brand loyalty: Marketing develops Brand loyalty.

- **Repeat purchase:** Satisfied/ delighted customers
- **Recommendations :** Satisfied/ delighted customers to friends, neighbors, others.

9. Brand equity: Marketing develops Brand equity.

Brand equity is **incremental value of brand**. That value is determined by consumer perception of and experiences with the brand.

10. Benefits to stakeholders: Effective marketing brings **higher returns** of to the firm.

- **Employees: High salary**
- **Government: High tax Revenue**
- **Dealers: Extra Incentives**
- **Society: social development activities**

❖ **PRODUCT DEVELOPMENT STRATEGIES**

Product Development Strategy involves developing new products for existing markets or for new markets. Product development may involve the firm improving its product's features or performance, or it may extend its product line. For instance, in recent years, quality and features improvements in various models of motorbikes have boosted the sales of Hero Honda, Bajaj Auto and others in the motorbike sector. The same is followed by a number of others manufacturing durables like electronic items, refrigerators, cars, etc.

The product development strategy includes:

1. Product Diversification Strategy
2. New Product Development Strategy
3. Product Modification Strategy
4. Product Addition Strategy

I.PRODUCT DIVERSIFICATION STRATEGY

Product diversification strategy is one of the internal growth strategies for a business firm. It involves expansion or growth of business by introducing new products either in the same market or in different markets..

A company may diversify for various reasons such as to spread the risks by operating in various businesses, to make optimum use of resources, to face competition effectively.

II. NEW PRODUCT DEVELOPMENT STRATEGY

Most marketers agree that a firm's long-run survival and success requires new product development. Product life cycles are growing progressively shorter and as such companies spend heavily on R&D in order to bring out new and innovative products.

The new products from a company's point of view can be broadly divided into three groups:

New products arising out of technological innovation.

New products arising out of marketing oriented modifications.

New products arising out of imitation of competitive products.

III. PRODUCT MODIFICATION STRATEGY

Most firms try to improve their competitive position in the market by introducing changes in one or more of their products, Marketers can modify their product by adding features or improving quality.

For product modification to be effective, following conditions must be fulfilled:

Customers must be able to recognize the modified differences.

The modified differences must bring added benefits and satisfaction to the customers.

Normally, product modification is done at the maturity stage. However, product modification can be done even at the introductory stage (if certain defects are noticed), and at the growth stage.

Firms can undertake three types of modifications:

I. Quality modification refers to modifying the product with reference to durability, speed, reliability, and performance.

II. Functional or feature modification refers to redesigning the product by adding additional features. It helps the company to enlarge its market, satisfy customers, and build up its image.

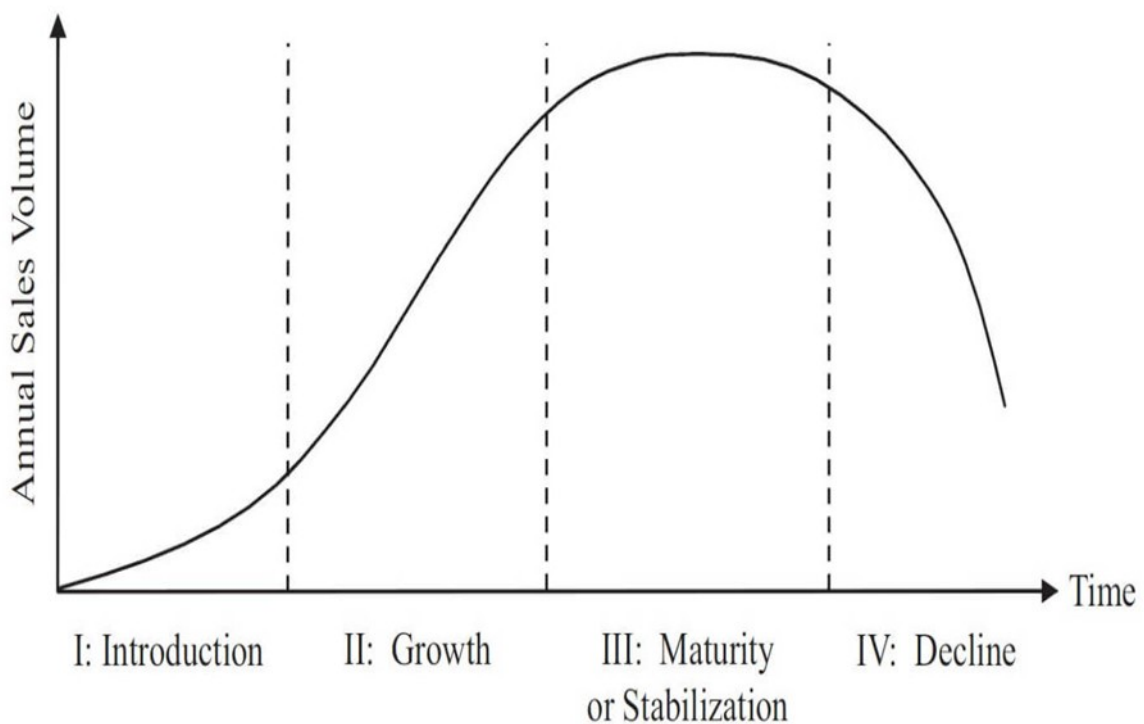
III. Style modification refers to change in the texture, sound, smell, taste or visual characteristics of the product. For instance, the introduction of new designs of readymade garments, quite often amount to style modification rather than functional or quality modification.

IV. PRODUCT ADDITION STRATEGY

Firms can add new products to its existing product mix/line. Firms may add related products, or totally new products (diversified products). Firms adopting this strategy can increase the depth and width of a product mix, so as to increase market share, sales, and profits. A firm may adopt trading up and trading down strategy. In trading up, a higher priced product is added to its existing low priced product line. In trading down, a low-priced product is added to its existing line of high priced prestige products.

❖ PRODUCT LIFE CYCLE

Product life cycle is the progression of a Product through the four stages of its time on the market. The four life cycle stages are: Introduction, Growth, Maturity and Decline. Every product has a life cycle and time spent at each stage differs from product to product.



1. Product Development stage

The **Product development stage** is the first part of the **Product Life Cycle**. This **stage** is not only about building the **product**, it includes carrying out research and testing of the product idea and development of New Product.

Objective: To research and develop a new Product.

Main **features** of Development stage are:

- Development of New product ideas.

- Research and Development.
- Product Tests and Trials
- Publicity to create awareness.

2. Introduction Stage

The **introduction stage** is the first **stage** in the **product life cycle** where a company launched a new Product for first time in the market tries to build awareness about the **product** or service in a market where there is less or no competition.

Objective: To Create Product awareness.

Main **features** of Introduction stage are:

- Low or Moderate sales.
- Limited Product range.
- Low Profit.
- High Promotional Expenditure.
- Limited Market Coverage.

3. Growth Stage

The **growth stage** is the period during which the **product** eventually and increasingly gains acceptance among consumers, the industry, and the wider general public. During this **stage**, the **product** or the innovation becomes accepted in the market, and as a result sales and revenues start to increase.

Objective: To increase the market share and Profits.

Main **features** of Growth stage are:

- Increase in **Market Share**.
- Rise in **Profits**
- Increase **Product Range**
- **Aggressive Promotion** and Marketing.
-

4. Maturity Stage

Longest period in the life cycle of a firm, industry, or product, during which sales remain more or less stagnant, and Profit and Market share may tend to decline.

Objective: To defend market share.

Main **features** of Maturity stage are:

- Sales remain more or less **Stagnant**.
- Decline in Profit.
- Decline in Market Share.
- Retentive advertising.

- Intense Competition.

5. Decline stage

A **decline** is a fall or descent and, in the product life cycle, the **decline stage** represents similar behavior for products. The **decline stage** in the product life cycle is when a product dissolves as a result of decreased demand from customers or negative growth.

Objective: To cut down the costs and reduce the losses.

Main **features** of Decline stage are:

- Decline in sales.
- Decline in Profit.
- Withdrawal or modification of the product.
- Decline in Promotional Expenditure.
- Reduction in Distribution.

❖ BRANDING

Meaning:

It is a process of giving distinct name or a mark to a product to give it a distinct identity as compared to competing brands.

Selecting a brand name is the primary task of brand management. William Shakespeare may be wrong - 'What's in a name. You can call rose by any other name. Brand names make a lot of difference. For instance brand names like Mercedes, Nike, Cartier, etc., command lot of respect and goodwill. The brand name must be relevant to the product, easy to pronounce, appealing to the target customers, and so on.

❖ FACTORS INFLUENCING BRANDING

1. Customers: The nature of customers may influence the branding of the products.

For instance:

If the product is meant for teenagers and youngsters, the brand name needs to be a lot trendy. An ice-cream brand targeted at youngsters may be branded as Go Cool.

If the brand is meant for masses across the nation, the brand name selected must have mass appeal.

For instance, an ice cream targeted for masses may be branded as Gokul.

If the product is meant for upper class audience, the brand name may sound a bit foreign.

For example, the top brands of cars are: Lamborghini, Rolls Royce, Ferrari, Mercedes-Benz, and so on.

2. Corporate Name Branding: A company may consider corporate name branding only when it is sure that the new brands that are introduced with corporate name are of high quality and meeting customer requirements.

For instance, Tata Group uses corporate name branding - Tata Tea, Tata Salt, Tata Steel, Tata Coffee, Tata Sky, and so on.

3. Competition: When there is huge competition, there is a need to differentiate the product. To differentiate the product, the company needs to highlight the product's special features that could benefit the consumers. Therefore, there is a need for separate brand name to enable the customers to identify the brand.

For instance, HUL manufacturers Surf washing Powder for middle upper and upper class audience, and Wheel washing powder

4. Company Resources: Branding depends on availability of funds with the company. Building a brand is a costly affair, Lot of money needs to be spent on publicity, advertising, sales promotion, salesmanship, and so on. Therefore, if a company has a lot of funds, it may spend on building separate brands.

When a company has limited resources, it may go for 'umbrella branding' (same brand name for a group of related products as in the case of Amul). Umbrella brand helps to reduce promotion and launching expenditure.

5. Market Area: At times, the brand name may be selected depending on the area where the product is marketed.

For instance, if the product is marketed in South India, the brand name may have good meaning in Tamil language. And if the product is specially meant for North India, the brand name. May have special meaning in Sanskrit language or in Hindi.

6. Market Size: When the market size for a product category is quite large, a company may adopt branding strategy provided the profits generated could fund the investment in the brand.

If the market size is relative small, and growing slowly, the investment in building a brand may not be justified. In such situation, a company may go for umbrella branding (a group products having same brand name such as 'Amul'), wherein the launching costs and promotion costs are lower. This means under umbrella branding, the branding expenditure gets reduced.

7. Nature of Product: The brand name must be relevant to the product. For instance, HUL cannot extend its brand name 'Surf' (generally meaning - foam of waves) to a new brand of ice cream or 'Chocolaty' for a brand of washing powder.

Brand names must be capable of describing features of the product such as 'Fair and Lovely' for face cream, 'All Clear' for anti-dandruff shampoo, and so on.

8. Preference of Promoters: Branding may be done as per the preferences or wishes of the founders or promoters. There are several instances where brands are named after their founders.

Examples include:

William Colgate introduced Colgate toothpaste in 1806

Henri Nestle introduced the Nestle brand in 1866

Jamsetji Tata introduced the Tata Group brand in 1868

9. Popularity of Existing Brand: At times, a company may consider brand extension after considering the popularity of its existing brand. For instance, the brand 'Amul' (Anand Milk Union Limited) became very popular in the butter segment, which is extended to several other dairy products such as milk, cheese, ghee, milk powder, curd, ice-cream, chocolates, confectionaries, sweets, etc.

10. Reputation of the Company: The brand name is influenced by the reputation of a company. If a company enjoys good reputation in the market, it must come up unique brand name for its new product.

PRICING

Meaning:

Pricing is the process whereby a business sets the price at which it will sell its products and services.

PRICE- Price is An exchange value of a product.

OBJECTIVES OF PRICING



The main objectives of pricing are as follows :

1. Survival : Its is the main objective of firm when companies are faced with problem of intense competition or changing consumer wants. Prices are reduced to survive in the market.

2. Profit Objectives: The main objective of pricing is to earn maximum profit.

A. return on Investment – To increase shareholders Wealth.

B. Profit Maximisation - To get as much profit as possible.

3. Sales Objectives: Firm fix prices In order to achieve sales objectives.

A. Market Share Growth - Firm fix the price to increase market share.

B. Sales Growth –Firm focus on sales revenue growth.

4. Competitive- Effect Objectives: Firm may fix prices to win over competitors customers or attract competitor's customers.

5. Image Differentiation – Firm create different image through pricing. They may charge premium price to create a distinct image.

6. Market Skimming Objectives: The firm launched product at **High Price** then gradually reduce the price over period of time. Firm want to recover high development cost of New Product.

7. Early Cash Recovery: firms that face liquidity problems, and who think that Product life is short. Such firms may provide special offers and discounts to increase sales.

8. Market Entry Barrier Objectives: Firm may adopt low price strategy with objective of preventing others from entering the market.

9. Customer Satisfaction Objectives: firms may adopt a **High Value Strategy**, where product quality is high and the price is moderated (Neither high nor Low) to win customers and retaining them.

Example : Parachute Advanced Therapy hairoil (Rs125) 100ml is costlier than Himalaya Anti Dandruff Shampoo(Rs100) as Himalaya promises more than just dandruff solution but also hair fall treatment and hair dryness repair too.

10. Social Responsibility Objectives: Professionals, Non – Profit organisations, Government may adopt social responsibility's their pricing Objective.

Example: Some doctors may charge consulting fee in the basis of ability to pay, for poorer section they charge less and for richer section they charge more.

FACTORS INFLUENCING PRICING

A. Internal Factors:

1. Cost: While fixing the prices of a product, the firm should consider the cost involved in producing the product. This cost includes both the variable and fixed costs. Thus, while fixing the prices, the firm must be able to recover both the variable and fixed costs.

2. The predetermined objectives: While fixing the prices of the product, the marketer should consider the objectives of the firm.

For Example: if the objective of a firm is to increase return on investment, then it may charge a higher price, and if the objective is to capture a large market share, then it may charge a lower price.

3. Image of the firm: The price of the product may also be determined on the basis of the image of the firm in the market.

For Example: HUL and Procter & Gamble can demand a higher price for their brands, as they enjoy goodwill in the market.

4. Product life cycle: The stage at which the product is in its product life cycle also affects its price.

Example: During the **Introduction stage** the firm may charge **lower price** to attract the customers, and during the **growth stage**, a firm may **increase the price**.

5. Credit period offered: The pricing of the product is also affected by the credit period offered by the company. Longer the credit period, higher may be the price, and shorter the credit period, lower may be the price of the product.

6. Promotional activity: The promotional activity undertaken by the firm also determines the price. If the firm incurs heavy advertising and sales promotion costs, then the pricing of the product shall be kept high in order to recover the cost.

7. Product: If a Product is of superior quality, then a firm may either adopt Premium **strategy** or **High value price strategy**

In Premium Pricing, the firm charges **high price** for **high quality**.

In High value pricing, the firm charges **Moderate/ Low Price** for **high quality**.

External Factors:

1. Demand: The market demand for a product or service obviously has a big impact on pricing. Since demand is affected by factors like, number and size of competitors, the prospective buyers, their capacity and willingness to pay, their preference etc. are taken into account while fixing the price.

2. Competition: Competitive conditions affect the pricing decisions. Competition is a crucial factor in price determination. A firm can fix the price equal to or lower than that of the competitors, provided the quality of product, in no case, be lower than that of the competitors.

3. Suppliers: Suppliers of raw materials and other goods can have a significant effect on the price of a product.

Example: If the price of cotton goes up, the increase is passed on by suppliers to manufacturers. Manufacturers, in turn, pass it on to consumers.

4. Economic Conditions:

The inflationary or deflationary tendency affects pricing. In **recession period**, the prices are reduced to a sizeable extent to maintain the level of turnover. On the other hand, the prices are increased in **boom period** to cover the increasing cost of production and distribution. To meet the changes in demand, price etc.

5. Buyers:The various consumers and businesses that buy a company's products or services may have an influence in the pricing decision. Their nature and Behaviour or the purchase of a particular product, brand or service etc. affect pricing when their number is large.

6. Government:Price decision is also affected by the price-control by the government through enactment of legislation.The prices cannot be fixed higher, as government keeps a close watch on pricing in the private sector.

7. Financial Incentives: The Government may provide incentives to the firm, then firm may charge lower prices.

Example: Exporters get incentives from the Government, so that they charge low prices in overseas markets.

❖ PRICING STRATEGY

Meaning: Pricing strategy is the tactic that company use to increase sales and maximize profits by selling their goods and services for appropriate prices.

Definition:

Pricing Strategy is defined as “A plan to achieve pricing objectives, market share, sales, etc.”

Pricing Strategies are as follows:

1. Skimming Pricing Strategy:

A high Premium price is charged when product launched in the market.

Objective: To get high profit margin at introduction stage of product.

Types: A. Rapid Skimming pricing : high prices are charged with heavy promotion expenditure.

B. Slow Skimming Pricing : high prices are charged with low promotional expenditure.

Example: the earliest prices for mobile phones, VCRs and other electronic items where a few players ruled attracted lower cost Asian players.

2. Penetration Pricing Strategy:

A Low price is charged when product launched in the market.

Objective: To capture a large share of market at introduction stage of product.

Types: A. Rapid Penetration pricing: Low prices are charged with heavy promotion expenditure.

B. Slow Penetration pricing: Low prices are charged with low promotional expenditure.

Example: Amul has a [strategy of low cost pricing. Some may call it penetrative pricing.](#)

3. STANDARD PRICING STRATEGY- Marketer charges **SAME PRICE** for all products in rural as well as urban areas.

4. PROBE PRICING STRATEGY- The marketer fix **HIGHER PRICE** at **Introduction** stage to know customer’s reactions and adjust price accordingly.

Example: The exporter may follow this technique, especially, when sufficient information is not available in respect of competitors’ pricing, purchasing power of the buyers,

5. DIFFERENTIAL TRADE MARGIN PRICING STRATEGY- The marketer may allow various discounts and trade margins, like season discounts, bulk quantity purchase discounts.

Example: A. Spotify premium membership is \$9.90 in the US, while it's ₹150 (\$2.30) in India.

B. A Teacher or student get discount on admission to a museum or entertainment facility.

6. Differential Pricing for Different Market Strategy - Different prices are charged to different markets.

Example: a. In any **government examination**, the form fee varies for the general category people and the other backward class people.

b. In **movie theaters** the customer pays different amounts for the different locations from where they can watch movies..

7. TRAIL PRICING- A firm may charge a lower price to induce customers to buy the products at introduction of product, after demand starts increasing they may charge higher price.

Example: Metro Train tickets, initially Metro charged 20 ₹. Per person so they can experience Journey then they started increasing price of tickets.

8. PREMIUM PRICING: The firm charges high price, Such pricing strategies work in segments and industries where a strong competitive advantage exists for the company.

Example: Porche in cars and Gillette in blades.

9. Follow The Leader Pricing Strategy: The marketer may fix price depending upon the prices of the leading competitor. The prices may be very close to that of price charged by the leader.

Example: Colgate is leading brand, it's pricing followed by Meswak, Dabur and Patanjali.

10. Flexible – Price Strategy: A firms may offer the same product to different customers at different prices.

Example: a. when new Product is introduced, a firm may sell it at special price to its loyal customers.

b. The carpenter also charge price by taking into account how much the customer can afford or Pay.

11. Psychological Pricing Strategy: Pricing Strategy plays on the psychology of the buyers.

Example: Odd pricing is done such as ₹ 999 instead of ₹ 1000.

PHYSICAL DISTRIBUTION

Meaning:

Physical distribution is a process of effectively delivery of the product to the customer in proper condition and on time

Definition:

William Stanton defines “A channel of distribution bus the route taken by tittle of the product as it moves from the producers to the ultimate consumer or industrial users”

TWO TYPES

Direct marketing Channel of distribution

Manufacturer ——— Customer (without help of intermediaries)

Indirect Marketing channel of distribution

. Manufacturer ———Intermediaries——— Customers

Traditional distribution channels

Direct channel of distribution (Manufacturer——— Customer)

It is Zero level of Marketing Channel.

It is suitable for Industrial product.

Manufacturer — Agent — Wholesaler—— Retailer—— Customer

It is Longest Channel of distribution.

Manufacturer —Agent——Retailer—— Customer

(Example: consumer durables such as refrigerator, television sets)

Manufacturer — Wholesaler—— Retailer——Customer

(Example: Consumers goods like soap, cosmetics, and textiles)

Manufacturer — Wholesaler—— Customer

(Example: building, Material, Cement , Textiles)

Manufacturer—— Retailer —— Customer

Retail stores like corporation stores, departmental stores

(Example : Cloth , agricultural cloth ,goods ,consumer durables)

CONTEMPORARY (Recent) DISTRIBUTION CHANNEL

1. HORIZONTAL MARKETING SYSTEM:

In this distribution channel two or more firms at the same level join together for marketing purposes to capitalize on a new opportunity.

Example: A. A Bank and supermarkets agree to have the bank's atm located at the supermarket's location

B. Apple and Starbucks who announced a music partnership in 2007

C. Nike and apple partnership for footwear and iPad

2. THIRD PARTY DELIVERY CHANNEL:

Third party logistics (3PL) provider is a firm that provides services to its client of outsourced logistics services for part, or all of their supply chain management functions

Third party logistics providers typically specialize in integrated operations warehousing, inventory management, logistical packaging and transportation services that can be customized to needs of the clients.

3. MULTI--CHANNEL MARKETING :

It uses different marketing channel to reach customers channel might be online and offline store It offers direct marketing services to the customer directly with the help of its Salesforce at the doorsteps of the customer

4. MULTI- LEVEL MARKETING:

Multi-level marketing is a marketing strategy in which the sales force is compensated not only for the sale of other sale people that they recruit

A. Pyramid selling, network marketing and referral marketing

Example: AVON, COSMETIC, BEAUTY, PERSONAL PRODUCT, NEWYORK BASED MULTI LEVEL MARKETING COMPANY

AMWAY – ORIFLAME SWEDISH COSMETIC COMPANY, TUPPERWARE, HINDUSTAN UNILEVER LTD

5. VERTICAL MARKETING SYSTEM:

Conflicts can occur between manufacturer, and wholesaler as well as between producers and retailers.

Example: conflicts may occur due to delay in supplies VMS takes place when two or more stage of distribution channel are combined and managed by one firm.

❖ FACTORS GOVERNING DISTRIBUTION DECISIONS

1. Customer Characteristics:

Large in number and geographically dispersed - **INDIRECT CHANNELS**

Few in numbers / geographically concentrated- **DIRECT CHANNEL**

2. Product Characteristics

Highly priced Luxury items sells items through luxury showroom - **Direct Channel**

FMCG Products -**Indirect channel** [*Buyers are large in numbers*]

3. COMPANY PROFILE (Company's corporate image , resources and capabilities)

Limited Sales Force- **Short channel/Direct channel**

Distinct image (Distribute product through selective sources) - **Direct Channel**

Strong Distribution Network (Own Showrooms)-**Direct channel**

4. Competitors Strategy:

Decides distribution strategy depend on its competitors -same channel are used by competitors

5. Area coverage:

Sell through the country — **Indirect channel**

Particular area or Locality — **Direct channel**

6. Middleman characteristics(Resource ,strength and capabilities)

AGENT (Own Distribution facility such as showrooms, delivery vehicles) - **Indirect channels**

RETAILER'S (Reluctant to stock goods With higher Channels)- **Direct channels**

7. Economic conditions:

RECESSION Middleman unwilling to stock new product - **DIRECT CHANNEL**

BOOM (Middleman willing to stock new product -**INDIRECT CHANNEL**

8. Technological factors

TECHNOLOGICAL DEVELOPMENT

In telecommunication made possible home shopping via telemarketing

Internet has made possible for customers to place direct orders online / no requirement of intermediaries

9. Size of orders

Large size of orders from few customers - **DIRECT CHANNEL**

Small order from large number of Customers -**INDIRECT CHANNEL**

10. Channel objectives

To maintain close contact with customer — **DIRECT CHANNEL**

To Expand market coverage — **INDIRECT CHANNEL**

❖ PROMOTION

The publicizing of a product or public awareness by organization or venture so as to increase sales

MEANING: Promotion is all about communication with customers to inform , persuade and influence their purchase decisions

DEFINITION:

PHILIP KOTLER

“ A company is total marketing environment mix also called the promotional mix consist of the specific blend of advertising , personal selling , sales promotion , public relation and direct marketing tools that the company uses to pursue the advertising and marketing objectives “

William Stanton defines Promotion “as the element in an organizations marketing mix that is used to inform, persuade and remind the market regarding the organization and/or its products.”

❖ IMPORTANCE OF PROMOTION

1. AWARENESS: It helps to create awareness of product or services irrespective of brand name, features, and uses of product.

2. PERSUATION: It helps to persuade or influence the customer to buy the products.

Attitude Help to build or reinforce attitude in the mind of target audience.

3. Brand loyalty: It helps to develop brand loyalty by repeat purchases by the satisfied customer.

4. BRAND IMAGE: it's the consumer's perception about the product.

5. FACE COMPETITION: It helps to face competition, promotion acts as a competitive weapon to counter the Claim of competitors.

6. CORPORATE IMAGE: It helps to create a good corporate image in the mind of customer.

7. EDUCATING THE CUSTOMERS: It helps to educate the customers regarding the use of the product.

8. EXPANSION OF MARKETS: promotion intended to expand the market.

9. REMINDING: It helps to remind consumers about their presence in the market.

Example: Raymond – the complete man

10. PROVIDES INFORMATION: It helps to provide information to target audience about the product.

❖ PROMOTION STRATEGIES

A company may use different strategies to promote its products. In broad terms, promotion strategies can be categorized into two:

Push Strategy

Pull Strategy

In case of push strategy, marketing efforts (mainly personal selling and trade promotion) are directed at intermediaries (dealers) to induce them to stock and promote the product to end users.

I. Push Strategy includes several elements to promote the products.

These elements are:

1. Personal Selling: Personal selling involves face-to-face communication between the firm's representative and the prospect. The basic objectives are:

To provide information to prospective customers.

To persuade prospects to buy the product. To educate the buyers regarding the use and handling operations, etc.

2. Cash and Trade Discount to Dealers: A firm may offer attractive cash discount to the dealers so that they make payment on time. Apart from cash discount, a firm may provide trade discount to the dealers to induce them to place large orders.

3. Dealers Credit Terms: Special credit terms may be offered to encourage bulk orders from retailers or dealers. However, it is to be noted that longer credit terms may likely to result in higher bad debts. Therefore, firms may provide shorter credit terms with attractive incentives.

4. Co-operative Advertising: The manufacturer may agree to share the advertising expenses of the dealers. This would induce the dealers to undertake a good amount of advertising to promote sales in their areas.

5. Dealers' Staff Incentives: Marketers may provide special gifts, or prizes to the staff of the dealers for attaining a particular level of sales target. The marketer may also provide training to the staff of the dealers.

6. Stock Return: Some firms may take back partly or wholly the unsold stock with the retailers, and distribute it to other dealers, where there is a demand for such stock.

7. Special Incentives to Dealers: A firm may provide special incentives to high-performing dealers. For instance, a firm may provide free gift of car, gold jewellery, sponsored holiday trip to dealer/family, etc.

❖ **Pull Strategy:**

In case of pull strategy, marketing efforts (mainly advertising and consumer-oriented sales promotion) are directed at end users to induce them to demand the product from the dealers, which in turn will induce the dealers to order and stock the product.

Pull strategy consists of various elements that help to promote the product.

These elements are:

1. Advertising: It is any paid form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor. The advertising messages are communicated through various media such as newspapers, magazines, radio, television, direct mail, internet, and so on.

Advertising plays important role in promotion mix:

It helps to develop top of mind awareness.

It helps to reinforce positive attitude towards the brand.

It enables to counter the claims of the competitors, etc.

2. Combo-packs: A firm may provide combo packs to persuade the buyers to buy the firm's products. For example, a toothbrush may be banded or included along with a toothpaste pack. The combo pack may be provided at a discounted rate.

3. Discounts: It refers to reduction in price on particular items during a particular period of time. This is quite common during festival season or during off-season period. It is very effective in stimulating short-term sales, especially when the firm offers genuine discount.

4. Exchange Offers: The customer is allowed to exchange the old product for a new one. The old product's exchange value is deducted from the price of the new product. This sales

promotion tool is used by several firms to promote durables such as TV sets, refrigerators, motor-bikes, and so on.

5. Free Samples: It involves free offer of a product, delivered door to door, sent through direct mail, attached to another product, or given along with the purchase of some other product. For example free samples may be provided in respect of food and beverages, toiletries and detergents, and so on. Free samples are normally provided during the introductory stage of the product life cycle.

6. Gifts: A firm may provide free gift to the customer on the purchase of the firm's products. The free gift must be of use to the customer. For example, a toothbrush can be given free along with a pack of toothpaste, or shaving blades can be gifted along with the shaving-razor or shaving gel.

7. Product Warranties: Warranties are promises made by the seller that the product will perform as specified for a certain period of time. In case of a default or defect, the seller agrees to rectify the same and even replace the product, if so required.

8. Premium Offers: These can be extra quantities of the same product at the regular price. Premium offers are used by several firms selling FMCG goods such as detergents, soaps, food items, and so on.

9. Order Coupons: They offer price reduction or savings to customer on the purchase of a specific product. The coupons may be mailed or enclosed or attached along with other products, or inserted in a magazine or newspaper advertisement. Coupons can be effective in inducing trial purchase of a new brand. It can be used to ensure brand loyalty in case of magazines, social-club membership, etc.

10. Personality Promotions: This type of promotion is used to attract greater number of customers in a store and to promote sale of particular items. For instance, a famous sports personality may be hired to provide autographs to customers visiting a sports shop on a particular day.

11. Installment Sale: Consumers initially pay smaller amount of the price and the balance amount in monthly installments over a period of time. At present, many consumer durables such as refrigerators, cars, motorbikes, electronic items, etc., are sold on installment basis.

INTEGRATED MARKETING COMMUNICATION

Meaning:

Integrated marketing communication (IMC) also called as integrated promotion mix. The IMC plays an important role in persuading reminding, informing, developing image and attitudes, and educating the intended audience (normally buyers or dealers).

William Stanton defines Integrated Marketing Communication "as the element in an organisation's marketing mix that is used to inform, persuade and remind the market regarding the organisation and/or its products."

❖ **Features of IMC**

1. Process:

IMC is a process of communicating messages to target audience in order to promote firm's goods and services.

The process includes the following steps:

Identifying target audience

Determining communication objectives

Instituting (developing) IMC plan

Designing communication message Identifying communication techniques

Determining the budget

Implementing the IMC plan

Review of performance

2.Main Objectives:

IMC is undertaken to achieve certain well defined objectives which may include:

- Creating awareness
- Developing attitudes
- Developing brand image
- Developing brand loyalty
- Countering competitive claims
- Building corporate image
- Persuading customers to buy products

- ❑ Providing information for customers' decisions

3. Continuous in Nature:

IMC is a continuous activity. There is a constant need to undertake IMC activities to face challenges of the competitors in the market. For instance, the marketer must continuously make use of advertising to act as a reminder to the customers to buy the firm's products.

4. Elements of IMC: IMC involves a number of elements that can be used to communicate commercial messages to the target customers. The various elements include:

Publicity

Advertising

Sales promotion

Salesmanship

Sponsorships

Public Relations

Packaging.

Participation in trade fairs and exhibitions,

5. Creativity: Creativity is vital in all the elements of IMC. For instance, a good deal of creativity is required to create effective ads. Creative advertisers always make efforts to bring out creative ads, something more exciting, entertaining and effective different from the existing ads.

6. Art and Science: IMC is an art because it requires creative talents to produce effective commercial messages. It is a science, because commercial messages are planned and prepared after systematic study of target audience, product, competitors, etc.

7. Target Audience: IMC is normally directed at select target audience. The marketer must select the right target audience and direct the messages to create a positive impact on them so that they buy and repeat the purchases of the marketer's brands.

8. Influences Diverse Groups: IMC is primarily directed at the present and potential customers. However, while designing IMC, firms must also consider the various groups that IMC may have an impact. The various groups include the intermediaries, employees, shareholders and the society at large.

❖ **IMPORTANCE OF IMC**

1. GREATEST IMPACT
2. CONSISTENCY
3. BRAND AWARENESS AT LOWER COSTS
4. BRAND AWARENESS
5. PREFERENCE OF AUDIENCE
6. RELATIONS WITH CUSTOMERS
7. TIME SAVING
8. COMPETITIVE ADVANTAGE
9. AUDIENCE TRUST
10. OTHER BENEFITS

Module 2. PRODUCTION MANAGEMENT

- ❖ Meaning and Definition of Production Management
- ❖ Scope of Production Management
- ❖ Steps in Production Planning and Control Measurement of Productivity
- ❖ Techniques of Productivity Measures to Increase Productivity
- ❖ Importance of Higher Productivity
- ❖ Productivity Movement in India
- ❖ Meaning and Definition of Quality Management
- ❖ TQM
- ❖ Quality Circles
- ❖ ISO 9000
- ❖ ISO 14000
- ❖ Meaning and Objectives of Inventory Management Methods/Techniques of Inventory Management
- ❖ Inventory Size
- ❖ Inventory Costs
- ❖ Case Study

❖ MEANING AND DEFINITION OF PRODUCTION MANAGEMENT

The term 'production' also referred as 'manufacturing' or 'operations'. It is to be noted that 'operations' is a broader concept as compared to production. The term production management is used for a system where tangible goods are produced, whereas, the term operations is used both for production of tangible goods and intangible services such as that of airlines, hospitals, educational institutions.

❖ MEANING OF PRODUCTION

Production refers to a sequence of operations that transform inputs into a desired form. It is a process by which raw materials are converted into semi-finished goods and semi-finished goods into finished items. The transformation from inputs to output may be done in any one or in the combination of the following ways:

- 1. Transformation by Disintegration:** There is essentially one ingredient as input and producing several outputs. For example producing rolling steel bars from cast ingots, or producing a number of nails from a piece of iron.
- 2. Transformation by Integration or by Assembly:** In this case there is a use of several components as inputs and obtaining essentially one product as output. For example: producing a television set, automobiles, machines, etc.
- 3. Transformation by Service:** In this case certain operations are undertaken that may add to the value or utility of the item. For instance, regular maintenance of a machine would increase its life, and better performance.

Meaning :

Production Management is concerned with managing the production function of the organization. It involves the application of managerial functions to the production process so as to achieve the overall objectives of the organization. In other words, Production Management is the process of planning, organizing, directing and controlling the production activities in the organization.

DEFINITIONS

1. In the words of **H. A. Hardings**, "Production management is concerned with those processes which convert the inputs into outputs. The inputs are various resources like materials, men, machines, etc. and the outputs are goods and services"
2. According to **E. L. Brech**, "Production management is the process of effective planning and regulating the operations of that section of an enterprise which is responsible for the actual transformation of materials into finished products."

❖ SCOPE OF PRODUCTION MANAGEMENT

Production management is concerned with the planning, organizing, directing and controlling of production activities. The various activities that constitute production management include the following:

1. Product Selection and Design: Every firm needs to select the right product(s) and design in order to meet the customers' requirements. Products must be selected after detailed evaluation of the various product alternatives. Techniques like value engineering and value analysis may be adopted in order to create alternate designs, which can offer maximum value to the customer.

2. Process Selection and Planning: The business firm should select and plan for the right process. Process selection involves. Decisions relating to the choice of technology, equipment, machines, material handling systems, mechanization and automation. Process planning involves decisions relating to various stages of processes and their sequence.

3. Capacity Planning: The production manager should plan for the right production capacity. Excess and unutilized capacity will result in low utilization of resources, whereas, inadequate capacity will lead to delivery problems. Certain factors must be considered in capacity planning such as market situation, availability of resources, etc.

4. Production Planning: The production manager performs the function of production planning, Production planning involves:

(a) **Routing:** It involves decisions relating to the flow of production activities, so that the production takes place smoothly.

(b) **Scheduling:** It involves preparation of time-table relating to production activities, so that the activities can start and complete on time.

5. Production Control: The production manager needs to monitor the production to find out whether the production is taking place as per the targets. The reports are prepared to measure actual production. If there are any deviations, necessary corrective steps are taken at the right time.

6. Quality Control: The production manager needs to place lot of emphasis in improving the quality of the product and at the same time in reducing the cost of production. The quality control officer reports to the production manager of any deviations in quality or if any improvement in quality is required. Accordingly, the production manager may initiate suitable action.

7. Inventory Control: Inventory control is also one of the important functions of the production department. The production manager monitors the level of inventory should neither be over stocking or under stocking of inventories such as spare parts, components, raw materials, etc.

8. Work Study: Production management is concerned with work study. It involves method study and work measurement, employed to ensure the best possible use of resources in carrying out a specified activity. It is concerned with productivity improvement by redesigning existing jobs or by designing new jobs.

9. Maintenance and Replacement of Machines: Production management ensures proper maintenance and replacement of machines and equipment. The production manager must adopt preventive maintenance techniques, which include preventive inspection, periodic cleaning and upkeep, planned replacement of parts, etc. At the same time, there should be timely breakdown-maintenance, so as to minimize breakdown time.

10. Other Functions: The production manager also performs some other functions such as:

Cost Reduction and Cost Control. -

Technology up gradation.

Motivating the Workforce.

Research & Development.

PRODUCTION PLANNING AND CONTROL

Production planning is deciding in advance relating to production activities. It involves two main steps: routing and scheduling. In general, production planning involves the following decisions:

What to produce?

How much to produce?

When to produce?

Who is responsible for production?

Production control involves monitoring actual production, and taking timely corrective measures to overcome deviations. It involves two main steps: dispatching and follow-up of production activities.

❖ Steps in Production Planning and Control

Production planning and control (PPC) involves certain steps to ensure smooth flow of production:

Routing:

Production planning and control starts with routing.

Routing can be defined as "the process of deciding the path of work and the sequence of operations."

Objective:

The main objective of routing is to find out the best and cheapest sequence of operation to be followed in the manufacturing process. It ensures smooth flow of work.

Procedure:

- (a) Determining what to make and what to purchase.
- (b) Decision on quality and quantity of materials required.
- (c) Determination of lot sizes.
- (d) Decision on scrap factors.
- (e) Preparation of route sheet.
- (f) Preparation of production control forms.

2. Loading:

Loading involves computation of total operation time required for various processes. The total time required to perform the operation is computed by multiplying the unit operation time (stated on the standard process sheet) by the number of units or parts to be processed. This total time is then added to the work already planned for the workstation.

Loading leads to preparation of a tabulated list or a chart showing the planned utilization of the machines or workstations in a manufacturing unit.

3. Scheduling:

It specifies the starting and finishing time for each operation in the manufacturing process.

It involves preparation of time table for production activities.

Objective:

The main objective of scheduling is to ensure the completion of each operation or activity on time.

Procedure:

- (a) Listing out all production activities.
- (b) Deciding the start time for every activity.
- (c) Deciding the finish time for every activity.
- (d) Preparation of time table.

4. Dispatching

It involves assigning of work and giving orders and instructions to the machine operators and others involved in the manufacturing process, so that the work is completed as per the schedule.

Objective:

The purpose of dispatching orders and instructions is to ensure that the machine operators understand what is expected of them and that they do the right thing at the right time and complete the production on time.

Procedure:

- (a) Arrangement of machines and tools.
- (b) Procurement of raw materials as per the requirements.
- (c) Assigning work to the machine operators and others.
- (d) Issuing orders and instructions to the workers.
- (e) Issuing orders to the tools department to supply tools and other requirements as and when required.
- (f) Maintaining a proper record of the start time and finish time of each operation.

5. Follow-up

It refers to reporting and monitoring of actual performance. If necessary, corrective measures are taken to obtain the right quality and quantity of production..

Objective:

The purpose of follow up is to monitor the actual performance, and to expedite the production if required. A proper follow-up ensures the right quality and quantity of production.

Procedure:

The following are the steps involved in follow up:

- (a) Measuring actual production.
- (b) Comparing actual production with planned targets.
- (c) Identifying causes of deviations, if any..
- (d) Identifying corrective measures to correct deviations.
- (e) Analyzing the corrective measures.
- (f) Selecting the best corrective measure(s).
- (g) Implementation of corrective measures.
- (h) Review of corrective measures.

6. Re-planning:

In some instances re-planning is necessary to ensure the effective utilization of the manufacturing facilities and personnel. Re planning revises routes, loads, and schedules, and a new plan is developed.

In manufacturing units, re-planning is often required. Changes in market conditions, manufacturing methods, or many other factors affecting the plant often indicate that a new manufacturing plan is needed.

MEANING OF PRODUCTIVITY

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

Productivity is the ratio of output to input. It can be expressed as follows:

Productivity =

Output

—————

Input

It is to be noted that productivity and production are not one and the same because productivity is a relative concept expressed as a ratio or percentage, whereas, production denotes the quantum of output. Also increase in productivity is due to more efficient utilisation of resources and reduction in wastages of resources, whereas, increase in production is due to increase inputs.

MEASUREMENT OF PRODUCTIVITY

Productivity is the ratio of output to input. The overall productivity of an industrial unit can be measured with the help of the following formula.

P = O/I

where P= Productivity

O = Output

I = Input

The productivity is said to be higher (as compared to earlier productivity) when:

The output is more at the same input.

The output is same at the lower input.

The proportionate increase in output as compared to an increase in input.

The productivity of each of these factors can be measured as follows:

(a) Labour Productivity:

Labour productivity is the relation between output to man-hours worked. Labour productivity can be expressed as follows:

$$LP = O/MH$$

where LP = Labour Productivity

O= Output, and

MH= Man-hours worked

Labour productivity is higher when :

The output increases with the same man-hours or lesser man-hours.

The output remains the same with lesser man-hours.

(b) Capital Productivity:

Productivity of capital is the relation between output and capital employed. It can be expressed as follows:

$$CP = O/ CE$$

where CP= Capital Productivity

O= Output

CE= Capital employed

Capital productivity is said to be higher when :

The output increases at the same capital or lower capital cost.

The output remains the same at a lower capital cost.

(c) Raw Materials Productivity: The productivity of raw materials is the relations between output to raw materials consumed. It can be expressed as follows:

$$RMP = O/ RMC$$

Where,

RMP= Raw materials productivity

O = Output

RMC Raw materials consumed

It is to be noted that the raw materials productivity can be measured in terms of number of units of raw materials. consumed as well as the cost of raw materials.

Material productivity is said to be higher when:

Output is more at the same amount of materials.

Output is same at lesser amount of materials.

(d) Machines Productivity: The productivity of machines is the relation between output to machine-hours worked. It can be expressed as follows:

$$MP = O / MHW$$

Where,

MP = Machines' productivity

O= Output

MHW Machine-hours worked

Machine productivity is said to be higher when: Output is more at the same number of machine hours. Output is same at lesser number of machine hours.

(e) Productivity of Land: The productivity of land is the relation between output to area of land used. It can be expressed as follows:

$$PL = O / AL$$

Where, **PL Productivity of land**

O = Output

AL = Area of land used

❖ TECHNIQUES OF PRODUCTIVITY

The following are the different methods or techniques to improve productivity:

1. Value Engineering: VE is the process of improving the value of a product or service by improving design or processes, and by reducing costs at every stage of product life cycle.

The following are the steps in value engineering:

- A. Select the product for improvement.
- B. Record relevant data such as primary and secondary functions.
- C. Examination of existing design or process.
- D. Development of alternative designs.
- E. Selection of the best design.
- F. Installation of the new design.

2. Quality Circles: The concept of QC was introduced by Dr. I. Kaoru in 1960s in Japan. QC is a small group of employees who meet regularly to identify, analyse, and solve work related problems. The QC members provide recommendations to the management to implement new methods to solve work related problems, which in turn helps to increase productivity.

3. PERT & CPM: The PERT & CPM are time-event network analysis techniques. These techniques help managers to plan and control activities relating to certain projects. These techniques focus on the critical path (important activity that requires the maximum possible time). The monitoring of critical path helps to complete the project on time.

4. Monetary and Non-Monetary Incentive Plans: The organization must motivate the employees by designing appropriate monetary and non-monetary plans. The monetary plans are designed to provide better monetary terms to the employees such as wages and salaries, bonus, and other monetary incentives. The non-monetary plans are framed to provide better non-monetary facilities or incentives such as good working conditions, welfare facilities, workers participation in management, etc.)

5. Operations Research: It is a broad technique that makes use of mathematical and scientific models to solve management problems, including those concerning productivity. OR experts have developed various sub-techniques such as linear programming, game theory, etc. to arrive at proper decision making, which in turn would help to improve productivity.

6. Training: It is a process of imparting skills and knowledge to the employees. It is often found that training is a must, especially for new employees as it shortens the period of learning about the job. Also, training improves attitudes of the employees.

7. Job Enrichment: It refers to increase in vertical depth of a job so as to make jobs more meaningful and satisfying. It involves providing more challenging tasks, and responsibilities.

For instance, an executive who is involved in preparation of reports may also be asked to frame plans for his department.

8. Materials Management: Materials management is concerned with the optimum use of materials used in the manufacturing process. It involves scientific purchasing, systematic store keeping, proper inventory control, etc.

Some of the main objectives of materials management are:

To purchase quality materials at right prices...

To maintain good supplier relations.

To maintain proper level of inventory. To reduce production costs, etc.

9. Quality Control: The main objectives of quality control includes, to produce quality goods at reasonable prices, to reduce wastages, to locate causes of quality deviation and to correct such deviations, to instill quality consciousness among employees, etc.

10. Job Evaluation: It is a process of determining the relative worth of each job in the organisation in order to establish a basis for relative wage rates and other personnel matters. A proper job evaluation motivates employees and as such there is enhanced productivity.

11. Ergonomics: Human factor engineering or ergonomics refers to man-machine relationship designed to match the technology to human requirements.

The term ergonomics has originated from the Greek word 'ergos' meaning 'work', and 'nomikos' meaning 'law'. It literally means 'laws of work and concerns with the study of how to fit a job to a man's psychological, and physiological characteristics to enhance human efficiency and well-being.

12. Performance Appraisal: The organisation may undertake performance appraisal of the employees on regular basis. When employees are provided with performance feedback, they would be in a position to correct their weaknesses, and improve their strengths, which in turn would help to improve employees Productivity.

II. Measures Related to Finance Department

The productivity can increase with the help of measures related to finance department.

These measures are:

Obtaining of the funds from the right sources at lower cost.

Proper management of fixed capital.

Proper management of working capital.

Proper credit management.

Good relations with financial institutions and banks, etc.

III. Measures Related to Human Resources Department

Effective human resource management directly enables increase in productivity of the organization. Effective human resource practices include:

Scientific recruitment and selection of employees.

Proper placement of employees throughout the organisation.

Provision of adequate training to the right people at the right time.

Proper performance appraisal of all the employees.

Proper promotion and transfer policies.

Effective compensation policies including incentives.

Proper working environment - good working conditions, working hours, etc

IV. Measures Related to Marketing Department

The marketing department indirectly helps to increase productivity of the organization. This is because, when there is effective marketing, the performance of the organization will improve in

terms of profits, sales, market share, etc. increase in profits can lead to R&D, motivation to employees, etc. which will improve productivity.

The marketing related measures include:

Right design of product to satisfy customers.

Right price.

Effective promotion - advertising, sales promotion, etc.

Distribution at the right place. Good after-sale-service.

Proper conduct of marketing research, etc.

❖ IMPORTANCE OF HIGHER PRODUCTIVITY

Higher productivity or higher efficiency can bring in lot of advantages to the organisation. The advantages are as follows:

1. Higher Profitability:

Higher productivity enables the firm to generate more output. The increased output results in more profits to the firm. The increased profits can be utilised for expansion and other activities of the firm.

2. Employees Welfare:

Higher productivity brings more returns to the firm in the form of higher profits. The higher profits can be utilised to provide better facilities and working conditions to the employees. Thus, higher productivity enables employees' welfare

3. Returns to Shareholders:

The firm can generate higher return on investment due to higher productivity. The higher return on investment enables the firm to pay higher dividend to the shareholders. The market price of the shares on the stock exchange may also rise.

4. Labour-Management Relations:

Higher productivity can generate better relations between the management and the employees in the organisation. This is because; employees are provided with good working conditions, facilities and incentives.

The labour relations also improve because the management consults the workers' representatives in setting the production targets, and also invites suggestions from the workers to improve the overall productivity of the firm.

5. Customer Satisfaction:

Higher productivity can generate better customer satisfaction. Higher productivity takes place when workers are motivated and satisfied. Motivated employees are committed to improve quality and reduce costs, and therefore, customers get quality products at right prices. Customer satisfaction results in customer loyalty towards the organisation.

6. Credit Rating:

Higher productivity can generate higher credit rating from rating agencies like CRISIL, ICRA, CARE, SME Rating Agency, (SMERA) etc.. This will enable the firm to obtain funds at lower cost from the market to meet working capital and also for fixed capital requirements.

7. Corporate Image:

The firm can enjoy a good corporate image in the minds of the various sections of the society, such as:

- (a) The shareholders
- (b) The suppliers
- (c) The financial Institutions.
- (d) The customers, etc.

8. Competitive Advantage:

A company with higher productivity can gain competitive advantage in the market. Quality products at right price enable a company to compete effectively at the market place. Therefore, a firm is in a better position to achieve its objectives in terms of higher sales, market share and profits.

9. Better Terms from Suppliers:

Higher productivity can enable the firm to obtain better terms from the suppliers. The suppliers may provide longer credit period due to the goodwill enjoyed by the firm and also due to bulk orders.

10. Optimum Use of Resources:

Higher productivity is the outcome of optimum use of resources. When a firm achieves higher productivity, the workers are motivated as they are rewarded with monetary and non monetary incentives. Therefore, the firm can maintain the optimum utilisation of resources such as manpower, machines, money, etc.

11. Less Employees Absenteeism and Turnover:

Higher productivity enables the firm to provide better facilities and working conditions to the employees, which will generate employees' loyalty towards the firm. Due to employees' loyalty, there would be less absenteeism and labour turnover

12. Team Work:

Higher productivity leads to team work throughout the organisation. The employees work as a dedicated and committed team to achieve the highest level of performance in the industry. Team work often brings greater success to the organisation.

❖ PRODUCTIVITY MOVEMENT IN INDIA

In 1957, Government of India set up a Commission on Productivity under the Chairmanship of Dr. Vikram Sarabhai. This Commission visited Japan to study the working of Productivity Centre of Japan. The Commission submitted its report in March 1957.

On the basis of the recommendations of the above commission, the Government of India set up the National Productivity Council (NPC) at New Delhi in Feb. 1958.

NPC is an independent autonomous body registered under the Societies Registration Act 1860.

❖ OBJECTIVES OF NPC:

The main objectives of NPC are as follows:

1. To promote productivity consciousness in all sections of national economy.
2. To disseminate the knowledge of the concepts and techniques of productivity and demonstrate their value and validity in the practical applications.

❖ MAIN ACTIVITIES OF NPC:

- 1. Training Programmes:** It organises training programmes either directly or through LPCs. Training is given to the participants in various fields such as work study, industrial engineering, inventory control, etc.
- 2. Seminars and Workshops:** It organises seminars and workshops at national and regional levels. The workshops and seminars are conducted on vital topics such as R&D, Human Engineering, Total Quality Management, etc.
- 3. Productivity Surveys:** It conducts productivity surveys in different fields. It investigates into organisational, managerial, technical, and other aspects of individual units with a view to detect difficulties and discover areas of improvement.
- 4. Sponsors Personnel for Training Abroad:** It sponsors management and technical personnel for training abroad under the scheme of technical assistance. So far Indian personnel has been sent for training in U.S.A., Germany, UK, Japan, France etc. They are trained in the areas like industrial management, industrial engineering, human resource. development, personnel management, industrial relations, etc.
- 5. Sponsors Study Teams Abroad:** It also sponsors study teams abroad for undertaking productivity studies and then to submit its report to the NPC.

6. Supply of Information:

It disseminates the information and increases productivity consciousness through various publications such as:

Productivity Journal (published quarterly) NPC Informations (published monthly)

Publication of reports of study teams

Other publications.

7. Maintains Libraries: It also maintains libraries at its Headquarters, regional directorates and local productivity councils. It also develops training materials such as audio-visual aids on productivity.

8. Assists Local productivity Councils: It helps in establishing and developing LPCs and guides and supports their activities.

9. Fuel Efficiency Service: It guides and promotes efficient utilisation of fuel and heat in industry. For this purpose, Fuel Efficiency Service was established by NPC in 1964.

10. Assists Asian Productivity Organisation (APO): It supports the activities of APO. APO has its headquarters at Tokyo. NPC assists the study teams sponsored by APO visiting India. NPC has organised and conducted many programmes in collaboration with APO.

❖ MEANING AND DEFINITION OF QUALITY MANAGEMENT

Quality is the most important aspect of any activity - production, marketing, finance, human resources, and so on. Quality is vital not only in manufacturing units, but also in any service industry.

Definition :

John Bank defines "Quality is fully satisfying agreed customer requirements at the lowest internal cost."

Quality management is focused not only on product quality, but also the means to achieve it. Quality management therefore uses quality assurance and control of processes as well as products to achieve more consistent quality.

Investopedia defines quality management as "the act of overseeing all activities and tasks needed to maintain a desired level of excellence. This includes creating and implementing quality planning and assurance, as well as quality control and quality improvement."

❖ Features of Quality Management

1. Components of Quality Management:

Quality management is focused not only on product quality, but also the means to achieve it. Therefore, quality management has four main components:

- ❑ Quality planning,
- ❑ Quality control,
- ❑ Quality assurance
- ❑ Quality improvement.

2. Customer Oriented:

Quality management is a customer oriented approach. Therefore, all the activities and processes must be directed to generate customer satisfaction. Ultimately, the customer is the final judge of quality. Therefore, the quality of the products must conform to target customers requirements.

3. Continuous in Nature:

Quality management is a continuous process. Committed efforts on continuous basis are required on the part of everyone in the organisation to improve the quality at lower internal costs. The QM process goes on forever. At no point of time quality can be 100% right.

4. Commitment from Top Management: To make quality management more effective, there is utmost need of commitment from the top management. The leadership of top management must be quality focused. Without the commitment of top management, quality cannot happen in any organisation.

Therefore, the top management must

Be proactive and lead by example.

Establish a clear vision of the organisation's future.

Inspire, encourage and recognise people's contributions.

Promote open and honest communication.

Educate, train and coach people, and so on.

5. All Pervasive:

Quality management has universal application. It is applicable in any organisation. Large and small firms, whether business or social need to focus on quality performance.

For example, an educational institution like a University must focus on quality syllabus, quality academics, and at the same must focus on extracurricular activities in order to groom the overall personality of students.

6. Employees Involvement:

People at all levels are the essence of an organization. Therefore, there is a need for their dedication to undertake organizational activities,

Everyone in the organization right from the CEO to the lowest level employee needs to be an active member of the quality movement. There is a need for an organisational culture which is dedicated for quality improvement.

7. Recognition and Rewards:

Employees must be rewarded for their commitment and dedication for making quality a success. Without recognition and rewards, employees get demotivated to put in sincere efforts.

The success of the organisation (on account of quality improvement) needs to be shared with the employees. Positive reinforcement through recognition and rewards is essential to maintain achievement and continuous improvement in quality.

Recognition is a means of encouraging individuals and groups by acknowledging their achievements. This can be done by way of letter of appreciation, promotions, improvement in facilities, etc. Rewards are provided in the form of financial benefits

linked to performance. This includes merit pay, promotion with higher pay, ESOPS, bonuses, and so on.

8. Synergetic Team Work:

To make quality management more effective, there is a need for synergetic team work. The managers, engineers, technicians, and workers must look upon themselves as equals and communicate effectively with each other. Synergetic team work can lead to greater commitment, and therefore, greater efforts, which in turn will improve the performance in terms of quality and quantity. Therefore, there is a need for synergetic partnership in the organisation.

TOTAL QUALITY MANAGEMENT (TQM)

Meaning of TQM

Total Quality Management (TQM) is a strategic approach to produce the best possible product and service through constant innovation and timely action. It places emphasis on prevention rather than rectification.

TQM is focused on the requirements of the customer - both internal and external customer. In the words of Prof. K. K. Chaudhari "TQM represents a customer-oriented, quality focused management philosophy".

According to Business Dictionary.com "TQM is a holistic approach to long-term success, that views continuous improvement in all aspects of an organization as a process and not as a

short-term goal.com It aims to radically transform the organization through progressive changes in the attitudes, practices, structures, and systems."

❖ Features of TQM

The following are some of the features of TQM:

1. Customer Focus:

TQM places emphasis in meeting the requirements of both the internal and the external customer. In order to meet the requirements of the external customer, it is necessary to meet the needs of the internal customer. If the internal customers' requirements are agreed and met, then it is possible to meet the requirements of the external customers.

2. Continuous Process:

TQM is a continuous process. Continuous efforts are made to improve the quality, and to reduce internal costs. Quality improvement helps the organisation to face the challenges of the competitors and to meet the requirements of the customers. Reduction in costs helps to generate higher returns to the organisation.

3. Defect-free Approach:

TQM place emphasis on the defect-free work most of the time.

4. Employees Involvement:

In TQM everyone is involved in the process from the managing director to the junior clerk or worker in the organisation. It is not just manufacturing people, but also the accounting, finance, marketing, and even the canteen people are involved in the TQM process.

5. Techniques:

TQM can be implemented through various techniques such as quality circles, value engineering, statistical process control, etc. Through such techniques it is possible to improve systems and procedures. It is also possible to reduce time-consuming low value activities.

6. All Pervasive:

TQM has universal application. It is applicable to any organisation. Large and small firms, whether business or social need to focus on quality performance.

For example, an educational institution like a University must focus on quality syllabus, quality academics, and at the same must focus on extra curricular activities in order to groom the overall personality of students.

7. Systems Approach:

TQM is a systems approach to managing business and improving performance. The systems approach starts with the commitment and leadership of the chief executive officer (CEO). Without the total commitment on the part of CEO and the senior executives, TQM cannot take off to a good start.

8. Recognition and Rewards:

Recognition and rewards is an integral part of company's TQM programme. Positive reinforcement through recognition and rewards is essential to ensure continuous improvement in quality.

Recognition is a means of encouraging individuals and groups by acknowledging their achievements. Some examples of recognition are a letter of thanks, award of merit certificates, hoisting of lunches or dinners, presentation of achievement at management reviews, etc.

Rewards are in the form of financial benefits linked to performance. This includes merit pay, promotion with higher status and pay, etc.

❖ QUALITY CIRCLES

The concept of quality circles was first popularized in Japan in the early 1960s. Dr. Ishikawa Kaoru (1915-89) is known as the 'Father of Quality Circles' for his role in launching Japan's quality movement in the 1960s.

Meaning:

QC is a small group of volunteered employees from same work area and doing similar work; meet regularly to identify, analyze, and solve problems in their work area.

Objectives:

The following are the main objectives of QC:

1. To improve quality, productivity, and profitability.
2. To secure employee involvement, motivation and development.
3. To improve management-employees relations.
4. To improve communication at all levels.
5. To develop team spirit among the employees.
6. To provide better working environment to employees.

QC PROCESS:

QC may consist of 4 to 12 members.

The following are the steps involved in QC:

1. Listing of Problems:

The first step is to list out problems. Such listing of problems can be done by management and/or employees. Listing of problems is done in the order of urgency and importance. The more urgent and important problems are listed first.

2. Selection of Problem:

The second step involves discussion over the list of problems. The QC members select one problem at a time to work on.

3. Analysis of Problem:

The selected problem is analysed by adopting any number of solving techniques. If required, functional specialists are invited at the meetings to secure additional information.

4. Generating Solutions:

After analysis of the problem, the QC members arrive at a possible solution. The QC members may come up with alternative solutions or recommendations. The QC members deliberate on recommendations before passing over to management.

5. Recommendations:

The recommendations are then presented to the management for necessary action. Generally, management accepts the recommendations. At times, recommendations may be rejected. If rejected management explains reasons for the same.

6. Acceptance of Recommendations:

The management studies the recommendations, and decides whether or not to accept them or any part thereof. Normally, a majority of the recommendations are accepted.

7. Implementation:

The management then implements the decision. Implementation often requires help from other workers who are not the members of QC. The team spirit among the work force ensures proper implementation of the decision.

8. Rewarding the Employees:

The QC members are recognized and rewarded for their positive and fruitful recommendations. Employees may be provided monetary as well as non-monetary incentives.

❖ ISO 9000

ISO is the International Organization for Standardization (popularly called as ISO).

It is located in Switzerland.

It has been established to develop common international standards worldwide.

The term ISO 9001 refers to a set of quality management standards.

ISO 9000 - Quality Management

The ISO 9000 family addresses various aspects of quality management and contains some of ISO's best known standards. The standards provide guidelines for companies and organizations so as to ensure that their products and services consistently meet customer's requirements and that quality is continuously improved.

❖ Procedure to Obtain ISO Certification

An Indian company can obtain ISO 9001:2008 certification from an accredited agency recognized by ISO.

The following is the procedure to obtain ISO 9001 certification:

1. Evaluation of Existing Quality Procedures: The company wishing to obtain ISO 9001 certification should evaluate its existing quality procedures. This is because; a company cannot expect to get itself ISO certified, if it does not fulfill certain minimum standards of quality.

The company can appoint an ISO steering team to evaluate the existing quality procedures prevailing within the firm.

2. Initiating Corrective Action:

If the company (ISO steering team) finds deficiencies in the existing quality procedures, then there is a need to correct or overcome such deficiencies. Such correction is required so as to conform to ISO series standards.

Preparation of Quality Assurance Programme:

Company should prepare a quality assurance programme. This programme would involve details regarding the various areas, departments, or products that require observance of quality control, training to be provided to the employees and other activities, which are required to maintain high quality standards.

4. Preparation of Quality Manual: Company must also prepare a quality manual. The quality manual would provide guidelines to the employees of the firm so as to maintain quality standards.

The quality manual may include details in respect of:

- Purchase procedures.
- Quality control procedures.

Maintenance and repairs of plant and machinery..

Procedures relating to handling and storage of inventory.

5. Selection of Certification Agency: The company must select an agency to provide ISO 9001 certification. The company may select a foreign accredited agency. Normally, most Indian exporters prefer to appoint a foreign agency, as a certification by a reputed foreign agency carries more weight in the international markets.

6. Pre-assessment Meeting:

Company's representative would hold a pre-assessment (pre inspection) meeting with the registrar of the agency. The pre assessment meeting is required to analyse the quality manual of the firm and to appraise the quality standards being adopted by the firm. The firm may also come to know of any specific arrangements required by the agency before certification.

7. Preliminary Visit:

The accredited agency, normally, arranges for a preliminary visit to the firm and notifies the company of any significant omissions or deviations from the prescribed requirements, so that any suitable modifications or changes can be made prior to the assessment visit.

8. Actual Assessment Visit:

The actual assessment visit is a practical evaluation to check that the company's systems are functioning effectively. If there are any discrepancies, which indicate a systems failure, the company is given a period to rectify the deficiencies. Corrective action programmes are also agreed upon for rectifying any discrepancies detected.

9. Certification:

If the assessment agency is satisfied with the quality systems of the company, then it would certify or grant ISO 9001: 2008 certification to the firm. The firm can use the ISO 9001:2008 in their advertisements, products packages, letterheads, etc.

10. Surveillance:

The accredited agency's registrar normally performs periodic surveillance to assure that the certified company's quality system is being maintained. Many agencies may undertake a complete review of the firm's quality systems of the certified firms. If the firm fails to maintain the quality system, the agency's registrar will suspend or cancel the registration or certification.

❖ ISO 14000

Initially, ISO 14000 was released in 1996 and was later updated in 2004.

ISO 14000 is voluntary in nature whether the organization wants the certification. It is a set of guidelines for the organizations relating to environmental policies and practices. It helps the organization to control the impact of organizational activities that degrades the environment.

ISO 14000 is an internationally agreed set of standards for effective environmental management system followed by any organization. It helps the organizations improve their environmental performance through effective and efficient use of resources.

An Environmental Management System (EMS) helps organizations to identify, manage, monitor and control their environmental issues and concerns. The environmental issues and concerns may be relating to pollution, sewage, waste management, climate change, resource utilization, etc. EMS should be a part of strategic planning process of the organization

❖ BENEFITS/ADVANTAGES OF ISO 14000:

ISO 14000 benefits the organization as follows:

- 1. Compliance with Regulatory Framework:** ISO 14000 certified companies comply with the internationally regulated framework with respect to environmental management standards,
- 2. Increase in Profits:** The company that follows ISO 14000 experiences higher productivity and efficiency. Higher productivity and efficiency generates higher profits to the firm. The increased profits can be utilized for expansion and other productive activities of the firm.
- 3. Corporate Image:** A company which adopts ISO 14000 earns good name and goodwill in the minds of the customers. This is because; customers get environmental-friendly products which generates customer delight.
- 4. Competitive Advantage:** ISO 14000 enables a firm to gain competitive advantage. It ensures continuous improvement in environmental performance of the firm. This involves producing environmental-friendly products at reduced costs. Thus, the customers can get quality products at lower price.
- 5. Better Relations:** Due to adoption of ISO 14000, the organization can develop better relations with various stakeholders, such as:

Government

Employees, etc.
- 6. Increase in Shareholders' Wealth:** Since ISO 14000 helps in increase in productivity and efficiency, the shareholders may earn high return on investment. Thus, the firm may pay higher dividends and issue bonus shares to the shareholders.

7. Ease in Obtaining Funds: ISO 14000 can bring higher credit rating by financial institutions and rating agencies like CRISIL and CARE. This will enable the firm to obtain funds easily to meet working capital requirements as well as fixed capital requirements.

❖ MEANING AND OBJECTIVES OF INVENTORY MANAGEMENT

It is a process of planning and controlling inventories.

Inventories refer to those items which are kept in stock for sale, and which are in the process of production. Inventories also includes tools, spares, consumables, etc.,

❖ The main objectives of Inventory Management are:

- To achieve economy in buying:
- To overcome seasonal fluctuations in supply
- To enable smooth flow of production
- To achieve operational efficiency
- To avoid emergency orders
- To generate quality output
- To make effective use of working capital

❖ METHODS OF INVENTORY MANAGEMENT

The production manager should aim at optimum level of inventory. Effective inventory management requires proper inventory control. The methods of inventory management are:

1. The ABC (Always Better Control) Classification:

It is the most popular technique of inventory control. Under this technique, items are classified into three classes:

- (a) A Class items are high in value and therefore, low quantity to be maintained.
- (b) B Class items are moderate in value and therefore, moderate quantity to be maintained.
- (c) C Class items are low in value and therefore, high quantity may be maintained.

Strict control is maintained on A Class items through accurate records of receipts and issues, and by coordination of incoming materials with production requirements. On the other hand C Class items may simply be ordered in large quantities covering several months' requirements.

No record is made of their issue to manufacturing section.

2 High, Medium, and Low (HML) Classification: In this case, the items of inventory are to be listed in the descending order of unit value.

For instance, the manager may decide that all items above 5000 per unit be classified as high inventory items, 3000 to 5000 per unit as medium inventory items and below 3000 per unit as low inventory items.

3. Vital, Essential and Desirable (VED) Classification: In this case, the inventory items are classified as vital, essential and desirable. In case of vital inventory items, high stock is maintained, and in the case of desirable inventory items, low stock may be maintained.

4. Fast Moving, Slow moving and Non-moving (FSN) Classification:

Under this technique, the inventory manager classifies the inventory into three groups:

(a) Fast moving items are those items which are regularly required for production.

(b) Slow moving items are those items which are required occasionally.

(c) Non-moving items are those items which are rarely required.

5. Economic Order Quantity (EOQ): In this case, the fixed order quantity of materials is ordered when the stock on hand reaches the re-order point. The re-order point is the inventory level at which the stock should be reordered for the smooth flow of production.

6. Materials Requirement Planning (MRP): It is a technique for planning the ordering and the use of materials at various levels of production. MRP helps to monitor the level of inventory. Therefore, it is a technique of both inventory control and scheduling of materials. It includes three components, i.e., Master Production Schedule, Inventory Status File, Bill of Materials, in order to determine inventory for the purpose of scheduling and ordering.

7. Just-in-time (JIT) Technique: The JIT technique is also referred as zero inventory production system (ZIPS). In this case, the firm may hold absolutely no inventory at any stage of production. The exact required amount of inventory is purchased or organized as and when required at each stage of production.

8. Maximum-Minimum System: This technique is used in the case of manual inventory system. The manager decides the minimum inventory plus the optimum lot size.

❖ INVENTORY SIZE

One of the important decision, which the inventory manager must take, is in respect of inventory size.

The manager must decide about the ECONOMIC LOT SIZE in respect of inventory.

The economic lot size is the optimum quantity of items ordered.

The economic lot size is determined by striking a balance between the administrative work of the purchase and stores department; and the investment in such stocks.

❖ INVENTORY COSTS

1. Cost of Item: The cost of the item is usually its purchase price the price paid to the supplier for the item. In certain cases, however, costs such as transportation, receiving, and incoming inspection costs may be included as part of the cost of the item.

2. Procurement Costs: Such costs refer to the costs of placing a purchase order, or the setup costs if the item is manufactured at the factory. These costs vary directly with each purchase order placed.

Such costs include:

- (a) Preparing a purchase order.
- (b) Processing payments.
- (c) Receiving and inspecting the materials.

Procurement costs may also include incidental costs such as cost of telephone calls to the vendor, labour costs in purchasing and accounting, receiving costs, computer time for record keeping, etc.

3. Carrying (Holding) Costs: These costs refer to the costs of maintaining the warehouse and protecting the inventory items. Typical costs are insurance, security, warehouse rental, heat, lights, taxes, and losses due to pilferage, spoilage, or breakage.

4. Stock-out Costs: Such costs are associated with demand, when stocks have been depleted; generally lost sales or backorder costs. When sales are lost because of stock-outs, the firm loses both the profit margin on unmade sales and its customers' goodwill. If customers order somewhere else, future profit margins may also be lost. When customers agree to come back after inventories have been replenished, they make backorders. Backorder costs include loss of goodwill and money paid to reorder goods and notify customers when goods arrive.

5. Cost of Operating the Information Processing System: These costs include updating the records as stock levels change.

For systems in which inventory levels are not recorded daily, the cost is primarily incurred in obtaining accurate physical counts of inventories. Frequently these, operating costs are more fixed than variable over a wide quantity range.

MODULE 3. HUMAN RESOURCE MANAGEMENT

- ❖ Human Resource Management – Meaning, Nature, Functions of Human Resource Management
- ❖ Human Resource Planning- Meaning, Process of Human Resource Planning
- ❖ Human Resource Development- Methods of Developing Human Resource
- ❖ Performance Appraisal – Meaning and Definition – Traditional and Modern Methods of Appraisal
- ❖ Employee retention
- ❖ Leadership- Traits, Styles
- ❖ Motivation- Factors of Motivation, Theories of Motivation- Maslow's Theory,
- ❖ Douglas McGregor's Theory X and Theory Y
- ❖ Case studies based on the above topics

❖ **INTRODUCTION OF HUMAN RESOURCE MANAGEMENT**

Human Resource management is concerned with managing manpower to improve individual, group and organizational effectiveness. Human resources need to be managed as organizations can prosper and progress only through the committed and creative efforts and competencies of their human resources HRM involves human resource planning, recruitment and selection, training and development, placement motivation, performance appraisal, career development, promotion and transfer of human resources. So that they can effectively contribute to the success of the organization.

❖ **DEFINITION OF HRM**

According to **Flippo**, —HRM is the planning, organizing, directing and controlling of the procurement, development, compensation, integration, maintenance and reproduction of

human resources to the end that individual, organizational and societal Objectives are achieved.

According to the **Invancevich and Glueck**, “HRM is concerned with the most effective use of people to achieve organizational and individual goals. It is the way of managing people at work, so that they give their best to the organization”.

According to **Dessler** (2008) the policies and practices involved in carrying out the “people” or human resource aspects of management position, including recruiting, screening, training, rewarding, and appraising comprises of HRM.

❖ **NATURE/ FEATURES OF HUMAN RESOURCE MANAGEMENT**

The nature of Human Resource Management can be stated as follows.

1. HRM is a process:

Human Resource Management is a process. It perform the main functions such as acquisition function includes human resource planning, recruitment and selection of employees. Development function is concerned with training and development of employees.

Motivation function includes providing recognition and reward to the employees and maintenance function is concerned with providing good working conditions, welfare facilities etc.

2. Focus on objectives:

HRM gives more importance on the accomplishment of objectives. The objectives may be individual or personal objectives of the employees, Group or departmental objectives, organizational objectives, and societal objectives.

3. Universal Application:

HRM is all pervasive. It is required for all organizations, trading as well as non-trading, commercial as well as non-commercial business organization. It is required at all levels and for all activities. Therefore it is universal applicable to any kind of organization.

4. Continuous in nature:

HRM is a continuous activity. Organizations need to manage human resources on continuous basis. Organizations’ requirements nowadays changes very fast.

5. Integrated use of subsystem:

HRM involves various functions like employee training, formulating promotion and transfer policies, applying various motivational theories etc. Emphasis needs to be placed in all possible areas so that individual, group and organizational effectiveness is enhanced.

6. **Interdisciplinary:**

HRM is interdisciplinary. Effective HRM involves acquiring knowledge from various disciplines such as psychology, economics, philosophy, communication, organization behavior and sociology. Since HRM aims at improving individual, group and organizational effectiveness, it involves the use of various disciplines of social sciences.

7. **Development of Team spirit:**

The aim of HRM is to develop and maintain team spirit in the organization i.e. groups and departments. Such team spirit is required in every organization so that the people work effectively together and contribute to the success of the organization.

8. **Development of professional attitude :**

Formal coaching and training along with a professional body to monitor the professional activities is essential for an activity to be classified as a profession. HRM is a profession as there are number of college offering professional management education. Furthermore National Institute of Personnel Management overseas management practices.

9. **Long-term Benefits:**

HRM brings long-term benefits to the individuals, organizations and the society as well. Employees gain long-term benefits buy way of better monetary and nonmonetary incentives. The organization can gain by way of higher returns on investment, and better corporate image. The society can be benefited by way of better quality of goods and services.

10. **Dynamic:**

HRM is dynamic in nature. Changes in the employment practices, labour laws etc. are taking place very fast. The organization has to keep itself abreast with these developments and make necessary changes in labour policies in its organization.

❖ **FUNCTIONS OF HRM**

HRM has to perform various functions. These functions can broadly divided into two categories i.e. Managerial functions and Operative function.

Following are the various functions of HRM.

1. **Human Resource planning:**

HRM facilitates human resource planning. HRP is a process of identifying manpower requirements in terms of quality and quantity, to undertake various activities of the organisation. For effective planning the human resource manager has to find out the trends in labour market, expectations of prospective employees, labour laws.

2. Acquisition function:

Acquiring the manpower required by an organisation from time-to-time. The basic principle in acquisition is —right man for the right job, it includes manpower planning and forecasting, recruitment, selection, appointment, placement and induction of employees so as to have a team of efficient and capable employees for the benefit of the organisation.

3. Placement function:

The HR manager is also responsible for proper placement of employees in the organisation. Placement involves assigning that job for which the selected candidate has the skill and aptitude. It brings job satisfaction to employees and higher production to the organisation.

4. Performance Appraisal:

The HR manager may be involved in designing or undertaking performance Appraisal programmes in the organisation. The performance of the employees should be monitored and reviewed periodically.

5. Induction training:

The HR manager have to provide proper training to the new selected employees, when a new person is selected he is given induction training where the newcomer is made aware of the procedure, practices, systems etc. prevailing in the organisation.

6. Career development:

HRM facilitates career development of the employees in the organisation. Employees expect that the organisation should help not only to plan the career but also give them an opportunity to develop properly in their career by properly synchronizing individual and career goal.

7. Employee's welfare:

HRM offered various welfare facilities to the employees. They include medical, educational, recreation, housing, transport and so on. These facilities are given for raising their efficiency and also for making their life happy. Welfare facilities create efficient and satisfied labour force. To introduce new labour welfare facilities and to maintain the existing facilities is one of the functions of personnel management.

8. Compensation function:

The compensation to be paid to the employees has to be finalized. The compensation should be such that it motivates the employees to put in their best efforts. Nowadays

companies are offering flexi compensation plans whereby the employees are given the choice to select any plan out of the multiple plans offered to the employees.

9. Maintaining cordial relations:

This HR function relates to maintaining good relations between management group and other groups of employees, particularly operative staff. This function involves the designing of industrial relations system, managing discipline, settlement of employee grievances and managing dispute between management and operatives effectively.

10. Maintenance Function:

HRM is concerned with the maintenance function. It is necessary to maintain physical and mental health of the employees. Companies offer various fringe benefits such as provident fund, medical reimbursement, educational expenses, maternity benefits, group insurance etc.

❖ INTRODUCTION OF HUMAN RESOURCE PLANNING:

Human resource planning (HRP) is the continuous process of systematic planning ahead to achieve optimum use of an organization's most valuable asset quality employees. Human resources planning ensures the best fit between employees and jobs while avoiding manpower shortages or surpluses.

Meaning Human Resource Planning:

Human resource is the most important asset of an organisation. Human resources planning are the important managerial function. It ensures the right type of people, in the right number, at the right time and place, who are trained and motivated to do the right kind of work at the right time, there is generally a shortage of suitable persons.

❖ THE PROCESS/ STEPS OF HUMAN RESOURCE PLANNING

1.Review of Organisational Objectives: The first step in HRP is to review the objectives of the organisation, Proper review of the objectives enables the organisation to list various activities that are required to achieve the objectives.

To undertake the activities, HR manager determines the required work-force in terms of quantity and quality. A proper job analysis needs to be conducted at this stage.

2. HR Requirements Forecast:

The HRD manager forecasts human resource requirements to undertake the various activities. The human requirements forecast must be both in terms of quantity (number of employees) and quality (knowledge, attitude and skills).

3. HR Supply Forecast:

The HRD manager forecasts the availability of manpower. The required manpower may be available within the company, or they may be required to be hired from the labour market.

4. Comparison:

The HRD manager makes a comparison between HR requirement and HR supply, to find out whether the required personnel is available or not.

5. No Differences:

The comparison between HR requirements and HR supply may indicate differences between

HR requirements and HR supply, If human resource requirements are equal to human resource supply, then there are no differences. Therefore, there is no need to take any action.

6. Differences:

The comparison may reveal differences between the human resource requirements and human resource supply. There may be HR surplus, or shortage. Action needs to be taken to deal with the problem of HR shortage or surplus.

For instance, if there is shortage, management may hire, provide overtime, etc. If there is surplus, management may terminate, lay off, etc.

7. Motivating the Manpower:

An important aspect of human resource planning is to motivate the personnel by providing monetary and non-monetary incentives. The organisation needs to monitor the requirement of HR on periodic basis. If required, necessary action is taken in respect of human resources.

8. Monitoring HR Requirements:

The organisation needs to monitor the requirement of HR on periodic basis. If required, necessary action is taken in respect of human resources.

❖ HUMAN RESOURCE DEVELOPMENT

Human resource development (HRD) is concerned with the development of new qualities, innovative ideas, qualification and skills among the employees working at all levels for this, opportunities of learning, training and career development should be provided to them.

DEFINITIONS OF HRD

1) According to **American Society for Training and Development (ASTD)**,

—HRD is the integrated use of

a) Training and development

b) Organizational development and

c) Career development – to improve individual, group and organisational effectiveness.

2) **Len Nadler**, defines —HRD as an organized learning experience with in a given

period of time with the objectives of producing the possibility of performance change.

❖ **Scope/Functions of HRD**

1. Performance Appraisal:

An HRD-oriented performance appraisal is conducted so that it helps the superiors to

Understand strengths and weaknesses of the subordinates and accordingly help the subordinates to consolidate strengths and to overcome weaknesses. Understand the difficulties faced by their subordinates so as to solve them. Recognize the contributions of employees and accordingly reward them. Develop competencies of subordinates to face challenges of jobs.

2 Promotion of Employees: An important area of HRD relates to promotion of employees. Employees who work with commitment and dedication show improved performance. HRD plays an important role in enhancing commitment and dedication of the employees.

Committed and dedicated employees are recognized and rewarded with promotion, which involves: higher pay, higher powers and higher position.

3. Training and Development:

One of the major activities of HRD is to provide training to the employees. Training and development programmes enable the Employees to:

- Acquire additional knowledge
- Develop positive attitude towards work and the organisation
- Enhance skills
- Improve social behaviour.

4 Career Development:

HRD facilitates career development of the employees in the organisation. Career development refers to the continuous effort to match long-term individual needs with that

of the organisation. Career development can take place through assigning tasks, counselling, promotion, training and so on. Career development not only helps the employees but also the organisation to be dynamic and growth oriented.

5. Motivation:

Rewarding employees is an important area of HRD. Proper rewards and recognition motivates the employees to put in their best efforts.

Rewards may be in form of: Monetary incentives such as higher salaries, incentives and bonuses. Non-monetary incentives such as higher status, appreciation, delegation, welfare facilities, etc.

6. Employee Welfare: HR managers recognize the need to improve employee welfare. Therefore, to develop and motivate employees, the HR managers introduce effective employee welfare measures.

The welfare measures include holidays with pay, medical insurance, canteen facilities, recreation facilities, etc.

7. Quality of Work Life:

HRD programmes facilitates QWL. It is a technique improving productivity and quality of work. It involves labour- management co-operation, collective bargaining Participative management.

QWL programmes focus attention on providing good working condition, job security, good pay and other facilities such as flexible working hours, freedom to suggest change improvements, etc. QWL generates a sense of belonging that benefits the organisation as well as the individual employees.

8. Human Resource Information : Employee related information must be maintained by the company.

The employee information includes:

- Special achievements of individual employees,
- Training programmes participation records,
- Performance appraisal reports,
- Potential appraisal information, etc.

The employee related information is utilized whenever there is a need to assign special projects to employees, to provide additional training, to facilitate promotions and transfers, etc.

9. Mentoring:

Progressive firms use mentoring programmes to train and develop the employees, especially at the executive level. Generally, a mentor is a senior person who shares knowledge and experience, and counsels the mentee to attain greater performance.

Mentoring aids in problem solving and qualitative decision- making. Improved decision-making and action leads to greater performance of the organization.

HUMAN RESOURCE DEVELOPMENT

Human resource development (HRD) is concerned with the development of new qualities, innovative ideas, qualification and skills among the employees working at all levels for this, opportunities of learning, training and career development should be provided to them.

DEFINITIONS OF HRD

1) According to American Society for Training and Development (ASTD),

—HRD is the integrated use of

a) Training and development

b) Organizational development and

c) Career development – to improve individual, group and organisational effectiveness.

2) Len Nadler, defines —HRD as an organized learning experience with in a given

period of time with the objectives of producing the possibility of performance change.

❖ Scope/Functions of HRD

1. Performance Appraisal:

An HRD-oriented performance appraisal is conducted so that it helps the superiors to:

- Understand strengths and weaknesses of the subordinates and accordingly help the subordinates to consolidate strengths and to overcome weaknesses.
- Understand the difficulties faced by their subordinates so as to solve them.
- Recognize the contributions of employees and accordingly reward them.
- Develop competencies of subordinates to face challenges of jobs.

2 Promotion of Employees: An important area of HRD relates to promotion of employees. Employees who work with commitment and dedication show improved performance. HRD plays an important role in enhancing commitment and dedication of the employees.

Committed and dedicated employees are recognized and rewarded with promotion, which involves: higher pay, higher powers and higher position.

3. Training and Development:

One of the major activities of HRD is to provide training to the employees.

Training and development programmes enable the Employees to:

- Acquire additional knowledge
- Develop positive attitude towards work and the organisation
- Enhance skills
- Improve social behaviour.

4 Career Development:

HRD facilitates career development of the employees in the organisation. Career development refers to the continuous effort to match long-term individual needs with that of the organisation.

Career development can take place through assigning tasks, counselling, promotion, training and so on. career development not only helps the employees but also the organisation to be dynamic and growth oriented.

5. Motivation:

Rewarding employees is an important area of HRD. Proper rewards and recognition motivates the employees to put in their best efforts.

Rewards may be in form of:

- Monetary incentives such as higher salaries, incentives and bonuses.
- Non-monetary incentives such as higher status, appreciation, delegation, welfare facilities, etc.

6. Employee Welfare: HR managers recognize the need to improve employee welfare. Therefore, to develop and motivate employees, the HK managers introduce effective employee welfare measures.

The welfare measures include holidays with pay, medical insurance, canteen facilities, recreation facilities, etc.

7. Quality of Work Life:

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❖ TRAINING- CONCEPT & IMPORTANCE

Meaning:

Training is viewed as a short term learning process by which employees acquire the technical knowledge and skills necessary to employees acquire the technical knowledge and skills necessary to perform effectively their tasks and responsibilities.

DEFINITION

According to **Edwin Flippo**, training is —the act of increasing the knowledge and skill of an employee for doing a particular Job.

Wayne Cascio defines, "Training consists of planned programs undertaken to improve employee knowledge, skills, attitudes and social behaviour so that the performance of the organization improves considerably."

❖ NEED/IMPORTANCE/ REASONS OF TRAINING AND DEVELOPMENT

Training serves various purposes. Therefore it is important to the company and employees.

I. Importance to the Company

a) Increase efficiency –

Training improves efficiency of the employee. He learnt to perform the work in a scientific systematic and logical manner. This lead to more production and profit to employer or company.

b) Reduces supervision –

Trained personnel require less supervision because they know the skill knowledge about his work and commit fever mistakes. The supervision can concentrate on more important activities such as planning and controlling.

c) Reduces accidents –

Training reduces accidents as trained employees develop skill and positive attitude towards their work and organisation. They become more interested in their jobs and as such they handle the machines and material properly and avoid mistakes.

(d) Reduces wastages –

Training helps people to improve their skills. Since they learn to do work in a proper manner wastages of time, money and effort is avoided. It save the time, money and energy of the organisation.

e) Reduce Absenteeism and Turnover –

A trained person derives more job satisfaction morale of trained staff is high. They do not remain absent without sufficient cause. There are also less chances of labour turnover.

f) Better relation –

Training develops the positive attitude of the employees. It leads to develop cordial labour management relation.

g) Better services from new employees –

Training develops confidence in new employees. Newly appointed candidates feel sense of pride and belonging towards the company. They understand that the company is sincerely interested in them and as such the firm would be in a position to obtain better services from new employees.

i) Improve Morale –

Training helps the employees to acquire different skills and to perform various tasks. This improves their overall performance thereby increasing their morale. The attitude of a person having high morale is generally positive and it is reflected in the way he does the work.

II. Importance to the Employees

j) Updates knowledge and skill – Training helps to improve knowledge and skills of the employees such improvement in updates knowledge and skills helps to improve the overall performance.

k) Confidence –

Training creates a feeling of confidence among employees. It gives personal safety and security to them. l) Positive Attitude –

Training develops positive attitude in the minds of the employees.

Employees work with a positive frame of mind. This results in higher efficiency. m)

Quick promotion –

Training provides opportunity for having a quick promotion and self-development to managers. The trained personnel stand a fair chance of being promoted.

N) Rewards –

Trained employees are invaluable assets to the company. They contribute towards profit maximization and in turn they get rewards from the employees.

The organisation before conducting training programs must get answers to the following questions : What is needed and why? Where is it needed? Who needs it? How will it be provided? How much will it cost? and What will be the business effect?

Methods of Training and development is divided into two groups:

I. On- the -Job Methods

II. Off- the-Job Methods

**I. On the Job Training Methods **

On the job methods are generally applied on the workplace while the employee is actually working.

Some of these are explained as under :

1. Job rotation

In this method, employees are put on different jobs turn by turn where they learn different sorts of jobs of various departments. The objective is to create a comprehensive awareness about the jobs of different departments.

The advantages of this method are :

Reduces employee boredom.

Increases skills.

Opens new opportunities to employees.

2. Planned progression

In this method, juniors are assigned a certain job of their senior in addition to their own job. The method allows the employee to slowly learn the job of his senior so that when he is promoted to senior job, it becomes easy for him to adjust to the new situation. It also provides a chance to learn higher level jobs.

3. Coaching and counselling

Coaching refers to guidance and training provided by a senior to his subordinate. There is a personal involvement of the superior in the training process. The senior person who acts as a coach assists the subordinate in handling and completing the assigned task.

Counselling refers to advising the junior employee as and when he faces problems. The counsellor supervisor plays an advisory role and does not actively teach employees. He acts as a guide rather than a coach in training the subordinate.

4. Understudy

In this method of training, a junior is selected as an understudy to work under a senior. He takes orders from the senior, observes the senior, attends meetings with him, learns about decision making and handling of day to day problems. This method is used when the senior is likely to be retired, transferred or promoted.

5. Junior boards

In this method, junior level managers are identified and they work together in a group called junior board. The board is asked to study the problem faced by the organization in respect of personnel policies, conflicts etc. They are also asked to make recommendations to the top management.

6. Apprenticeships

Here, fresh graduates are put under experienced employees to learn the functions of job. In this method, both theory and practical sessions are conducted. The employee is paid a stipend until he completes training. The apprentice may or may not be continued on the job after training.

7. Internships

Interns are recruited to perform a specific time-bound job or project during their education. Such training is generally part of their educational courses.

8. Special assignments

An assignment is a task allotted to a person. Giving special assignment is one of on-the-job methods. The individual is expected to complete the task independently. He has to perform various managerial functions like planning, organising, coordinating, communicating etc. The individual comes to know the practical problems that are faced in planning as well as implementing a project. Most importantly they learn how to function in a group. It helps in development of individual.

9. Vestibule training

Vestibule means a hall. Vestibule training therefore implies training provided in a hall. Since training is provided in a hall emphasis is more on theory or instructions, even though efforts are made to create a simulated environment in the hall. The

II. Off the Job Training Methods

Off the job training refers to training given to employees outside the organization while they are not working. The different methods adopted in, Off the job training are as under :

1. Lectures

Lecture is a verbal presentation by an instructor to a large audience. It may also involve use of audio visuals and group discussions. This method is interactive. Cost per trainee is low. However, this method does not involve learning by practice. It is a one way communication. At times, it creates boredom.

2. Simulation

Simulation involves creating atmosphere which is similar to the original work environment. This method helps to train managers to handle stress, decision making, handle pressure on the job etc.

3. Case studies

It is a written description of an actual situation and the trainee is supposed to analyze and give his conclusions. The cases are generally based on actual organizational situations. It is an ideal method to promote decision-making abilities within the constraints of limited information.

4. Role playing

Here, trainees assume the part of specific personalities in a case study and enact it in front of the audience. It can be more emotional oriented and may improve interpersonal relationships. It also results in change in attitudes.

5. Sensitivity training

Most of the functions and activities in the organisation are to be performed in a group. Further many a times work pressure leads to lot of stress and tension. People have different ways and means to respond to stress. It is necessary to be sensitive to colleagues who are under stress. So sensitivity training is advocated.

Sensitivity training is a group activity. Around ten people are selected in a group. There is no formal agenda for discussion. Emphasis is on introspection and selfexamination. The objective is to develop more openness and tolerance towards others. It helps employees to work in a group or as a team and ensures better coordination and better communication.

6. Management games

Executives can be trained with the help of business games. This method involves providing a market situation to the trainee manager and asking him to provide solutions. If number of trainees is more, they can be divided into groups and each group becomes a separate team and play against each other. Business games help to develop decision making, problem solving and communication skills.

7. Committee

A committee refers to a group of people who are officially appointed to look into a problem and provide solution. Trainees are put in the committee to identify how they study a problem and what they learn from it.

8. Readings

This method involves encouraging the trainee to increase his reading related to his subject and then ask him to make presentation on what he has learnt. Information can be collected by the trainee from books, magazines, internet etc.

9. Seminars and conferences

A conference is a meeting for discussing issues where as a seminar is a conference of specialists. Seminars and conferences enable exchange of ideas between experts. In this method, two- way communication takes place.

10. In-basket (In-tray) Technique

In-Basket or In-Tray technique involves simulation of a series of decisions a trainee might have to make in real life. In this technique, the trainees are provided background information on a simulated firm, its products and key personnel. After this, the trainees are provided with in-basket of memos, letters, reports, requests and other documents related with the firm. The trainee must make sense out of this mass of paperwork and prepare memos, make notes and delegate tasks within a limited time period. The decisions taken by several trainees are recorded and compared with one another. Learning occurs as trainees reflect and evaluate the decisions taken on priorities, customer's complaint, superior's demand etc.

Some of the advantages of this technique are :

- Decisions are taken by a group of people from different departments and hence each executive gets a fair chance of participating in the decisionmaking.
- The decision-making is quick, rapid and effective.
- Instant feedback provides an opportunity for the executives to identify their loopholes and rectify them.

PERFORMANCE APPRAISAL

MEANING AND DEFINITION

Performance appraisal is a process of evaluating work performance of employees. The purpose of appraisal is to improve individual and organisational effectiveness.

In the words of Wayne Cascio, "Performance appraisal is the systematic description of an employee's job relevant strengths and weaknesses."

Michael Crino, defines "Performance appraisal is the process of assessing quantitative and qualitative aspects of an employee's job performance."

❖ **Benefits/Uses of Performance Appraisal**

Performance appraisal serves a two-fold purpose. The purpose could be either for evaluation of performance or for development of employees. In general, performance appraisal serves the following purposes:

1. Performance Feedback:

Performance appraisal provides performance feedback to the employees, Employees can come to know about their job related strengths and weaknesses. Such feedback enables the employees to correct their weaknesses and improve on their strengths.

2. Training and Development:

Performance appraisal information may be used to determine whether an employee or a group of employees requires additional training and development. Deficiencies in performance may be attributable to inadequate knowledge or skills. Accordingly, the organisation may decide to provide additional training to the employees.

3. Motivation:

Performance appraisal facilitates motivation of the employees, The high performing employees are given higher ratings in performance appraisal. They may be rewarded with monetary and non-monetary incentives.

4. Promotion :

Performance appraisal gives management a means of identifying employees for promotion. Past appraisals together with other background data enable the management to promote the right employees to higher posts.

5. Transfers:

Performance appraisal is useful in transfer decisions of employees. Effective transfer of employees is possible through the reports of performance appraisal.

6. Human Resource Planning: The appraisal process aids in human resource planning. Accurate appraisal data regarding employees may provide management with important information to base decisions for future employment.

7. Management-Labour Relations:

Performance appraisal helps to maintain good labour relations between the management and the labour. This is because performance appraisal creates a healthy atmosphere in the organisation. The employees are motivated to perform

more effectively and the ineffective employees are encouraged to do away with their weaknesses or limitations.

8. Documentary Evidence:

Performance appraisal reports can be used as an important documentary evidence in case of disciplinary action taken against some ineffective employees. This is especially true in the case of organisations having a strong employees' union.

9. Effective Communication:

Appraisal interviews and reports can be effective means of communication to the employee and can result in improved performance.

10. Career Development:

Performance appraisal enables managers to coach, counsel and assist employees in their career development.

Limitations of Performance Appraisal

1. Halo Effect:

The performance appraisal may be based on one positive factor of the ratee. Several work related factors may not be considered for evaluation.

For example: if the ratee is found to be highly punctual in reporting to duty, he may be also given higher scores for quality of work, discipline, etc., without conducting appraisal of such factors.

2. Horn Effect: The performance appraisal may be based on one negative factor of the ratee. The rater may not evaluate several other job relevant factors.

For example: the ratee may frequently report late to work and therefore, the rater may give him low scores for quality of performance, speed of work, etc., without conducting appraisal of such factors.

3. Central Tendency: Some raters may follow central tendency approach in rating the ratees. **The main aspects of central tendency are:**

Average scores are given to all ratees.

Those who perform well are given average scores and those who do not perform well are also given average scores. Central tendency may be due to lack of information of the ratees' performance. Rater may be unfamiliar with the ratees, and if forced to evaluate, the ratee may play it safe by neither condemning nor praising

4. Cost Factor:

Performance appraisal is an expensive activity. At times, experts may be appointed to conduct performance appraisal. Therefore, the organisation may have to pay good amount of fees to performance raters.

5. Problem Of Leniency:

Some raters are very lenient in performance appraisal. They give high scores to everyone, irrespective of their performance. Those who perform well are given high scores and those who do not perform well are also given high scores.

6. Latest Behaviour Effect:

Rating is influenced by the most recent behaviour ignoring the commonly demonstrated behaviour during the entire appraisal period. If the latest behaviour is good, the ratee will get high scores and vice-versa.

7. Problem of Strictness:

Some raters are strict in their appraisal. They tend to give low scores to all the ratees irrespective of their performance. Those who perform well are given lower scores and those who do not perform well are also given lower scores.

8. Spillover Effect:

In this case, the present performance appraisal is greatly influenced by past performance. "A person who has not done good work in the past is considered to be bad at work in the present as well."

9. Personal Bias:

The way an appraiser personally feels about a ratee may drastically affect the appraiser's objectivity. Also, if the rater has good relations or connections with the ratee, he may always tend to give higher scores to the ratee, even though the ratee does not deserve such high scores.

Thus, personal bias may lead to favoured treatment for some employees.

10. Paper Work:

Some supervisors complain that performance appraisal is pointless paper work. They complain so, because many-a-times, performance appraisal reports are found only in the files rather than serving any practical use.

11. Problem of Appropriate Technique :

There are a number of evaluation techniques. Some techniques may be easier and economical to use. Others may be time consuming, inconvenient and costly. Some appraisers may select the most convenient and simple technique rather than the more suitable but time consuming or inconvenient technique.

12. Fear of Confrontations: Sometimes, supervisors tend to give above average ratings to below average performers, so as to avoid confrontations. Also, the performance appraisal may affect superior-subordinate relations. As appraisal makes the superior more of a judge rather than a coach, the subordinates may look upon the superior with a feeling of suspicion and mistrust.

METHODS OF PERFORMANCE APPRAISAL

There are several methods or techniques of performance appraisal. The most common methods can be broadly divided into two groups as follows:

I. TRADITIONAL METHODS

- a. Check List
- b. Confidential Reports
- c. Critical Incident Method
- d. Ranking Method Graphic Rating Scale
- e. Narrative Essay

II. MODERN METHODS

- a. Role Analysis
- b. Assessment Centers
- c. MBO
- d. BARS HRA
- e. 360° Appraisal

I. TRADITIONAL METHODS

1. Check List:

A list is prepared containing various work related statements such as: Quality of work,

Speed of work,

Attitude towards work, etc.

Against the list, the employees are rated. The rater marks against the Yes or No squares to various statements. The main advantages are its simplicity, convenience, less time consuming and less expensive.

2. Confidential Reports:

This is an old and traditional method of appraising employees. A confidential report is a report on the subordinate's strengths and weaknesses. The confidential report is used for a variety of personnel decisions such as transfers, promotions, etc. This is a poor method of performance appraisal, as it does not provide proper feedback to the employees

3. Critical Incident Method:

In this method, the rater records important incidents involving the ratee. If the ratee performs well in such incidents, then he is given high scores and vice-versa. For instance, in a particular incident in which a salesman convinces an argumentative customer to buy the product, then the salesman's performance may be given higher score.

4. Ranking Methods:

There are various ranking methods which are commonly used to evaluate the performance of the employees. Ranking methods offer convenience to evaluate the performance and they are less time consuming.

5. Graphic Rating Scale:

In this method, the raters use a graphic scale to appraise certain specific factors such as quality of work, quantity of work, dependability, etc. The following is an example of graphic scale:

- a. Quality of Work
- b. Quantity of Work
- c. Dependability
- d. Excellent
- e. Good
- f. Average Poor

The graphic scale method is simple to understand, easy to conduct and less time consuming.

However, there is lot of paper work and there are chances of rater bias.

6. Narrative Essay:

The most simplest method is the narrative essay. In this, the rater describes in detail an employee's strengths and weaknesses and potentials, together with suggestions for improvement. If essays are written well, they can give detailed feedback to the subordinates in respect of their performance.

II. MODERN METHODS

7. Role Analysis:

Role analysis is a process of analyzing the role of a manager in relation to roles of other managers who are affected by his performance.

The role set members can conduct performance appraisal of the focal role. The focal role can make necessary changes to improve his performance.

8. Assessment Center :

This technique is used for performance appraisal as well as selection and training. Some firms use this technique of performance appraisal, especially at the time of promoting managers to higher levels. The ratees are subject to various psychological tests, management games, oral presentations and such other various exercises.

9. Management by Objectives (MBO):

This technique can be used to measure the performance of subordinates or lower level managers. In MBO, the process involved is as follows:

- Superior and subordinate jointly define common goals.
- Jointly frame plans.
- Subordinate implements the plan.
- Joint review of plans - where performance appraisal of subordinate is done by the superior.

10. Behaviourally Anchored Rating Scale (BARS): It is a variation of simple graphic scale. In this case, the behaviour or attitude towards the job is appraised. Employees who have a positive attitude towards the job may make every effort to upgrade and update their knowledge and skills to handle their activities. Such employees would be given higher performance appraisal.

11. 360 Degree Appraisal:

This method is used by large professional firms to appraise the performance of the employees, especially that of managerial personnel. Performance appraisal is conducted by various parties such as superiors, subordinates, clients, colleagues, panel of experts, etc.

This technique provides a balanced performance appraisal of the ratee. All the raters try to be as objective as possible in their rating.

12. Human Resource Accounting (HRA):

HRA deals with cost and contribution of human resources to the organisation.

The cost of the employee includes cost of selection, training, compensation, etc.

Meaning:

Employee retention is a strategy to retain employees, especially the high-achievers. Retention strategy requires actions on the part of management to retain talented and high performers. Research indicates that higher employee turnover rates takes place among high achievers and low performers as compared to average performers.

❖ Measures of Employee Retention

A company can adopt financial and non-financial measures to retain employees. Some of the measures are as follows:

1. Matching Jobs with Individuals: Almost all employees would prefer to have jobs that match with their skills and interest. If the jobs match with individuals, employees may be less likely to leave the organization.

Therefore, the company may undertake the following measures such as:

Most suitable placement of employees.

Career planning and development.

Promotion, preferably based on merit.

2. Employee Relationship Management (ERM):

The concept of ERM is developed on the pattern of CRM. CRM is the external response to why a firm does business, whereas, ERM is the internal response to how a firm undertakes its business activities.

There are several ways of building, maintaining and enhancing ERM:

- Daily contacts with employees by superiors.
- Adopting the technique of Management-By-Walking Around (MBWA)
- Job satisfaction surveys to locate areas of job dissatisfaction and to take suitable actions. Informal work environment.
- Emphasis on upward communication.

3. Motivational Training Programmes:

The organisation may conduct motivational training programmes. Such programmes not only focus on developing knowledge and skills but to a great extent on development of right attitudes towards the work and the organisation

4. Improvement in Work Environment: The organisation may make every effort to improve the physical work environment.

Measures need to be taken in respect of:

Improvement in working conditions such as good lighting, ventilations, and sanitation facilities. The company may also provide appropriate welfare facilities such as good canteen, crèche, recreation facilities, rest rooms, etc. The company may also provide flexible working hours, if possible.

5. Stress Management Techniques: Stressed employees may develop a tendency to quit the organisation. Stress not only affects the efficiency and health of the employee, but he is also more likely to remain absent or to leave the organisation. Therefore, the company must adopt stress management techniques to overcome stress and to retain competent employees. Some of the stress management techniques on the part of the company include:

Sabbatical Leave Programme to encourage stress relief and personal education. Personal Wellness Centres which may include disease screening, health education and fitness centres. Reduction in Work Overload.

6. Retention Bonus:

Management may resort to retention bonus to retain competent employees. Nowadays, retention bonus is used at all levels in the organisation. The need for retention bonus arises when employees think of quitting the job due to organisational changes on account of merger, acquisition, and such other corporate restructuring changes. The retention bonus may be paid periodically or in lump sum after a certain period of years.

The amount of retention bonus may depend on:

- Length of service
- Position of the employee in the organisation.
- Value of the employee.
- Ability of the company to pay bonus, etc.

7. Long-Tenure Package: A company may design a long-tenure package to retain employees. Only those employees that complete a certain term or tenure in the organisation may be eligible for such package. Higher the tenure, higher would be the amount of the package. This package may be paid in installments after a certain block of years. Some of the elements of the package include:

- Employee Stock Option Plan (ESOP)
- Financial incentives linked with performance and tenure.

8. Employee Participation and Empowerment: A company may encourage employee participation. Employees may be involved in various committees, and are encouraged to give suggestions. Employees who give effective suggestions are often rewarded with additional incentives including pay hike. The employees, especially at management level are empowered with authority to take the right decisions.

Employee participation and empowerment motivates the employee to remain committed and loyal to the organisation.

9. Persuasive Tactics by HR Manager: The HR manager or the Chief Executive may use persuasive skills to convince the employee not to leave the organisation. Such situation arises when the employee puts in his resignation papers. The management may even increase the salary and perks and delegate more authority to high performers. The employee may be even transferred to a place/project of his choice. The persuasion skills and additional incentives may make the employee to withdraw the resignation.

10. Other Measures:

There are several other measures to retain employees such as:

- Organisation informal get-togethers with employees and/ or their family on periodic basis. This helps to develop informal relations with the members of the organisation.
- Dinner meetings at five star hotels.
- Appreciation by top management for special achievements. Creating innovative job titles.

Leadership styles

Definition :- In the words of Edwin Flippo , “ Leadership style is a pattern of behaviour designed to integrate organisational and personal interest in pursuit of some objectives Types of Leadership :-

1. Autocratic leadership :- In this leader holds all the authority and responsibility. It is focused on the boss. Leader can make decision on their own without considering the opinions of the subordinates . Subordinates have to follow and implement decisions without questioning to superior.

Example :- Leaders that support this type of leadership

Albert J Dunlap Donald Trump

2. Laissez – faire leadership :-

Leader do not exercise control on its employees directly. He acts as a chairman.
Relationship is formal

Example :-head of department guides other member how to complete and undertake activities

3.Bureaucratic style :- leader believe in structured procedure and ensures employees follow procedures exactly . Leader takes decision by formalities or rules and regulations **Example :-** followed in hospitals , university , banks and organisation

4.Consultative leadership :- Leader consult his subordinates before taking the decisions . Leader is open minded and receives decisions from subordinates.

5.Participative style :- It is also known as democratic leadership. Leader consults the subordinates and allow to take part in decision making, both shares responsibility, relationships are informal

6.Paternalistic style :- Focused on creating a family atmosphere within the organisation. Leader acts as a father takes decision he is responsible for decision making, relation homely

Example :- followed in Japanese organisation and china

7.Sociocratic style :- They run their organisation like social club. Believe in a warm and pleasant and social atmosphere, superior takes decision by taking the interest of the subordinates.

8. Neurocratic style :- Focused on task completion by hook or by crook or at any cost. Leader is highly sensitive and gets quickly upset at failures. Leaders is responsible for decision making.

9. Situational leadership :- Leadership changes according to the situation, leader may be autocrat , consultative or participative depends upon the situation

Leadership Traits /Quality

Leadership:- It is a activity to lead, influence people to make them to work for achievement of objectives.

Definitions:- in the words of George terry “Leadership is the activity of influencing people to strive willingly for group objectives.”

Qualities of a good leader, one must posses good qualities of a leader are as follows:-

1. Good personality:- personality is the sum total of physical , mental and social qualities . Leaders do have good personality.

2. Intelligence :- A leader should have good educational or technical knowledge. He needs to have superior knowledge that of his followers.

Examples:- Production manager should have technical knowledge of product design or product more than the employees working in production department.

3. Initiative :-Leaders need to have quality of initiative. They should be in a position to do the right things at the right time without being told by others.

4. Innovative:- A leader needs to have a an innovative mind. He should have the imaginations to develop new ideas or new ways in handling the activities.

5. Self confidence:- A leader must have self confidence . This will enable him to solve problems and face challenging situations. If he lacks self confidence , then he may not be able to influence his followers.

Example :- if a professor lacks self confidence he couldn't conduct a lecture in a proper manner.

6. Communication skills :- Good leaders are effective communicators. He should not only issue orders and instructions , but should also ensure that the followers have understood kits orders clearly.

7. **Coach and guide :-** As a coach he may actively direct his followers as to what to do , how to do and when to do a particular activity.

As a guide, he may provide advise as and when the followers require to carry out their activities

8. **Proper judgement :-** He must be in a position to judge certain situations effectively. He should be in a position to judge the performance of its subordinates whenever, there are disputes among his followers , he may play the role of judge and solve the problems.

9. **Human skills :-** A good leader is the one who commands popular and to have good following , the leader should have good inter-personal skills to understand others. The knowledge of human skills is very important to the leader as he constantly interacts with his followers.

10. **Administrative skills :-** The leader should also have good administrative skills. He should have the ability to plan , to organise , to direct , and to control the activities of his group

11. **Discipline :-** A good leader must be well disciplined person . If he is disciplined , then he would be in a better position to command discipline of his followers

MOTIVATION

Definition :- Michael judicious defines ,” motivation is the act of stimulating someone or oneself to get a desired course of action, to push the right button to get a right desired reaction

“

Importance of motivation

1. **Motivation results in higher efficiency:-** When employees are properly motivated, they can produce the best possible returns at lowest cost. This is because of optimum utilisation of resources and reduction in wastages. Motivated use resources 100%

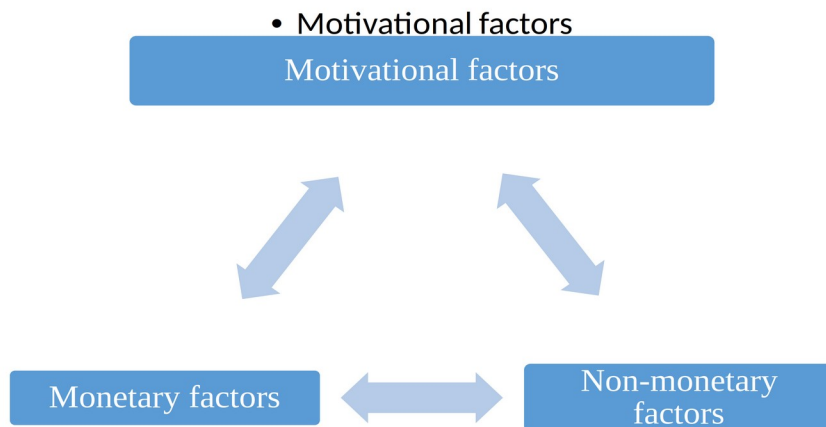
2.**Reduces absenteeism:-** Proper motivation of employees helps to reduce absenteeism. Motivated employees develop sense of belonging towards organisation. Therefore they wont remain absent

Example :- if the person working in the organisation gets good salary and he will be getting award” best employee award” after coming regularly to the job then he wont remain absent

3. **Reduces employee turnover :-** proper motivation of the employees reduces employee turnover. When employees provided with job security(permanent job)and adequate incentives and timely salary they do not leave but stay with the organisation because they develop loyalty to the company
4. **Improves corporate image :-** Satisfied employees are more loyal towards the company. They work with a sense of commitment and dedication. This results in better relations with public , shareholders , clients which in turns develop good corporate image
5. **Good relations :-** motivation reduces labour disputes and gerveinces . It helps to develop good relation between the management and employees
6. **Improved morale :-** Morale is the state of mind or willingness to work. Proper motivation results in improved morale of the employees. High morale in the employees is required to work with dedication and commitment
7. **Reduces wastages and breakages :-** Motivated employees take care utmost care in handling machines , materials and other resources, when employees are not motivated they tend to deliberately waste materials and may damage or destroy machines
8. **Reduced accidents :-** When motivated employees work with due care and attention there are less chances of accidents
9. **Facilitates initiative and innovation :-** Satisfied employees finds out ways and means to improve the efficiency of the organisation. They provide suggestions to their superiors to improve the quality and to reduce costs. They use their initiative to find out innovative ways and methods in performance of their operations
10. **Other benefits :-** Increased job satisfaction to the employees ,helps to overcome resistance to change , develop positive attitude in the employees

Factors of motivation/ factors influencing motivation

❖ **Factors of motivation/ factors influencing motivation**



II. Monetary factors :-

1. Salaries and wages :- Important motivations factors ,reasonable salary must be in time , at the time of deciding salary organisation should consider cost of living

Company's ability to pay :- Ex reliance industries pay to general manager 18,12,500 per year

Bata India pay 25,959 per month to his assistant sales manager

Capability of the employee :- Good and talented employee gets higher salary

2. Bonus :- It is any financial compensation reward , over and above salary given to the employee as a incentive, it is based on employees performance , it is paid once in a year

3.Incentives :- The organisation also provide additional incentives such as medical allowances educational allowances

4.Special individual incentive :- The company may provide special individual incentives. It is given to the deserving employee for giving valuable suggestion or special effort on the part of the employee

Non- monetary incentives

1.Status or job title :- Providing a higher status or designation, the employee can be motivated

2.Appreciation and recognition :- Employees must be appreciated for their services, the praise should come not only from the immediate superior but also from the higher authorities in case of special achievement

3. Delegation of authority :- It motivates the employees to perform the tasks with dedication and commitment . When authority is delegated by superior subordinate feel that superior have and trust in him

Example :- senior manager gives his work to the junior managers

4. Working conditions :- Provision of good working conditions such as good lighting ,sanitation proper rest and proper plan plus office layout

Example :- accountant should have their own cabin with air Conditioner

5. Job security :- Guarantee of job security or Lack of fear of dismissal can be good way to motivate employees ,employees who are kept for long time may be frustrated or they leave the organisation

Example :- In the company after completion of 3 year make employee permanent

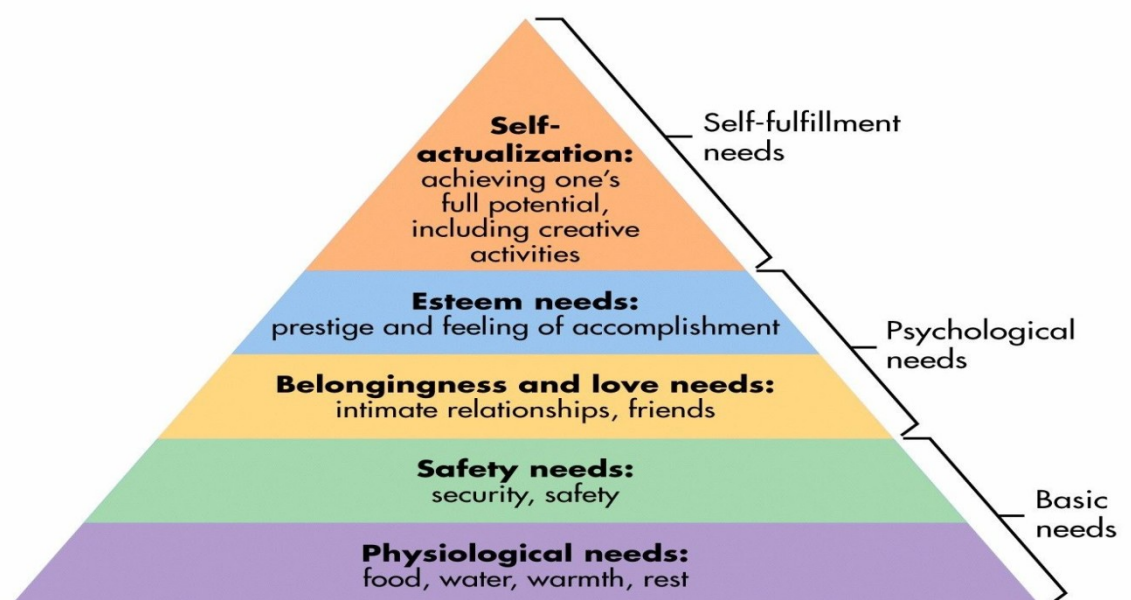
6. Job enrichment :- It involves providing more challenging tasks and responsibilities

Example :- an executive who is involved in preparing performance reports may also asked to frame plans

MASLOW'S THEORY OF MOTIVATION

Abraham Maslow propounded a theory of human motivation. Maslow identified five sets of human needs.

The five sets of needs are arranged in a hierarchy of their importance to individuals.



Maslow's hierarchy of needs includes the following

1. Self Actualisation Needs
2. Ego & Esteem Needs
3. Social Needs
4. Safety and Security Needs
5. Physiological Needs

1. Physiological needs: These are the basic needs of human beings. It includes food, clothing, and shelter. Such needs lie at the lowest level of hierarchy. According to Maslow, such needs are to be satisfied first, and then the other needs.

2. Safety or security needs: These needs come second in the 2 hierarchy of needs. Employees need:

- (a) **Job safety-** so an organisation must adopt health and safety measures
- (b) **Job security** - so an organisation should provide permanent jobs

3. Social needs: Human beings also feel the need to belong to a group or community. Nobody would prefer to live in isolation from the rest of the society or group. They prefer to be loved and cared by others - i.e., their family members, work mates, friends, superiors, and others.

4. Esteem needs: It refers to ego needs. People want that others should respect them. People would also prefer praise and recognition from others. They want that others should have good opinion about them.

5. Self-actualisation needs: These needs lie at the highest level of the hierarchy of needs. Very few people have such needs. Such needs induce a person to accomplish something special which others have not done.

The need for challenging jobs, or the need for highest level of promotion comes from these needs. In other words, through self actualisation needs, a person feels the need to realise one's potential to the highest possible level.

Salient Features of Need Hierarchy Theory:

- 1. Wide range of needs:** People have a wide range of needs. The employees put in their efforts to satisfy their needs. Human needs are multiple and inter-related.
- 2. Structure of needs :**Human needs are arranged into a hierarchy. There are some needs at the lower level, and there are some other needs at the higher level of hierarchy.
- 3. Lower level needs to be satisfied earlier :** Lower level needs must be satisfied either wholly or partly before higher level needs emerge. In other words, a higher level need does not become active, if lower level needs remain unfulfilled.
- 4.A satisfied need is not a motivator :** It is to be noted that a satisfied need is not a motivator. In other words, it ceases to influence human behaviour. It is the unsatisfied need that acts as a motivator.
- 5. Inter-dependence of needs:** A higher level need arises before lower level need is completely satisfied. Thus, safety needs would emerge before the physiological needs are completely satisfied, and so on.

MCGREGOR'S THEORY X AND THEORY Y

In 1960, Douglas McGregor first presented his ideas on "Theory X and Theory Y" in a classic article "The Human Side of Enterprise". McGregor called **Theory X as the traditional approach** of managing people and **Theory Y as the professional approach of management**.

Theory X and Theory Y are based on certain ASSUMPTIONS as follows:

1. Creativity:

Theory X assumes that people are not creative. They are dull and lack rational thinking.

Theory Y assumes that people are creative. They can come up with innovative ideas, if properly motivated.

2. Responsibility:

Average persons are irresponsible. They try to transfer or buck pass the responsibility onto others Theory X.

People are responsible. They accept responsibility for their tasks-Theory Y.

3. Activeness:

People are basically lazy. They love to hate work. They give excuses for not doing work - Theory X.

People are active and alert. They take work as sports, " the conditions are favorable - Theory Y.

4. Challenges:

People prefer to do routine work. They do not like to have a change in their work - Theory X.

People prefer challenging tasks. They derive satisfaction by implementing challenging and difficult tasks- Theory Y.

5. Followers/Leaders:

People prefer to be followers. They seek guidance and directions from their superior at all times - Theory X.

People prefer to be independent. They want freedom in their work. They would like to lead and guide others Theory Y.

6. Orthodox/Flexible:

People are orthodox in nature. They do not want to accept new ideas-Theory X.

People are ready to accept new ideas. They prefer to change with the changing situations - Theory Y.

7. Opportunities:

People do not take advantage of opportunities that come in their way - Theory X.

People are ambitious and are willing to grab opportunities - Theory Y.

8 Lower/Higher Level Needs:

Theory X assumes that lower level needs like job security dominate individuals needs

Theory Y assumes that higher level needs like esteem needs dominate individuals.

MODULE 4. FINANCIAL MANAGEMENT

- ❖ Meaning and Definition of Financial Management
- ❖ Functions of Financial Management
- ❖ Capital Budgeting- Introduction, Importance and Process
- ❖ Capital Structure- Meaning, Factors affecting Capital Structure
- ❖ Capital Market – Meaning and Constituents – Functions
- ❖ Venture Capital – DEMAT Account Futures and Options

MEANING AND OBJECTIVES OF FINANCIAL MANAGEMENT

Meaning :

Financial management is one of the important functional area of the total integrated management of the company. The other areas being marketing management, production management, personnel management and so on. Financial management deals with the planning, and control of firm's financial resources, achieve organisational goals.

Definition :

In the words of Dr. S. N. Maheshwari, "financial management is concerned with raising financial resources and their effective utilisation towards achieving the organisational goals."

❖ **OBJECTIVES OF FINANCIAL MANAGEMENT**

The most fundamental objective of financial management is wealth maximisation whether wealth of a nation, in the case of public enterprise or wealth of private investors as in the case of private enterprises. The following are the main objectives of financial management which ultimately leads to wealth maximisation in the long run:

1. Proper Mobilisation of funds: Financial management is concerned with proper mobilisation of funds. Funds can be mobilised from various sources. There must be a balance between owned fund and borrowed funds. One should not place too much emphasis on borrowed funds as it puts a burden on repayment and debt servicing. Also, too much emphasis on shareholders funds (owned funds) dilutes the equity.

2. Proper Utilisation of Funds: The main important responsibility of finance managers is to ensure proper utilisation of funds. The funds which have been mobilised through various sources must be put to best use. There must be value addition. Value addition means the utilisation of funds must generate more value. For instance, if funds are utilised on raw materials, then the raw materials which are converted into finished goods must generate higher value.

3. Profit Maximisation : It is one of the primary objectives of the firm. If a firm is in a position to generate higher level of value addition, then this will lead to higher profits. The finance managers should ensure that the firm generates profits not only in the short term but also in the long term.

4. Maintenance of Liquid Assets: A firm should have adequate liquid assets or cash to meet working capital requirements, such as payment of raw materials, wages, and other overheads. For this purpose a firm should ensure proper cash flow.

A firm with good cash flow can take advantage of many opportunities such as availing of cash discounts on bulk purchases, offering better credit terms to customer, etc.

5. Ensure Fair Return to Shareholders: A firm should ensure fair return to the shareholders. The finance activities should be undertaken to generate shareholders wealth. A firm that ensures fair return to the shareholders by way of regular dividend, and bonus issues, do enjoy a good image in the financial circles.

6. Retained Earnings: One of the objectives of financial management is to build up reserves. A good amount of reserves is required for the purpose of growth and expansion. Reserves are also useful to face contingencies in future.

7. Financial Discipline: Financial management is concerned with ensuring financial discipline. It means, the finance managers should invest in those productive areas which brings returns to the firm. They should not misuse the funds for unproductive purpose.

8. Organisational Efficiency: The finance managers are concerned with not only the efficiency of the finance department, but also with the overall performance of the organisation. Proper allocation of funds for productive activities in the areas of production, marketing, finance, HRD, etc., results in overall efficiency.

9. Ensure Survival: Every firm needs survival in this competitive business world. A wrong decision on the part of the finance managers may make the company sick and the firm may have to close down. Survival of the firm is not only for the newly established firms, but also for the existing ones, including the powerful ones. Therefore, there is need for proper financial management to ensure survival.

10. Generate Goodwill: To generate good name and reputation of the firm is also an objective of financial management. A firm can earn goodwill by making proper use of funds and generating good returns. The goodwill of the firm helps it to survive not only in the short run, but also to succeed in the long run, even during tough times.

SCOPE OF FINANCIAL MANAGEMENT

Financial management is required in the following areas:

- 1. Funds Requirement Decision:** Proper financial management is required at the time of estimating funds requirement. A proper estimate of the total funds is to be undertaken by a firm. A firm should consider both the fixed capital and working capital requirements. Proper forecasting of the firm's activities will determine the total funds required.
- 2. Sources of Funds Decision :** Proper financial management is required to decide the various sources of funds, through which the funds can be mobilised.

The funds can be obtained by way of: Loans and advances from financial institutions and banks. Share capital from shareholders Debentures, fixed deposits, etc.

The firm should have proper capital structure. There must be a proper balance between owned funds and borrowed funds and also between the fixed and non-fixed cost bearing securities.

3. Investment Decision:

Financial management is required to take decisions relating to investment of funds.

The funds are invested in:

- Long term (fixed) assets which give returns over a period of time in future
- Short term (current) assets which are used in normal course of business and are converted into cash, usually within a year.

Fixed capital management, is probably the most crucial financial decision for a firm. Financial decisions are to be taken in respect of acquiring new long term assets and/or modernizing the existing ones.

4. Allocation of Surplus Decision :

A firm has to take proper decision relating to allocation of surplus. A firm need to strike a balance in respect of two options in the distribution of profits: a) Pay dividend to shareholders.

- Transfer a part of profit to reserves.

5. Other Areas:

Estimating and managing cash flows

Evaluation of financial performance

Negotiation for additional funds

FUNCTIONS OF FINANCIAL MANAGEMENT

The functions of financial management can be broadly divided into two groups: **I.Executive Functions.**

II. Routine Functions.

I. THE EXECUTIVE FUNCTIONS:

The executive functions require administrative skill in planning, execution and control. The following are the executive functions:

- (a) **Estimating capital requirement:** Every firm must estimate very carefully its capital needs. The capital needs may be for working capital and for fixed capital. Proper estimate of capital enables to generate the ht amount of funds from the right sources.
- (b) **Determining capital structure:** Capital structure refers to the composition of the different securities that comprises the capital of the business. There should be a proper composition of the various securities to avoid an imbalance in capital structure.
- (c) **Estimating cash flows:** The finance manager must estimate the cash needs for the smooth flow of business activities. There must be proper forecasting of cash requirements. Cash flows are closely related to sales. So cash flows depends upon to a greater extent on the sales forecasting.
- (d) **Investment decisions:** The cash flows generated from sales, and other sources must be properly invested in assets and in other areas. Long-term funds are primarily used for financing fixed assets and short term funds for working capital. The financing of fixed assets should be from long-term sources like equity, term loans from financial institutions, debentures, etc. The working capital finance should come mainly from short-term sources such as advances from banks, fixed deposits, dealer deposits, etc.
- (e) **Allocation of surplus:**

A firm has two options in the distribution of surplus:

- (i) **Pay dividends to the shareholders.**
- (ii) **Retain earnings for the expansion and diversification of business.**

Thus, the firm must strike a balance between the two choices while distributing surplus or net profits of the firm. **(f) Deciding upon needs and sources of additional financing:** The firm may require additional funds other than cash flows from its operations. The finance manager must decide upon the needs and sources of additional financing. Such additional funds can be obtained by way of additional capital from shareholders, borrowings from financial institutions, fixed deposits from public or in the form of debentures. On the basis of the forecasts of the inflow and outflow of cash, the finance manager should be able to judge:

- (i) The time when the additional funds will be needed.
- (ii) How long such funds will be needed.
- (iii) How best they can be raised.
- (iv) From what sources they will be paid.

(g) Negotiating for additional funds: It is not just enough to estimate additional finance requirement. The firm has to negotiate with the various sources to arrange for the finance. The short term funds to meet working capital requirements, can be obtained from commercial banks. Such short term funds may be required on a continuing basis.

(h) Evaluating financial performance: The checking of financial performance is a vital finance function. There should be a thorough analysis of financial performance. The actual financial performance can be measured against some established standard. Such checking of performance is vital in ensuring continued support from the investors and lenders. The investors and lenders will provide their support only when the company has invested its funds in the right direction or when the company's financial performance is good.

II. ROUTINE FUNCTIONS:

The routine finance functions are also called as incidental functions. They are mainly clerical in nature and facilitate the performance of executive functions. The routine functions include:

- a) Supervision of cash receipts and payments.
- b) Safeguarding of cash balances.

- c) Maintaining custody of securities, and other valuable papers. d) Record keeping and reporting.
- e) Assisting finance executives in the performance of their roles.

MEANING OF CAPITAL BUDGETING

Financial management deals with preparation of budgets.

A budget is a plan which expresses the anticipated results in numerical terms.

When a budget is prepared with respect to capital expenditure, it is called as capital budgeting.

Capital expenditure includes those expenditures which are incurred for a long period of time in some long term assets. Capital budgeting means planning, evaluation and selection of capital expenditure proposals.

Some of the definitions of capital budgeting are:

According to **R. M. Lynch**, "Capital Budgeting consists in planning the development of available capital for the purpose of maximizing the long-term profitability of the firm."

Charles **T. Horngren** states that, "Capital budgeting is a long-term planning for making and financing proposed capital outlays."

In the words of **Milton H. Spencer**, "Capital Budgeting involves planning of expenditures for the assets, the returns from which will be realized in future time periods."

IMPORTANCE OF CAPITAL BUDGETING

Investment decisions affect profitability of business organizations. It is important to budget capital expenditure for each and every business organization. The importance or significance of capital budgeting is stated as follows:

1. **Large Investments for Long Time:** Capital budgeting involves planning capital expenditure. Capital expenditure includes sizable investments for a long period of time. If large sums of money are allocated to one project, other projects may be denied. The impact of investment decision is not limited to one year. Its influence spreads over a series of years. Hence, it is necessary that business firms take up sound decision on capital budgeting.
2. **Low Liquidity and Irreversibility:** Capital investment can be represented by purchase of fixed assets. Fixed assets cannot generally be sold and encashed without spending considerable time and effort. Also, some investment decisions are irreversible. Once, these fixed assets are purchased, and if the decision made is

faulty, it often results in heavy losses. Therefore, careful capital budgeting is essential.

3. Modernization: The company may go for modernization of its plant and machinery. Such modernization is necessary to increase efficiency and productivity. To introduce modernization, the company has to introduce latest technology and machinery, for which the company needs to take up capital budgeting.

4. Replacement of Old Assets: The company also needs to replace obsolete assets such as worn out plant and machinery, furniture and fixtures and so on. Such replacement is vital to increase efficiency and productivity of the company. For the purpose of replacement, company needs sufficient funds for which capital budgeting is important.

5.Expansion and Diversification: The company for go for expansion and diversification. To expand and diversify the business, the firm needs substantial amount of capital investments, for which capital budgeting is required.

6.Automation: Labour intensive industries shifting to automation need large funds to purchase automatic machines and other requirements, for which the company should have good capital budgeting.

7. Widening the Scope of Activities: Capital budgeting is important when a company plan to widen the scope of its activities. A company which is primarily engaged in manufacturing activities but wants to enter into distribution work as well, may require additional large sums of money to meet distribution needs. Again, a company which was depending upon external sources to supply some of its components or parts, wants to undertake its complete requirements, may also need additional funds for capital investment.

8. Planning Capital Structure: Capital budgeting helps to plan the capital structure of the company. Capital structure refers to the composition of the firm's long-term funds comprising of equity, preference and long-term loans. Strategic investment decisions require massive funds, and the company has to attract different types of investor. Therefore, the company may plan for a wider capital mix.

PROCESS OF CAPITAL BUDGETING

The steps involved in capital budgeting process can be shown as follows:

1. Strategic Planning: A strategic plan is a grand plan of the firm. It states the current position of the company and the company's future plans. Strategic planning translates business goals and objectives into specific policies and priorities. The vision and mission of the company is considered while formulating strategic plans. Strategic plans provide the framework for resource allocation and direct to search for profitable capital investments.

2. Identification of Investment Opportunities: Identification of investment opportunities and generation of investment project proposals is an important step in the capital budgeting process. Some investments are mandatory. For instance, investments required to satisfy certain regulatory, health and safety requirements. Other investments are discretionary and are generated by growth opportunities, competition, cost reduction opportunities and so on. Capital budgeting plays an important role in case of discretionary investments.

Generally, an investment opportunity and proposal is suggested by:

- Consumers or advisors
- Sales force or other employees
- Research and Development department, etc.

3. Screening of Projects: Generally, there will be many potential investment proposals. A firm may have to set up a committee to review and screen the proposals. The committee should consider the attractiveness of the investment proposal in the long run. The preliminary screening may involve some preliminary quantitative analysis and judgements based on intuition and experience.

4. Financial Appraisal of Projects: After passing through preliminary screening, the proposed investment project is subject to financial appraisal so as to ascertain if it would add value to the firm. In order to find out the profitability of the project, the firm may undertake detailed:

Market analysis

Financial analysis

Technical analysis

5. **Qualitative Factors in Project Evaluation:** The proposed investment project should be evaluated taking into consideration the qualitative factors. The qualitative factors are those factors that have an impact on the project but cannot be accurately evaluated in monetary terms.

These factors are:

- The social impact of an increase or decrease in employee numbers.
- The environmental impact of the project.
- The strategic consequences of consumption of scarce raw materials, etc.
- The firm can address these issues by means of discussion and consultation with various parties.

6. **Accept or Reject Decision:** Taking into account the returns and risks of individual projects as well as the cost of capital of the firm, the firm will choose the project that maximizes shareholders wealth with its chosen criteria of selection. Projects not expected to meet this criteria are rejected, while accepted projects are considered for implementation.

7. **Project Implementation:** At this stage, the proposed investment project is decided to be implemented by the management.

The project implementation stage involves:

- A. **Resource allocation:** Resources allocation deals with the arrangement and commitment of physical, financial and human resources for the successful completion of the project.
- B. **Directing subordinates:** Subordinates should be directed about their job duties and responsibilities and training should be provided, if required.

8. **Follow Up:** Once the project is implemented, the firm will find out the effectiveness and efficiency of the project. The business firm takes a review of the project performance by the comparison of actual and expected cash flows and the explanation of differences between actual and expected flows.

MEANING AND FACTORS AFFECTING CAPITAL STRUCTURE

A well-managed company should have the right amount of capital, in the most appropriate mix obtained at the lowest average cost. Capital structure refers to the composition of the firm's long term funds comprising of equity, preference and long term loans. There is no hard and fast rule in deciding the composition of the capital structure. The company can go only for equity capital or the company may decide a certain ratio between equity and loan capital. However, it is always advisable to have a certain ratio between owned funds and borrowed funds.

The process of determining capital structure involves decisions such as:

How much funds to be raised through long term loans?

How much amount to be raised through debentures?

How much amount to be raised through preference shares?

How much amount to be raised through equity shares?

Thus, the main task involved in planning the capital structure is determination of debt-equity ratio.

The important factors and considerations in planning the capital structure are:

1 Desire to Retain Control: The promoters may desire to retain a substantial control over the management of the company. In such instance, the promoters may seek more of debt financing rather than issuing shares to the public. The debt financing may consist of debentures and other long term loans. The promoters may also consider the issue of preference shares as such shares do not have normal voting rights.

2 Timing: Capital markets go through a cyclical pattern i.e., boom, recession, and recovery. During boom phase, investors prefer equity. There are chances of collecting equity at a premium. During recession, the investors are not inclined towards equity and prefer non-convertible debentures and fixed deposits. The right timing of capital issue is therefore very crucial for its success.

3. Flexibility: Flexibility refers to the ability of a firm to raise capital from any source it wishes to tap. If the firm has an ability to raise capital from any source, then it would be advisable to go for borrowed funds rather than more equity capital. This will not result in dilution of equity. However, the firm must be able to stand the pressure of payment of interest and instalments of borrowed capital.

4. Nature of Business: Those firms which are assured of stability and growth may go for borrowed funds as they can withstand the pressure of payment of interest and redemption of securities. If the business of a company is cyclical in nature, then such companies find it difficult to service the debts during recession. Such firms may go for more of equity capital than debt financing.

5. Amount of Capital Required: If the amount of capital required is less, than it can be collected from the equity shareholders or by way of borrowed funds, depending upon the situation. However, if the funds required are massive in nature, then the company has to attract different types of investors. For this purpose, the company may go for a wider capital-mix.

6. Period of Finance: If the funds are required temporarily i.e., for a short period of time, then the company may go for debentures and fixed deposits or term loans. However, if the funds required are for a longer duration, the company may go for equity shares.

7. Cost of Financing: The company must collect funds at the lowest possible cost to the company. Generally the cost of collecting money through debentures and bonds is relatively less as compared to the cost of collecting funds by way of equity.

8. Taxes: The interest on debt-capital is a tax-deductible expense, whereas dividend payment is not so. Hence, higher the tax rate, greater the incentive to employ debt capital.

9. Attitude of Lenders: Since the availability of debt capital depends on the willingness of lenders, their attitude is an important consideration in the capital structure decision. It is necessary to gauge the attitude of institutional and private investors. For instance, during the boom times private investors may be willing to go for equity capital. However, the institutional investors may go for equity capital even during depression times.

10. Profitability: The profitability of the firm also decides the capital structure. For instance, those firms which are highly profitable use relatively little debt in their capital structure. This is because the funds requirement can be met through retained earnings.

11. Growth rate: Rapidly growing firms need to rely more on debt. The financial requirements of such firms are high and cannot be met adequately from internal sources. Therefore, such firms prefer more of debt capital.

12. Trading on Equity: Trading on equity means taking the advantage of other securities in earning a fair return on equity. Since the preference and debentures carry a fixed return, the companies will operate with a low equity base and borrow more funds by way of external borrowings.

13. Size of the Company: Companies which are of small size depend more on owned funds rather than borrowed funds. This is because small firms find it difficult to obtain long term loans from FIs and banks due to lack of adequate security.

14. Purpose of Financing: The finance manager must consider the purpose of obtaining funds. For instance, if the funds required for the purpose of purchasing new machinery, then the company may raise money through debentures or term loans, as the company may be able to pay interest on debentures/ loans out of profits generated due to the use of machinery.

MEANING OF CAPITAL MARKETS

The financial markets are broadly divided into two groups - (a) money market, which is concerned with borrowing and lending of short-term funds, and (b) capital markets, which are concerned with borrowing and lending of long-term funds.

The participants in the capital markets include financial institutions, commercial banks, mutual funds, corporations, and stock markets

- The financial institutions, and commercial banks borrow and lend medium-term and long-term funds. The mutual funds mobilize savings of small investors through the sale of units and channelize them in corporate investments in the primary and secondary markets.
- The corporate firms borrow medium-term and long-term funds from FIs and banks, and also obtain funds from public and other investors from the primary capital markets.
- The primary capital markets facilitate accessing of mostly long term funds by corporate firms, and others through the issue of securities.
- The secondary capital markets (stock markets) facilitate trading in securities (shares and debentures) on the stock exchanges.

FUNCTIONS OF CAPITAL MARKETS

The functions of capital markets are briefly explained as follows:

1. **Capital Formation:** The capital markets encourage capital formation. The capital markets mobilize savings of the households and of the industrial concerns. Such savings are then invested for productive purposes. Thus, savings and investment leads to capital formation.
2. **Economic Growth:** Capital markets facilitate the growth of all the sectors of the economy. The capital market makes it possible to lend funds to various projects. The productive use of capital leads to economic development of a nation.
3. **Development of Backward Areas:** The capital markets provide funds for the projects in backward areas. This facilitates the economic development of backward areas.

4. Generates Employment: Capital markets generate employment in the country:

(a) Direct employment in the capital markets related activities such as stock markets, financial institutions, etc.

(b) Indirect employment in all the sectors of the economy, because of the funds provided for developmental projects.

5. Foreign Capital: The capital markets make possible to generate foreign capital. Indian firms are able to generate capital from overseas markets by way of bonds and other securities. Such foreign exchange funds are vital for the economic development of the nation.

6. Development of Stock Markets: Capital markets facilitate the development of stock markets. A number of investors invest in primary markets and they also trade in stocks on the stock exchange. This facilitates the development of stock markets.

7. Development Role of Financial Institutions: The FIs are the important constituent of capital markets.

They play an important role such as:

Provides term loans to various sectors.

Subscribes to the equity capital of the firms.

Undertakes underwriting of shares.

Provides merchant banking services.

8. Investment Opportunity: Capital markets provide an excellent investment opportunity to the members of the public. The public can have alternative sources of investment, i.e., in bonds, shares and debentures, etc.

9. Revival of Sick Units: The capital markets have facilitated the revival of a number of sick units in India. This is possible due to the timely financial support and other assistance by FIs and commercial banks to the sick units.

10. Easy Liquidity: The secondary market makes it possible for the investors to sell off their holdings in form of shares and debentures and convert them in liquid cash.

VENTURE CAPITAL

Setting up of an enterprise is not an easy task. There are a number of parameters that contribute to its success or downfall. Experience, integrity, prudence and a clear understanding of the market are among the sought after qualities of a promoter. However, there are other factors, which lie beyond the control of the entrepreneur. Prominent among these is the timely infusion of funds. This is where the venture capitalist comes in, with money, business sense and a lot more.

Meaning:

Venture capital is money provided by professionals who invest alongside management in young, rapidly growing companies that have the potential to develop into significant economic contributors.

Venture capital is an important source of equity for start-up companies.

Professionally managed venture capital firms generally are private partnerships or closely-held corporations funded by private and public pension funds, endowment funds, corporations, wealthy individuals, foreign investors, and the venture capitalists themselves.

Features of Venture Capital:

The main features of venture capital are:

1. Forms of Capital:

The venture capitalist may provide the following forms of capital to the entrepreneur:

- Only loans to new projects especially when he is not sure of returns from the project.
- Purchase of equity capital of the project especially when he anticipates good returns from the project.
- Mezzanine funding - partly in debt and partly in equity capital.

2. General Conditions:

The venture capitalist expects an entrepreneur to satisfy three general conditions before financing the venture:

- The entrepreneur must have a strong management team with commitment and competencies..
- The product must be unique. It must have differential advantage in the market.
- The business opportunity must have significant capital appreciation.

3. Nature of Projects: The venture capital is invested in high risk but high growth potential projects. Venture capital is made available only for exploitation of new ideas or new technologies. It is not made available to enterprises, which are engaged in trading, broking, financial services, agency, liaison work or research and development.

4. Size of Enterprises:

Investment is usually made in small and medium scale enterprises. This is because; small entrepreneurs may find it difficult to raise money from banks and financial institutions, Normally, venture capital is not provided to large firms, as they are in a position to raise funds from banks and financial institutions.

5. Status of Venture Capitalist:

The venture capitalist joins the entrepreneur as a co-promoter in projects. He shares the risks and rewards of the enterprise.

The venture capitalist not only provides capital to the entrepreneurs but also provide business guidance, wherever possible.

6. Involvement in Working of Enterprise: The venture capitalist is continuously involved in the working of the enterprise. He may assist in framing plans and policies of the firm. He may hire, and fire (if necessary) key managers. He may provide operational and technical guidance to enhance overall business efficiency.

7. Divestment:

The venture capitalist is not a permanent associate of the entrepreneur. Once the venture reaches to full potential, the venture capitalist may exit from the enterprise. He may divest his equity holdings either to the promoters or to other investors in the market. In case of loan to the project, the venture capitalist will recover the same as agreed upon in the memorandum of understanding.

8. Less Formalities:

Raising funds by way of venture capital requires fewer formalities as compared to obtaining funds by way of public issue of share capital. The promoters of the project have to make a presentation to the venture capitalist.

If the venture capitalist is satisfied, he may sanction the funds to the promoters of the project.

9.. Roles of Venture Capitalist:

The roles performed by venture capitalists include:

- Finances new and rapidly growing companies.
- Arranges for additional capital through other sources.

- Provides operational and technical guidance to enhance overall business efficiency. Assists in the development of new products or services, etc.

11. Reduces Time Period for Commercialisation: Venture capital finance reduces the time lag between technological innovation and its commercialization. This is due to the timely provision of funds by venture capitalist.

Importance of Venture Capital

Venture capital offers advantages to investing public and to promoters.

I. Advantages to Investing Public:

Investing public enjoy the following advantages, if they invest in venture capital funds.

1.Reduction of Risk Factor:

The investing public in new ventures may be able to reduce risk associated with unscrupulous management. Public may invest in venture fund, which in turn may invest in equity of new business. The venture capitalist may be able to stop malpractices by management; because of continuous involvement in the working of the enterprise.

2. Reduces the need to Verify Prospects of Venture: Investing public may not verify prospects of the venture, if they invest in venture capital fund. Normally, investors may not have the means to verify the claims made by promoters of new ventures. The venture capital funds have the necessary skills to analyse the prospects or profitability of new ventures.

3. No need to monitor affairs of the Venture: If investors invest in venture capital fund, there is no need to monitor affairs or working of the venture. The venture capital fund deposes its representative on the Board of Directors of the enterprise to monitor the working of enterprise.

Advantages to Promoters:

1. Less Formalities:

Raising of funds by way of public issue of shares requires lot of formalities such as following SEBI guidelines, underwriting of shares, etc. Venture capital finance require least formalities to raise capital.

2. Less Expensive:

To raise funds by public issue, the promoters have to incur lot of expenses such as underwriting commission/fees, agents/ brokers commission, publicity expenses, listing fees, etc. Such - expenses are not involved in the case of venture capital.

3. Less Time Consuming:

Apart from formalities and expenses, raising of funds by way of public issue is time consuming.

For instance, SEBI takes about 21 days to make observations on the draft prospectus. Also, publicity is required at least 10 days prior to the opening of the issue. Apart from these, there are other formalities which take lot of time.

In the case of venture capital, the promoters have to make a presentation to the officials of venture capital fund, and if the officials are convinced about the new project idea, they sanction funds to the entrepreneur. Therefore, obtaining funds by way of venture capital involves less time as compared to obtaining funds by way of public issue of capital.

4. Easy to raise Funds at Later Date:

Once the new venture starts earning profits, it is easy for the promoters to raise funds from the primary market either in the form of equity or debt.

5. Reduced Time Period for Commercialization: Venture capital finance reduces the time lag between technological innovation and its commercialization. This is due to the timely provision of funds by venture capitalist.

DEMAT ACCOUNT

Dematerialisation of shares refers to conversion of physical share certificates into electronic certificates. Transfer of shares becomes easier and quicker under demat mode.

❖ Procedure for Dematerialisation

An investor who wishes to avail of demat facility have to follow the following procedures:

1. Opening a Demat Account:

Investor must open a demat account with a depository participant (DP). The DP is the link between the Depository and the owner of security. In other words, DP is the agent of the depository. (Banks, clearing houses of recognized stock exchanges, and non-banking financial companies are eligible to become DP).

On opening the account, the DP provides Client Identification Number to the investor, along with booklets of demat request form (DRF-for converting the physical shares in demat form) and delivery instructions by clients (for transfer after sale of shares).

2. Submission of DRF and Share Certificates:

The demat account holder must submit the DRF properly filled in, and also the physical share certificates. The share certificates must be rubber stamped (available with the DP) with the words 'Surrendered for Demat',

3. Forwarding of DRF and Share Certificates:

The DP forwards the DRF and the share certificates to the Transfer Agent (appointed by the company to look after share related matters) or the Company's Registrar. A second copy of DRF is forwarded by DP to its depository either NSDL or CDSL.

4. Confirmation from Depository: The depository sends a confirmation letter to the company's registrar or the share transfer agent regarding the receipt of Demat Request Form.

5. Verification and Updating the Records:

The transfer agent or the company's registrar checks the shareholder's records, and the signature. If the signatures and other details are correct, then the physical share certificates are cancelled and entries are made in the company's records regarding demat of shares.

The transfer agent substitutes the name of depository as the registered owner in place of the name of the original shareholder.

It is to be noted that now-a-days, no meeting of share transfer committee is required for transferring of shares in demat form).

6. Recording by Depository:

The depository records in its books, the name of the shareholder as the beneficial owner. In other words, the depository credits the account of the investor with the number of shares.

Subsequent entries in depository books are made by means of "book entry on receipt of intimation from the DP.

7. Updating of Records by DP: The depository informs its DP regarding demat clearance by the company's transfer agents. The DP accordingly updates the records of the demat account holder..

8. Confirmation to Demat Account Holder:

The confirmation relating to demat of shares is sent by the DP to the demat account holder. The DP sends periodic statements to the demat account holder regarding the position of his account.

9. Operation of Demat Account:

The demat account holder can operate his account for the purpose of trading.

If the account holder sells the shares from his account, then he has to fill up the delivery instructions by clients' form, submit it to the DP, which accordingly debits the account.

If the account holder buys the shares, the shares are accordingly credited to his account, through the depository. In case, bonus shares or new shares are allotted by companies, then the account of the account holder gets credited through the depository.

Advantages of Demat Account

- **1. Reduced Risk of Loss of Documents** - The chances of losing documents are high in physical bonds and shares. The shares can even get misplaced if you face any natural disaster that compels you to shift. Hence, storing shares in an online format is a far better and safe option as it enables you to have a permanent digital record of your share.
- **2. Avoiding Forgery** - In the case of physical shares or bonds, the risk of fraud is high. But when it comes to operating a paperless Demat account, you have all the necessary details and authentic data in your record, thereby avoiding forgery or impersonation.
- **3. Loan Facility** - Apart from using it as a security deposit for your savings, you can access various bank loans through the securities maintained in the Demat account that you have opened. The securities can be guaranteed as collateral for getting a loan from your bank.
- **4. Cost-Effective** - One of the evident benefits of online transactions is cost reduction. Similarly, if you choose to open a Demat account online, it can ease you off the expenses like stamp duty and other handling charges necessary for physical bonds. The only charge that is payable in a Demat account is for brokerage. However, if you opt for discount brokers, you shall be able to save more.
- **5. Time Saver** - The time taken for buying and selling shares using a Demat account is minimal. Hence, the liquidity of shares is easier in this case. On the other hand, transferring physical shares was a lengthy process. Online transactions are processed in a jiffy because the securities are stored in a dematerialised form.
- **6. Easy Tracking**- Another benefit that you can avail yourself of while you open Demat account is that the number of physical documents is nil. It invariably reduces efforts to keep track of each of them. Therefore, you do not need to maintain a record manually. All your documents are safely held along with the record of each investment.
- **7. No TDS on Demat Securities** - One of the issues taxpayers face is TDS or Tax Deduction at Source. Nonetheless, the CBDT- Central Board of Direct Taxes has granted dispensation from TDS when a Demat account holder makes payments from his account. Additionally, no TDS is deducted from the interest that you receive on your bonds and securities. For

exemption from TDS, make sure you save your securities in the Demat mode, and they are listed on NSE and BSE.

- **8. Global Investment** - Globalisation is significantly encouraged with the proliferation of Demat accounts. Foreign investors are given easy access to the Indian stock market through these accounts, thereby benefitting the economy of India.

FUTURES

A futures contract is a contract for the future. It is similar to forward contract, except that it is a standardised one. It is traded on a futures exchange. An instrument/commodity is agreed to be bought or sold at a certain date in future. The pre-set price is called the futures price. This contract, (unlike the options contract) confers on the trader a right and an obligation to buy or sell.

Features of Futures Contract

1. Highly Standardized:

Futures are highly standardised and legally enforceable. They are treated in organised stock/commodity exchanges. There is lack of flexibility. Once the agreement is entered, there are no chances of modifying it. But the forward contracts are highly flexible.

2. Down Payment:

In the case of futures, the contracting parties have to deposit a certain percentage of contract price called as Margin money with the exchange. It acts as a collateral to support the contract. Like forward contract, the contracting parties need not pay down payment at the time of agreement.

3. Delivery of Asset:

In futures contract, delivery of asset is not required. The parties can only exchange the difference between the future price (agreed upon) and the spot price prevailing on the date of maturity. But in case of forward contract, delivery of asset is required on the date of maturity.

4. Secondary Market :

There is secondary market for futures (unlike forward contracts). This is because, futures can be traded on organised exchanges.

5. Settlement:

A futures contract is always settled daily, irrespective of the maturity date. It is market to market on a daily basis. The difference between the futures price and the spot price on a day constitutes either profit or loss. These profits or losses are accumulated in the margin accounts of the parties. But in case of forward contracts, settlement is done only on maturity date.

6. Intermediary:

The futures contract is facilitated only through organised exchanges. But in case of forward contract, a third party such as a bank / FI acts as an intermediary.

7. Linearity:

Like forward contracts, parties get the benefit of linearity. Parties to the contract get symmetrical gains or losses due to price fluctuation of the underlying asset.

8. Types:

Like forwards, futures may be broadly divided into two types:

Commodity futures which deals with trading in commodities like wheat, sugar, metals, etc. Financial Futures deals with foreign exchange, financial instruments like stock market instruments, treasury bills, bonds, etc.

Advantages of Future Contracts

1. Protection against Price Fluctuations:

Parties to the contract can protect themselves against the risk of heavy fluctuations in price of underlying assets. For instance, the forward buyer of a commodity forward contract can avoid the risk of heavy increase in asset price in future.

2. Proper Portfolio Management:

Investors can use the forward / future contracts to protect against future declines in valuation of portfolios (mix of investment).

The portfolio managers can advise their clients for future contracts to avoid heavy fluctuations in prices.

3. No Burden on Carrying Costs:

The forward buyer can avoid the payment of carrying costs on the asset agreed to be purchased at a later date.

This is because, he need not take delivery of the asset in advance.

4. Bulk Transactions:

The forward / futures contracts facilitate bulk purchase / sale of assets at short notice in advance of delivery. The transaction can take place even before production in case commodities.

5. Flexibility:

The forward contracts permits flexibility in agreements. The parties to the contract can modify the agreement as per their convenience.

6. Cash Management:

The futures / forward contracts do not require payment of purchase price at the time of contract. In case of forward contract payment is done at maturity on the delivery of asset. In futures contract only margin money is to be paid.

7. Facilitates Planning :

These contracts facilitates planning to buy / sell assets at the time when they are most required. Therefore, the buyer / seller need not purchase / sell the assets in advance, i.e., when they are not required.

8. Development of Financial Markets

The forward / future contracts facilitates the growth and development of financial markets - capital markets as well as money markets. These contracts also facilitate the growth of commodity markets.

OPTIONS

An investor who intends to buy shares may do so at current market price. By doing so, he misses the opportunity to buy the share at a lower price, if the price declines in the near future. However, if the investor does not buy the shares at the current market price, he exposes himself to the risk of having to buy the shares at a higher price (if the share price rises) in the near future.

By entering into a stock options contract, the investor can retain the opportunity to buy the shares at lower price, if the price declines, and also protect against the risk of having to buy at a higher price, if the price rises in the near future.

An option is a contract, which gives the buyer (option holder) the right, but not the obligation to buy / sell specified quantity of underlying assets, at a specific price on or before a specified date.

The underlying assets may be commodities like wheat, rice, cotton, gold, silver or financial assets like equity stock, stock index, bonds, etc.

Types of Options

Normally, there are two types of options - **Call option and Put option**

A call option provides the right to buy a specified underlying asset (share / commodity, etc.) at a specified price (known as the strike or exercise price) on or before a specified date.

A put option gives an investor the right to sell the underlying asset at the strike price before the expiry date.)

Parties to Option

There are two parties to an options contract:

Buyer of the option who gets the right to buy the specified asset (in the case of call option) when the option holder chooses to buy the asset, he is said to 'exercise the option'.

Seller of the option who is prepared to sell the specified asset to the buyer of the option, if he exercises his right to sell. The option contract is initiated by the seller, and therefore, he is known as writer of the option.

Option Premium

The option contract is supported a consideration, which is called as option premium. The premium is the price which is required to be paid for the purchase of 'right to buy / sell. The premium is the maximum amount to which the option holder pays to the writer. The option holder's risk is to the extent of option premium. But his potential gain is unlimited. For the option seller/writer, the profits are limited to the premium received from the buyer, but his downside (potential loss) is unlimited.

American Option Vs European Option

If the option is exercised at any time between the writing of the contract and its expiration, it is called as an American option. If the option is exercised only at the time of maturity, it is called a

