

UNIT 1

Introduction to Entrepreneurship



Syllabus

Introduction to Entrepreneurship: Definition of Entrepreneur, Entrepreneur Traits, Entrepreneur Vs Manager, Creating and Starting the Venture: Sources of New Ideas, Method of Generating Ideas, Creative Problem Solving - Writing Business Plan, Evaluating Business Plans, Launching Ventures.

LEARNING OBJECTIVES

- ✓ Definition, Concept, Types, Elements and Functions of Entrepreneurship.
- ✓ Various Entrepreneurial Traits/Qualities.
- ✓ Entrepreneur Vs. Manager.
- ✓ Creating and Starting the Venture.
- ✓ Sources of New Ideas.
- ✓ Method of Generating Ideas.
- ✓ Creative Problem Solving.
- ✓ Writing and Evaluating Business Plans.
- ✓ Launching Ventures.

INTRODUCTION

Robert D. Hirsch defines an entrepreneur as, "The person who is going to establish a successful new business venture must also be a visionary leader; a person who dreams great dreams. Although, there are many definitions of leadership, the one that best describes this needed entrepreneurial leadership is a leader is like a gardener. When you want a tomato, you take a seed, put it in fertile soil and carefully water under tender care. You don't manufacture tomatoes, you grow them".

According to A.H. Cole, "Entrepreneurship is the purposeful activity of an individual or a group of qualified individuals, undertaken to initiate, initiate, sustain or organize a profit oriented business unit by production or distribution of economic goods and services".

The potentiality of an entrepreneur lies in paying attention to the opportunities prevailing in the internal and external environment, because such attention helps the entrepreneur in creating new ideas. In reality, there are various effective sources of (innovative ideas) (entrepreneurial opportunities).
Business plan or Project report is a written statement of what an entrepreneur proposes to take up. It acts as the guide or a course of action what an entrepreneur desires to achieve in her/his business and the way how one will achieve it. In other words, it serves as a road map which team can implement in reaching her/his destination. Therefore, a project report or business plan can be defined as, "A well evolved course of action devised to achieve the specified objective within a specified period of time and to serve as an operating document".

PART-A SHORT QUESTIONS WITH SOLUTIONS**Q1. Who is an Entrepreneur?****Answer :**

Robert D. Lautsch defines an entrepreneur as follows:

"The person who is going to establish a successful new business venture must also be a visionary leader, a person who dreams great dreams. Although, there are more. Attributes of leadership, the one that best describes the needed entrepreneur leadership is a leader in the organization. When you want a leader, you take a seed, just a little soil and carefully water and tend care. You don't make flowers blossom, you grow them."

"A good entrepreneur is one who is capable of inspiring confidence in people and has the ability to motivate them to work with him in fulfilling the economic goals set by him."

Q2. Define the concept of Entrepreneurship.

(Model Paper I, Ques) May-16 (SEMESTER-VI)

OR**Define Entrepreneurship.****Answer :**

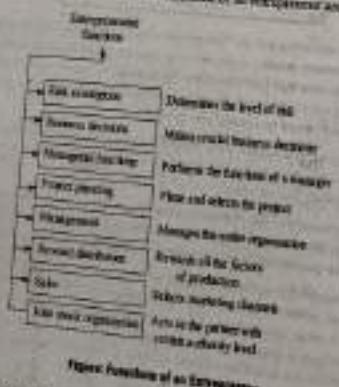
According to J.J. Clark, "Entrepreneurship is the entrepreneurial activity of an individual or a group of associated individuals, ventures or enterprises a profit oriented business unit by production or distribution of economic products services".

According to Schumpeter, "Entrepreneurship is based on purposeful and systematic innovation. It includes not only independent inventiveness but also company directors and managers who actually carry out innovative functions".

According to Peter Drucker, "Entrepreneurship is neither a status nor an art. It is a practice. It has knowledge, know-how, experience, and a certain way of life. It is a practice. It has knowledge, know-how, experience, and a certain way of life, that is, by the practice".

Q3. What are the key functions of an entrepreneur?**Answer :**

A successful entrepreneur identifies the commercial potential of a product or a service or a design, procure, produce, market, develop and sell the commercial outcome. The functions of an entrepreneur are shown in the following figure.



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UNIT-I: Introduction to Entrepreneurship**Q4. Differentiate between Entrepreneur and entrepreneur.****Answer :**

Following are the differences between entrepreneur and entrepreneur.

No.	Base	Entrepreneur	Entrepreneur
1.	Definition	According to Peter F. Drucker, "He is one who always searches for a change, responds to it and exploits it as an opportunity".	Entrepreneurs are also innovative and courageous professionals who bring their innovative ideas to the organization under which they are employed.
2.	Decision	He is more greatly involved in the decision-making process.	He does not get involved in the decision-making process and remains restricted to his work.
3.	Nature of	This involves core with the changes in levels of risk, profit or loss.	Risk involved consists for the work and alternative reward would be given for his innovations.
4.	Risk & uncertainty	He is the sole responsible person for all the risk and uncertainties associated with the business. In other words, he bears high risk.	He bears medium or average level of risk.
5.	Role	He manages his business, as well as the firm.	He serves himself as customer and the customer.

Q5. What are the ethics of an entrepreneur?**Answer :**

Following are the observations on the ethics of an entrepreneur to be followed by an entrepreneur.

- Ethical decisions varies with an individual's point of view. Each person observe ethical question within their frame of reference.
- Ethical decisions are not universal, as they have impact on different situations.
- Ethical decisions concerns a trade off between costs and benefits. It is necessary to understand that costs and benefits, profits and accountability are two ends of single range.
- Most of the ethical decisions does not give clear results and it is also not clear that who will be the result of unethical decisions of individual or organization.
- Consequentialism is safety questionable for teacher workflow decisions or actions.
- Ethical decisions are voluntary actions taken by human beings in their basic freedom of choice and free will.

Q6. Mention the different types of entrepreneurs.**Answer :**

Entrepreneurs can be broadly classified on the basis of nature of the business, use of technology, motivational level, growth and development levels. Different types of entrepreneurs based on different criteria are as follows.

1. Classification Based on the Nature of Business

Entrepreneurs are classified on the basis of nature of the business as follows:

- Business Entrepreneurs
- Trading Entrepreneurs
- Industrial Entrepreneurs
- Corporate Entrepreneur
- Agricultural Entrepreneur

2. Classification Based on the Use of Technology

If for better readability the entrepreneurs to make use of latest technology in order to prosper well and quickly. Entrepreneurs on the basis of technology are classified as follows.

- Technical Entrepreneurs
- Non-technical Entrepreneurs
- Professional Entrepreneurs

3. Classification Based on the Motivational Level

On the basis of the motivational levels, entrepreneurs are classified as follows.

- Pure Entrepreneurs
- Relaxed Entrepreneurs
- Motivated Entrepreneurs
- Spirited Entrepreneurs

PRINCIPLES OF ENTREPRENEURSHIP (JNTU-HYDERABAD)

4. Classification Based on the Levels of Growth

On the basis of growth, entrepreneurs are classified as follows:

(i) Small Entrepreneur

(ii) Large Entrepreneur

5. Classification Based on the Stages of Development

On the basis of the stages of development, entrepreneurs are classified as follows:

(i) Pure Entrepreneur

(ii) Modern Entrepreneur

(iii) Classical Entrepreneur

Q7. What are entrepreneurial traits?

Answer 1 (Model Paper, Q3B) Nov-Dec-18, JNTUH, Q10

The various entrepreneurial traits are as follows:

1. Creativity

2. Goals and objectives

3. Problem solving

4. Human relations capability

5. Good communication skills

6. Technical knowledge

7. Independence

8. Hardworking nature

9. Initiative

10. Optimistic

11. Good organizer

12. Good Predictor

Q8. State the entrepreneurial motivations.

Answer 1 (Model Paper, Q3B) Nov-Dec-18, JNTUH, Q11

Dr. John D. McHolland defines, "Motivation refers to the urge to work, urge, drive, desire, intentions or needs which control or explain the behavior of human being".

Entrepreneurs are usually motivated primarily to maximize their enjoyment in achieving the set goals. Some of the important motivations are:

1. Rewards

Entrepreneurs are greatly motivated by rewards in the form of security and stability, job status, competence and performance.

2. Goal Setting

One of the powerful motivational pressures is "Goal Setting". If performance guiders are in control manner, then it will motivate the employees to a great extent.

3. Flexibility

Employees feel motivated when they are provided with financial, flexible benefits, MNC and other such benefits.

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1. Empowerment

When the employees are empowered, they become decision makers over the job. This leads to improvement in performance of employees.

Q8. What are the objectives of EOPs?

Answer 1 (Model Paper, Q3B) Nov-Dec-18, JNTUH, Q12

The objectives of EOPs are:

1. To promote and build up the entrepreneurial culture in the organization, used for achievement of each task.
2. To analyze the environment setup related to existing business.
3. To select a project and formulate project for the profit.
4. To understand the processes and procedures for establishing a small enterprise.
5. To acquire knowledge about the sources of products and supplies assistance in setting up a small enterprise.
6. To imbibe the necessary managerial skills required to carry out the business.
7. To study the benefits and drawbacks of being an entrepreneur i.e., various both sides of a coin (pros and cons).

Q9. What do you understand by mobility of entrepreneurs?

Answer 1 (Model Paper, Q3B) Nov-Dec-18, JNTUH, Q13

Entrepreneur and mobility have played an important role in the human history across the globe. After all, the human being being between two poles i.e., movement and settlement. In a historical fact that human migration results from various factors such as social, economic, political and cultural forces. "Brain drain" is the phenomenon which is being witnessed in the present era, where highly skilled and talented human resources are being shifted from less developed countries to the developed countries due to economic reasons.

Entrepreneurs being human beings tend to move from one location to another and also from one occupation to another. Many of NGOs in India and entrepreneurs presented the best examples of human and occupational mobility of entrepreneurs.

Q10. Define a business plan.

April-17, JNTUH, Q14

OR

Write about business plan.

Answer 1 (Model Paper, Q3B) Nov-Dec-18, JNTUH, Q15

Business plan or Project report is a written statement of what an entrepreneur proposes to take up. It acts as a guide or a course of action what an entrepreneur desires to achieve with his business and the way how one will achieve it. In other words, it serves as a road map which helps an entrepreneur to reach his/her destination. Therefore, a project report or business plan can be defined as, "A well evolved course of action devised to achieve the specified objective within a specified period of time and to serve as an operating directions".

UNIT-1: Introduction to Entrepreneurship

Q12. Write the features of business plan.

Answer 1

The following are the common features of a typical business plan:

1. It explores about the short term and long term business objectives of the enterprise.
2. It contains detailed information about all the major and minor business activities. Thus it highlights major functional areas of the enterprise, such as personnel management, marketing, financing, production etc.
3. It provides answers to several points such as the potential investors, suppliers, employees, providers etc.
4. A typical business plan answers the questions such as, what is the key business of the organization? How does the enterprise intend to meet them? Who are the potential customers? What is the profile/benefit being provided by the enterprise? etc.

Q13. Write types of business plans.

Answer 1

(Model Paper, Q3B) Nov-Dec-18, JNTUH, Q16

There are different types of business plan used by the entrepreneurs depending on the needs of business. Following are some of the basic and important business plan:

1. Start-up business plan
2. Existing business plan
3. Strategic business plan
4. Development business plan
5. Practicability business plan.

Q14. Discuss the methods of generating ideas.

Answer 1

(Model Paper, Q3B) Nov-Dec-18, JNTUH, Q17

The different methods or techniques for the generation of creative thinking are as follows:

1. Article Listing
2. Checklist Method
3. Mind Mapping
4. Brainstorming
5. Synectics
6. Free Association
7. Lateral Thinking
8. Forced Relationship
9. Group Creativity
10. Reverse Assumption Analysis.

Q15. How is business plan evaluated?

Answer 1

(Model Paper, Q3B) Nov-Dec-18, JNTUH, Q18

The entrepreneurs need to propose a business plan which is in line with the requirements by the potential investors and investors of the business venture. The business plan need to highlight the business model being followed by the entrepreneur and how he intends to make the business venture profitable in the shortest possible time period.

The different stakeholders, such as the potential investors, bankers and, public in general would evaluate the business plan in following different ways:

1. Evaluation by Suppliers

2. Evaluation by Financial Bankers

3. Evaluation by Investors

4. Evaluation by Customers

Q16. What are the major components of a marketing plan?

Answer 1

(Model Paper, Q3B) Nov-Dec-18, JNTUH, Q19

Depending upon the business plan and program the marketing plan is developed and detailed marketing plan act as a base for setting the marketing objectives and strategies. The various of the marketing plan comprise the following elements:

1. Executive Summary
2. Present Marketing Condition
3. Opportunities and Threats Analysis
4. Set Objectives and Define the focus
5. Marketing Strategy
6. Action Plan
7. Marketing Budget
8. Control.

Q17. What is a financial plan?

Answer 1

(Model Paper, Q3B) Nov-Dec-18, JNTUH, Q20

Every entrepreneur need to have a detailed financial plan during the initial stages of the business. The financial plan for an enterprise is prepared, taking into consideration the aims of rendering plan such as the production plan, new product development plan etc. Further like production plan of the enterprise would also have a substantial impact upon the entrepreneur's financial plan. The elements of the production plan includes the cost of machinery, raw material costs, production cost and so on.

PART-B ESSAY QUESTIONS WITH SOLUTIONS**1.1 ENTREPRENEURSHIP - DEFINITION, CONCEPT, TYPES, ELEMENTS AND FUNCTIONS**

Q1/ Explain about the entrepreneur and its types.

OR

What is meant by Entrepreneur?

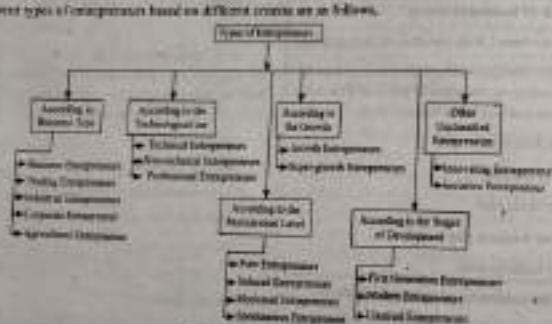
Answer:

Definition of Entrepreneur

- According to Adam Smith "entrepreneur is defined as a person who only provides capital without taking active part in the leading role in enterprise".
- According to Richard Cantillon all persons engaged in economic activity as entrepreneurs".
- According to Joseph A. Schumpeter define "entrepreneur as a person who makes innovation changes in an enterprise".

Types of Entrepreneurs

Different types of entrepreneurs based on different criteria are as follows.

**Business Types of Entrepreneurs****According to Business Type**

According to business type, entrepreneurs are classified as follows,

Business Entrepreneurs

Business entrepreneurs are the people who initiate innovative ideas of the new products or services and create business. They are usually concerned with introducing ideas into society. Entrepreneurs make use of marketing as well as production resources to pursue their own business opportunity. They may establish either a large-scale organization or small-scale organization.

Trading Entrepreneurs

Trading entrepreneurs are those who deal with only trading and do not participate in any production activity. A trading entrepreneur manages the financial institution, creates demand for his/her company's products and develops a desire and interest in the customers. A trading entrepreneur trades both at the domestic level as well as at the international level.

Industrial Entrepreneurs

Usually, industrial entrepreneurs are the entrepreneurs who recognize the essential needs of the customers and then produce products according to the customer's need. In the market and satisfy the market needs. They are product-oriented people who basically establish an industrial unit with the help and desire of making a new product.

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UNIT-1 Introduction to Entrepreneurship**(a) Corporate Entrepreneur**

A corporate entrepreneur is a person who plans, develops and executes a corporate body. He/she makes use of market knowledge and creative skills in expanding and managing the corporate undertaking.

(b) Agricultural Entrepreneurs

Agricultural entrepreneurs deal with the agricultural activities such as ploughing and sowing crops, harvesting and other related activities. This type of entrepreneurs are encouraged to carry out agricultural activity by making use of machines, irrigation facility and use of modern technology.

(c) According to the Technological Use

Entrepreneurship on the basis of technology is as follows.

(d) Technical Entrepreneurs

The technical entrepreneurs does not conduct any sales promotional activities. He/she must focus on the productive activity and service rendering activity. The basic potential of a technical entrepreneur is higher production skills.

(e) Non-technical Entrepreneurs

Non-technical entrepreneurs does not deal with the technical aspect of the business. They key area attention in marketing and distribution strategies in order to develop their business.

(f) Professional Entrepreneurs

Professional entrepreneurs are those who are mainly interested in starting up a business but are in order to maintaining or promoting the business after its establishment. The professional entrepreneurs usually sell off the established business and move up another venture with the help of sale proceeds.

(g) According to the Motivational Level

On the basis of the motivational levels, entrepreneurs are as follows.

(h) Pure Entrepreneurs

A pure entrepreneur is an entrepreneur who is persuaded by the psychological and economic rewards. He/she enters into the field of entrepreneurship for higher personal status, ego or riches.

(i) Induced Entrepreneurs

Induced entrepreneurs are the one who start up entrepreneurship completely due to the governmental policies and measures which provide financial aid, incentives, discounts and other facilities to start up a business. State sponsored induced entrepreneurs through financial, technical and other facilities in order to develop and promote entrepreneurship.

(j) Motivated Entrepreneurs

Motivated entrepreneurs are motivated by the work of self-interest. They enter into the market with an objective of producing and marketing new products for the consumers. If the product keeps the cost factor minimum in profit generation, entrepreneurs would be satisfied and further to perform their task more efficiently than they used to do before. It is the basic idea i.e., a lot of appreciation and motivation which would lead to greater efforts towards its prosperity.

(k) Spontaneous Entrepreneurs

Spontaneous entrepreneurs establish the entrepreneurship by making use of their innate qualities. The spontaneous entrepreneurs are creative, confident, daring, fearless and hard working which motivates them to go for entrepreneurship. Spontaneous entrepreneurs are greatly influenced by their intrinsic level and innate qualities.

(l) According to the Growth

On the basis of growth, entrepreneurs can be categorized into "growth entrepreneurs" and "super-growth entrepreneurs".

(m) Growth Entrepreneurs

Mostly growth entrepreneurs solve very high growth indicators with higher growth processes.

(n) Super-growth Entrepreneurs

Super-growth entrepreneurs depict in highlighting the typical growth of performance in their ventures. The growth of their performance is visible and clear from the faculty of funds, productivity and growth.

(o) According to the Stages of Development

On the basis of the stages of development, entrepreneurs are of following types.

(p) First Generation Entrepreneurs

First generation entrepreneurs is an individual who is creative and innovative in nature and uses these skills to establish an industrial unit. Hence it basically an innovative entrepreneurs various technologies in order to produce a new product or a service.

(q) Modern Entrepreneurs

Modern entrepreneurs are those who take up the ongoing ventures i.e., those sectors which are working well by adopting the changing scenario in the market.

(r) Classical Entrepreneurs

Classical entrepreneurs lay more attention on the customers and the marketing needs with the help of a self-supporting venture. Classical entrepreneurs is a stereotypical entrepreneurs whose main objective is to maximize the profits at a certain level.

5. Other Unclassified Entrepreneurs

The other unclassified entrepreneurs are:

(i) Innovating Entrepreneurs

Innovating entrepreneurship is an individual who possesses the characteristic feature of a dynamic entrepreneur. Innovation is responsible for the critical analysis of results derived from various commercial activities.

Innovating entrepreneurs are mostly独創的 or future. They utilize their creativity by making appropriate utilization of the alternative opportunities. Innovating entrepreneurs are mostly found in developed countries and are rarely seen in underdeveloped countries.

(ii) Initiative Entrepreneurs

Initiative entrepreneurs are those individuals who possess the characteristic feature of entrepreneurs follow successful entrepreneurs or other entrepreneurs. Initiative entrepreneurs may be the initiators and technology created by others. They are adaptive and flexible in nature.

Q19. Define and explain the concept of entrepreneurship. What are the various elements of entrepreneurship?

Answer :

Definitions of Entrepreneurship

According to A.M. Cole, "Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to invent, manufacture, acquire, expand, extend, diversify and/or produce or distribute new products and services."

According to Schumpeter, "Entrepreneurship is based on purposeful and systematic innovation. It includes not only the independent entrepreneur, but also company directors and managers who actually carry out innovative functions".

According to Peter Drucker, "Entrepreneurship is not a status nor an art. It is a process. A key knowledge base. Knowledge is entrepreneurship to the extent to which it leads what constitutes knowledge in practice is largely defined by the ends that is, by the process".

Concept of Entrepreneurship

The concept of entrepreneurship can be perceived differently by different entrepreneurs. Few consider it as "risk-taking" while others view it as "innovating" and few others consider it as "self-seeking". In a conference of entrepreneurship held in U.S., entrepreneurship was defined as "Entrepreneurship is the attempt to create value through recognition of business opportunity, the use of appropriate risk-taking appropriate to the opportunity and through the administrative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition".

One of the essential features of entrepreneurship is social responsibility. The concept of entrepreneurship can be summarized in the following figure:

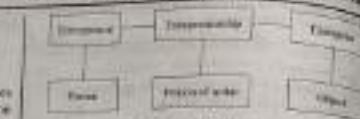


Figure: Concept of Entrepreneurship

Elements of Entrepreneurship

The following are the two basic elements of entrepreneurship:

1. Innovation and
2. Risk-taking.

3. Finance

Innovation is an entrepreneur is like what water is to fish. Innovation means effort during introducing new or some from the existing products or services. Entrepreneur needs to be alert and updated about the changing tastes and preferences of the customers. Entrepreneur may or may not be inventors of new products or services, but they are competent enough to make use of the existing products, simply to increase them or sell at lower prices. The latest example of innovation is through I-tv, which has now made available in small screen remote big bottles. These small cables are disposable in nature. One need they can be disposed off and can be handled easily. That is why we inferred that the entrepreneurs need to produce innovative products for the needs of customers.

4. Risk-taking

Living on sky is not an easy task. One needs to put himself into such a difficult position. In other words, to get higher returns one needs to take higher risk. Being an entrepreneur itself is a risky task. The organization or the enterprise may be receiving profit or suffering loss because of certain competition, changing tastes and preferences of the customers, changes of external conditions, and so on. An entrepreneur has to be sensible enough to predict the levels of risk involved. He must be a risk-taker and not a risk-avoider. It is his risk-taking ability which motivates him to take up a number of ventures at low of them fail.

Q20. Explain the functions of an Entrepreneur.

Answer :

The functions of entrepreneurship are usually classified into four categories. They are as follows:

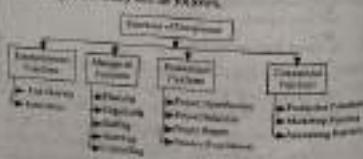


Figure: Functions of Entrepreneur

MANAGEMENT KNOWLEDGE: Protecting the best is a CHALLENGE AND A RESPONSIBILITY. If you are in trouble, GO TO LEGAL PROCEEDINGS.

UNIT-1: Introduction to Entrepreneurship**1. Entrepreneurial Functions**

The basic functions of entrepreneur involved from carrying out entrepreneurial managing. In operation are considered as entrepreneurial functions. These functions are classified into following types:

(a) Risk Bearing

The primary function of an entrepreneur is to assume all kinds of risks. The risk may arise from any one of these or at times from all of these sources such as changed patterns of consumer's tastes and preferences, new methods of production, innovations, technology, fluctuating government policies, entry of competitors to the market and so on. These risks are not favorable. If any one of these is unfavorable then it would be a loss to the entrepreneur. Thus, an entrepreneur needs to avoid these risks by making use of talents, skills, knowledge, experience and sound judgements.

(b) Innovation

Innovation is an entrepreneur is like what water is to a fish. Innovation means effort during doing something new or unique than the existing products or services. Entrepreneurs need to be alert and updated about the changing tastes and preferences of the customers. Entrepreneurs may or may not be inventors of new products or services, but they are competent enough to make use of the existing products, simply whenever there are small or low prices.

(c) Managerial Functions

The different functions performed by an entrepreneur related to management activities are referred as managerial functions. These functions are classified into following types:

(i) Planning

Planning is exploring what, how, where, when and by whom, a task is to be achieved. Everything is planned before and a blue print is prepared. Planning is the expect of random work. Hence, as far as possible, a definite programme of action is made.

(ii) Organizing

Organizing is one of the basic functions of an entrepreneur through which the manager and runs the enterprise. Organizing function enable the entrepreneur to operate the business in organized way to earn more and more profits by arranging men, material, machine, money etc at one place.

(iii) Staffing

After the objectives have been formulated the next step is the management process to le公子可able personnel for managing the jobs. So, staffing is the function which enables the recruitment of suitable personnel.

Staffing consists of various sub-functions like:

- Manpower planning, recruitment, selection, placement, induction orientation etc.

(iv) Directing

Directing consists of guiding and supervising the subordinates in activities. Management makes general work done by others i.e., the subordinates have to be properly guided and supervised in their respective job so that the common goal is attained.

(v) Controlling

Controlling consists of making the results tally with targets in achieving other correspondence between plan and performance. The process of measuring the current performance of the employees is to assess whether the given objectives are achieved or not. Controlling brings results nearer to the targets.

2. Professional Functions

The functions performed by entrepreneurs for generating ideas and promoting business activities are referred as professional functions. These functions are classified into following types:

(a) Project Identification

An entrepreneur identifies the project on the basis of market condition or "a project having a great market". An entrepreneur must have an idea and knowledge about the project feasibility.

(b) Project Selection

Project identification follows project selection i.e., as soon as the project is identified it undergoes the selection process. In other words, project selection starts from where project identification ends. The selected area is analyzed in the prevailing economic conditions.

(c) Project Report

Project report or business plan is a written statement of what an entrepreneur proposes to do. It sets out the goals in a course of action when an entrepreneur decides to achieve in his/her business and the way how one will achieve it. In other words, it serves as a road map which helps an entrepreneur in reaching for his destination.

(d) Financial Requirements

It is not easy to start an enterprise without financial support. Thus, the entrepreneurs need to seek help from various financial institutions along with resources and other facilities. Finance is regarded as an important resource to start, develop and run the business. It helps in acquiring land, labour, material, machine and various other things needed. Therefore, finance is regarded as "the life blood of any business".

(e) Commercial Functions

The functions performed by entrepreneurs related to production, marketing and accounting are referred as commercial functions. These types of business are as follows:

(f) Production Functions

Production of goods and services is an important function performed by entrepreneurs. This function is performed by entrepreneurs after establishing the enterprise. It involves decision making, selection of site, factory, selection of design and layout, categorization of products and services to be produced etc.

Q1) Marketing Function

Marketing function plays very important role in extracting and distributing the produced goods and services to end consumers. Entrepreneur needs to be more focused while performing this function because the effectiveness of this function will provide profitable results to entrepreneur.

Q2) Accounting Functions

Managing business accounts properly is very necessary for any organization or enterprise. In entrepreneurship business, entrepreneurship will be the only responsible business to manage all commercial functions like accounting in case of business. Therefore, by the means of managing the record of all business transactions in proper manner as per accounting standards, this will enable the entrepreneur to check the profit or loss position of the business.

1.1.1) Role of Entrepreneurship

Q21) Explain the role of entrepreneurship as entrepreneurs in different fields.

OR

How does an entrepreneur contribute to the economy and society?

Answer : 1

Entrepreneurs or entrepreneurs are the persons who are involved in the economic growth and development with their skills and capabilities such as – marketing, management, creativity, innovation, R & D activities, productivity etc.

The role of entrepreneurship in different fields can be explained with the help of following points:

Role in Society

Entrepreneurial firms play a dominant impact on society by producing innovative products and services which may enhance the productivity, regional socio-economic development, etc. One of the best example of entrepreneurial firm is that it put a great impact on the society by producing drugs to improve people's lives and also helped to invent medical equipments.

Role in Economy

Economic development of a nation is very vital because the real per capita income over a long period of time. It is a fact that economic development does not take place by itself, it requires a catalyst or an agent i.e., an entrepreneurial ability. An entrepreneurial ability enables an individual to make use of rare opportunities or hidden opportunities. Basically, the entrepreneurs are a change, therefore need and their combined with all resources, materials and capital in order to produce a new product or a service.

The other roles of entrepreneurship in Indian economy can be summarized as follows:

1) Helps in accumulating capital through effective utilization of savings of general public.

2) Helps in creating employment opportunities.

3) Helps in maintaining economic balance in the country.

4) Helps in maintaining social welfare in the country.

5) Helps in maintaining economic growth in the country.

6) Helps in maintaining economic development in the country.

7) Helps in maintaining economic stability in the country.

8) Helps in maintaining economic independence in the country.

9) Helps in maintaining economic security in the country.

10) Helps in maintaining economic efficiency in the country.

11) Helps in maintaining economic justice in the country.

12) Helps in maintaining economic democracy in the country.

13) Helps in maintaining economic freedom in the country.

14) Helps in maintaining economic equality in the country.

15) Helps in maintaining economic welfare in the country.

16) Helps in maintaining economic efficiency in the country.

17) Helps in maintaining economic security in the country.

18) Helps in maintaining economic justice in the country.

19) Helps in maintaining economic freedom in the country.

20) Helps in maintaining economic equality in the country.

21) Helps in maintaining economic welfare in the country.

22) Helps in maintaining economic efficiency in the country.

23) Helps in maintaining economic security in the country.

24) Helps in maintaining economic justice in the country.

25) Helps in maintaining economic freedom in the country.

26) Helps in maintaining economic equality in the country.

27) Helps in maintaining economic welfare in the country.

28) Helps in maintaining economic efficiency in the country.

29) Helps in maintaining economic security in the country.

30) Helps in maintaining economic justice in the country.

31) Helps in maintaining economic freedom in the country.

32) Helps in maintaining economic equality in the country.

33) Helps in maintaining economic welfare in the country.

34) Helps in maintaining economic efficiency in the country.

35) Helps in maintaining economic security in the country.

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2. Training Programmes

An individual's learning and development could be increased by creating the training programmes.

3. Vocational Education Training (VET)

According to the National Knowledge Commission, Vocational Education Training (VET) needs to be incorporated into the educational system. It is through VET that the students and society can acquire the skills, abilities, competencies and knowledge of basic concepts can be acquired among those who are interested in creating their own entrepreneurial career after the completion of their school studies.

4. Entrepreneurial Development Programmes (EDPs)

Through the Entrepreneurial Development Programmes (EDPs), the skills required for the development of micro and small enterprises could be enhanced even among the unemployed rural youth.

5. Management Development Programmes (MDPs)

MDPs are conducted with an objective of providing training to the existing entrepreneurs which help them to improve their entrepreneurship as well as the decision making skills through MDPs, their productivity and profitability of the rural economy could be improved greatly.

6. Extension Facilities

Government provides extension services to the existing entrepreneurs in making them aware of the latest technological advancements, where extension helps the rural farmers to improve their productivity. For instance, human skill extension, Agri-process extension facilities provided in the GeM for changing requirements in various agricultural related aspects.

Q12. What are the phases of entrepreneurship development programmes?Answer : [View Answer](#)

The Entrepreneurship Development Programmes (EDPs) have three phases which are as follows:

1. Pre-training Phase
2. Training Phase
3. Post-training Phase

1. Pre-training Phase

The main goal of this phase is to identify the target group of entrepreneurs which are essential to start up a training programme. This stage involves the following:

- (i) Identifying the audience.
- (ii) Assessing the required infrastructure.
- (iii) Writing the goal behind to provide training.
- (iv) Setting the programme objectives.
- (v) Selecting appropriate tools and techniques.

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1. Appointing selection committee for selecting trainees.

- (i) Advertising and campaigning.
- (ii) Preparing application forms.
- (iii) Fixing training schedules.
- (iv) Considering various factors for identifying opportunities and constraints.

2. Training Phase

The main aim of this phase is to transform an individual into an entrepreneur and to bring a structural change in the behaviour of the trainees. In other words, it can be explained as leadership based for achievement or "coach factor" i.e., capacity motivation among trainees. The following changes are to be observed by a trainer at the trainee's behaviour:

- (i) Is he confident showing upon his/her project idea?
- (ii) Is the trainee motivated to adopt entrepreneurial ideas and holds the capacity to bear risks?
- (iii) Does there exist any variation in his entrepreneurial outlook, skill, attitude, role and so on?
- (iv) What is the behaviour of an entrepreneur?
- (v) Which traits are highly lacking/strength in the trainee?
- (vi) Does the trainee holds the knowledge of marketing resources and other entrepreneurship principles?
- (vii) Whether the trainee is able to fit in selecting the right project, mobilising and allocating resources at the right time and the right place?

3. Post-training Phase/Follow-up

The ultimate objective of entrepreneurship development programme is to produce an end user of entrepreneurs. Therefore, this phase includes the assessment of whether the EDP objectives are met or not. This phase is also called as "Follow-up". Follow-up indicates our past performance, analysis and suggested way in the previous work. It provides suggestions and guidelines to frame future policies to improve the performance and assist trainees.

- (i) Short Follow-up to EDP results.
- (ii) Reviewing the pre-training phase.
- (iii) Reviewing the training process and.
- (iv) Reviewing post-training approach.

Q22. Explain the entrepreneurial motivation approaches and discuss the process of entrepreneurial development with appropriate illustrations.Answer : [View Answer](#)**Approaches for Entrepreneurial Motivation**

The three main personal motivation approaches are:

1. Need for Achievement (Y-Ach)
2. Need for Power (F-Pow) and.
3. Need for Affiliation (G-Aff).

UNIT-1: Introduction to Entrepreneurship**1. Need for Achievement (Y-Ach)**

Need for achievement refers to an individual's wish to achieve something which has been efforts. In other words, it motivates him to understand well about his own life.

2. Need for Power (F-Pow)

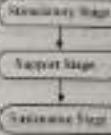
Need for power refers to an individual's wish to control and dominate others via physical actions and systems.

3. Need for Affiliation (G-Aff)

Need for affiliation refers to the need of establishing and carrying out cordial and sensible relations with people.

Process of Entrepreneurial Development

There are three stages involved in helping a person become an entrepreneur:

**Figure: Process of Entrepreneurial Development****Stage-1: Incubation Stage**

In this stage, introductory activities are started and to foster interest in entrepreneurship. These activities act as a base for developing entrepreneurs in the society. The introductory activities include:

- (i) Planned activity for entrepreneurs and opportunities.
- (ii) Providing education related to entrepreneurship.
- (iii) Providing vocational training and encouraging women entrepreneurs.
- (iv) Identifying the best entrepreneurship training schemes & methods.
- (v) Guiding the entrepreneurs in selecting product of interest and preparing project reports.
- (vi) Setting up houses for entrepreneurs.
- (vii) Recognising and giving reward/recognition to entrepreneurs.

Stage-2: Support Stage

To support stage, support activities that facilitate in creation of facilities are implemented. Entrepreneurship is promoted and promoted when support activities are continued. The various supports include:

- (i) Registration of enterprises.
- (ii) Developing product prototypes.
- (iii) Arrangement of land, finance, power and necessary facility access.
- (iv) Providing management consultancy services and consulting support.
- (v) Guiding the entrepreneurs in selecting the machinery and plants.
- (vi) Getting approvals and licenses.

Stage-3: Maturity Stage

Sustaining activities are implemented in this stage. Thus, and thus help the entrepreneurs in operating their business efficiently within a market. The sustainable activities include:

- (i) Marketing.
- (ii) Distribution.
- (iii) Export.
- (iv) Getting additional finance.
- (v) Research and development support to entrepreneurs.
- (vi) Providing support for the growth of entrepreneurs.

1.2 ENTREPRENEURIAL TRAITS

Q25. "Entrepreneurial processes contain entrepreneurial traits". Discuss [View Answer](#)

OR

List the characteristics of a successful entrepreneur.

Answer : [View Answer](#)

The qualities of entrepreneurs play crucial role in the success and failure of an entrepreneur. Mr. Chakrabarty and Robert K. Hirsch have listed out some important qualities that need to possess by a entrepreneur. They are as follows:

1. Traits Qualities of Entrepreneur [View Answer](#)

According to Mr. Chakrabarty, following qualities or traits must be possessed by a entrepreneur.

1. Goals and Objectives
2. Entrepreneur must have clear goals which not only simpler but to produce efficient goals but also to carry out the necessary activities in a timely way. The goals and objectives of a successful entrepreneur may be to launch a new product, to increase the turnover or to meet the needs of the market.

2. Risk-taking

An entrepreneur must be a provider of risk-taking services. If the financial services are looked and reached the trade competition, then it would be a powerful weapon in the hands of his competitors. Therefore, an entrepreneur must be very useful while selecting his accounts and customers.

3. Human Relations Capability

Personal liability, personal relations, considerations and negotiations are required as the most vital personal traits of a successful entrepreneur. In order to build the business scope and customer and market profile, an entrepreneur must maintain good relationships with his customers. Any entrepreneur need to succeed in achieving a competitive position in a market of business in order to maintain a good and long worthy relationship with customers. Mainly maintaining good relationships

	<p>with the customers does not serve the purpose. Besides maintaining good relationships, the entrepreneurs must also maintain social relations with their employees. When employees are happy and satisfied with their boss, entrepreneurship automatically motivates them to put in their maximum efforts. An entrepreneur who maintains friendly and cordial relations with the various stakeholders like suppliers, customers, dealers, creditors, bankers and community at large will succeed much more than those entrepreneurs who maintain poor human relations.</p>
4. Good Communication Skills	<p>Good communication skills depict the ability of an entrepreneur to communicate effectively. An entrepreneur who is an effective communicator, who communicates effectively with the suppliers, creditors, dealers, customers and employees is more likely to be successful than the ineffective communicators.</p>
5. Technical Knowledge	<p>An entrepreneur must possess technical knowledge. Even though the acquisition of technical knowledge is not an easy task, he/she needs to put in a little of hard work and efforts to be technically sound and fit.</p>
6. Independence	<p>Independence or being independent is one of the common qualities of an entrepreneur. It is a common trend and a great desire among the entrepreneurs that they don't want to get dominated by others. They want to take decisions and enjoy greater degrees of independence. Hence, an entrepreneur would like to dominate others but would never like to get dominated by others.</p>
7. Hardworking Nature	<p>A successful entrepreneur is a hard worker by nature. Hardworking nature is the only characteristic feature which differentiates between the successful and an unsuccessful entrepreneur. A successful entrepreneur enjoys his/her interests and interests and makes focus towards the future of his business. In short, an entrepreneur works relentlessly throughout his life.</p>
8. Innovative	<p>An change is need to be observed because it can never be static. Similarly, the rate of the economic changes may increase time. Thus, the entrepreneurs in order to cope up with the changing trend, need to include research and development activities to produce the innovative product. Many entrepreneurs such as Tata, Birla, Reliance and many other entrepreneurs have their own R & D departments.</p>
9. Good Organiser	<p>All the factors of production are not available at one time. An entrepreneur needs to search and select the best resources for the production process. That is, it is essential that an entrepreneur knows how to organize and get the work done (inputs). The success of the business mainly depends upon the ability of an entrepreneur.</p>
10. Good Predictor	<p>A successful entrepreneur holds a good forecasting ability which helps them in accurately predicting the future conditions of business. In short, they anticipate the future changes that would be seen in the consumer's taste, interests, attitudes, preferences, technological changes and many more and prepare a definite strategy to get rid of these.</p>
B. Traits/Qualities of Entrepreneur Given by Robert J. Hirsch	<p>According to Robert D. Hirsch, following qualities a man must be possessed by a entrepreneur:</p> <ol style="list-style-type: none"> Motivator An entrepreneur must be a great motivator. He should motivate people and form teams and groups and make the take care that the group members are motivated in regular form. Besides this, an entrepreneur must also create such an environment where in the individual gets growth and experiences career development. Self-confidence Self confidence is an important trait of an entrepreneur without which he will not be in a position to motivate his employees to achieve collective goals or a common goal. Long-term Involvement The minimum number of years an entrepreneur can invest in one's own business varies from 5 to 7 years. One must not expect any return to take place over night or in a short span of time. The entrepreneurs must be determined and committed over they give their business. High Energy Level An entrepreneur must be energetic and dedicated to the success of any individual as highly dependent on the efforts and hardwork he used to put in his tasks. Prominent Problem Solver Creativity is an essential element in entrepreneurship. An entrepreneur needs to be persistent to accomplish a task or solve a problem. Innovator An entrepreneur must be an innovator. He must come up with new ideas and new creation and also at the same time he must be capable of making a proper and optimum utilization of all the resources. Goal Setter An entrepreneur must be able to set challenging but realistic goals. An entrepreneur must set goals and should define the ways to achievement. They must not deviate and follow the right path. Moderate Risk Taker An entrepreneur must be a moderate risk taker and must learn from the failure. It has been rightly said, "Failure are the stepping stones to success".

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UNIT-1: Introduction to Entrepreneurship

Q27. Describe the process of developing entrepreneurial competencies.

Answer : (Note Paper-1, Q27) (Page-18, Question 08)

Competencies are the unique characteristics feature of an individual, which results in superior performance. This is influenced by an individual's unique culture, behavior in different situations or individuals behaving differently in different situations. The Kirkpatrick experiment has proved that the entrepreneurial competency can be induced among entrepreneurs via education and training. Competency based approach to human behavior. The process of developing competencies follows four steps as follows,

1. Competency recognition
2. Self-assessment
3. Competency application
4. Feedback.

Step-1: Competency Recognition

The first step involved in developing a competency is recognizing a competency. Firstly, it is quite natural to identify a competency before developing it. Acquiring a new behavior develops by understanding and recognizing a specific competency.

Step-2: Self-assessment

Assessing the competency is recognized and understood, the next step towards acquisition of a specific behavior is to see whether one possesses the specific competency or not. If yes, then one how frequently one deploys that competency in his/her real life.

Depending upon self-assessed the individual is need to with the help of these ratings the competency level of an individual is determined.

Step-3: Competency Application

After knowing one's pros and cons for a particular competency, it is essential to practice them on a regular basis in different situations. For the purpose of making new behavior a part and part of one's personality, the particular behavior needs to be applied more number of times even in the simplest activities of one's day-to-day life. As it has been correctly said that, "practice makes a man perfect".

Step-4: Feedback

After understanding, making new behavior a part of one's behavior and then practicing a particular behavior or competency, it is essential to evaluate one's own behavior in order to shape and strengthen one's competency. This is nothing but "feedback". In short, "feedback" is the way of analyzing and determining the strengths and weaknesses of an individual's own behavior. This would help in knowing how the new behavior has been reviewed, which would further allow an individual to either sustain or give up the task/level of a particular behavior in his/her future life.

Q28. "Entrepreneurship is the act of creating a business or business or business while building and scaling it to generate a profit", justify the statement by explaining the entrepreneurial competencies and brief on the types of entrepreneurs.

Answer :

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"Entrepreneurship is the act of creating a business or business while building and scaling it to generate a profit". This statement can be justified by explaining the entrepreneurial competencies and types of entrepreneurs.

Entrepreneurial Competencies

Entrepreneurial competencies are the two studies are discussed below:

1. Entrepreneurship Development Institute of India (EDI) study
2. Industrial Research Studies (IRS)

1. **Entrepreneurship Development Institute of India (EDI) Study:**
The EDI study was conducted at Ahmedabad by Entrepreneurship Development Institute of India (EDI) to find out what makes an entrepreneur successful. Few competencies which were identified by this study are as follows:

1. **Initiating Nature:**
Entrepreneurs are basically initiators in nature, who take an initiative to establish an enterprise.
2. **Opportunity Seeker:**
An entrepreneur is an opportunity seeker. He very keenly observes various opportunities and selects the best out of them and makes optimum use of it.
3. **Consistency:**

Consistency is what makes an entrepreneur successful. The Japanese proverb holds good here, "Fall seven times, stand up eight". Entrepreneurs continuously undergoes in overcomes obstacles in their path.

4. **Looks Out for Information:**
Entrepreneurs consider various research studies to collect information and use this information for accomplishing the goals.

5. **Emphasizes Quality:**
Entrepreneurs focus greatly on quality and always try to produce better quality products than their competitors.

6. **Zealot to Work:**
Entrepreneurs are highly committed and dedicated to work and make "n' number of sacrifices to accomplish the goal.

7. **Highly Efficient:**
The basic primary goal of an entrepreneur is to reduce cost and earn more profits. For doing achieving this, she/he requires lot of efforts.

Q1. Good Practices:
Entrepreneurial entrepreneurs are good players. They design and follow up their plans.

Q2. Problem Solver:
Entrepreneur is a person, which usually tries to identify and possibly all these problems or being solved by an entrepreneur.

Q3. Self-confidence:
An entrepreneur usually believes in his strengths and abilities and is confident of what he does.

Q4. Ambitious:
Entrepreneurs are good in ensuring that problem will solve for the betterment of their enterprise.

Q5. Convincing:
Entrepreneurs hold the ability to convince others to do what they want.

Q6. Good Controller:
Entrepreneurs very carefully examine and monitor other's work and see to it that it is done according to the set standards.

Q7. Work Ethics of the Entrepreneurs:
Entrepreneurs consider employees as an asset of an organization and therefore make efforts towards enhancing their welfare. Employers are being treated as one of the factors of production with maximum care and feelings.

Q8. Effective Manager:
Facilitates the most judicious measures to influence entrepreneurs to achieve their goals.

B. Individual Research Studies (10x)

Many individual scholars have conducted research studies to determine the entrepreneurial competencies. James J. Hersey conducted a research study at Madras (Chennai) city of India and identified the following competencies:

1. Entrepreneurial nature
2. Growth oriented
3. Creative
4. Work-oriented and hard working
5. Quickly watches and adapts the changes

McCory stated the following seven regarding the entrepreneurial competencies:

1. Desire income in enterprise
2. Emphasizes creativity
3. Ventures in nature
4. Makes optimum use of an opportunity
5. Makes optimum utilization of the limited resources

B.C. Toubon makes the following characteristics:

1. Risk-takers
2. Flexible
3. Authoritative
4. Good organizer
5. Good manager

Thus, after doing through various research studies, it is concluded that the major entrepreneurial competencies are:

1. Strategic
2. Risk-takers
3. Creative
4. Organizational
5. Risk and achievement
6. Change-agent
7. Hard worker
8. Good organizer
9. Efficient manager
10. Able administrator
11. Quick decision maker
12. Highly committed
13. Low drama person

Types of Entrepreneurs

For example, Radio City-L, Q1A, Topic: Types of Entrepreneurs

Q29. Write down the characteristics of small-scale entrepreneurs.

Answer :

The characteristics of small-scale entrepreneurs are as follows:

1. They are mostly singletons.
2. They have the high levels of energy.
3. They hold no academic basic education.
4. They are pleasure in nature.
5. They are hard-working by nature.
6. They are anxious.
7. They are highly organized and self-confident.
8. They are self-made men.
9. They are well-educated.
10. They have a planned approach.
11. They are mostly skilled and experienced.
12. They are entrepreneurial individuals.
13. They have less amount of capital.
14. They operate in limited geographic area.
15. They focus on the production of a single product.
16. They enjoy unique products.
17. They possess high levels of flexibility.
18. They are determined but the job opportunities are less in the small-scale entrepreneurship chapter only limited number of employees or salesmen.

UNIT-1: Introduction to Entrepreneurship

Q30. Enumerate the characteristics of large-scale entrepreneurs.

Answer :

The characteristics of large-scale entrepreneurs are as follows:

1. They are professionals and are managed by employed people.
2. They hold large capital.
3. They pool-in their capital from large number of shareholders.
4. They regular their shares either in National Stock Exchange (NSE) or Bombay Stock Exchange (BSE).
5. They possess large assets.
6. They avail the credit facility for buying the large assets.
7. They focus upon diversification.
8. They deal with branching and producing goods in the market.
9. They have large resources.
10. They have easy accessibility for financial institutions.
11. They have greater leverage for development.
12. They have good social, political and official relations.
13. They set new trends which others follow.
14. They carry out various courses, awareness programmes to create demand for their products.
15. They are great visionaries who forecast and predict the need of the country well in advance.
16. They are responsible and have a value-driven corporate philosophy.
17. They widely distribute their samples to the general public as a part of the sales promotion strategy.
18. They invest much in R&D department.
19. They generate huge job opportunities.
20. They also take high levels of risk.

1.2.1 Entrepreneur Vs Manager

Q31. Discuss the points of differentiation between an entrepreneur and a manager.

Answer :

The distinguishing features of an entrepreneur and a manager highlight the points of differences between an entrepreneur and a manager. Entrepreneurs and managers are the two sides of the same coin. The success and the failure of an organization completely depends upon them. Although both managers as well as entrepreneurs strive to accomplish the same goal, yet they differ from each other in many ways.

The following are some of the differences between entrepreneur and manager:

S.No.	Basic	Entrepreneur	Manager
1.	Name	All entrepreneurs, i.e., entrepreneurs, self-employed and employees. He makes his own fortune.	Managers are goal-oriented and sometimes but they are scared of their's ability with regards to operation.
2.	Power and risk	They focus upon technology and market. They are moderate risk takers and they reward fairly.	They focus more on non-entrepreneurial activities, but they do not take any risk.
3.	Market research	Market research is conducted to create new products.	Market research is conducted in order to discover weak and good product commercialization.
4.	Style	They do not care about their status control.	They are very much concerned about their status control.

1. Decision making	They are independent with regard to the decision-making process and do not consider anybody's opinion.
2. Failure and mistakes	They consider failures and mistakes as the stepping stones to success i.e. from fail, there is success.
3. Problem solving approach	They analyze various problems by applying the known approaches without necessarily considering causal structures.
4. Family background	They usually come from middle-class families, who either had small business or professional background. Most of the entrepreneurs either have good relations with father or have no father.
5. Educational level	They are either graduate or less than that, but they possess qualities and characteristics like high achievement motive, self-thinking, preferring skills and having initiative.
6. Rewards	Entrepreneur's reward is the profit which is less often.
	They are highly dependent upon their superiors and CEOs to take any decision in the organization.
	They avoid mistakes and prefer to take safe suggestions.
	They accept the risks and take the risks in problems.
	They belong to educated families and ensure that their family members had worked in reputed organizations. Managers are mostly independent of mother, hold poor relationship with father and are less dependent.
	They are highly educated, professionals and possess unique qualifications or area of good management knowledge, time and practice.
	Manager, manager's salary, every month which is fixed and certain in nature.

Q3. Define Entrepreneur. Distinguish between Entrepreneur and Intrapreneur.

Answer:

Distinction of Entrepreneurs

Entrepreneur is also known as "Intrapreneur entrepreneurship". It basically deals with innovations which needs to compete divisions or subsidiary divisions in large scale organizations. In today's C. Washington University has named entrepreneurship as "Intra-Corporate Entrepreneur" (ICE) and "Intra-Corporate Ventures". Intra-entrepreneur functioning is most popular in academic field.

Intrapreneur can be defined as the receiver or innovator; individual who through the organization in a conservative way to produce new products or services. They are mostly independent, in action and hold certain level of autonomy. Old-time entrepreneurs who create new products and services rarely hold the communistic responsibility of taking a personal risk in their creation. They do not assume any personal risk in any product or idea.

Differences Between Entrepreneur and Intrapreneur

Some of the differences between entrepreneur and intrapreneur are as follows:

No.	Basic	Entrepreneur	Intrapreneur
1. Definition	According to Peter F. Drucker, "He is one who always searches for a change, responds to it and exploits it as an opportunity."	Entrepreneurs are the innovators and software professionals who lead their innovative ideas to the organization under which they employed.	
2. Decision Making	He is greatly involved in the decision-making process.	He does not get involved in the decision-making process and remains committed to his work.	
3. Nature of Rewards	The rewards may vary with the changes in levels of risk, profit or loss.	He gets fixed rewards for the work and also extra reward would be given for his innovations.	
4. Risk and uncertainty	He is the most responsible person for all the risk and uncertainties connected with the business. In other words, he face high risk.	He bears medium or average level of risk.	
5. Role	He bears full care of the business as well as the customers.	He serves himself as customer and the organization.	

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UNIT-1: Introduction to Entrepreneurship

1.1.2 Entrepreneurial Decision Process, Ethics and Social Responsibility of Entrepreneurs

Q3. Explain the entrepreneurial decision process.

Answer:

The entrepreneurial decision process consists of the following four steps,

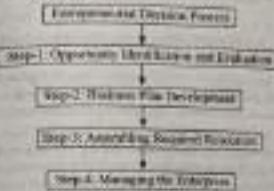


Figure: Entrepreneurial Business Process.

Step 1: Opportunity Identification and Evaluation

It is the most difficult and important step of entrepreneurship process. Generally, it is difficult for an entrepreneur to spot a potential business opportunity. Entrepreneurs do not have a formal procedure to identify a business opportunity. They get the business idea while interacting with business partners, customers, etc. For example, if talking to customer complaints, the entrepreneur can get an idea to create/develop a unique product to satisfy the customer expectation or wants.

Creativity plays a significant role in opportunity identification. It relies on the intellectual power of an individual to perceive and create something creative and fresh by creating product by adding new features to it. In simple words, creativity is equal to imagining something new.

According to Michael Mihalko, the creative parameters he divided into two classes. The first class includes creative or ideas such as pictures, poems, paintings, etc., and the second class includes the persons with entrepreneurial qualities who have creativity to come up with unique solutions for existing business problems.

An entrepreneur can use the PMI approach of creative thinking.

Where,

P = Plus/Fortune

M = Minus/Negative

I = Interesting

While exploring a new business idea, the entrepreneur may focus on the "P" aspect which is the positive aspect of the idea. This idea, he may explore the "M" aspect which is the negative aspect of the idea.

negative aspect of the idea. If the idea holds the potential, then the entrepreneur can explore the opportunities further to realize the idea after reducing some information about it.

Step 2: Business Plan Development

It is the most crucial and time-consuming step of the entrepreneurial process. A good business plan development helps the entrepreneur to utilize the opportunities, determine all the required resources and manage the enterprise effectively.

Step 3: Assembling Required Resources

The next step is to determine the input which are required to run the business operations. The entrepreneur has to contact the supplier of raw material, supply chain partners and others for obtaining the resources.

Step 4: Managing the Enterprise

The final step is to implement the business plan, manage the enterprise efficiently and help to accomplish the goals and objective of the business.

Q4. What is business ethics? Explain the nature and characteristics of business ethics to be followed by an entrepreneur.

Answer:

Business Ethics

According to Keith Davis, business ethics are the application of general ethical rules to business situations.

John Deakins, Arthur, "Business ethics as a study of moral judgment, action pertaining to business, industry-related activities, evaluations of practices and beliefs."

Nature of Business Ethics

The following approaches can be adopted by entrepreneurs in defining the nature of business ethics.

1. The ethical issues usually take place in core areas of management. In addition, there scope goes beyond the company issues of honesty, culture and the R&B. Issues of ethics have been moved into the focus of corporate governance, manager of firms, marketing policies and capital investments.

2. Compliance with the ethics make the managers to be honest for himself as well as over the firm as a whole. The efficient performance of a firm and quality of work of a manager has results in success of the firm. The ethical issues efficiency plays an important role measured by revenues, cost and profits and the specified performance.

3. The ethical issues are particularly of two types ethical and corrupt (example: bribery, theft, corruption, collusion and so on).

4. The different characteristics are represented in figure 1. It helps in making ethical decisions.

5. Ethics is commonly discussed as a contractual.

PRINCIPLES OF ENTREPRENEURSHIP (JNTU-HYDERABAD)

G05: Define social Responsibility. Discuss the responsibility of an entrepreneurial business towards the different interested groups.

Answer 1:

Social Responsibility

"Social responsibility refers to the forthcoming decisions and actions taken by business which benefit society and environment for better ethical growth by being the best and doing the best."

Definition

Social responsibility is "the manager's responsibility to public resources".

According to our thoughts, "Social responsibility means that management is responsible to the organization and not to all interest groups with which it interacts".

Other interest groups such as workers, customers, investors, suppliers, government and society in general are various equally to shareholders. Organizations have to consider the discharging social obligations, they build social liabilities to continue to make profits, can just in the short-run but not in the long-run.

Social Responsibility of Entrepreneurs

Social responsibility of business is viewed as conducting no corruption at a poor and fair manner by discharging its commitment towards different segments as explained below.

1. Towards Shareholders

It is the social responsibility of management to provide true and fair information regarding the functioning of the organization, return on capital, profit earned etc., in order to encourage them to carry directly participation in the management actions or to provide power to intervene. It is necessary to protect the interest of the shareholders.

2. Towards Consumers

The management should provide good quality products to the consumers and at a reasonable price. It should provide accurate and relevant information to the consumers. It should not provide harmful products and goods of dangerous nature.

3. Towards Workers

The management should adopt such policies which are recognized by trade unions, which cause a sense of belongingness and which improve the working and living conditions of the workers. The workers should be paid fair wages and they should be treated properly.

4. Towards Suppliers and Customers

The management should arrange the amount of money within the time specified to repay the loans taken from creditors and to pay for the supplies. It should fulfil all the obligations agreed and should have good relations with these.

5. Towards Government

The organization should abide by all the laws of the government. It should pay off the taxes and other dues fully in time. It should support the government in all government activities.

Figure 20: Characteristics of an Ethical Business

- The decisions related to ethics should show the responsibility to others also. Any decision which creates an advantage to oneself / business is considered as unethical.

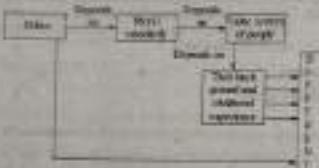


Figure 20: Characteristics of an Ethical Business

Characteristics of Business Ethics to be Followed by an Entrepreneur

Following are the characteristics of business ethics to be followed by entrepreneurs:

- Ethical decisions values with an individual's point of view. Each person differs with different culture and their frame of reference.
- Ethical decisions are not motivated, thereby have impact on different situations.
- Ethical decisions comprise a trade-off between costs and benefits. It is necessary to understand that costs and benefits, profits and accountability are elements of single issue.
- Most of the ethical decisions does not give clear results and it is also not clear what will be the result of unethical behavior of individual or organization.
- Ethical decisions is widely acceptable by the general大众 population.
- Ethical decisions are voluntary actions taken by human beings to stay away from choices of choices and free will.

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UNIT 1: Introduction to Entrepreneurship

6. Towards General Public

The main concern should protect the interests of society and support economic development and create a favorable future for the people in proportionate and direct to improve the standard of living.

1.3 Opportunities for Entrepreneurs in India and Abroad

G06: Discuss the opportunities for entrepreneurs in India and Abroad.

Answer 1: NO ESS-11, UNIT-01, Q06

Opportunities for Entrepreneurs in India

The Government of India has initiated the "Make in India" campaign to boost entrepreneurial development in the country. The field of entrepreneurship is both saturated and challenging to enter. The various government agencies such as the NSDC (National Skill Development Agency), NSDC (National Skill Development Council), under the ministry of skill development and entrepreneurship (which focus working hard to provide opportunities for building Indian entrepreneurship).

There are many entrepreneurial opportunities available at various education sectors such as, educational institutions.

1. Opportunities in Tourism Sector

The tourism sector in India provides a vast opportunity for building entrepreneurship. The Indian tourism is filled with excellent tourist attractions such as hill stations, beaches, diverse cultural experience, ancient temples and so on. Entrepreneurs can create business opportunities for themselves in tourism related activities such as transport and logistic, hotel, restaurants, tour guides and so on.

2. Opportunities in Healthcare Sector

Entrepreneurs can avail business opportunities in the field of Indian healthcare sector. India has the second largest population in the world. Thus there exists a very big healthcare market in India. The entrepreneurial opportunity in the Indian healthcare sector exists in the areas such as providing good hospitals, manufacturing and sales of medicines, private and government medicines, manufacturing and sales of medical equipment in the urban and rural Indian healthcare market.

3. Opportunities in Education Sector

The training and education sector in India provides a vast opportunity for potential entrepreneurs. There is a very high demand for pre-schools, colleges and other professional educational bodies in India. Training and development of the workforce also provides various business opportunities for prospective entrepreneurs. Thus good schools, social clinics, computer courses, skill development centers are the areas of interest for entrepreneurs.

4. Organic Farms Sector

The organic food farming sector holds a promising opportunity for prospective entrepreneurs in India. Consumers have become highly health conscious while regard to the fruits, vegetables and other healthy items. Thus market for the fruits, vegetables and other healthy items. Thus market holds great opportunity for entrepreneurs. What are advantages of going into the organic farming business?

7. Opportunities in Transportation Sector

India is a fast growing and has one of the largest network of roads and railways in the world. The government of India has taken up the development of transport network in the country. Prospective entrepreneurs can look for business opportunities in transport related area such as providing road services, air taxi services, logistic management for periodic goods such as fruits, fish, live stock, medicines etc. Further business opportunities can also be found in areas of mineral oil, mineral transportation etc.

8. Opportunities in Textile Sector

The Indian textile sector is one of the largest in the world. India exports 11% of the total garment and apparel. Entrepreneurs can find good business opportunities in the apparel and integrated textile sector. Areas of interest for entrepreneurs in this production, marketing and sale of raw material, production of textiles, handloom, powerloom and handcrafts etc. The entrepreneurial opportunities in the textile sector is the main business and economy, both for the domestic Indian market and the international textile markets.

Opportunities for Entrepreneurs in Abroad

The following are the opportunities for entrepreneurs in abroad:

1. Franchising

Franchising is a business model for a non-governmental organization. It offers all the necessary support to the entrepreneurs by providing ready business model, marketing, training and funding. There are several hundreds of businesses which are looking for franchise partners across the globe. The franchises of franchising keep changing over a period of time. Fast food and helping franchises are the most popular and successful franchises. To serve basic health and fitness franchise, leisure retail and "green" energy businesses have been growing rapidly globally.

2. Tourism-Based Businesses

Tourism-based business located in abroad is a popular trend due to the fact for a great option for increasing the income of entrepreneurs. The entrepreneurs can choose small and large businesses according to the demands of the place, proximity and nature. Small business like tea-catering, bakery don't require much investment but offer good income if located in a busy location. Hotels, car rentals, mobile and taxi services to tourist entrepreneurs shall also be considered as productive business. In this business, it is very essential to acquire and maintain a good reputation for staying customer satisfied.

3. Internet and Laptop-Based Business

Online business offers the ability of location and time and is much budget friendly. Various websites offer free listing jobs, online freelance, web developing etc. The capital required is relatively low, when compared with other businesses. Examples: Amazon, etc.

Q2. Entrepreneur

A firm can be started as a new entity with goods imported from some country. Some will find it of interest to import capital equipment or foreign technology into the country. Goods can also be exported from a new country to native country. In this case, the entrepreneur acts like a mediator. Imported goods can also be sold as an end-item by starting a contact with relevant companies and thereby developing the business.

Q3. Define 'International Business'. Explain about the need, significance and opportunities for entrepreneurs in Abroad.

Answer - 1

International Business

The business activities which are carried out across international boundaries is called as 'International Business'. The business activities may consist of transaction of economic products such as goods, capital services and commercial transactions such as sales, movement production of physical goods or services of business which include financing, research, insurance, communication, trading etc. Thus, International Business is made up of all kinds of international trade and Foreign Direct Investment (FDI).

In the present day business, an entrepreneur has a big opportunity in India and abroad. International Business provides great opportunity.

Need of International Business

International business has become one of the crucial and important component of the present scenario. It is significantly playing a greater role of both the market i.e., international markets and international brands. In this present world, every country i.e., either developed or developing need to import goods which are not available as a commodity for their purpose. They need to expand their international business with the relation which is existing between the two nations of the world. The following are some points which explain and highlights the needs of International business.

- To increase the volume business of country through expansion and importation of products and services.
- To capture the requirement and needs of the people and offer them different choices or brands.
- To promote the concept of Global Direct Investment (FDI) especially to the developing countries.
- To spread for global and consider capital investment over all the world.

International Business for competing on the global level, to provide opportunities equal chances.

To allow for expansion of large variety of products in the society.

Significance of International Business For an Entrepreneur

The significance of International Business is discussed as follows:

- The International Business plays an important role in increasing the international competitiveness of both the products such as market economy and macro-economic levels.
- Improves balance of payment in the country.

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- It facilitates the transaction of foreign exchange which leads to improved export requirements of the country.
- International Business helps in the promotion of FDI in International Business. India has the following 80%:
 - Project utilization of initial resources.
 - It balances the economic space via Research & Development support.
 - It has its position in the International market.
 - It increases profit out of the International risk.
 - It drives towards developing own particular capabilities in order to improve economic development programs.
 - It acts as an effective tool for gaining high foreign exchange and latest technology in order to face competition successfully.

The international business also offers various alternatives to firms to expand its works globally. This firms can either approach wealth either by exporting its products to the foreign market or by the acquisition of foreign wholly owned subsidiary. There is a lot of location in which the firm can reduce cost and earn maximum competitive edge at the international level.

In order to avoid above different components, the firm make protection in capital structure economy for exports than to focus attention economy under off-shore assembly operations. The product often associated with a firm's operations in the home country and are sent to various other markets as well.

The international business helps the entrepreneurs in expanding market in foreign countries. The firms by using the high standard of products in various countries can avoid production in those countries as far as it can afford to and subsequently reduces transportation cost and benefit. The firms can access huge capital and advanced technology in the selected foreign locations when the fine products are demanded. Transfer of technology is one of the ways that the firm can earn profits and can reduce the cost involved in Research and Development (R&D) and O&D.

1.3 CREATING AND STARTING THE VENTURE

Q3. Elucidate the four steps involved in developing personal creativity and state the methods to initiate ventures.

Answer - 1

Process Stages of Personal Creativity

A creative process has four phases or stages. They are represented in the following figure.

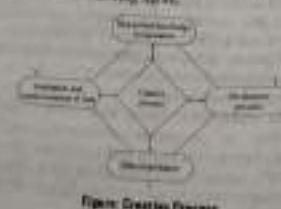


Figure: Creative Process

UNIT-2: Introduction to Entrepreneurship

Background/Knowledge Association

Background and knowledge association are the preconditions of successful creation. Background knowledge can be learned out in different ways.

- Experience resulting of related data.
- Conversations and meetings with people working on the same area.
- Participating in professional training and seminars.
- Going through magazines, newspapers and materials to find out the information with the field.
- General gathering of relevant information.

Background Process

The background process of creating individuals influence to think on the source of the information gathered during previous phase. The process of background occurs at the time of sleep or at the time of carrying out unrelated activities. The goal of background is to enhance the creative ability of an individual following outcome of the sleep or related activities.

- Having power from the creative process by getting involved in basic and personal daily routine.
- Physical exercise and relaxation.
- Allow time for meditation and relaxation.
- Break-like problem before going to bed.

Idea Exploration

A very exciting phase in the creative process is idea exploration. The phase occurs when an individual finds an opportunity he was looking. This is also called as "ureka factor" and is often strongly perceived at the end of the creative process. Some of the signs to indicate idea exploration are:

- Forwards and day dreams about the problem.
- Regular practice of hobbies.
- Work in a free and loose environment.
- Put the problem in a inventory for having ideas.
- Carry a note-book always to make down ideas as and when they arise.
- Have a break in between the theory work schedule.

4. Evaluation and Implementation of Ideas

A highly difficult step in the creative process is evaluation and implementation of the idea. This step requires high energy, self-discipline and work organization. Many successful entrepreneurs are capable enough to identify the ideas, evaluate and implement them. They may face many obstacles and also fail several times. In this phase, the rough idea gathered in the third step has to be shaped and tested. Following points facilitate in carrying out the implementation:

- Enhance physical activity levels with good diet and exercises.
- Improve the knowledge on finance and business planning process.
- Find the idea with people in the same field and get positive advice.

- Acquire knowledge about selling policies and organizational policies and practices.
- Take the challenge to implement new ideas and train others.

Methods to initiate a New Venture

The three pathways/ methods to initiate venture for entrepreneurs are:

- Creating New Ventures**
For answer refer Unit-I, Q4.
- Acquiring an Established Entrepreneurial Venture**
For answer refer Unit-I, Q4; Topic: Start-up Acquiring Existing Ventures.
- Franchising**
For answer refer Unit-II, Q4; Topic: Franchising.

Q3. Explain the steps involved in starting an enterprise.

Answer - 1

In order to establish an enterprise, the entrepreneur need to follow the below mentioned steps:

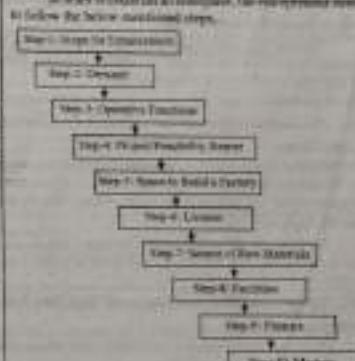


Figure: Steps Involved in Starting an Enterprise

Step 1: Steps for Evaluation

The initial or fundamental step is to determine as to what exactly the product can be improved in terms and also the organization which is going to be set-up/formed. Plan of future development and diversification are very significant and must be made in the beginning only i.e., planning phase.

Step 2: Decision

It is mandatory for the firm to predict the demand for the similar products. Various techniques of demand forecasting like salesforce's forecast, regression analysis and so on can be followed for predicting/forecasting the demand for the product.

Step-3: Operational Function

The most essential operational functions like the planning, manufacturing, administration, finance, human resource and marketing need to be concerned by the firm.

It is also important for the firm to evaluate the strengths of the enterprise in terms of financial backing and working environment.

Step-4: Project Feasibility Report

A project report needs to be prepared after a detailed and careful study of the different factors which affects the survival probability and profit margin of the firm. It must also make sure that the project is worthy enough to meet the set of requirements of the firm.

Step-5: Space to Build a Venture

An appropriate and suitable place need to be selected for the establishment of a factory. The following are few factors that affect the placement of the space:

(i) Easy accessibility and convenience of place chosen than the cost of raw materials.

(ii) Ease availability of labor in the place near the factory.

(iii) Adequacy of land or sufficient area.

(iv) Adequate transportation facilities.

Step-6: License

The license and permission must be taken from different departments of government before commencing the business. Permissions required will be the technical and specific legal formalities must be completed under the provisions of particular acts.

Step-7: Source of Raw Materials

The next step is to inquire about the availability of raw materials in our country i.e., India. For instance, the location in which the material is available i.e., whether it is local or abroad. This will indicate the cost of the place and if it is needed the import facilitation must be carried out.

Step-8: Finances

The amount of finances need to start a new mode, technology, power, skills, and connectivity etc., can be made available.

Step-9: Finance

Finance is required as an essential element to start an enterprise. Without finance there would be no enterprise. There are two options of raising finance, either going to borrow the money or by being own funds. Funds can be borrowed from the bank associations and the easy funds can be obtained from the family and bringing back the profits to the firm.

Step-10: Marketing

The firm can survive and grow in the market with the use of an appropriate marketing strategies and techniques. The firm needs clearly to explain the benefit of its products would be real in the local market or they can be sold in the global market.

Q48. Discuss the "New-New Approach" and "New-Old Approach" for creating new ventures.**Answer :**

There are two approaches for creating new ventures. Either of the approach can be adopted by an entrepreneur:

1. New-new approach
2. New-old approach

1. New-New Approach

New-new approach is an approach in a business where the aim is to create a new idea or product that is not previously existing in the market. In other words, it is creating a unique idea or product and offering it to the market to gain good success.

Example

Spacephone, plasma TV's, 3D television, organic products etc.

All the mentioned products in the market are the results of the efforts made by research and development (R&D) department of every organization. The digitization of items and similar products has increased the consumer expectation about quality.

New products are invented or discovered through the following process:

(i) Getting out the rough requirements or problems with a product or service during a period of time.

(ii) Identifying the solutions to the problems. This process results in the development of idea for new products.

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[UNIT-1: Introduction to Entrepreneurship]

Following are the various areas creating business opportunities:

Sectors	Opportunities
1. Consumer products	• Organic foods and Organic fabrics
2. Alternative energy	• Solar, Wind, Fuel cells and Energy conservation
3. Health care	• Healthy food, Exercise, Yoga, Medicines/Niche Drugs and Children
4. Media Communication	• Chocolate, Biscuits, Coffee Houses and Wines
5. Home automation and remote storage	• Lighting control, Security systems, Energy and smart management, Networked Kitchen applications etc.
6. Internet opportunities	
(a) Mobile ads and Unique services	• Call phones and PDA's
(b) Niche social networks	• Seniors, Music fans
7. Virtual economies	• Groups of local users
8. Educational Learning	• Online audience
9. HR services	• Match making, Virtual HR, and Online staffing
10. Technical opportunities	• Nanotechnology and Wireless technology

2. New-Old Approach

Not all the ventures are new. Some are the result of following old ones. Thus, new-old approach is adopting the existing idea and making improvements in it or adding the offerings to the idea which were not considered before.

Example

Starting restaurants, clothing stores or similar outlets in the area where those stores were not available before.

New-old approach is a risky approach as there are lots of competitors stepping in. This problem can be avoided to some extent by the potential entrepreneurs by launching those products or services which are difficult to copy.

Q49. What are the advantages and disadvantages of being the first in the market with a radical new product?**Answer :**

First mover is a term used for a firm which enters a new market with a specific new product or attribute and is the first to deliver it in the market. Thus, the first mover is the pioneer in the industry.

Advantages of (First Mover) Being First in the Market with a Radical New Product

The advantages of first movers are:

1. The firm holds a position as the pioneer or industry leader. It would create a lasting impression in the mind of the consumers.
2. Leadership gives the firm a place who is first to address the human and physical needs to create customer relationship which is key to setup loyalty.
3. Due to the early entry first and earliest gained control over scarce resources as there are no other competitors.
4. By being the first to enter the market the firm can occupy significant market share.
5. Using the first helps the firm to create brand awareness.
6. These first movers benefits apparently leads to high levels of firm performance and profitability.

Disadvantages of (First Mover) Being First in the Market with a Radical New Product

The disadvantages of being first movers are:

1. First movers face the risk of uncertainty against future demand as the requirement of the buyers may change in future.
2. They may face problem if the initial investments are related to present technology which is difficult to alter or cannot be changed. Thus first movers risk being left with obsolete technology and may face huge financial losses.
3. They have to bear often technological discontinuities makes the preceding technology obsolete.
4. They need to extend the scope of high costs of producing the new radical products as they are the pioneers.

5. Vote:

All the causes identified will be discussed逐一in the above and then vote for the best ones. Each individual will point out their views. They can either give all the six votes to the top one, which other two or three or all the five others to any four and one vote to the other, or give two to one selected two or the other etc., as per their assessment.

This helps in determining the ideal having high scores and those with the low scores.

6. Report:

Report describes the following:

- All the responses are reported into groups so as to discuss about the most important areas.
- The causes are chosen which the group members have selected.
- A group session which extracts the above mentioned points is proposed.
- Give time for short group presentations and their discussion.

7. Fishbone Diagram:

Causes and effects analysis is the continuation of the problem solving by examining the causes and the making of the new ones from where they can be collected. It is mainly used by the team leaders for facing the problems and used to determine the main cause for emergence of the problem.

Commonly often diagram was developed by a Japanese expert Kaoru Ishikawa. It is also called "fishbone diagram" or "fish bone diagram". The cause and effect diagram looks like the skeleton of a fish. A problem can occur several times due to a variety of circumstances and determination of the causes makes it easier for solving the problems effectively. Cause-and-effect diagram helps in determining the causes as well as their likely problems.

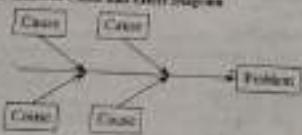
Structure of Causes and Effect Diagrams:

Figure 111: Fish Bone Diagram.

In the above structure of cause and effect diagram, problem is shown at the end of the horizontal line and the branches represent the potential causes of the problem.

Stages involved in Constructing a Cause and Effect Diagram:

The cause-and-effect diagram or fishbone diagram is a brainstorms-ing technique wherein all the participants are encouraged to participate in the problem solving process. The following are the stages involved in constructing a cause-and-effect diagram:

- In the first step, the problem is determined and is written on the right side of the diagram.

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Q5. (a) Introduction to Creative Problem Solving:

In the second step, the main causes of the problem are determined and written down in the form of the cause-and-effect diagram. These causes can be categorized as material, methods, materials, machines, tools, people, procedures, people, policies, processes, surroundings, suppliers, system and so on.

In the third step, all the possible causes of the problem are brainstormed and are logically placed in the cause-and-effect diagram. All the potential causes should be listed in two separate categories:

In the fourth step, all the main causes categories should be evaluated. The causes having the maximum chances to be selected are the choices.

In the next step, the causes which are critical are reviewed for determining the exact solution of the problem.

Finally, the most likely cause is determined.

Diagram 12 is an example of cause-and-effect diagram.

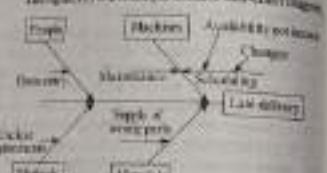


Figure 12: Cause-and-Effect Diagram.

People, machines, methods, and materials are the general causes for the problem of low delivery and need addressed according with the main cause.

1.6 CREATIVE PROBLEM SOLVING

Q6. (a) What is creative problem solving (CPS)? State its advantages?

OR

What is creative problem solving?

Answer: [\(Refer Page No. 67, Unit 11, Module 11\)](#)

Creative Problem Solving (CPS):

Creative problem solving is an art and every individual has different ideas towards problem solving. For any problem solving, the individuals should possess rational and analytical thought. This creative problem solving aims at finding the problem or arriving at a solution from various alternatives.

Definition of creative problem solving (CPS):

"Creative thinking involves three basic stages: idea-finding, idea-selecting and idea-implementing."

Q6. (b) What are the three basic stages of creative thinking involved in CPS?

Q7. (a) Introduction to Creative Problem Solving:**1. Fact Finding Stage:**

In fact finding stage, the causes of the problem are determined and written down in the form of the cause-and-effect diagram. These causes can be categorized as material, methods, materials, machines, tools, people, procedures, people, policies, processes, surroundings, suppliers, system and so on.

2. Idea-Generating Stage:

This stage deals with generating the best possible ideas. One which the idea can solve the problem effectively.

3. Solution-Feeding Stage:

This stage deals with selecting the best possible idea. One which the idea can solve the problem effectively.

Advantages of Creative Problem Solving (CPS):

The following are the advantages of creative problem solving. They are:

- It acts as a source for exploring those areas which are important for both personal life and organization.
- Explores potential areas in an innovative basis to competitive advantage.
- It provides various alternatives to select the best action plan for problem solving.
- It helps in controlling external forces.
- It is widely used for internal problems.
- It helps in accepting the challenges and fighting them effectively.
- It is helpful to analytical thinking and creativity when it is used overall to the organization.
- It leads to growth in an organization.
- This model promotes systematic and orderly structured elements while focus on solving the problem effectively and in short time.
- Organizations add 17% because it is better suitable for group settings.
- It is an effective tool for problem solving, stress and uncertainty.
- It is widely applied in sectors like R and D, engineering, new product development, strategic planning, marketing and advertising etc., by the organizations.

Q6. (b) What factors influence the discovery or creation of opportunities? Describe the stages of creative problem solving and present a detailed business plan to establish a new enterprise of your choice.

Answer: [\(Refer Page No. 67, Unit 11, Module 11\)](#)

Factors Influencing the Discovery or Creation of Opportunities:

For reference refer Unit 4, Q11, Topic: Factors Influencing Discovery or Creation of Opportunities.

Business Plan for Up & Go Coffee Shop (Unit 11)

The business plan for coffee shop is as follows:

1. Executive Summary:

The coffee shop is meant to meet the needs of the local coffee addicts and a meeting place for friends, family etc. It will also offer local coffee with different compositions such as regular, flat white, cappuccino, latte etc.

2. Objectives:

The objectives of the company are:

- To successfully serve and the shop is the area.
- To have a specific right from the first month of the operations.
- To maintain a P&L profit margin.

3. Mission:

The mission is to create an unique place for their customers to socialize, chat, gossip and contribute to enjoy the best coffee in town.

4. Company Management Summary:

It is a limited company involved in selling coffee and other beverages within 500 sq. feet. The owners include Kumar and Kanya, who own a number of 12% of the capital and their friends take and Katty hold majority stakes in the company.

5. Computer Location and Facilities:

The company will be located in the first floor of a commercial complex in Nizamabad. The company will be placed within the walkable distance from the residential complexes and colleges. The owners invest 500 sq. feet land for their startup on lease for 3 years and an option to extend their lease terms.

6. Capital:

The capital funds require ₹ 4,00,000 as owner capital and required to get ₹ 3,00,000 from bank.

7. Business Concept and Product Summary:

The company's product has includes high quality coffee varieties like expresso, moka, cappuccino, and flat white with standard milk and soy milk. A special variety of coffee, Indian coffee etc., are also included in their menu.

4. Market Analysis:

The consumption of coffee is very high in the country to grow their sales. The location of the coffee shop which is near to the residential complexes and colleges having a strong customer base. The company will strive hard to build local customers with their best offerings and services.

The banks and the financial institutions usually depend upon the economic stability or the probability of the project. It will be based on the probability and benefits of the project to be approved and the banks go through the project report to know how much finance is actually needed by the entrepreneur for sake of the project. Other inputs from the financial assistance, the numerous private sector facilities, such as small loan, new material, seeds capital financing, etc., also, is a part of the bank's project which contributes to the success of a particular venture.

Information Needed for Creating a Business Plan

A project report should be prepared with utmost care and diligence, it must be concise and lucid business plan to gain maximum support in getting finance which helps to enhance the business efficiency. The more succinct and complete the business plan, the more likely you are to receive the input of investors and their support in making and improving an enterprise. A good project report must have the following information:

1. General Information
2. Project
3. Location
4. Land and Building
5. Plant and machinery
6. Production process
7. Others
8. Transport and communication
9. Raw materials
10. Management
11. Products
12. Market
13. Working capital requirement
14. Funds
15. Others

1. General Information

A project must include the history and profile of the products and its details.

2. Project

An entrepreneur's educational qualification, work experience and any related experience should be mentioned in the project.

3. Location

The place where the project will be carried on i.e., the correct location of the project, whether the place is taken on lease or freehold basis and the locational benefits must be included in the project.

4. Land and Building

The information regarding the area of land, construction life, cost of construction with detailed plan, budget along with the plan layout must be provided in the project report.

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5. Plant and Machinery

The cost of acquiring manufacturing capacity, together with the cost of additional units required, must be mentioned in a project report.

6. Production Process

A project report should discuss all the details of the process of production, process chart, technical know-how, technology alternative available with the production process.

7. Others

Details in a project report contains cost estimation, water power, steam, compressed air requirements etc.

8. Transport and Communication

A project report must state the cost of mode of transport and communication to be used for a project.

9. Raw Materials

A project report must include the details of quantity and quality of raw materials required, types of raw material, the cost and other charges associated with raw material.

10. Management

A project report must be inclusive of the details of information of the skilled and semi-skilled human power requirements, sources of manpower supply, cost of hiring and the cost of training given in the manpower.

11. Products

An exclusive details of the product, size, regular customers, the network and the distribution channel, competition and their capabilities, input-output must be include in the project report.

12. Market

A set of market details such as the consumers for type of market i.e., local, regional or international, sales prospect, product and service, intended market research must be included in the project report.

13. Working Capital Requirement

The extent of working capital required, extent of working capital, the credit facility offered and available must be included in a project report.

14. Funds

Details of project cost in terms of cost of machinery, land and building, investment assets and money that is required to meet the working capital requirements of the project.

15. Others

i) Cost of production and returns in terms of profit per year.
ii) Break-even analysis of the project.
iii) Schedule of implementation of the project.

UNIT-1 Introduction to Entrepreneurship

1.8 WRITING BUSINESS PLAN

Ques: Explain the different stages involved in writing a business plan.

Answer:

Under large-scale industry, I&B do not make use of complicated methods for preparing a project report. Even within the I&B, the level of report can be same type of information.

The level of information to be provided in the project report depends upon the use of the raw as well as the nature of the production. Most firms have initiated a general set of guidelines for such study. "Formulation of a project report". Project formulation is being divided into eight major which are as follows:

Stage-I: General Information

General information includes the following.

(a) Bio-data of the Promoter

- i) Name and address of the entrepreneur
- ii) Qualifications
- iii) Experience and other qualities of the entrepreneur
- iv) Details of partners, staff & the above mentioned characteristics of all the persons (individuals).

(b) Industry Profile

A review of industry position to which the project belongs, i.e., either to its past performance, present status, in organization, in products, etc.

(c) Construction and Organization

An organizational and organizational structure of an entrepreneur, if it is a partnership firm then by agreement with the registrar of firms, application for obtaining registration certificate from the concerned office of district industry centre.

(d) Product Details

The project report must have the details of the product such as the product use, price of the product, product design, value added services being provided by the producer to its customers.

Project Description

Project description includes the following detail of a project:

(a) Site Selection

- i) Exact location of an enterprise
- ii) Whether it is owned by an entrepreneur or taken on lease.
- iii) Industrial area.
- iv) The objectives verifiable from the concerned authorities, in case if the enterprise is located in the residential areas.

(b) Physical Infrastructure

Physical infrastructure includes the following.

(i) Raw Materials

- a) Type of raw material
- b) Whether it is own or imported
- c) Reserve of each material supply

(ii) Skilled Labour

- a) Availability of skilled labour
- b) Organizing and taking care of training workers.

(c) Utilities

- a) Power
- b) Need for power, load constraint and power availability

(d) Fuel

- a) Need and availability of fuel items like coal, coke, oil or gas.

(e) Water

- a) Quality and source of water must be clearly mentioned.

(f) Pollution Control

Scope of stamp, sewage systems and sewage treatment plant must be clearly mentioned in the project report in case of industries producing wastewater.

(g) Communication System

The means of communication to be used i.e., telephone, tele, email etc., must be stated in the project report.

(h) Transport Facilities

The means of transportation, its cost, potential means of transport, distance, facilities must be provided in the project report.

(i) Other General Facilities

Availability of general facilities such as tracking scales, welding shops and laboratories equipment must be listed in the project report.

(i) Production Process

The type of production process to be followed and the time period of commencing can materials and finished goods must be mentioned in the project report.

(ii) Machinery and Equipment

A project report must have all the details of the list of machines and equipments along with their size, types and sources of supply to be used in the business.

(iii) Plant Capacity

A project report must enclose the detailed luculent plant names along with their capacities.

(iv) Selection of a Technology

The technology which is selected and the details to mention it must be enclosed in the project report.

(v) Research and Development

The project report must also include the details of research and development activities planned to be taken in the future.

Stage-2: Market Potential

Market potential in a project report must include the following:

(a) Demand and Supply Position

Demand and supply position must include the total expected demand for the product and current supply position.

(b) Expected Price

A project report must mention the expected price of the product to be realized.

(c) Marketing Strategy

Marketing strategy for selling the product must be included in the report.

(d) After-Sales Service

After sales service would depend upon the type of the product and depending upon the product nature, a provision must be made for the after sales service in the project report.

(e) Transportation

A project report must contain the details about transportation i.e., whether it is the entrepreneur's own transport or public transport.

Stage-4: Capital Costs and Sources of Finance

A project report must present a rough estimation of all the capital costs such as land and building, plant and machinery, installation costs, preliminary expenses etc. Working capital margin must also be presented. Details of bank documents i.e., owner's bank and funds from financial institutions and banks must also be shown.

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Stage-5: Assessment of Working Capital Requirements

The need and nature of working capital should be clearly and visibly mentioned in the project report. It helps both to project working capital requirements in a predicted manner designed for the time of requirement so that no loss occurs in operations.

Stage-6: Other Financial Aspects

A project report must also include an estimate of profit and losses depicting the various financial costs, interest rates and prices. Stakeholders and associated business sharers should also be mentioned to depict the financial position and requirement at different stages of the project.

Risk analysis, break-even analysis must also be conducted to find the break-even point. A Break-even Point (BEP) is a point where there are no profits or no loss i.e., depicts no production profit and the break-even point is the quantity sale or activity required to support the losses.

BEP is computed as follows:

$$\text{BEP} = \frac{F}{P - V}$$

Where,

F = Fixed cost
P = Sales/profit/contribution
V = Variable costs

Therefore, the BEP would indicate that at this percentage of sales, the enterprise will break even.

Stage-7: Economic and Social Variables

A project report must also show the following economic and social factors affecting the environmental damage. The cost involved in mitigating the effects and minimizing these risks included:

Usually these the project report must also highlight the following:

- (a) Employment generation
- (b) Import substitution
- (c) Industrialisation
- (d) Local resource utilisation
- (e) Export
- (f) Area development

Stage-8: Project Implementation

Project implementation is the last stage in formulation of project plan. All the entrepreneurs should prepare a timetable of an implementation schedule in order to accomplish all the product features in time. Time management is very important because, if there is a delay in the project action then it is almost over.

Project delays in India have become common. Project implementation delays, encourage the financial credibility of the project to investors and projects entrepreneurs to gain an upper hand. Thus, it is essential to draw up an implementation schedule for the projected date of project completion.

UNIT-1: Introduction to Entrepreneurship

Q1: What do you mean by business plan? State the purpose of preparing a business plan. Discuss the content of a business plan.

OR

What are the importance of writing a business plan?

(Any Only One: Purpose of Preparing a Business Plan)

Answer 1: **Business Plan** (A 4000 word long, clear, lucid, simple, clean Business Plan).

Business plan is said to be a written document which presents a detailed description of the venture that are involved in a business. It explains the roadmap of the business to accomplish its objectives. Business plan is necessary for both start-ups and growing enterprises.

Purpose of Preparing a Business Plan

The following are the reasons that highlight the purpose of preparing a business plan.

1. A business plan is prepared to determine the outcome of the business and to identify the possible challenges in it.
2. It is prepared to frame effective business strategies to achieve set goals.
3. It is prepared to establish a strong and healthy alliance by attracting skilled business partners.
4. It helps the entrepreneurs to focus more on the key aspects of the business.
5. It helps the entrepreneurs in measuring the actual performance of the business by comparing with the set standards.
6. It helps the directors of large organizations to take decisions related to capital investments.
7. It helps the entrepreneurs to specify the problems in the financial plan and to take corrective actions.
8. It helps in communicating with the business stakeholders effectively.
9. It helps in taking start-up decisions like the location and to plan the operation according to the location.

Content of a Business Plan

A business plan consists of the following contents:

1. **Cover Page and Table of Contents**
2. Cover page forms the first page and it must be every business plan. It creates a first impression of the plan to the reader and should be professional and clean. The cover page provides information regarding:
- (a) Name of the business company
- (b) Legal address, contact details of company
- (c) Details of the owner

Table of contents forms the second page of the plan. It provides a glance to the reader regarding the topics discussed in the next sections of the plan along with page numbers for quick identification.

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1. Executive Summary

Executive summary provides a gist in the reader regarding the business plan. It presents the key points from the entire business plan to attract the reader to read through the plan. It contains introduction, mission statement, the plan based on the executive summary. It is a brief summary and provides information regarding the profile of entrepreneur, main, budget, risk, strategic direction of the business, and market analysis.

2. Business Concept

This section provides a gist of the nature and purpose of the business. It should also include the objectives of the entrepreneurs behind running the venture. It includes the specifications of the products/services offered by the entrepreneurs along with their geographical coverage etc.

3. Management Team

This section presents the details regarding the profile of members, qualifications of management team and experience. Management members should not exceed three pages.

4. Business Plan

This section presents the details regarding the profile of market size, growth, consumer segments, value proposition, and competitive etc. Marketing plan of a company like a key role in attracting and retaining the stakeholders to increase the success and failure of the organization and its market share. The plan should also include the marketing analysis along with a suitable market intelligence report to support it. It should not exceed four pages.

5. Operations Plan

This section presents the key physical resources of business operation, raw material, location, new materials, supplier, employees etc. It also includes the breakdown of labor, space, fixed assets and the production process.

6. Financial Plan

It is one of the most important sections of the business plan. It involves the information of the cash inflow or financial terms. This section provides the feasibility of the business plan and its ability to attract the investors. It also provides a detailed analysis of financial statement. It should not exceed 4 pages.

7. Appendix

Appendix is the last section of the business plan which includes the related auxiliary documents, project references, links to market survey reports, detailed flow charts, photographs etc. The appendix should not be more than 10 pages.

Q38. To where do you present the business plan? What is the importance of goal and orientation of business plan?

Answer :

The business plan is presented to various, buyers, venture capitalists, lawyers, bankers, investors, customers and creditors.

The importance of goal and orientation of business plan is highlighted below:

1. A good and promotional plan is an opportunity to increase potential investors and sell them the business plan.

2. It is considered very effective as it attracts young entrepreneurs and critics.

3. Helps to ascertain the sales requirements when quick action is required.

4. It can be very effective when sales change in peak, intermediate and low sales in promotion.

5. Helps to build a better relationship with investors.

6. It is very helpful due to its double nature. It can be changed according to the investors.

7. It is suitable for employees as they feel their recognition and feedback.

8. It is very cost effective when compared to other methods of promotion.

Q39. Explain the procedure for preparing a good business plan. Prepare a business plan for a small scale food processing unit.

Answer :

Procedure for Preparing Good Business Plan

For business idea (See Q. 1, 11)

Business Plan for a Small Scale Food Processing Unit

In this large-scale operation, small scale business units

are being developed methods for preparing the business

plan. The following are sample business plan for small dairy

cooperatives formed by Mr. Rakesh Arjandas.

Executive Summary

Mr. Rakesh Arjandas has been involved in the milk and

dairy production business for the past 5 years. They have been

working at whole sale suppliers of milk and related products in

the country at large. Mr. Arjandas plans to start a small food

factory supplying dairy products such as milk, cheese, cream,

butter etc. He has developed an innovative and standardized plan

for the product. His business analysis of his enterprise shows

a positive cash flow and profit from the first year of initiating

the business.

Background and Motives

Mr. Rakesh Arjandas has been involved in the dairy

industry for more than five years. He had joined small

business about milk processing unit from systematic studies

background and preparation of dairy products, storage

and delivery of the products and when explored

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Market Description

The dairy market in India has a significant growth rate in the last few years. In fact, India's dairy products are highly popular among Indian and international markets.

Marketing Strategy

A small dairy cooperative has good chances to compete with large scale food processing firms. As India is a large market for milk and milk products, there are many big business houses. They would be your main customers. The focus has developed very good marketing for products, as per the needs of its customers.

Processing Plant

Any dairy cooperative would prefer to establish strong processing facilities, so as to accommodate all raw materials and finished products, or else the raw facilities requirements.

Capital Cost and Source of Funds

The investment Mr. Arjandas had estimated a total capital cost of ₹ 15 lakhs. The capital money would be arranged from three different sources.

Estimated Capital →	₹ 15 Lakhs
Bank borrow of ₹ 10 Lakhs	1 Lakhs
Personal Finance →	4 Lakhs
Total Capital	15 Lakhs

Project Implementation

The first and the most crucial step of any business plan is project implementation. Mr. Rakesh Arjandas intends to finish all activities and realize the business objective by the end of one year.

Q39. What are the common errors in project formulation?

Answer :

Project formulation is important. If a small business that managers its overall corporate identity fails formulating project errors. Some of the major typical project formulation errors are as follows:

1. Product Definition

An entrepreneur goes for the wrong product without giving much consideration to the size of the product market, future demand, competitive position, location availability of required labor, the material and technology.

2. Capacity Definition Estimates

It is clearly felt that the entrepreneurs make over optimistic capacity estimation. Thus estimated capacity tends to exceed the actual production. This overestimated capacity is in accordance with the current enterprise performance, providing market conditions, competitive environment, technological limit and so on.

QMF-1: Introduction to Entrepreneurship

1. Market Needs

One of the entrepreneurs who were not satisfied a prior market study and could an alternative for the entire market to market for their product. A market problem is usually a commercial risk. Therefore, the market study is of greatest interest.

2. Technology Selection

Technology to be used differs from products to products and services of the business. Right type of technology even at initial level can be selected which will available from local sources. Thus, there should be availability of facilities.

3. Location Selection

Entrepreneur can only become a successful business, if planning a location in Illinois.

Finally, they selected by the entrepreneur's interests and requirements for setting up businesses at a specific location. Various factors also consider the market proximity, availability of raw materials, management and infrastructure facilities.

4. Financial Needs

Generally, business often borrows from bank or from its own business venture.

5. The simplest would consider the business plan from the perspective of the entrepreneur. The potential supplier would calculate the prices of goods and services by comparing the new product to the business existing. Furthermore, many business plan require a little bit of research work independently to compare business with other business. Thus, the market evaluation is of great interest.

2. Evaluation by Financial Lenders

The entrepreneurs were approached very kindly by various financial lenders for the business. The entrepreneurs need to make a business proposal to the business. The lender would be more interested to know the potentiality and risk of the business concern. It would be evaluated by the loan officer whether the business would be profitable and value of the business would be repaid back with some percentage of interest. Further, the lender would ask for the cash flow statement of the business which would be provided against the maximum amount that would be provided by the bank to the entrepreneur.

Generally, business often borrows from bank or from its own business venture.

6. Creditworthiness of the entrepreneur

7. Characteristics of the enterprise

8. Cash flow schedule of the firm

9. Calculated cashflow from the firm

3. Evaluation by Investors

The prospective investors look at the business proposal evaluate the business plan from a different perspective. Hence, the most important is to know the character of the entrepreneur, its attitude and willingness to use the entrepreneurial skills to the maximum. The investors would evaluate the business plan to know whether the profits margins they expect in future and also the time duration within which they can see their capital not just the revenue. The investors also provide back to the business venture. Thus, these would evaluate the business plan to detail from the perspective of the investors and the exact time which the entrepreneur would be worth for investment in the development of the business activities of the manager.

4. Evaluation by Customers

The potential customers are organization that buy the business venture. They would purchase the products or services of the enterprise after studying the long term commitment of the entrepreneur.

Thus, it may be noted that different potential lenders and investors would evaluate the business plan differently. The entrepreneur is advised to prepare a business plan which reflects the requirements of all the different creditors.

1. Evaluation by Suppliers

The potential suppliers of raw material or finished goods would evaluate the business plan from the perspective of their business. Thus, these would compare their business with other business.

2. The scope for long term supply of the raw material or semi-finished goods to the business venture

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Q65. Discuss about the feasibility report preparation and evaluation criteria for business plan.

Answer: <http://www.jntuhyderabad.ac.in/Downloads/2019/01/Feasibility%20Report%20Preparation.pdf>

Feasibility Report Preparation

Preparation of feasibility report starts by analysing major activities in the following steps.

Step-1: Conduct a Research to find Business Need

Before writing a feasibility report, it is necessary to know the business need and make a detailed research on it regarding its proposed new products and the impact it can have on business environment.

Step-2: Find Solutions

Once you make research on business need and perceive what kind of products be available, the next step is find solutions to fulfill that need. There should be multiple solutions to solve the problem.

Step-3: Analyse Each Solution

Now each solution is analysed to analyse its final implementation.

(i) How much cost will the company incur to opt for this solution?

(ii) How much time is required to implement the solution? Early measured solution should be aligned with the business needs. To evaluate various such solutions, certain methods can be used such as:

(i) Net Present Value (NPV).

(ii) Payback Period (PP).

(iii) Internal Rate of Return (IRR).

(iv) Opportunity Cost (OC).

(v) Benefit-Cost Ratio (BCR).

The various other methods that can be used to assess such solutions include undertaking certain sensitivity value approaches like break-even processing.

Step-4: Suggest the Most Appropriate Solution

In this stage, the most appropriate solution is chosen based on the lower risk involved and its capability to deliver the expected outcome.

If you follow the above steps properly, you will have a feasibility report ready to be presented to the management. The report will be approved and implemented if the project is found to be feasible.

Evaluation Criteria for Business Plan

Please refer List 1, Q65.

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Q62. Discuss the methods of project appraisal to appraise a proposed proposal.

Answer:

Project appraisal is nothing but the assessment of proposed projects which is conducted for proposed projects to conduct socio-economic and financial analysis of proposed project. Project appraisal is done to know the viability of the project, its cost at a cost and benefits analysis, several merits of the proposed project. An entrepreneur has to take different aspects of project before finalizing the best project.

Business, material, technical, market, financial and social aspects are assessed before selecting a project. Financial institutions approach the projects to know the creditworthiness before providing funds for the project. For the business section, the process of appraisal is as follows: a business plan is submitted to banks, investors, analysts and concerned departments of government for review. A review of a final document of a particular plan can be finalized after several discussions in the first round.

Methods of Project Appraisal

Project appraisal includes the following analysis:

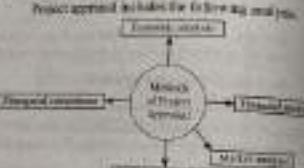


Figure: Methods of Project Appraisal

1. Economic Analysis

The economic analysis of the project involves requirements for raw materials, capacity utilization level, estimated labour expenditure, capital needs. The business should have a record of sales of profit to know how much sales are enough to meet fixed costs. Economic variables like sales, purchase, capitalisation and other factors help in determining the profit.

The product's demand must be analysed. This is undertaken to project feasibility. The performance of effort resources and consequences to those resources which are best manifested in the break-even analysis. So, the firm must resource very similar effort they belong to the category of cost.

2. Financial Analysis

The financial analysis considers finance as the primary concern for the entrepreneur to bring all the legal and financial, non-financial, physical and financial assets together to understand the goals. Financial feasibility of the project, the achieving areas are analysed diligently.

3. Assessment of the Technical Requirements, constraints and the fixed and the working capital needs.

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(i) All the cost relating to the acquisition of plant and machinery purchased, land and building, scale of operation, depreciation and other expenses required to acquire, addition of building and renovating plant, to given importance to the project.

(ii) The working capital necessary to cover current assets and current liabilities. Current assets are those assets which are used, converted into cash within a short time. Current liabilities are those obligations which are payable within a period of twelve months. In simple words, working capital means the amount of funds which are required to carry the day-to-day operations of the enterprise.

3. Market Analysis

The analysis should be made about the probable and potential customers of the product in the market. However, the production of proposed has a value in what it is being sold & to whom. As an entrepreneur must make about, where will be the possible customers for the product and what and where the product could be sold. Thus, understanding the expected market conditions for the product is to be predicted because of information taken in the business plan. The general approach to predict the demand for a product are as follows:

4. Opinion Polling Method

In this method, all the members of the test group are selected. The opinion can be collected either by complete enumeration or by sample survey. All the consumers are interviewed to comprehend consumer's white only. Few consumers are interviewed in sample survey. Opinion polling methods of four types. They are:

(a) Complete enumeration survey

(b) Sample survey

(c) Sales experience method

(d) Salesman method

(e) Complete Enumeration Survey

Complete enumeration survey approaches all the expected consumers and takes into account their estimation and then total it up. Sales estimation for the market is not difficult. It is calculated by simply adding up all the expected probable demands of the consumers. For example, assume there are total 50 consumers of product and all of them demands for 10 numbers of X. Then, in such case the total expected demand would be,

$$\sum_{i=1}^{50} 10 = 500$$

This method helps in acquiring firsthand and reliable information. The main disadvantage is that, it is time-consuming and costly to conduct survey of large number of consumers.

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5. Sample Survey

Unlike complete enumeration, sampling method conducted to reduce costs in collecting information out of the total population. The selected elements of these selected elements is collected and then the aggregate is calculated.

Example

If the total number of consumers is 1000 and out of these only 100 are chosen for survey, average cost is 100. If the expected demand of these sample consumers is D, i.e., D₁, D₂, ..., D₁₀₀, then the aggregate demand for the selected consumers would be,

$$\sum_{i=1}^{100} D_i = nD_1 + nD_2 + \dots + nD_{100}$$

Where,

$$n = \text{the number of consumers in group} \\ n_1, n_2, \dots, n_{100} = n \quad n = 100$$

From this, the group consumers are used for that the selection can be made randomly, and the aggregate demand for the group would be,

$$\frac{\sum_{i=1}^{100} D_i}{100} = \frac{nD_1 + nD_2 + \dots + nD_{100}}{100}$$

This method is less expensive and a better technique when compared to complete enumeration method.

6. Sales Experience Method

Sales experience method surveys the market of a particular place for the number of same product for sale. The results are then projected to the total for calculating the expected demand of the product.

This market survey is conducted as the representation of the actual market which is not a sample.

Example

Suppose to obtain an sample market then it would not be the true representation of whole a region place, because both are costly of these places. Similarly, if Asia is having behaved as a sample market then the sales regions are not complete and therefore greatly due to the entry and exit of the various populations.

7. Various Method

Various method does not approach the analysis directly, but they approach the analysis by way of help of survey or agents. The details of the agent behaviour is discussed in the next section. Although these approach a lot of disadvantages, however, they are good. These method is used here to gather data so as to partial with the consumers.

Q5. Life Cycle Representation Analysis.

Every product passes through the life cycle of growth as follows. Initially, the products enter as the beginning of the life cycle, which are also supported by the promotional activities which work in favour of sales. The sales then rise at its peak but after sometime it begins to fall and ultimately the product dies. The five stages of a product are as follows:

- (i) Introduction
- (ii) Growth
- (iii) Maturity
- (iv) Saturation
- (v) Decline

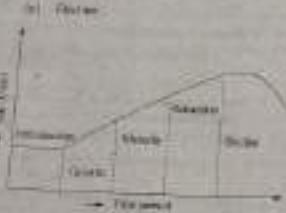


Figure: Product Life Cycle

Technological Feasibility

Technological feasibility is one of the important outcomes of the present discussion. It refers to the ability of the proposed plan and its components to produce within the system and it can be assessed whether the technology is available within the firm or whether it has to be purchased from outside. If the firm needs any technologies, then the terms and conditions of the purchase must be clearly mentioned. In case of foreign collaboration, all the legal permissions or the law of products must be taken care.

After this, there are following steps also be taken to assess:

- (i) Availability of land and raw material
- (ii) Availability of labor, legal aspects like labour, power, permission and communication facilities
- (iii) Availability of suitable buildings like plant and shop, office, repair depots etc.
- (iv) Distance from port/harbour
- (v) Availability of transport like transport, roads and railways
- (vi) Availability of sufficient levels of quality and quantity of raw materials

NOTE: Availability of the raw material and source have been included in Q5. Life Cycle Representation Analysis.

Q6. Answer to an entrepreneur who is creating the business plan?**Answer :****Line of Business Plan:**

For instant refer to Q5. Life Cycle Representation Analysis of Business Plan.

The business plan is the most important tool required by the entrepreneur for starting and successfully running a business enterprise throughout the life span of its establishment. The entrepreneur is supposed to estimate costs and gain management in various functional areas, such as personnel management, production, marketing, finance etc.

A common entrepreneur may not have many technological facilities in the beginning to generate promising effects. Statements of the current situation. Many entrepreneurs provide the excuse that detailed business planning is essential only in the case of big business houses. However, this statement does not reflect the business plan; the employee would not be aware about the organization's key goals and would not be capable to implement these job performance.

Many banks which had initial funds for entrepreneurial ventures do not consider business plan to be relevant to their lending criteria, but as a result of the experience and feedback they had business planning by the entrepreneurs.

Importance of Business Plan:

In part from good long systematic planning, the entrepreneur used to ensure that all the plans will result in efficient functioning of the enterprise are implemented in time and space. Under the entrepreneurship need to convert different type of financial resources into a marketable form. There may include, choosing and making the practical decisions, looking the sources of funds and the use of funds, inventory and production data analysis, quality control, cost reduction and so on. After the preparation of the overall strategic direction below:

1. Work and Inventory Control:

Through proper stock, money way, demarcation and control, the firm can ensure that there is no shortage of the product services, whenever demanded by the consumer. Every item supplied is maintained in their format. There need to be capital working funds, form of stock and inventory account, facility of the new enterprise.

UNIT-11 Introduction to Entrepreneurship**E. Production Control**

The entrepreneur need to maintain a continuous flow of the day-to-day business operations. This will ensure the optimal utilization of various production elements such as machinery, labour, producer input, downstream cost, and so on.

F. Sales Control

A good sales control plan would ensure that the entrepreneur gives a good idea about the actual sales of the enterprise in the market. The sales control plan would cover elements such as specific producer sales, price of different products, resulting of delivery dates, details about each sales outlet, the sales collection, operating terms employed by the organization and more.

Finally, it is need to ensured that various internal and external environmental factors such as, entry of new competitors, change in legal rules in the country changes in the rate of interest rates etc. could have a direct impact upon the business plan. Therefore the entrepreneur need to keep the business plan flexible, which could accommodate changes in major changes in accordance with the changing business trend and environment.

I.10 MARKETING PLAN - FINANCIAL PLAN - ORGANIZATIONAL PLAN

Q5. What do you mean by marketing plan? State its features.

Answer 1:**Marketing Plan:**

A Marketing Plan is a written document utilizing the auditor's experience about the market. It describes the ways in which an organization plays an important role to attain its marketing objectives. A marketing plan is one of the vital output of the marketing process as it contains strategic guidelines for marketing programs and financial allocations over the planning period.

A Marketing plan represents a detailed action of guideline for the firms marketing activities in certain form. Usually, a marketing plan is prepared for individual business units or product based on a profit motive. The planning period differs from one product to the other. The marketing manager may need to prepare separate marketing plans for each type of basic category. For instance, 'Samsung' did not prepare separate marketing plan for each of its products like mobile, laptop, television, refrigerator and so on, as all these products fall under the category of Samsung's. Hence, marketing plan may be prepared only for its major products.

The marketing plan may be formulated for both short as well as for long periods. Long range planning is the responsibility of the top management which is valid for 3-5 years whereas, short range planning needs to be done by the firm's managers, departmental managers and so on to be valid middle and junior level managers and so on to be valid for individual units. Usually, strategic planning is done for long time periods.

Features of Marketing Plan:

Following are the features of marketing plan:

(i) Objectives of marketing plan: People or organizations closely fix the roles and responsibilities of each member of the organization to achieve the goals of an organization. It must consider the consequences and dedications of the organization as well as the group.

Planning approaches are highly dependent upon the nature of the organization. The organization uses three different approaches:

(i) Top-down Approach:

In this approach, the top management is responsible for setting the goals and plans for the overall organization.

(ii) Middle-up Approach:

In such approach, each department or a division sets its own goals and plans. After setting, they need to be approved by the superiors/management before they actually get implemented into the organization.

(iii) Grids Planning-approach:

In this approach, taking of grid-like dependency of the top management wherein, the business units need to set their own plans which later interact with the other parts.

(i) It must have the available resource allocation criteria.

(ii) Marketing plan must act as an integral part of company's complete business plan.

(iii) It maintains the relationship between management and coordination between Strategic Planning Department (SPD) and Departments and also between top-level management and lower-level employees.

(iv) It must take initiative on strategic initiatives.

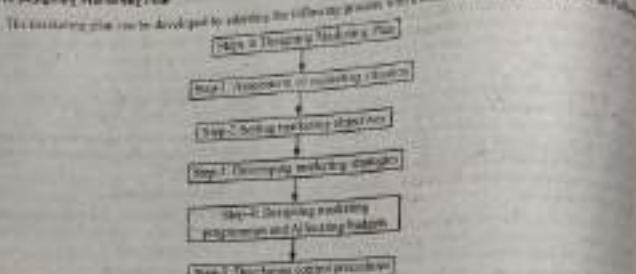
(v) It covers overall solutions to the company and its strategic business in the strategic planning stage.

(vi) It serves as the main strategic management of the company.

(vii) It focuses on the long-term perspective of the organization.

Q6. Express the various steps involved in preparing a marketing plan.**Answer 1:** *(Refer Powerpoint, UNIT-11 Marketing Plan, Q6)*

The marketing manager is responsible to design and develop separate marketing plan for each level of the organization. Like marketing planning is done at the corporate level, it is implemented throughout the organization, whereas the marketing manager or an SPD designs it only for the business unit which is not applicable to the whole organization.

Step 1: Designing Marketing Plan**Figure: Steps in Designing Marketing Plan****Step 1: Assessment of Marketing Situation**

The first step of the marketing planning process is the assessment of existing situation. The main objective of this step is to understand the present situation of the firm in the market. Situation analysis is the analysis of company's present situation and marketing programme. On the basis of market situation or situation analysis, the management has to decide whether there is need to review the market plan or to establish new plan so that goals can be effectively achieved.

Such external as well as internal environmental factors are assessed in situation analysis. Assessment of company's strengths and weaknesses, needs of the customers belonging to the target market, strategies adopted by major rivals, SWOT Analysis, Strengths, Opportunities and Threats analysis etc., form the components of situation analysis. For analysing the firm strengths and weaknesses, internal analysis of its own capabilities are done. Whereas, external and external analysis are performed to identify opportunities and threats that may be either externally or internally located.

Step 2: Setting Marketing Objectives

The second step of the marketing planning process is to set the realistic and measurable objectives. Marketing objectives have to be realistic objectives, which can be expressed in terms of profit, growth, market share and so on. The marketing objectives can be set by analysing, understanding and fixing the requirements for the achievement of those objectives so that they have been achieved by a certain department or the like.

Step 3: Developing Marketing Strategies

Marketing strategies are devised to achieve marketing objectives. It is what way the marketing objectives would be achieved by the marketing strategy. In this step, with the target markets and the marketing tasks are required for satisfying the needs and expectations of the target market assessments are made. Important decisions such as product positioning and differentiation can be made as a part of planning process. The outcome of this step acts as a road map for the future development of products.

Step 4: Developing Marketing Programmes and Allocating Budgets

This step involves the design of marketing programmes and allocating the required budgets, which are essential in marketing the marketing mix. This is a very important step as the overall budget is decided based on the requirements, the total budget may be increased, decreased or constant.

Case has to be made by the marketing manager for the preparation of budget as the requirements of the firm are stated by the planning phase sufficient funds will be available for the implementation of the marketing plan.

Step 5: Developing Control Procedures

The purpose of a marketing plan gets completed only if it makes for Controlling. The control procedure is the process by which the performance of the plan can be measured in a systematic basis. The main performance of the manager is compared with his plan and its performance.

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If a sales performance is found to be less than that of the sales quota, corrective measures need to be taken to overcome the gap. The failure of one of the performance objectives need to be done in an office has to quickly, daily, monthly or quarterly.

Q16. Discuss the concept of financial plan in detail.**ANSWER 1:**

Every entrepreneur need to have a detailed financial plan during the initial stages of the business. The financial plan for an entrepreneur, taking into consideration the areas of marketing plan such as the promotional plan, new product development plan etc. Further the purchasing plan of the entrepreneur will also have a substantial impact upon the entrepreneur's financial plan. The elements of the production plan includes the cost of machinery, raw material costs, production cost and so on.

Financial function is primarily function among all other business functions. Every entrepreneur requires finance in order to develop and expand his business. Finance is a term can be explained as administration of flow of money in organizations. Finance is related to flow of money and expenditures against income. Finance is financial management, wherein which is very useful for managing the business smoothly.

Finance is involving different three accounting and economic but it is very important of accounting for making effective decisions. Accounting deals with recording, reporting and evaluating the business transactions, whereas finance is involved in decision-making process.

However due to lesser needs in business environment, entrepreneurs are identifying new ways through which financial resources can generate great value to their enterprises. The entrepreneurs need to identify the economic and analytical methods which are required in decision-making.

In every business, finance is considered as the life blood of a business. Just like how the blood circulation is required for maintaining good health of human beings, finance is essential for business success. If entrepreneurs have adequate funds then they can smoothly operate their business. Without adequate amount of fund, no entrepreneurs can survive in the market. Right from the promotion or idea generation till the development of quality products for the customers, adequate financial resources is required. Therefore, certain care should be taken by the manufacturers and managers for financial management. The following points highlight the relevance of finance in organizational activities.

- (1) Efficient management of financial needs can increase the effectiveness of financial planning. It is also useful for the protection and the development of a business.
- (2) It raises the funds at low cost of capital.
- (3) It provides the optimum utilization and the allocation of funds.
- (4) It contributes to making sound financial decisions.
- (5) Through financial control, profitability of the firm can be improved.
- (6) Finance increases the wealth of business and it also brings the economic development for the entrepreneurs.

The entrepreneur need to possess workable knowledge about the various financial concepts, which would assist him to prepare and follow a good financial plan. These include the following:

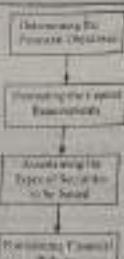
- (1) The income statement.
- (2) The balance sheet.
- (3) The cash flow statement.
- (4) Break even analysis.

Q17. Formulate the stages in the financial planning process.**ANSWER 1:**

The following are the steps involved in the process of financial planning:

Step 1: Determining the Financial Objectives

The financial objectives of a firm are to be determined for an effective financial planning. All the financial objectives, which are to be addressed must be concentrated on the basis of overall objectives of the firm. The financial management objectives can be dependent on the areas of financing, investment and control.

**Step-1: Identifying the Financial Planning Process****Step-2: Evaluating the Capital Requirements**

The capital requirement of the firm has to be evaluated by the various needs of the firm. The assessment of fixed and working capital required should be made. Working capital requirements and financial control system has to be evaluated, since it is also required to meet the daily expenses of the firm. Fixed capital is required to sustain fixed assets like machinery, plant and equipment, land and building etc., and it is required for a long period of time.

Step-3: Assessing the Type of Structure to be used:

Decide the type of business to be run. Long term funds, dependent, equity shares and preference shares can be issued to raise funds. The type of security to be issued and its investment potential should be properly determined before starting the business.

Step 4: Formulating Financial Policies:

Financial structure involves the financing of initial capital requirements, funding of operations and raising other financial resources. These policies aid in making appropriate financing decisions in accordance with the following categories in view of various financial activities of the firm.

CQF: Explain organisational plan with reference to ownership structure.**Answer:**

Organisational plan is a part of business plan which includes the ownership i.e., proprietorship, partnership etc. After the project formation and selection stage is completed along with form of financing, the next phase needs to give attention to the legal form of an organisation, so as to what the entrepreneur is likely to run a business. Financial institution and private lender will be interested in knowing the form of ownership, the entrepreneur needs to decide which form a entrepreneur is likely to run his/her business. In case of partnership, one has to identify the partners, to take decisions, run business etc., so as to make a sound organisational arrangement. The remaining section will discuss different forms of business organisations.

MARSHAL: An entrepreneur can run his/her business in partnership, sole proprietorship or limited liability company. He can also go for incorporation.

1. Proprietary
2. Partnership
3. Company
4. A corporate society

Selection of an Appropriate Form of Ownership Structure:

The selection of entrepreneurship is like looking for a partner. It is everybody's basic desire to find somebody who has its own advantages and disadvantages. The best form of ownership is the one which helps the entrepreneurs to achieve the business objectives. So, while choosing the best form of ownership, the entrepreneur should keep the following things in mind.

1. Nature of the Business:

- The selection of ownership suitable for the business depends upon the nature of the business. For example:
 - (i) Business that requires personal interaction and skill for the success are usually established as proprietorship or partnership firms.
 - (ii) Business requiring pooling of funds and skills usually established as "corporation firms".
 - (iii) Firms involved in the large scale production of the "Consumer" form of entrepreneurship.

2. Area of Operations:

The area of operation also helps in the selection criteria of form of business ownership. If the firm has a limited or restricted to a particular locality or area for the propagation of firm, then firm is said to be small for the entrepreneur. If the business is large and widespread, it requires the need of national and international market. "Company" form of business is suitable for such firms.

3. Degree of Control:

If the entrepreneur wants to have the operations of the business controlled then the proprietorship business is suitable. If control is required then "company" form of ownership is better suitable.

4. Capital Requirements:

If the business needs small amount of capital, the best form of ownership will be "proprietorship" or "partnership". In case where large amount of capital is required then the "company" form of ownership is better suitable.

5. Risk and Liability:

If the entrepreneur can bear the risk independently then he can register the firm in the form of self-proprietorship and from his/ her hands the risk will be removed, then he/she can go for a company, which is subject to the shareholder's liability in the company.

Q10: Introduction to Entrepreneurship**A. Period of Business:**

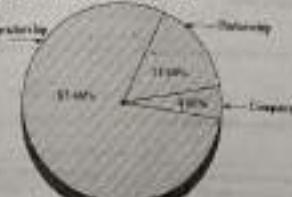
Business is run on a temporary basis for limited duration, proprietorship or partnership are better form of business ownership. In this case, the business is run on the permanent basis, company or corporate form of business are best suited as they enjoy perpetual existence.

B. Government Registration:

If the entrepreneur does not require Govt. intervention for his/her business, proprietorship/partnership form can be selected instead of corporation and company based ownership where the Govt. application costs and regulations.

C. Ownership Patterns in Small-Scale Enterprises in India:

Ownership pattern	Percentage
Sole proprietorship	17.4%
Partnership	11.6%
Company	3.3%
Total	100.00

D. Highly Capitalized Ownership Structure:**Q10: Explain the various elements of an operational plan.****Answer:** **Section-10.10: Operational Plan**

The elements of Gary's operational plan are as follows:

1. Client or customer objectives
2. Goals supporting the objectives
3. Accountability and review items
4. Financial performance
5. Progress tracking

C. Clear and Measurable Objectives:

It is important to set clear and measurable objectives which are clearly defined and support the strategy of business.

2. Goals Supporting the Objectives:

Measurable goals should support the business objectives. Management and staff should try their best to achieve set goals.

SPECTRUM ALL-IN-ONE JOURNAL FOR ENGINEERING STUDENTS**A. Accountability and Review Items:**

Clear responsibilities should be assigned to the POFP and a check-list items should be set to review each responsibility goal.

B. Financial Performance:

It is also essential to check how the changes in cash flow and expenses relate to cash flow as targets in the financial planning should be more realistic regarding the actual vs. the target if the actual results start deviating substantially.

C. Progress Tracking:

Regular progress should be tracked by checking on strategic priorities and related objectives and goals.

1.11 LAUNCHING FORMALITIES**Q10: Explain how entrepreneurs launch their various plans of business.****Answer:**

If the entrepreneurship has decided to start up a business, then he/she should have a clear idea about his/her plan. A business plan gives a clear view of how to run the business. At this point, planning study will provide essential information and clarity for business plan. Though planning is an arduous task, it requires sufficient time and effort and its execution will definitely increase its value. In planning, implementation of plan is more important than its details. Many entrepreneurs ignore these problems or lack focus in improving execution of business plan.

Before the formal launching of the business, the entrepreneurs need to evaluate and implement a good business strategy.

Stenger and McLean¹ have defined three stages of implementation as, "the implementation of policies and strategies is concerned with the choice and management of systems to achieve the best integration of people, material, technological resources to reach organizational purposes. Process of Strategy Implementation by the Entrepreneur through Entrepreneurial activities include the following three steps:

- (i) Operating the strategy throughout the enterprise. The organization has to implement this through:
 - ♦ Coordination of corporate resources and control throughout the enterprise.
 - ♦ Describing the functional areas that are going to be done to implement the strategy.
- (ii) Implementing the strategy. This is to do:
 - ♦ Identifying structural alternatives like simple, functional, matrix, decentralized.
 - ♦ Describing the leadership styles.
- (iii) Overcoming the strategy implementation. Strategic communication in driving the strategy towards its long-term strategic direction and make the implementation successful.

1.12 FACTORS INFLUENCE DISCOVERY

Q1. What factors influence the discovery or creation of opportunities? Describe the stages of creating opportunities.

Answer :

Factors Influence the Discovery or Creation of Opportunities:

The following are the various factors influencing the discovery or creation of business opportunities.

1. Changes in Technology

In the technological world, changes in the technology influences the creation of opportunities. This covers the changes in products and services offered by companies. The entrepreneurs can come up with new opportunities to bridge the technological gaps in the form of new products, modules, new product methods etc.

2. Changes in Political and Regulatory System

The changes in the political and regulatory system of the business environment influences the creation of opportunities. The new rules and regulations changes implemented by the government leads to the creation of opportunities for entrepreneurs. E.g., for changing needs of customers.

3. Changes in Social and Demographic Aspects

The changes in the family patterns, population, workplace diversity, attitude towards entrepreneurship, health aspects, the increase in life expectancy in the communities to name few changing needs.

4. Changes in Economic Aspects

The changes in the economic aspects such as income level of the individuals influences the creation of opportunities for entrepreneurs.

Process of Creative Problem Solving:

According to Gummadi, there are five stages in the process of creative problem solving.

(i) Problem Recognition:

In this stage, a problem is recognized. An entrepreneur recognizes a problem and finds a gap between the business idea and the desired state. The recognized problem is discussed with others so that the problem becomes more clear and its insights.

(ii) Generate an Idea:

In this stage, the entrepreneurs generate the ideas to solve the problem or to fulfill the need. To solve problems, different solutions related to problems and finds out the causes of problems.

Entrepreneur puts every idea at this stage. Each idea should be analyzed for its feasibility and cost to understand the problem.

(iii) Developing a Solution:

After generating ideas, the entrepreneur develops a solution by comparing and testing a lot of ideas. It is essential for an entrepreneur to identify and evaluate the alternative solutions to select the best appropriate solution which is not only beneficial to the customer but also cost effective.

(iv) Implement the Solution:

In this stage, the solution is implemented. To make sure that the solution is more effective and reliable, the entrepreneurs implement the solution to class through a detailed process of follow-up.

(v) Evaluate the Solution:

The final solution is assessed on this stage. Testing is carried out extensively to test the final solution. If required, changes are implemented.

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FREQUENTLY ASKED QUESTIONS AND IMPORTANT QUESTIONS**SHORT QUESTIONS**

Q1. Define the concept of Entrepreneurship.

Define Entrepreneurship

OR

Module 01, Unit 01



Page No. 11, Question No. 1

Q2. Mention the different types of entrepreneurs.

Answer :

For answer refer Ques 1, pg.

Module 01, Unit 01



Page No. 11, Question No. 2

Q3. What are the objectives of EDPA?

Answer :

For answer refer Ques 1, pg.

Module 01, Unit 01



Page No. 11, Question No. 3

Q4. Define a business plan.

Write about business plan.

OR

Module 01, Unit 01

Answer :

For answer refer Ques 1, pg.

Module 01, Unit 01



Page No. 11, Question No. 4

ESSAY QUESTIONS

Q1. Explain about the entrepreneurship and its types.

OR

Module 01, Unit 01

What is meant by Entrepreneur?

Answer :

For answer refer Ques 1, pg.

Module 01, Unit 01

Q2. Explain the role of entrepreneurship or entrepreneurs in different fields.

OR

Module 01, Unit 01

How does an entrepreneur contribute to the economy and society?

Answer :

For answer refer Ques 1, pg.

Module 01, Unit 01

Q11. Discuss the objectives of franchising.**Answer :**

- The objectives of franchising are as follows:
 - To Offer Management and Technical Expertise
 - The franchise provides its franchisees with the necessary technical support to help them to grow by about 100% company's technical, logistic and technical support provided by the franchisor, which is also the objective of franchising.
- To Maintain Quality and Consistency**
The other objective of the franchising is to maintain quality of the products and services uniformly in the chain.
- To Increase Growth Opportunities**
The objective of franchising is to diversify new customer base and to grab new business opportunities.
- To Create Brand Recognition**
The power of the franchise acts like a nucleus or foundation to spread its brand name to new markets and to make repeated sales at the same time.

Q12. What is the difference between a joint venture and a consortium?**Answer :**

Both terms refer to joint ventures and consortium, yet it follows,

No.	Joint Venture	Consortium
1.	Joint Venture is comprised with half control.	Consortium is not comprised with legal entity.
2.	In this, management is controlled by itself.	In this, management is controlled by the consortium partners.
3.	It can acquire and dispose the assets on its own at the risk of management.	Assets are generally managed by the consortium partners.

Q13. Describe the location criteria for retail and service business.**Answer :****Location Criteria for Retail Business**

The location criteria for retail businesses include the following:

- The location of the retail business must be at a close proximity to the target market.
- Facilities for customers for the customers to reach and move by safe and access.

Location Criteria for Service Businesses

The location criteria for service businesses include the following:

- The location must have an image similar to the corporate image of the service company.
- A location must be selected based on the size i.e., place should be large which includes storage requirements of customers.
- A location must provide competitive advantage to the company.

Q14. Give the role of public issue.**Answer :**

The role of public issues can be analyzed by understanding the features of financial management of public issue. Features may include the role of both managers of public issue.

- To enhance the public issue by considering the Safety like repayment of company's funds, security of investment, after factors.
- To extend the stock market to Security Exchange Board of India (SEBI).
- To enhance implementing the financial regulations, brokers and governmental laws.

Q15. What is a stock split?**Answer :**

Stock split is a process that a given stock divided. A stock split is a change in the number of outstanding shares that is affected through a proportional reduction of increase in the price of the stock.

The company can employ this to derive a major advantage to the market price of the stock's stock and converted to the common stock, premium and dividend rates remain unchanged.

WARNING: Copying of this book is a CRIMINAL offence under section 464 of Indian Copyright Act 1957.**PART-B ESSAY QUESTIONS WITH SOLUTIONS****2.1 SOURCES OF CAPITAL FINANCE**

- Q15. What is Finance? Explain the need for finance in a business enterprise. Classify financial needs in brief.**
What are the various sources available to small scale enterprises to raise funds?

Answer :**Finance:**

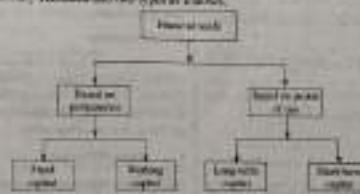
Finance is the term very much required for starting any business, organization or enterprise. It is always considered as the blood of the running any business venture. In order to start the need and requirement of finance, various financial institutions are established to assist the India in entrepreneurship in establishing and running enterprises. However, starting an enterprise is a difficult task performed by a entrepreneur. The small business expert from various financial institutions along with others and other facilities, finance will help the entrepreneurs in acquiring land, labour, material, machine and other resources.

Model Paper-B, 2008

- The need of finance is utilized in institutions to support enterprises to accomplish in the following points:
- For long-term funds to carry out business operations.
 - For acquiring resources like machines, raw materials etc.
 - For expanding business in other regions.
 - For employing labor or technicians.
 - For expanding and improving of market.

Classification of Financial Needs

Financial needs are broadly classified into two types as follows,

**Figure: Classification of Financial Needs**

- On the Basis of Extent of Finance used**

Fixed Capital

Fixed capital is the amount of capital which is required to invest in some fixed assets or durable assets like land, building, machinery, raw material, fixtures etc. These assets are required for the long-term survival of a business as they cannot easily be sold or disposed off.

Working Capital

Working capital refers to amount of capital invested in current assets such as raw materials, finished goods, debtors etc. In simple words, it is the capital needed to carry out day-to-day operations of a business.

- On the Basis of Period of Use**

Long-term Capital

Long-term capital is a capital whose repayment is to be arranged for more than five years in the future. The sources of long-term finance could be owner's equity, non-banks, credit facilities from commercial banks, bank purchase and other financial institutions.

Short-term Capital

Short-term capital is a financial capital which needs to be paid back within a short span of time usually within a year. The sources of short-term finance include bank borrowings for working capital deposits or overdrafts from banks and institutions.

Sources of Finance for Small Scale Enterprise

Sources of finance available to small scale enterprises are divided into two types. They are:

1. Internal sources
2. External sources

The sources which are available or stored within the business are called as internal sources. Some of the internal sources are owner's capital, savings, profits and funds provided by the owners, partners, etc. However, the other internal non-recording funds is in the form of loans from the self-employed (like personal funds), life insurance policies, buildings, equipments and so on.

External Sources

Apart from internal sources, entrepreneurs also raise funds from the external sources as follows:

- (i) Deposits from savings bank, post office, banks and others.
 - (ii) Bank borrowing for the working capital purpose.
 - (iii) Trade finance from the commercial banks.
 - (iv) Trade loans from financial institutions.
 - (v) New purchase of business facility from the NSIC, National Small Industries Corporation and NSIC's State-level Industrial Corporations.
 - (vi) Short capital foreign currency loans from international governments.
- Finally speaking, all these external sources can be summarized as follows:
- (i) Equity capital or personal funds.
 - (ii) Loans from relatives and friends.
 - (iii) Mortgage loans.
 - (iv) Trade loans.
 - (v) Subsidies.

Q16. What is short term finance? Explain the features and sources of short term finance.**Answer :****Short Term Finance:**

The funds which are required for business for a shorter period of time i.e., upto one year are termed as short-term finance. It is also referred as working capital or circulating capital or working capital.

Features of Short Term Finance

1. It is required for a period of one year to meet the daily needs of the business.
2. It is also known as working capital.
3. It is used to meet the day-to-day transactional needs of production and sale of goods.
4. It is required for running companies engaged in manufacturing purposes.
5. It can be raised through trade credit, commercial banks, factoring and overdrafts.

WARNING: Since the majority of business in India last for a short time, it is better to go for short term financing.

Sources of Short term Finance

A Company can raise short term working capital for the important sources of finance are:

1. Indigenous Banks

Indigenous banks are private sector banks and also clearly banks enjoying the maximum power in the public. Indigenous banks issue customers or indirectly charges the highest rate of interest.

2. Trade Credit

Trade credit is an important source of raising short term capital. In trade credit, supplier of goods provide goods to credit basis and buyer makes the payment in future. It is the easiest way for raising funds.

3. Institutional Credit

Institution credit is a short-term source of finance. In this institution is purchased by giving some documents showing the cost of the amount is paid in installments over a specific period of time.

4. Advances

Advances are obtained from customers and after giving orders. Companies are the advances in a short term source of finance.

5. Factoring

Short term funds can be raised from accountants who credit provided by commercial banks and others. Factoring is a financial institution which provide different services such as discounting of bills, maintenance of sales ledger, credit control and protection from bad debts.

6. Accepted Bills

Where firm takes advantage of the services provided by and yet paid for are known as accepted expenses. Accepted expenses of firms are wages, salaries, taxes and income.

7. Deferred Income

It is an income gained by the firm in the form of advance before supply of goods or services. Deferred income is provided to only those firms which produce good quality of goods or have goodwill in the market.

8. Commercial Paper

Commercial papers are issued for raising short term finance. Its maturity period is between 70 to 180 days. It is a short term promissory note issued by firms on discounted value basis at lower rate of interest.

9. Bank Credit

Banks are the key sources of short term finance. Banks provide different sources of funds to the firms in order to meet their requirements mainly through bank credit and overdrafts.

Q17. What do you understand by short-term financial requirements of a business? Explain how commercial banks provide finance to meet these requirements.**Answer :****Short-term Finance for Financial Requirements**

Short term finance is essential in order to meet the daily operating expenses and to maintain stocks of raw materials, spare parts, consumables, work in progress and finished goods and bad debts (like debts, bad debts and bills receivable). Finally working capital is required for the following:

1. Maintaining the stock of raw materials for a specific period resulting in continuous supply of new material for the production process.
2. Maintaining the stock of work-in-progress for the production period of processing.
3. Maintaining the bank of finished goods for a particular period of time in order to fulfill the demands of customers in a consistent manner and unique demand from the customers.
4. Providing credit facility to its customers for the purpose of marketing and competitive process.
5. Maintaining cash balance to meet the expenses of manufacturing, office and administrative selling and distribution, taxes and so on.

Short-term Finance from Commercial Banks

Banks are the key sources of working capital finance. Banks provide different sources of finance to the firms in order to meet their requirements. A firm can raise funds from bank in the following forms:

1. Loan

Usually, commercial banks provide short-term loans, not more than one year, to meet the requirements of working capital. Loan is the amount paid by the bank to its customer against their security. After taking loan from the bank, borrower needs to pay some specific amount of interest on loan amount. A loan may be repayable in full amount at a time or on installment basis.

2. Cash Credit

Cash credit is the most popular method of bank finance for working capital. Cash credit means a borrower is allowed to withdraw funds from the bank upto a specific limit against some securities. The borrower need not withdraw the entire funds at once. He can withdraw it as per his requirements. The borrower can deposit any excess amount with him. He is allowed to pay interest on the daily balance and not on whole amount of the account.

3. Overdraft

Overdraft is an agreement between bank and customer according to which a borrower is allowed to withdraw more money than his credit balance upto a specific limit. Operations under overdraft are like cash credit. The borrower is required to pay an interest on the overdraft balance.

1. Purchasing and Discharging of Bills

Purchasing and discharging of bills are one of the most important form of short term finance. In which borrower can get funds from dealer immediately without any delay. Bill of exchange is drawn by the seller because of goods supplied. Bank purchases that bill and discounts it on discount and make the amount of discount with full amount less discount. Bank receives the bill in advance in form of matures, but it is discounted from commercial bank pay the bill amount and expenses incurred by the bank.

2. Letter of Credit

Letter of credit is a document by the bank to meet the obligation of its customers upto a certain amount, where he fails to pay Letter of credit to a customer given by bank to the supplier on behalf of customer to meet a specific amount of bill.

Q18. Discuss about the role of financial institutions in developing entrepreneurship in India.**Answer :** *Shri Pawan K. Dalal, Secretary, SIDBI*

The following are the various other measures which have been initiated to support the startup enterprises:

1. Small Industries Development Bank of India (SIDBI)

The Small Industries Development Bank of India (SIDBI) has been set up as an apex organization providing financial and non-financial assistance to tiny and small-scale industries. SIDBI aims at promoting, financing and development of industries comprising mostly of small scale units. Apart from this, it also coordinates the work of other government financial institutions.

The objectives of SIDBI are as follows:

- (i) Encouraging and developing and updating the existing economy and improving the work rate.
- (ii) Expanding the network of channels for promoting the products of SIDBI in both domestic and international market.
- (iii) Promoting the initiatives which provide employment opportunities mainly in semi-rural areas and also checking the growth of people migrating from rural areas to towns or cities of better job in higher educational centers and metropolitan cities.
- (iv) Improving and taking up new projects.
- (v) Improving the infrastructure for SIDBI and Small Scale Industries.
- (vi) Promoting the export of products and services.

2. Export Promotion Councils (EPCs)

EPCs were established with an aim to stimulate the promotion of exports of specific products. Most of the commonly known export-promotion councils are Central exports promotion council, Engineering export promotion council, Special goods export promotion council, Textile export promotion council etc.

7. National Bank for Agriculture and Rural Development (NABARD)

For providing credit facilities to agriculture, rural trade and service, cottage and small industries, handicrafts and other rural industrial sectors, NABARD came into existence after passing act in the parliament on July 12, 1982.

Functions of NABARD

- (i) The main function of NABARD include,
- (ii) To provide credit facilities to the rural population.
- (iii) Aim as an agent by monitoring the economic activities of government and private banks.
- (iv) Provides strategic assistance by monitoring FICR on agricultural and rural development activities.
- (v) Initiates the credit services issued by agricultural departments, SSS, village institutions, banks etc and so on.
- (vi) It also provides assistance in helping the entrepreneurs and their units in the production and marketing operations.

8. Housing and Urban Development Corporation (HUDCO)

HUDCO stands for Housing and Urban Development Corporation of India. It was established on 25th April, 1970 which was an initiative of Central government. The main objective of HUDCO is to improve the housing conditions of all the sections of the society especially the low-income group and weaker sections.

Objectives of HUDCO

- The various objectives of HUDCO are follows,
- (i) To provide long-term finance to construct residential houses in urban and rural areas.
- (ii) To finance the new social construction.
- (iii) To make a subsistence of deformities and benefits issued by the State Housing and Urban Development Boards, Impoverished Slums and Development Authorities for housing and urban development programmes.
- (iv) To finance the construction of new industry for building houses.
- (v) To develop, create, help, integrate and other initiatives necessary for designing and planning the works both in Indian as well as abroad.

9. Technical Consultancy Organisation (TCOs)

TCO stands for Technical Consultancy Organisation. It was started by the all India financial institutions (AIFI), ICICI and IFCI at the seventeen and eighteenth conference with state level financial and commercial banks to serve the various basic needs of State and new entrepreneurs. TCO was the first one to start TCO in Kerala in 1972. Currently, there are 17 TCOs all over India. Out of 17, there are 16 TCOs under IFCI and 1 under ICICI. All the 17 TCOs cater to the needs of small and medium sized enterprises.

MARPORL: Micro-Productivity of Resources in Commerce, **NCB:** National Council for Business, **LEAG:** Legal procedures

Functions of TCOs

- (i) The main functions of TCOs are,
- (ii) Conducting industrial promotional surveys.
- (iii) Functions of technical, management and of economic assistance.
- (iv) Providing assistance to entrepreneurs in introducing, introducing, introducing etc.
- (v) Providing assistance to new units from conducting diagnostic studies to the actual implementation of industrial assistance.
- (vi) Undertaking energy audit and energy conservation assignments.
- (vii) Conducting EDPS, entrepreneurship promotion survey, ADAPT training programme and special training on entrepreneurship.
- (viii) Preparation of project report and funded by states.

9. Industry Associations (IA)

Industry Association (IA) also referred to as business association. IA's are voluntary organizations established to support and protect the rights of the industry and the people associated with it. The main objective of IA's is to provide common platform to express the interests of the members of the industry and to promote their growth.

Functions of IA

- (i) The functions of IA are,
- (ii) To facilitate the members of the industry to enhance the productivity and profitability.
- (iii) To maintain the competitiveness within the industry.
- (iv) To provide new entrepreneurs by giving entrepreneurial opportunities.
- (v) To promote co-operation among the members.
- (vi) To work for the dignitaries and to promote equal behaviour.

7. Non-Government Organisations (NGOs)

Non-Government Organisations (NGOs) are established primarily to provide assistance to the rural and underprivileged. With decently known as NGOs have local industrial policy. Government of India supported the existence of NGOs to be NGOs. NGOs have to support, housing programmes, agri-advises, marketing research, etc.

8. Business Banks for Entrepreneurship (BIE)

For providing complete self-helped information to the entrepreneurs at the initial stage, Government and State BIE provides the following facilities,

1. Institutional administrative facilities

2. Source of financial resources

3. Management guidance and consultancy

UNIT-2: Financing and Managing the New Ventures

Q18. What is commercial bank? Discuss the different type of bank loans provided by commercial bank to the entrepreneurs.

Answer 1

Commercial Bank

Commercial Banks are business enterprises which are involved in finance, deposit movements and provide financial services for a price which maybe in the form of interest, commission or a discount and so on. They accept deposits from the public, savings for the purpose of financing or investment by issuing working capital requirement to corporations. Banking regulation act 1949.

Types of Bank Lending by Commercial Banks

Commercial Banks play a vital role in providing their own and third party loans to the entrepreneurs. The different type of bank loans provided by commercial banks to the entrepreneurs include the following,

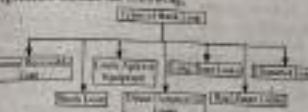


Figure: Types of Bank Loans Provided by Commercial Banks

1. Accounts Receivable Loans

Many concerns of banks provide loans to entrepreneurs against the accounts receivable. If the entrepreneur has a good credit rating, the commercial banks may provide loans upto the extent of 80% of the total value of accounts receivable.

2. Stock Loans

Stock loan or inventory loan refers to the loan provided to the entrepreneur against the stock for purchase. Generally, commercial banks, finance upto 70 percentage of the value of the stock. Banks are more inclined towards financing against finished goods which are of liquid nature.

3. Equipment Against Equipment

Entrepreneurs can avail long term and mid term loans (upto 10 years) from commercial banks against heavy machinery and equipment. This is known as equipment financing whereas finance for the purchase of new equipment is against existing equipment. Generally, banks finance for heavy machinery and equipment upto 20 to 40 percentage of the value, depending on the reliability of the equipment.

4. Direct Commercial Loans

These are the funds loans provided by the commercial banks to the entrepreneurs for a period upto 10 days. Entrepreneurs avail these loans for seasonal financing, by holding up stock inventory.

5. Long Term Loans

Entrepreneurs can avail long term loans from the commercial banks which can extend upto ten years of time. Commercial banks, which can extend upto ten years of time.

A. Real Estate Loans

It is a type of mortgage financing wherein the entrepreneur gets a loan against land, building, place etc. Such a loan can be easily approved upto 75 percent of the value of the real estate being developed.

T. Charter Loans

It is also known as a personal loan. In case, the entrepreneurs borrows do not have any tangible assets which can be provided as collateral security to the bank, the entrepreneurs may go for a personal loan or borrow his personal assets such as house or pledge to a legally register the loan.

2.2 VENTURE CAPITAL

Q20. Define venture capital? Explain the concept and features of venture capital financing.

Model Answer, Q18

What is venture capital? Explain.

Answer 1

Model Answer, Q18

Definition of Venture Capital

According to National Venture Capital Association, "Venture Capital means money provided by professionals who intend alongside management its young, rapidly growing companies that have the potential to develop into significant economic contributions".

According to the same National Institute, Edition, Venture Capital, "Venture Capital means providing seed, start-up and first stage financing and also funding the expansion of companies that have already demonstrated their business potential but do not yet have access to the public securities market or to credit-oriented institutional lending sources".

A venture capital company is defined as, "a financing institution which acts as entrepreneur as a co-investor in a project and shares the risks and returns of the enterprise".

Concept of Venture Capital Financing (VCF)

The concept of venture capital financing started during the post-1990s brought by India. Venture capital financing has contributed significantly to the development of economy in small and medium scale industries specially in US and UK.

It plays a dominant role in providing finance to SMEs and highly technical and risky ventures. Venture capital is regarded as a source of "risk capital". The main venture capital can be understood in several ways. In a narrow sense, it implies, making investments in new and fledgling companies for venture firms' inadequate growth.

In broader sense, it refers to the process of understanding capital by shareholders, for the purpose of forming and establishing firms specialising in new ideas or new technologies. To take just about financing, it is lent at the same time providing the required funds to start up the business, developing, evaluating, operating and managing it. It is considered as "the early stage financing of new and young enterprises seeking to grow rapidly". It therefore implies that the venture capital actively participates in the start-up and early management.

Venture capital financing growth industries or high-tech technology firms and the wider sector of UK venture capital. But the reality is that the venture capitalists do not invest more in the high technology than due to the presence of potential technical problems in the new business development process. It is undeniably clear that the high-tech firms look forward towards the venture capitalists for making risky capital investments. Thus, venture capital financing is the long-term money finance wherein the venture capitalist takes the most heavily in the form of capital gains. The entrepreneur and the venture capitalist work as partners in an enterprise. Thus, venture capital firms can have private equity investment mechanisms. Institutionalizing the innovative entrepreneurship and implementation in growing the small business can bring more.

Features of Venture Capital

The features of venture capital are follows.

1. Equity Participation

Venture capital financing is a tool as potential equity participation in the form of shares, options or convertible securities. The basic investment is to make capital gains by selling off the investment as well as the entrepreneurs start earning profits.

2. Long-term Investment

Venture capital financing is a long-term liquid investment as it can't be easily converted into cash on demand. Venture capital firms need to wait for a longer period of time i.e., at least 3-10 years to reap the benefits or gain from the investment.

3. Participation in Management/Hands-on Approach

Venture capital financing requires and facilitates greater role of venture capital in the entrepreneur's management. In this way the venture capitalist actively and increases his involvement by actively participating and supervising the enterprise. Venture capital investors not only finance but also facilitate marketing, financial planning and managing skills in the enterprises.

4. Co-investor

Venture capital acts as co-investors in the operations of all enterprises and share the risks and rewards of all enterprises.

5. Risk tolerance

The venture capitalist determines his holdings refer to the persons or to the people in the market. The main criteria for determining is not profit but capital appreciation.

6. Commercialization of New Ideas

Venture capital firms provide finance only to those firms who are committed to bring the new ideas or new technologies and not for those firms engaged in consultancy which are involved in training, booking, financial services, agency, leisure arts or research and development.

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PRINCIPLES OF ENTREPRENEURSHIP IN INDIA AND VENTURE CAPITAL

Venture capital funds only provide financial assistance to medium and large size providers the other companies which are required to be registered. In other words, financing helps in rapidly increasing the flow of capital for business.

In India, venture capital fund or venture capital is governed by the Securities and Exchange Board of India (SEBI). Venture Capital Institutions that can be described as company of a fund to raise venture capital via loans, equity, and/or subordinated to equity, and to make an investment in the ventures according to the SEBI rules and regulations.

Q21. What are the different stages of venture capital financing?

Answer:-

Venture capital industry follows an arrangement on the basis of the stages and the type of investment. The stages of an investment varies and depends upon the risk profile, risk assumption and other related factors of the investment decision process of the venture capital industry. The stages of financing in the venture capital industry is classified under broad categories.

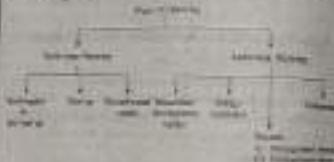


Fig. 21. Stages of financing

1. Early Stage Financing

The early stage financing comprises of the following:

Seed Capital/Pre-start Up

Seed capital is the first stage of early stage financing wherein new ideas and concepts of the products fall the base of a pre-commercialisation research phase which is mainly focused on a prototype which may or may not lead to the establishment of the business. This stage is basically an "idea and research" phase and moves towards the development stage further resulting in prototype product testing and ultimately to the commercialization process. VCs have to make sure while evaluating the project that the initial competitiveness of the entrepreneurs are as per the specificities and standards required in the market.

This stage is often greater funding risk. The primary entrepreneurial challenges such as finding sufficient mitigation of the market opportunity, launching their competitive product based on the ROI of their firm at the right period of the appraisal. Higher level of risk prevail at this stage. As a result, only few venture capital institutions make the seed-capital investments in the pre-commercial and low-stage of product development.

UNIT-2 / Financing and Managing the New Ventures

21. Start-up

Second stage of VC financing makes the commercial activities going on legal. Venture capitalists provide financial in the form of equity for the product development and initial marketing. This stage has greater significance because the product/service is commercialized for the first time as collaboration with the VCs.

It comprises of different types of projects like:

- (i) The planned projects like solar power plant in high technology or else.
- (ii) New business in which entrepreneurs holds good knowledge about the work.
- (iii) New projects by established companies.
- (iv) New company promoted by an existing company with scarce energies related to commercial business launching.

This stage indicates the availability of potential buyers for the introduction of new products/services. The participation level of VCs in start-up projects is usually less than due to joint liability claim syndrome which could be one of two reasons. First, venture's resistance to the dilution of control of the business and secondly, due to the unpredictability of the need for equity involvement. The risk levels are also high.

22. Second-round Financing

This stage indicates that the product has already been launched in the market, but the business has not grown enough to make public offerings in order to cover new customers. The promoter has already covered his own funds in the business but also requires the funds from venture capital institutions. The time interval is two when compared to start-up investment. The VCs provide major loan investment at this stage than at any other stage. A part of financing is also done in the form of debt, in order to decrease some burden to them.

23. Later Stage Financing

Later stage financing includes already existing business which needs additional financial support but cannot take public offerings. It includes the following:

24. Mezzanine/Development Capital

Mezzanine capital provides finance to those existing businesses which have already gone through the high-risk early stage, have gained profits but not had enough to make public offerings and now in order to raise the capital. Market expansion is another. Venture capital financing helps in purchasing new plants and machinery, reducing the marketing and distribution expenses, reduction of existing debt, capturing new market, establishing new management and so on.

The development capital is usually provided for a short period of time to three years and holds relatively low risk. It forms an important part of venture capital investment in the pre-commercial and low-stage of product development.

25. Bridge Finance

Bridge or transition capital is focused for a period ranging from one to three years and funds lower levels of risk. Bridge capital or transition capital is used for bridging business by proving that one production route or by acquiring other firms assets. In some words, it depicts the last resort of financing before a planned exit.

26. Buyouts

Buyout finance consists of leveraged buyout. Business are basically of two types.

27. Management Buyout (MBOs)

In MBOs, venture capital institutions provide limited liability research funding of the business and helps the existing operating management and the investors to acquire or raising profit line of business. They form an important part of VCs activities.

28. Management Buy-in (MBIs)

MBIs are the funds which are offered to allow an outside group or a third party usually managers to form a group and try an ongoing concern. MBIs pull together these important elements.

- ◆ A management team
- ◆ A target company
- ◆ An investor

Management buy-in are very popular at Management Investors. Besides, MBIs are much easier than MBAs because of the difficulty faced by the initial management to judge the real potential of the company concerned. Hence, MBIs target the issues of underperforming companies.

The time period for buyout ranges from one to three years with usually low risk perception.

29. Turnarounds

Turnarounds are a set of business and includes buying the majority or control of a sick company. Turnarounds need four types of inputs: Money, Assets and Management. The venture capital institution need to recognize good management and operation leadership. Turnarounds have tendency to high levels of risks and they take period longer from three to five years. Turnarounds are becoming popular in day and are being accepted on large scale and draw major part of VCs attention.

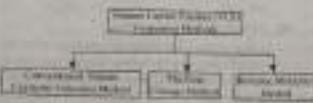
That, it can be concluded that venture capital institutions provide finance to both early as well as later stage investments in order to increase its trade-off between risk and profitability. In case of early stage investments, specially in the form of stage of highly untested businesses, the technology is not much commercially matured or not developed and potential competition doesn't exist as the product is new. Besides, evaluation of the technology and the market, the most crucial factor to be taken to increase by VCs is the ability or competency of the proposed entrepreneurs to follow the project with a sustainable chain of outcomes.

16. Short stage investments, the technology, actual customers in the market as described. The project have been introduced in the market and the entrepreneur keeps the cost of it which is directly evaluated by the venture capital institutions.

Q23. Discuss about various methods of Venture Capital Finance (VCF) evaluation.

Answer:

Venture Capital Institutions (VC) can invest via bond and growth-based methods the conventional accounts which were asset-based investments. The conventional investments were evaluated on the basis of tangible assets like inventories, plant, buildings, etc. Venture capital investments are evaluated on the basis of future of being evaluated off-balance sheet to reflect the acquired revenue or net present value investment the VC in its economic substance. The following are the valuation methods:



Newer Venture Capital Finance (NCF) Valuation Methods

1. **Conventional Venture Capital Valuation Method**
Conventional venture capital valuation method of Venture Capital Institutions (VC) is based on companies cash flow projections to calculate current intrinsic value. This are the various steps of investment and model step by step how much return the investment would be generated over time to calculate. The following steps are followed in valuation of venture capital - valuation and discounting of the present value obtained by the venture capital institutions and investors' opinions.

(i) First, the initial investment in the form of investment is undertaken. In order to determine the initial revenue, the project's initial investment value is multiplied by an expected annual growth rate for the specific holding period, which is one year.

(ii) Second, the expected earnings level is computed by multiplying the above amount with the after tax margin percentage of the firm's business.

(iii) Third, compute the future market valuation of the company calculating by multiplying the average level with expected P/E ratio of the industry.

(iv) Calculate the net present value of the venture capital investing using a suitable discounting factor.

(v) If the present value is say, 10 crores, P, estimate the required funds over P-E ratio as the venture capital then the capital percentage, i.e., one share is two-fifths, 40 percent.

WARNING: The assumptions of this model is a fallacy, as there exist no P-E ratio for venture capital companies.

The short term of conventional venture capital firms are held a short-term but relatively low risk due to existence of venture at the various stages during the process and plays more importance in the venture.

2. The First Cleavage Method

This method is used for the first and the second rounds when compared to the conventional method of venture capital valuation and puts focus on the stock price paid by the investors and also consider the company's earning history. This method includes the following steps:

- (i) The three alternative liability, "equity," "debt," "second tier," and "value" are considered. All the three stages are associated with certain probability, i.e.,
- (ii) Calculate the discounted present value of the venture capital considering by suitable discounting rate. Usually, the discounted rate is higher than the cost rate.
- (iii) Identify the discounted present value with the respective probabilities. The weighted of the sum of the discounted value is equal to the expected present value.
- (iv) If the expected present value of the VCF is P, then, the total funds required from the VCF is P/2, where, the remaining amount is required by the investors.

3. Revenue Multiplier Method

A revenue multiplier method is a factor that can be used to estimate the value of a venture capital undertaking by multiplying the factor the annual income of the company is divided by associated by the VCF. A revenue multiplier is usually represented as follows:

$$M = \frac{P}{R} = \frac{\text{Present Value}}{\text{Annual Income}}$$

Where,

- (i) Present value of the VCF
- (ii) Annual income level
 - Expected annual rate of growth of revenue
 - Expected number of years from the starting date to the exit date (holding period)
 - Expected exit date probability percentage (M&A rate of exit)
 - Discount percentage (P-E) ratio of venture
 - Appropriate discount rate for venture
 - Investment risk and other relevant factors

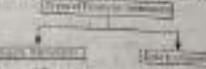
The revenue multiplier method is used by selecting the P/E ratio of various capital investments. When the investment alternative, there may be unadjustable to the starting point for the income take revenue would start. This method seems difficult and may not be present in India which is in the long run and the venture VCF growth, in case where it is not possible or difficult to use income multiple method. As far as the venture VCF is good and better result finds the investment risk is not used.

UNIT-2: Pricing and Marketing of the New Ventures

2.5. Explain the structuring of venture capital financing

A. Sources of VC Financing

The sources of venture capital financing refers to the different types of financial instruments through which venture capital institutions are made available to finance the principal stages of business ventures. The main instruments of a venture capital investment are broadly divided into two. They are,



B. Types of Classical Instruments for Venture Capital Financing

i. Equity Instruments

Equity instruments are used by almost all the venture capital firms of institutions. Usually, they do not contribute more than 40% of the total equity capital. Unlike the venture capital contributes to the form of equity, he prints the value of investment and is responsible to bear the profits and losses equal to the amount invested. The venture capital firms benefit through earned gains when the venture is successful and may also suffer losses when the venture fails. Venture financing is for a risky business.

ii. Debt Instruments

Debt instruments are of different types.

1. Ordinary Equity Shares

Equity shares are entitled to dividend and capital after the payment of dividends and capital on preference shares. Apart from the preference shares, the remaining shares are the equity shares.

2. Non-voting Equity Shares

These are subjected to a high rate of dividend but has no voting rights.

3. Deferred Ordinary Shares

The ordinary shares right are delayed for certain period of time till the other events such as listing of shares on the stock exchange or the sale of the company takes place.

4. Preferred Dividends Shares

Along with the voting rights, preferred ordinary shares also have dividend that is fixed rights.

5. Rights Warrants

Right warrants allow the investors to buy additional shares to get ordinary shares at a discount.

6. Preference Shares

These are the shares which holds a preference right over the equity shares with respect of the dividend. This preferential right is also applicable if the case of increase of capital or winding up of the company.

C. Cumulative Convertible Preference Shares

These shares are converted into equity shares after a certain period of time.

D. Participating Preference Shares

Participating preference shares are entitled to an extra dividend when a certain percentage of the dividend is to be equity shareholders.

E. Cumulative Convertible Participating Preferred Shares

They enjoy the benefits of both the preferred dividend and cumulative convertible participation shares.

F. Convertible Cumulative Redeemable Preference Shares

These shares have two class features.

G. Cumulative Dividend Capital Participating Shares

In the case of preference dividend, a fixed amount is payable on the preference shares. Out of the equity shareholders, the equity ultimate, non-voting equity shares and convertible cumulative participating dividend ordinary shares that receive the venture capital financing.

H. Debt Instruments

Debt instruments are used by entrepreneurs to hold back for venture capital management. A debt instrument is one of the forms of documentation of the agreement that describes the details of the investment to be done. Usually, the debt instrument contains the rules to implement the debt according to the agreed terms between the investor and the seller. These debt instruments are the conventional bonds, convertible bonds, convertible debentures, priority convertible debentures, fully convertible debentures, zero coupon bonds, secured promissory notes and deep discount bonds.

I. Conditional Loans

Conditional loans is a form of loan whose repayment schedule and interest rates are modified or that decline. The condition of conditional loans receives a certain percentage of interest rates for repayment of principal and so forth an average usually 10-15%. The changes in rates is called as coupon. The coupon in other parts of loans, depending upon the level of interest rates i.e., interest rates are more than the estimated rates. Thus, the conditional loans are quasi-coupons instruments.

J. Committed Loans

Committed loans are the result of venture capital financing. With the existing costs, the debts of loans charged to less for gradually increasing as soon as the production will grow. Besides interest, a small amount of royalty also occurs to cover up the losses brought in the starting years. Even though the principal amounts remain the same or even decrease, VCFs usually discussed great importance in starting or other security.

- 3. Venture Stage:**
Decisions made between entrepreneurial feasibility studies and basic business plan are called venture stage. The principal investor's investment is made according to a committed situation.
- 4. Non-contingent Debtors (NCDs):**
NCDs have either a commitment or a condition of return which the entrepreneur cannot influence or control and can be considered as non-contingent investors.
- 5. Partly Contingent Debtors (PCDs):**
PCDs initially have two parts:
 a) A committed portion and
 b) A non-contingent portion.
 The committed debtors are concerned with equity claim letters or part of investors. The non-contingent debtors even interest will fluctuate depending on performance. These debtors are best suitable for the second round of venture capital financing.
- 6. Zero Interest Capital Investors:**
Corporate founders are actual and convertible preference convertible with zero or no interest rate. The convertible bonds can be sold off at a discounted rate below their face value, while the convertible debentures are converted into equity class at a preferred date and time. They are highly flexible in nature and are used mostly for the later stage of venture capital financing.
- 7. Secured Preference Notes:**
Secured preference notes are secured, convertible at a premium either in dividends or residuals with zero rate of interest and carry a warrant option which equity can be offered. This debt instrument is also useful at the later stage of venture capital financing.
- 8. Deep Discount Bonds:**
Deep discount bonds are usually issued at a higher rate of interest than regular bonds. Due to long periods of maturity, they represent a low risk for venture capital financing.

Q24. Write about angel investors.

Answer :
An arrangement with a very good business idea may be approached to finance the new business.

Angel investors are a new source in India. Angel investors are themselves the business owners who have achieved success and are now willing to provide funds to those persons who have new ideas or start-ups but do not have appropriate funds for investment. These investors help the new entrepreneurs when the traditional investors and other financial institutions refuse to help them. For this reason, they are called "Angel investors". Usually, angel investors have experienced the same situations which the new entrepreneurs are facing. They know that a business cannot be started with limited funds. These investors also provide initial support and continue along with the funds.

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Angel investors play an important role in supporting the new business. Investors are also encouraging business owners to invest in their own business. If an angel investor is involved in investing into a business, then legal documents are signed for such success. If angel investors are working in a group, then representation with investors and customer based of funds (SICCI) is conducted.

As per SICCI regulation, an investor should possess minimum financial of ₹ 2 crore as tangible assets including his present assets. These investors can make investments only to the companies that are incorporated in India.

The angel investors follow the following rules while investing in the new business of an entrepreneur.

1. Investment decisions: Angel investors make investment for specific purposes such as to make a career, from entrepreneurs, to learn new things, to help the company to work with private companies and to find a job.
2. After identifying the investments most suitable, investors review it.
3. Deals are determined.
4. Legal accounting is carried out.
5. Due diligence.
6. Actual investment and negotiation take place.
7. Monitoring is carried out after making investments.
8. Earning and reducing returns.

2.3 RECORD KEEPING

Q25. What is record keeping? Write its necessity.

Model Paper-4, Q25

OR

What is the necessity of record keeping?

Discuss.

(Refer any Topic: Necessity, Importance of Record Keeping)

Answer : **Model Paper-4, Q25**
Record Keeping:

Record keeping refers to the process of maintaining and storing business related records. Such record keeping will be related to permanent and valuable records such as, tax records, bank account books, or may be related to the financial records of the firm such as balance sheet, cash flow statement, account management records etc.

It is advisable for the entrepreneurs to use certain packages available in the market, which would help him to maintain different records automatically and in an easy manner. In case of a quick growing enterprise, the entrepreneur may need the services of professional financial controllers such as chartered accountants, accountants, tax consultants and so on. These financial professionals could not only look for the enterprise to maintain the required record keeping but also help for expansion by looking the financial aspects of the enterprise. The entrepreneurs should take the record keeping of the customers and suppliers.

UNIT-2: Planning and Managing the New Ventures

Objectives of Management:
The objectives of management can be studied as follows:
 1. To provide the organization with a pool of potential and skilled human resources (Manager, Job applicants).

2. To ensure the basic economic requirements of the organization using various methods and other tools.

3. To increase the number of job applications in reduced cost and duration times are maintained.

It must be clearly defined that the management must provide organization resources to ensure efficiency and effectiveness through the different departments of the enterprise.

Necessity of Record Keeping:

The necessity or importance of record keeping is discussed as follows:

1. It helps the marketing department of a company to baseline their target audience; the type of marketing programmes to be employed etc by using customer database.
2. It helps in determining the exact and authentic financial position of the business organization.
3. It facilitates in identifying the funds which are used in the business organization. Accordingly, monetary resources can be used to avoid the funds.
4. It is useful in comparing the results of business every year.
5. It helps the business firm to efficiently monitor its operations with the help of financial records. Therefore, financial records are considered as "the eyes and nerve of a business".
6. It facilitates the management in carrying out different functions of an organization such as planning, controlling, and decision making.
7. It is also very helpful in the time of emergencies.

2.4 RECRUITMENT

Q26. Define Recruitment. What are the objectives of recruitment and explain the recruitment process?

Model Paper-4, Q26

Definition of Recruitment:

"Recruitment is the development and maintenance of adequate manpower resources. Different firms recruit a pool of available labor force where the organization can depend when it needs additional manpower."

Model Paper-4, Q26

Recruitment is the process of selecting the appropriate people and interviewing them to apply for jobs in the organization.

Model Paper-4, Q26

This is the third step of recruitment process. The search for a candidate highly depends on the line manager concerned because there is no guarantee on there would be a vacancy in the future.

Step-1: Recruitment Planning:

The first step of the recruitment process is planning. The HR department must collect the data about the nature and type of vacancies available. Planning involves the setting of the targets for a specific job, depending upon the number and types of applications to be collected and recruited. For example, a company says 1000 vacancies, to fill two vacant posts by fixing the total ratio as 10% which means that out of 99 vacancies only a single concern and person an employee can be selected.

Step-2: Strategic Development:

The second step of the recruitment process is strategic development. This step provides answer to the following questions:

- (i) Where to look for suitable job seekers?
- (ii) How to look for internal and external sources?
- (iii) What to look for particular things?

Step-3: Searching:

This is the third step of recruitment process. The search for a candidate highly depends on the line manager concerned because there is no guarantee on there would be a vacancy in the future.

Screening involves selecting and reviewing of potential candidates. It is also important to select the right members of entrepreneurs to create the company's image. For example, a company advertising its research facilities requires that he value or trust scientific status in the minds of the customers than those advertising its visual magnificence.

Step-4: Screening for Potential Candidates

Screening is the fourth step in the recruitment process. Some researchers considered screening as the fifth step of selection. However, others argue that the screening process starts early after the candidates are shortlisted through advertisements.

Step 5: Evaluating and Controlling:

This is the last step in the recruitment process. It involves evaluating and controlling costs of recruitment and evaluating the effectiveness of the company's recruitment policy. Recruitment mostly involves costs like:

- (a) Cost of advertising in newspapers, magazines, on-line agencies. For example, model.com, mazatours.com.
- (b) Selection panel for the recruits.
- (c) Cost of maintaining the job till the post is filled.
- (d) Advertisement and recruitment expenses.

Q27. Recreating a good team and building a successful organizational culture is key ingredient for the success of an enterprise. Provide your comments.

Answer 1

In order to become a successful entrepreneur, one needs to recruit the right set of people (employees) and also create an inspiring and positive organizational culture. This enterprise need to possess a good entrepreneurship spirit. The basic of the entrepreneurship should be ethics.

- (a) Effectively review the business plan.
- (b) Identify and align with the fundamental changes that occur in the business.
- (c) Focus towards the profitability of the enterprise.

The first important thing for the entrepreneur will create and align the business culture with the core business strategy. He is required to recruit the right set of personnel. The team leaders and managers in the enterprise need to be individuals with a positive attitude, high morale and need to work as a whole inside the culture in the organization. A good case in point is the U.S. based entrepreneur software company "Salesforce". The founder of entrepreneurship, Gary Kovner recruited the firm 200 users and personally met more than 2500 employees, the aim was to provide the employees best hand knowledge about the company's culture, its core value and to instill the belief that the company really supports and practices the recruited entrepreneurs culture.

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Open form recruiting the suitable personnel, entrepreneurial need to depict the basis of the identity and be there to try new and innovative ways of doing things. A group of people in private incorporation which started as a young enterprise. The management believed as the management provided them the flexibility to work how they thought fit and make independent decisions. The former CEO of the incorporation, Warren Jobs also believed in this approach. He never forced his employees to work independently for long time period though it would be work independently for long time period though developing the best electronic products.

Finally, the most important ingredient of a successful entrepreneur who possess the power to recruit the best personnel. To bring personal and professional growth and focus towards, individuals with strong character who can fit in with the job descriptions and specification mentioned for the job position. The entrepreneur need to remember that it is easy to change an employee's behaviour rather than changing the employee's attitude.

2.5 MOTIVATING AND LEADING TEAMS

Q28. Define motivation Discuss any two theories of motivation.

ANSWER 1

Hierarchies

According to Duhitt, "Motivation is the complex tie that keeps a person at work in an organization. Motivation is something that moves the person to action and continues on in the cause of action already initiated".

According to Ulrich, "Motivation refers to the set of which organ drives, motivates, stimulates, triggers or sets direct control or evaluate the behavior of human being".

Theories of Motivation

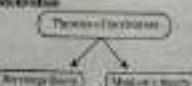


Figure: Theories of Motivation

1. Herzberg's Theory

Frederick Herzberg estimated the work of Maslow and developed a specific content theory of work motivation.

A research study was conducted whereby conducted a questionnaire analysis of the experience and feelings of 200 employees and accountants in and around Pittsburgh, USA. He asked the people to describe in detail situation were they felt exceptionally good and bad about their job. After the categorization responses, Herzberg concluded that the workers prefer jobs where they did good above their job and significantly different from the other given situations.

Based on this three reported good and bad feelings, Herzberg suggested that "job satisfaction" are related to "content" and "job dissatisfaction" are related to "process".

Herzberg labelled the "satiation" as "Maintenance" and "Dissatisfaction" as "Hygiene factors".

Take a look, the maintainers and hygiene factors have become known as "Herzberg's two factor theory of motivation".

|UNIT-2: Financial And Managing the New Ventures

Hierarchies Factor

The hygiene factors are prevent the bad environment at work and they are roughly equivalent to Maslow's lower level needs. These are not intrinsic parts of job, but they are related to certain areas where a job is performed. They provide no growth in a worker's output, they only prevent losses in workers performance due to work frustration.

These circumstances facilitate necessary to increase a reasonable level of satisfaction in the employees, however, are not at a level of intensity than Satisfy any increase in these factors will low effort/ambition level of satisfaction due to no rise in intrinsic needs.

Any increase in these hygiene factors will not make any difference but any decrease in these factors will decrease the intrinsic level of enjoyment.

Hygiene Factors are follows:

- (a) Company policy and administration
- (b) Technical supervision
- (c) Interpersonal relationship with supervisor
- (d) Interpersonal relationship with colleagues
- (e) Safety
- (f) Job security
- (g) Personal life
- (h) Working condition
- (i) Status

Motivational Factors

These factors are capable of having a positive effect on job satisfaction after removing or decreasing in each total output. Most of these factors are related with job contents.

"An increase in these factors will satisfy the employees however, any increase will not affect their level of motivation".

- (a) Achievement
- (b) Recognition
- (c) Advancement
- (d) Work itself
- (e) Possibility of growth
- (f) Responsibility

The motivation factors generally are individuals who are primarily motivated by the "external" factors like compensation, achievement and other factors associated with work itself.

Critical Analysis of Motivation

- (a) Herzberg's general is limited by his methodology
- (b) Various factors relating to jobs, whether intrinsic or extrinsic, may not be classified into maintenance and motivating factors

(c) This sort of classification is conceptually incomplete as the basis of individual's need satisfaction and intrinsic strength of various needs.

The reliability of Herzberg's methodology is questionable. Since many have pointed out relationship is not possible that they may contribute to the content by manipulating response differently.

(d) No overall measure of satisfaction was utilized, i.e., a person may dislike part of his/her job yet still think the job is acceptable.

(e) The theory is inconsistent with previous research, the main motive behind theory suggests irrational variables.

2. Maslow's Theory

Another theories are concerned with identifying the needs over that people have and how these needs have are presented. They are concerned with the types of incentives of goals that people strive to attain in order to satisfied and motives well. They are referred to as "State". Because they incorporate only one at the present time and not all at the same time simultaneously.

Maslow said that the behavior of an individual is a particular moment is usually determined by this stronger need. He has identified five levels in his hierarchy. There seems to be a hierarchy into which human needs are arranged. If the basic needs are not met, efforts to satisfy the higher needs should be postponed.



Figure: Levels of need hierarchy

1. Physiological Needs

Physiological needs have the highest strength until they are reasonably satisfied. Until these needs are satisfied to the degree needed for the efficient operation of the body, the majority of a person's activities will probably be at this level and the other levels will probably be only idle.

2. Safety Needs

When the physiological needs are reasonably satisfied, other levels of needs become important. Safety need corresponds to being free of physical danger or self-protection. These needs may take considerable importance in the context of the departmental safety and protecting its employees. Employees attend rewards account is an important consideration in choosing a job, mainly experts now include pension plans, insurance plans, etc.

3. Social Needs

When these above two needs are satisfied, social needs become important to this hierarchy. Since man is a social being, he has a need to belong and to be accepted by various groups. Groups will serve for meaningful relations with others. If the opportunity is reduced, then this too induces active aggression and obesity, in social interaction. Work-related interests, groups for support of individual's social needs and affiliation.

4. Esteem Needs:

These needs are associated with self-respect, self-confidence, feeling of personal worth, feeling of being capable and competent. Satisfaction of these needs provides feelings of self-confidence, prestige, power and control.

5. Self-Actualization Needs:

This is the need to realize one's potential, whatever it may be. It is related with the development of personal capabilities which lead people to make decisions that can serve their potential. This can help entrepreneurs which implies control over environment factors such as physical resources and characteristics. A person with high capacity of action tends would like to exert his full potential in doing so.

Critical Analysis of Maslow's Theory:

1. A man's needs order may not follow Maslow's need hierarchy.
2. Human needs may be different at lower level under which they may try for self-actualizing needs. For an example, Mahatma Gandhi.
3. For some people self-esteem needs are more important than social needs.
4. For some people, many of the needs may not have part of their own need hierarchy.
5. There is often a lack of direct cause-effect relationship found between them.
6. This theory does not provide a satisfying theory for motivation.

Q29. Is motivation compensatory? Explain in detail about Victor Vroom's theory of motivation.**Answer :-**

The motivation is compensatory and important as it is one of the factors which helps in influencing the performance of the individuals. For effective motivation of employees, leaders it is very essential for the organization to motivate its employees. In an organization, all the superiors leaders should motivate their subordinates so that they can make use of right type of incentives.

The following points help us to know the importance of motivation in an organization.

1. Increases Performance Level of Employees:

When the employees are motivated, they will increase their performance level. The performance of a motivated employee is higher than other employees. According to a study conducted by William James, it was reported that motivated employees make use of 30 to 40 percent of their abilities.

For an organization to become successful, it should have high performing employees which can be obtained only through motivation.

2. Reduces Employee Turnover and Absenteeism:

In an organization, high turnover and absenteeism will lead to number of organizational problems. But, when the employees are motivated, they would want to remain in the organization and their absence is also very low. It takes number of years to recruit, train and develop several new personnel into a working team. That also influences the organizational reputation adversely.

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3. Accepts Dispositional Changes:

Unpleasant changes in a society can affect the behaviour of society, causing dissatisfaction. For dealing well with the changes in society, it is very important for an organization to face the changes. But, many organizations in an organization face some changes because of which change is not accepted in an organization. So, the employees should be motivated, as encouraged, supported, accepted, involved and creates changes for maintaining the organization in a right track.

Victor Vroom's Theory of Motivation:

Victor Vroom's expectancy theory is based on motivation process. Victor Vroom's model is based on social information processing and more concerned with the cognitive associations that are less important or effort and the way they relate to each other.

Vroom's model is built around the concepts of value, expectancy and effort. His assumption is that "the characteristics of a person serving as a motivator and factors that are likely to influence psychological events regarding outcome expectations which influence behaviour".

According to Vroom, people will be motivated to do things to achieve their goals to the extent that they expect the certain actions on their part will help them to achieve the goal.

Motivation Force = $V \times E \times F$

Vroom's model is built around the concepts of locus, instrumentality and expectancy and is commonly known as VIE theory.

1. Valence:

Valence means the strength of an individual's preference for a particular outcome. It may be descriptive, intrinsic or extrinsic utility.

- ♦ For the valence to be positive, the individual must prefer attaining the outcome to not attending it.
- ♦ For the valence to be zero, the individual is not indifferent towards the outcome.
- ♦ For the valence to be negative, the individual prefers not attaining the outcome to attending it.

2. Instrumentality:

It refers to the degree which a low-level outcome will lead to a different stated instrumentalities. That is, the strength of the motivation to perform a certain act will depend on the subjective sense of the probability of the outcome for the outcome which include instrumentalities ratios of expectancy.

3. Expectancy:

It is the probability that a particular action will lead to an outcome. Expectancy is the probability that a particular action will lead to a particular low-level response. The strength of motivation to perform a certain act will depend on the subjective sense of the probability of the outcome for the outcome which include instrumentalities ratios of expectancy.

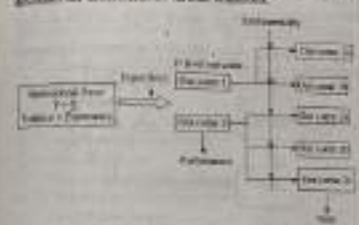
Example:

If an individual desires promotion and finds that superior performance is a very strong factor to achieve the target goal. Then his $E \times F$ value will be highest, average or poor performance. His $E \times F$ value will be of moderate.

UNIT-2: Financing and Managing the New Ventures**Importance of the Theory:**

Importance lies in relationship between individual and organizational goals. Instead of assuming that an outcome at a specific level is likely to influence organizational effectiveness in a certain way, we now find out how important is the outcome for the various lowest-level outcomes (outputs), the effectiveness of various P- level outcomes (organizational objectives) for their attainment and the importance of P- level outcomes.

Thus Vroom's theory proposes that a manager job is to design an environment for performance, necessarily taking into account the difference in rational outcomes.

**4. Vroom's Theory of Motivation:**

Q30. Define the term teams and team work. What are the characteristics of successful teams? What factors are motivating team work?

Answer :-**Team:**

A group of individuals having compatible skills working together for attaining a common goal is called a team. Team plays a very important role in the success of an organization and is regarded as the building blocks of an organization. For making the teams effective, the culture, processes, opinions and relationships within the teams should be managed.

Characteristics of Teams:

Teamwork is an activity in which the individuals work together as a team. In the teamwork, all the members of the team work collaboratively for the good of the team. Team and teamwork are regarded as the backbone of organization development. Close team work of managers has helped in producing better and long-term plans.

Thus, effective teams help in generating results which are beyond the permissions of individual individuals.

Characteristics of Successful Teams:

The following are the characteristics given by Lasson and Lasson for successful teams:

1. The goals of the teams should be clear and predictable.
2. Teams must have a well-defined structure.

3. All the members of the team should be skilled and trained.

4. All the team members should have a mutual trust towards the set goals.

5. Team should have a collaborative climate.

6. All the team members should aim for the standards of excellence.

7. The team members must receive a clear, support and recognition for the results.

8. There should be no rigid control and lenient leadership to the teams.

Thus, for achieving superior team performance all the above characteristics should be present in the system. If any of the characteristics is missing in the team, then it leads to declining performance.

Important Factors that Influence Teamwork:

The following are the important factors that influence teamwork.

1. Collaboration:

Individuals basically take up the learning process quickly and without difficulty when they are working in teams.

2. Certified Working Environment:

If management power is in all the positions which makes a conflict-free working environment.

3. Rewarding Issues:

Over personal and over communication differences can be resolved and presented in a greater extent.

4. Development of Strong Bond:

Individuals help like colleagues during working and are more of a homogeneous network for cooperation.

5. Flexibility:

Management makes the firm quickly adapt and follow the changes of the changing environment.

6. Skilled Personnel:

It develops informed and skilled human resources to do the job.

7. Satisfied Employees:

Business has found that employees working in teams are more satisfied and committed.

8. Mixed Generations:

Team usually tends to reflect older individuals for solving the complex business problems.

9. Stress Free Environment:

It helps in reducing the many stress over issues work interaction for the employees.

10. Enhancement in Productivity and Quality:

Overall productivity and quality of the firm are gets enhanced by working in teams.

Q21. Discuss the importance of the management team in launching a new venture.

Answer:

Management team who operates at the higher levels of organization to carry out day-to-day activities and functions is called management team.

In general, management team includes manager and other professionals like sales, board of directors, accountants and lawyers etc., who help the organization to carry out its functions as an efficient manner by giving right instructions. The growth of business is dependent on the management team.

Management team plays main importance in launching a new venture because it helps in various activities related to start a venture and they can be explained as follows:

1. Planning & Business

Management team follows planning specific business plan before starting a business. It also helps to manage resources required to provide place to run the business after it is started. It makes difference from a professional or retired individual or business consultant to write a business plan.

2. Development of Product

Management team will have an eye on competitive and developing new products to produce new products at lower cost by adding new features.

3. Marketing Plan

Management team will plan properly to different resources of business as marketing activities which are carried out while starting a business. It helps a business to increase its visibility to benefit all the concerned areas.

4. Marketing

Management team also handles marketing management to promote their products by advertising, maintaining public relations, it and management and business team by introducing different steps for marketing.

5. Personnel

Managing a business is not an easy task. It begins with proper grade which describes how to hire, train and increase employee's job satisfaction, personnel level of job description, dress and reward process. It provides and describes various terms for each position. Roles, functions in organization that is best for activity.

6. Entrepreneur Technology (IT)

At present, technology is playing a major role in developing a business. So, an IT staff member is helpful to manage various aspects of the business relatively. That is, the management team includes IT professionals as their team.

7. Legal

Management team looks after various legal issues related to starting a venture like registering a company, obtaining employment laws in state laws and to obtain a business license. So that, it can be free from facing legal consequences.

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Q22. Discuss the procedure involved in recruiting and leaving teams in an organization.

Answer:

Model Paper-II, Chapter 14, Page 17, MHTCET-2009
Presentation involved in Marketing Team in an Organization

Team manager is required to possess knowledge about the recruitment process and office for basic roles for improving the organizational performance. Process of recruitment can be used to make selection perform effectively. Good a good relationship between roles managers and subordinates, which is mutual, existence and honest mode of communication and to an the prospective team adaptors in managing their standards.

The following figure depicts the process of Management:

Figure: Process of Management in an organization



Figure: Process of Management in an organization

Leadership

The supervisory process begins with the leader sending people to take action. Motives are highly influential. Motive shows the internal motives of the supervisor by specifying the motives behind the human behaviour. Motives assist in reaching goals and directly the direction of the supervisor's behaviour.

2. Subordinates

Subordinates make subordinates behavior over a particular way. Subordinates' behavior consists of signature of specific undertakes for subordinates who get motivation or prior information or organizational objectives. Motives drive subordinates towards the achievement of goals. Usually, motives create a stage of change. The more factors among these subordinates stages might be lack of balance between psychological and physiological states of the subordinates. Human behavior psychological and physiological need of subordinates can be achieved positive behavior of subordinates through the achievement of individual or organizational goals.

3. Goals

A supervisor sets his 'goal' by taking into account various factors such as culture, values, ability of adaptation, impact of personal experiences and learning, the rate and degree of change in the physical and social environment where entrepreneurship is working.

UNIT-2: Evaluating and Identifying the New Venture

and every person in the sales organization are also instrumental drivers by making contribution for evaluating organization, which influences work and contributing behavior of subordinates. Motivational theories influence the manager to evaluate, measure their work and their role for their personal and professional life.

Procedure Involved in Leading Teams in an Organization

Leadership as an Influencing Process

Leadership is defined "as a process which influences the leaders and followers for achieving organizational objectives". Influence is the art of leadership that influences a group as a process where a leader communicates his ideas to followers, allows their acceptance and encourages them to practice and support their ideas through change.

Leadership is a mutual, self-aware process where a leader influences his followers and followers influence their leader.

Leader's Influence on Followers

The five sources of power which a leader has helped in changing the behaviour of his followers.

1. Reward Power

The ability of a leader to reward his followers is considered as reward power.

2. Coercive Power

The ability of a leader to threaten penalty will although is considered as coercive power.

3. Legitimate Power

The power which a leader enjoys after acting as a particular position or its representation is considered as legitimate power.

4. Expert Power

The power which a leader obtain from his specialized skills and knowledge which related to the task carried out by the organization is considered as expert power.

5. Referent Power

This power depends on the degree to which the employees identify, respect and want to follow their leaders.

Followers' Influence on Leader

The followers and subordinates influence the leader in the following ways:

1. Leaders are influenced by the responses of the followers given by their followers.

2. The characteristic features of the followers such as young or old, previous background, educational qualification etc., influences the leaders.

3. The extent of the significance of task carried out by the followers.

4. The experimental policies, environment and climate influences the leaders.

5. Influence of the peers of the co-employees on their leaders.

6. The greater influence on their leaders.

This is because, leaders influence their followers and followers influence their leaders.

Leadership as an Influencing Process

Leadership is the tool of the organization which takes place between a leader and his followers. It is a process which involves a leader, follower and a situation.

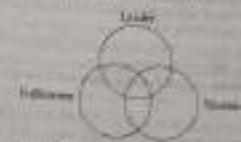


Figure: Integrated Framework of Leadership

Fred Fiedler was the first person who described the application of leader, follower and situation in the leadership process.

4. The Leader

A leader is a person who gets assistance in the pursuit of leadership qualities. It consists of personal traits, characteristics and motivation. All the leaders are not born with the characteristics. Leaders are different from their followers and there is difference between the leader's traits and characteristics. Leader is made of traits, cognitive abilities, skills and values. Personality of a leader also has an effect on leadership when the leader can be reduced from the concept.

The other vital issue of leadership is how to reduce the risk for accepting leader's position. However, there are two types of leaders, one is the referred leader who is selected by the superior and other is the one who emerges from the ranks of the followers. Motivacy and leadership of a leader also pose an equal importance role in its organization apart from the above mention. The leaders who are selected from within the organization are more familiar with the other people in the organization than the leaders who are selected from outside the organization.

5. The Followers

The followers are the most important element of the leadership process. The factors like follower's desires, personality, traits, maturity levels, responsiveness levels and traits often influences the process of leadership in general.

The motivational level of the follower is also very important. The workers who share the goals and values of a leader feels that they are basically encouraged for strengthen job effectively will be resulting in not extra effort and work for extra hours from those followers who feel that their job is not related to monetary terms. The other important factor which effects the interaction between leaders and followers are:

(i) Number of followers working under a leader

(ii) Level of follower's trust in their leaders

(iii) Leader's interest in the property of the followers

Q33. The Situations

The situation is the third component of the leadership process. Situations deals with the way in which the leader and the follower interact in a particular situation. It is concerned as the most important source of leadership situations in which different situations are faced easily with the help of shared leadership.

Thus, from the above points it is clear that leadership is an effective interaction process.

Q34. Discuss in detail about team leadership.**Answer :**

A team consists of a group of members who depend on each other for their work, where these individuals co-operate with each other in their work. A successful organization should possess to good team leadership qualities. For example, quality team project manager, responsive manager.

In present scenario, the concept of work teams or organizations is being widely used by managers. "Team" is a team of three to five members with close bonds. All the members of team work together for achieving a common goal or objective.

Historical Perspectives of Group Research

1. Group research started in the year 1900 which focused on business relation research.
2. The research was conducted from history relation researchers to theory of social science in the year 1906.
3. The firm was shifted to more employees in the year 1910.
4. That research was conducted on developing task and leadership in the years 1910 and 1915.
5. Competition from Japan and various other countries, started in mid 1980 and backtracking in the year 1990.
6. The worldwide organizations emerged over Japan for competition in the year 1990.

Research indicated that team performance is going difficult day by day as a result of weak attention. The size, behavior, division and role of the team plays major role in the organization. Team members should adapt to an environment where learning and new should be reflected in the members of the team.

Understanding the Functions of Leadership Team:

Following are some of the points which helps in understanding the functions of leadership team.

1. Ensure, Human and Capital Resources management and the leadership orientation should be ensured for better results.
2. Leadership should also be based on the guidance of the team members in the organization.
3. Each team member should understand their role for maintaining good team work in the organization.
4. Leadership work should be distributed among the team members for implementing leadership orientation in an effective manner.

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1. Shared leadership requires team members to be influenced by each other. Taking a step forward, leaders report and receiving feedback giving chance to others.
2. Shared leadership is very essential specially in situations where difficult decisions are taken and easily with the help of shared leadership.
3. Research suggests that shared leadership should be implemented under the terms of the responsibility.
4. Leadership orientation and responsibilities of the team are given to individuals who have been selected in the group for managing the work.

Q34. Define leadership and explain the features and importance of leadership in an organization.**Answer :**

According to House et al., "Leadership is the ability of individuals to influence, motivate and enable others to contribute towards the effectiveness and success of the organization". It is considered as a process which influences the leaders and followers for achieving organizational objectives. Through change, leaders help and motivate the employees to carry out their tasks enthusiastically and achieve the organizational objectives.

Features Characteristics of Leadership

The following are some of the basic characteristics of leadership:

1. In the leadership process, a leader and his followers work together for attaining common goals. So, it is relationship between a leader and his followers.
2. It is a continuous and ongoing behavioral process.
3. In the leadership process, the leader achieves the common goals, however tries to influence the behavior of the followers.
4. In the leadership process, leaders make use of different leadership styles under different situations.

With the help of leadership process, leaders can help the followers to know their importance in the organization and the importance of the task carried out by them.

Importance of Leadership

A leader has a very important role to perform at all occasions. The leadership exerted by him is vital for the organizational success. The following points highlight the importance of leadership in an organization.

1. Leaders are mainly responsible for the success or failure of the firm. The way in which leaders carry out their tasks help in determining the success or failure of the organization.
2. It is very important for the organization to motivate their employees so that they can perform well. An effective leader through his leadership process encourages and motivates the employees towards high performances.
3. An effective leader increases the confidence level of the followers by advising and guiding them. This will help the organization to attain good results.

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1. As a Project Leader, his/her role is increasing the morale and efficiency of the organization. Increase in the morale of the employees help in increasing the productivity and productivity of the organization.
2. The role of the leaders must their employees help in determining whether the employees will stay or leave the organization. So, the leaders decide whether their employees for retaining them in the organization.
3. Thus from the above points, it is clear that leadership is very important in an organization.

Q35. "The team leadership model provides a mental road map to help the leader diagnosis team problems and take appropriate actions to correct these problems". Discuss.**Answer :**

The team leadership model was introduced by HBL. It states that the leader's role is to analyze the team members' performance and take action when required. Leadership diagnosis may often take account by monitoring the action of the team members, task related issues and internal and external environment. Leadership decisions are closely related to the performance and development of team leadership.



3. Co-operative Team Members

Right members from less should be selected to form a co-operative body of the group. The plan should be presented with the motivation, enthusiasm and training so that they can have a co-operation of the more members.

4. Standard Commitments

Some are designated and developed capability. To set the stage by creating unity and co-operation in the organization.

5. Standards of Excellence

Great standards are the important criterion for the functioning of the group. Performance of the team members should be approached so that actions can be conducted successfully. With standard of excellence, members are encouraged to perform at their higher levels.

6. External Support and Recognition

External support system includes resources, support, rewards and incentives for performance and a proper financial incentives develop team skills.

Principled Leadership

Principles leaders are committed to the total goals and direction they take to bring success. Continuously improving the standards of team, one provides proper leadership, and to put in place measures whether the past actions and performances had met the desired results.

Q36. Explain how does the entrepreneur works as a team leader?

Answer: The entrepreneur as a team leader has two main responsibilities towards building their teams. Team's leader and his leadership should be seen the various departments. Important aspects are related to the knowledge of management and also to the team leader's ability to provide the team with strong field and guidance for the goal with the effective methods.

2. The needs of the team members are identified and organized for others. After understanding each other for achieving the set goals.

3. Leadership model provides feedback to the leader based on the research of leadership. It is considered as a potential guide.

4. Team leader motivates the members to work hard for the organization.

5. Team leader observes all the functions carried out and checks if them is performance level present.

6. Observes to be aware of the short term and overall operation. Under which function or for what measure action to carry the task needs.

7. Motivates the team about the future leadership. For example, Conducia is the merged organization formed by different educational institutions.

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1. What is team does the financial property, it may be used of financial problems?
2. When the team is not given enough autonomy, its power within the organization, it may lead to some environmental positions.
3. Leader should keep observing the situation and giving the appropriate action as needed.
4. Leader should decide about the situation, money is required to control the action.
5. The leader can handle at three levels of the organization.
 - (a) Internal function
 - (b) Financial problem
 - (c) Economic problem
 - (d) External problem
6. Involving people helps in supporting and guiding the overall development of the organization.
7. For example, a sports coach would have to communicate techniques for reducing the workload to improve the overall performance of the team members. This is compared with the factors for the success of a team.
8. Operational team leaders are form from open mode for improving the performance of the team.
9. The team leaders should assesses observation of areas where needed.
10. Team should be informed to cover the standards where applicable.
11. Hence, improving the performance can help in acquiring the best in selection and further improvement.

2.6 FINANCIAL CONTROLS

Q37. What is financial accounting control? Discuss its aims and need to concentrate on financial control. (Model Paper Q37)

OR

Why we need to concentrate on financial control? Explain. (Model Paper Q38)

Answer: *Financial Control* (Financial Control, Financial Accounting Control)

Financial Accounting Control

Financial Accounting control refers to the control of recording all account transactions are recorded according to generally Accepted accounting practices. The main aim and goal of accounting control is related with the "plan" of the transaction and the methods and records which ends will promote the trust and the reliability of financial record.

Role of Financial Accounting Control

The role of financial accounting control are as follows:

1. All accounting transactions are recorded in a chronological order.

2. Generally accepted Accounting principles...

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1. All transactions are recorded at period intervals, of the best transactions.
 2. Accrual related to revenue assets are recorded, measured and reported on regular basis.
 3. Usage of assets are allowed only with the permission of the management.
 4. Is entitled to opinions concerning control includes several aspects and basically consists of good financial check and internal audit.
- Thus, it may be concluded that financial accounting control system basically aims to ensure, maintaining and enhancing the effectiveness and efficiency of the internal check and control system, with regard to the organization's activities.

Need for Concentration on Financial control

It is very important to focus on financial control to achieve the objectives of financial management. Some of the reasons to concentrate on financial control are:

1. Financial Discipline

Financial control helps in supervision of inflow and outflow of resources and their efficient use. Hence, ensuring proper financial discipline.

2. Reduction of Waste

Effective financial control leads to optimal utilization of resources which in turn reduce any waste.

3. Concentration of Activities

Financial controls help for organization to attain its objective by creating coordination among the activities of different departments of the organization.

4. Increase in Income

Effective financial control helps the organization to increase their income and profits.

5. Credit Worthiness

Financial control helps to maintain adequate liquidity in the organization by keeping a balance between creditor's payment period and debt collection period, which ultimately leads to increase in credit worthiness of the organization.

Q38. Discuss the entrepreneurs focus towards financial control, with regard to,

- (i) Managing cash flow
- (ii) Managing fixed assets.

Answer:

1. The entrepreneur is required to have working knowledge about financial control, financial tools and techniques. Managing financial control shall be monitored by the entrepreneur. He needs to understand the basics of financial accounting and financial statements to know the basis of financial statement analysis. He able to work with cash flow statements, income statements, balance sheet and so on.

Generally, the financial control of the enterprise is utilized for cash flow analysis, that compared for today working cash flows with the projected cash flows to identify the strengths and weaknesses in the performance so that firm can take effective measures to avoid.

1. Managing Cash Flow

The entrepreneur can manage the cash flow of the enterprise using the cash flow statement.

A cash flow statement explains the inflows and outflows of cash and cash equivalents during a specific period of time, such as months and years. It indicates investing, financing and operating activities during a particular period of time.

Cash flow statement identifies the amount of sufficient resources available and requirements and considers the receipts and payments of cash. A cash flow statement is used to identify all the flows which have changes in cash position as a result of difference between the opening and closing dates of a statement. Usually, cash flow statement is referred to as "operating cash flow" as a method of calculating financial cash flow.

A cash budget is a detailed and far forward forecasting according to Schlesinger. "the cash budget is an analysis of flow of cash in a business over a definite short-term period of time. It is a summary of expected cash inflows and outflows". The main aim of preparing cash budget is to determine the minimum excess of available over predicted or vice-versa, in order to make arrangements for the flow of funds or cash.

Objectives of cash flow statement

The following are the objectives of preparing cash flow statement.

1. To determine the changes in cash balance among two different time periods. By using this corresponding cash flows.
2. To provide information about the liquidity and solvency of the firm to its capability to satisfy cash flows in the future period.
3. To predict about the factors which cause influence on cash flows and reduce the uncertainty through prediction during the year.
4. To provide extra information which is useful for knowing the changes in assets, liabilities and equity.
5. To enhance the comparability of operating performance of similar firms by removing the effect of different methods.
6. To highlight the economic, financial and predicted by of future cash flows.
7. To make a cash budget by making use of inflow and outflow of cash. If there is any difference, it must be corrected.

Advantages of Cash Flow Statement

Cash flow statement plays an important role of financial management. It is mainly used for short-term planning and acts as an important tool of financial analysis.

The main advantages of cash flow statement are as follows:

1. It is useful in examining the cash position of a firm as it is prepared on cash basis of accounting.
2. Its analysis can be done by comparing the historical cash flows with the projected cash flows to identify the strengths and weaknesses in the performance so that firm can take effective measures to avoid.

- (1) It is performed in a standard format prescribed by ASI (Government authorities) for efficiency and for making comparisons with other firms.
- (2) It is a chart which indicates the firm's strategic position in offering its investment choices to investors and identifies various dimensions of potential for specific period of time.
- (3) It is an effective tool which helps in planning the operational level replacement of old assets and it is also called Capital Budgeting decisions.

3. Managing Fixed Assets

The management is required to study and efficiently manage the fixed assets of the enterprise.

Fixed assets refers to those assets which are held for the purpose of producing or providing goods or services and those assets are not held for resale. In the current course of business, fixed assets may be classified as under:

- (1) Long-term Fixed Assets refer to those assets which can be used and classified as Land and Building, Plant and Machinery, Fixtures and Fences, Motor Vehicles.
- (2) Long Fixed Assets refer to those assets which cannot be used and classified e.g., Land, Forest, Trade Name.

Depending upon the financial status of the enterprise, the enterprises may either purchase a fixed assets or lease it for the benefit of the fixed assets.

Q3. What is inventory? Explain types of inventories.

A Inventory

The goods or materials that are stored for an organization to ensure efficient and smooth running of business activities operations. The goods or materials used to produce products, semi-finished or process packaging items etc.

The business organization usually wants to maintain a certain level of profit to ensure smooth operations. To achieve this, it is essential to maintain a minimum level of raw material inventories and low levels of finished or end products.

Type of Inventories

Following are the types of inventories.

1. Classification Based on the Stage of the Process in Production

(a) Raw Material and Spares Inventory

These items are used directly in the manufacturing of the concerned products.

(b) Work-in-Process Inventory

Because of different stages of manufacturing, many stages items are manufactured. This is known as Work-in-Process (WIP) inventory. The size of this inventory would depend on the length of the production cycle.

(c) Finished Goods Inventory

Generally, the manufactured items are stored before they are shipped or sold. That is known as finished goods inventory.

Inventory Management or the task is to find out the right quantity and source from where to get the concerned products.

2. Classification Based on the Purpose

(a) Transportation Inventory

Goods are to be transported from various production centers to distribution centers and customers. During this, the need for storing arises. This type of inventories which are in transit of old transportation activities or means a warehouse or pipeline inventories.

(b) Buffer Inventories

These inventories have to be carried because there are production delays or bottlenecks. If produced immediately there are fluctuations in demand and lead time response to customer needs, quantities or quality of requirement are affected, these are also referred to as safety stocks.

(c) Anticipatory Inventories

These inventories are built up in advance for a particular season or operation to meet the requirements of the concerned period. These are inventories are created for future requirement, for example, Christmas.

(d) Disruptive Inventories

In continuous production, breakdowns or one worker's breakdown in one stage will result in interruption of the production system. To overcome this difficulty, however, acceptable inventories are created. Disruptive inventories can act only as a form of insurance to ensure that "through" manufacture production is not lost if the form of raw material which are used to disrupt the production flow like suppliers, and related supplier damage due to中断 in their production.

(e) Lot Size Inventories

These are used for the purchases that are usually made in larger than the usual amounts to reduce the cost per unit at every point of view. This is also known as lot size inventories.

(f) Classification Based on Role in Production

(a) Direct Inventories

The items which are forming an integral part of finished product being under the classification of raw materials, labor and overheads. For example raw materials, WIP, finished goods and spare parts.

(b) Indirect Inventories

Indirect inventories consist of items which are required to produce the direct basic or integral part of finished goods. Examples for this include Office materials, maintenance items, tools etc.

It is important to point about a category known as indirect labor inventories which forms the key to the costs and expenses for the storage and disposal of raw material.

The company's success is the result of economy material. This company's success is the result of economy material.

It has come up with a comprehensive financial system, it has come up with a comprehensive financial system that helps the company to maintain accurate records of all its products. The system also tracks the firm's location along the length of time to all

the tasks, including delivery, performance of customer service, delivery of new products, performance of customer

service. This system is designed to help the company to maintain accurate and accurate

records of all its products.

UNIT-3: Financing and Managing the New Ventures

2.7 MARKETING AND SALES CONTROLS

(a) Give a detailed note on marketing and sales control. (Model Paper-Governor Andhra Pradesh, 2010)

What is marketing control and sales control?
Explain the procedure for evaluating and controlling sales force performance.

Answer :
The entrepreneur need to be well aware about the steps of evaluating control tools and sales control tools for successfully running the enterprise.

Marketing Control

Marketing control is an essential component of the marketing job. Marketing control is the technique used by the company to make sure that the marketing programmes and actions undertaken by the company are working in achieving marketing objectives and working in the same direction as marketing strategy. Overall marketing performance of the company is measured against the standard expected in marketing performance to determine the variance. Actual marketing performance is less than the budgeted marketing performance, corrective measures are taken to improve the actual marketing performance. The corrective measures of evaluating management jobs are planning, implementation, evaluating and controlling. For going control and timely analysis are very important for successful implementation of marketing programmes. Marketing control leads to improvement in production and ultimately leads to high and early marketing activity.

Sales Control

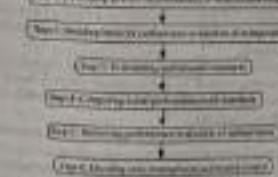
The entrepreneur need to have a good sales control system & plan. The main aim of sales control is to convert salesmen into the performance salesmen to be market.

A good sales control system answers questions such as how often, where things went wrong. Further a good sales control system is used to boost the sales of the enterprise and achieve business objectives set by the entrepreneur.

The sales force of the enterprise plays a vital role in achieving the sales objectives. Thus, the sales force is required to develop a good sales force control and evaluation system.

Procedure for Evaluating and Controlling Salesforce Performance

The assessing and controlling procedure of salesforce performance involves the following steps:



Three Functions for Evaluating and Controlling Salesforce Performance

Step-2: Developing Policies on Performance Evaluation and Control

In the first step, company management must develop some policies related to evaluating the performance. Different studies have provided information on several policies which are adopted by most of the sales organizations. Some of these policies are as follows:

(a) Different sales organisations have different frequency levels of evaluations. Some firms evaluate salespeople performance half yearly or quarterly and few firms evaluate monthly or weekly.

(b) The field sales manager who supervises the salespeople evaluates the performance of salespeople. Sometimes the boss of the field, sales manager is also involved in the performance evaluation of the sales agents' performance.

(c) Self critique feedback of the salespeople is a popular assessment technique which is used by nearly 20 percent of the companies. It involves multiple roles, including sales managers, internal and external customers from themselves and stakeholders. In this technique, an executive feedback is obtained from all employees, but not from peers, immediate superiors and subordinates.

Step-3: Defining Bases for Performance Evaluation of Salespeople

In this step, a sales organization must select a complete set of criteria for performance evaluation of salespeople. There are three categories:

(a) Outcome-Based Measures

Outcome-based measures focus on the achievement associated with sales division or supervised by the sales manager. The outcome bases sales quantitative criteria, as it measures the financial effectiveness of salespeople.

(b) Behavior-Activity, Effort-based Measures

This approach emphasizes on the behavior and characteristics of the salesperson with regard to effort and賣賣。Salespeople's attitude towards sales, their quantitative criteria and qualitative criteria are used for evaluating the salesperson's performance.

(c) Both Outcome-based and Behavior-based Measures

This approach concludes that a sales organization must use both outcome-based and behavior-based criteria for evaluating the performance of salespeople. Some companies use hybrid approach, in which both the viewpoints are used for controlling the salesforce. In hybrid approach, quantitative is given to quantitative results, attitudes, efforts, paperwork and supervisory.

Criteria Basis for Sales People's Performance Evaluation

The companies must use different bases for evaluating the salespeople's performance. The specific bases or criteria for evaluating the performance evaluation is based on the company's viewpoint and selling situation. The basis is selected from the list of:

Step 4: Quantitative control criteria

- Quantitative behavioral criteria
- Quantitative performance activity criteria

Step 5: Establishing Performance Standards

In this step, performance standards are established which are used as target points or work targets. The sales manager's actual performance is evaluated by measuring it against the performance standards. The performance standards for more effective sales are usually set by a close relationship with the performance goals of the manager for customers, regions, branches, products and subgroups.

The sales manager can make sure that the performance standards are fair and reasonable. If these guidelines are too difficult then there will be dissatisfaction of subgroups and all efforts will be affected on sales performance. After evaluating the performance standards, it must be communicated to the managers.

Step 6: Comparing Actual Performance with Standards.

In this step, the actual performance of individual employees is classified and compared with the predetermined performance standards. The sales managers can make use of different methods to evaluate the performance of subgroups.

Step 7: Reviewing Performance Evaluation of Subgroups

After reviewing the subgroup's performance, the sales manager must consider performance review or appraisal process with the subgroup. This is a challenging task for sales manager as it is a very sensitive question. The sales manager must consider the subgroup for defining the type and place for the performance review meeting. Before conducting the meeting, the subgroup must receive the job description and past performance by using the evaluation forms of the company. The subgroup or itself or the sales manager must consider performance review as a positive method which facilitates the subgroup to solve the current problem and parties effectively in future.

The following are the guidelines which are useful for reviewing the performances.

- (i) The performance criteria must be discussed.
- (ii) The subgroup must receive the review of performance.
- (iii) The sales manager must present his view for the performance review of subgroups.

A sound summary should be built.

If disappointed output, then the sales manager must suggest the reasons to the subgroups.

The sales manager must briefly review the problems that face the sales manager and the subgroup and develop mainly specific objectives and action plan for future.

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Step 8: Dividing Sales Management Actions and Control

The potential of performance evaluations should be leveraged as organizations provide significant information relating to the performance of subgroups. The sales manager is responsible for utilizing this information by assessing the performance of individual subgroups, sales teams and the operations of the sales organization. The performance information also assists in determining problems areas, identifying causes of the problem and initiating sales improvement which is solve the problem.

Q41. What do you understand by controlling? Write a note about 'Global Controlling Mechanisms'.**Answer :****Controlling**

Controlling means of making the results align with regards to achieving chose correspondence between plans and performance. The process of measuring the current performance of the employees and assessing whether the given objectives are achieved or not.

The various steps in controlling include,

- (i) Establishment of standard works.
- (ii) Assessment of actual work.
- (iii) Determination of deviation.
- (iv) Corrective action.

The consisting of global monitoring plan is considered to be important in the planning and evaluation process. The control mechanism is developed based on the nature of planning process used.

Global Control Mechanism

Following are the various global control mechanisms. Management control and communication in the operations are considered to be much important in marketing.

'Behavioral' concern to 'Sales results' is one of the main approach of controlling.

Traditional approaches in controlling are sales outcome oriented whereas non-traditional approaches are behavior oriented.

Effective control process provides the data pattern to be used in inflow the planning process. The sales pattern is used where the data is collected via marketing data in case of the international and transnational control mechanisms are implemented there local and global elements may be included.

According to Carlson and Rustakar, the various organizations develop control systems for financial and financial reporting which is divided control in internal or external.

According to Aparicio and Cukier, based on organization research related to management control based on behavioral control perspective is compared with sales results by companies.

Based on the results, it is concluded that the traditional oriented control approach are less effective.

From the above of the controls are behavioral approach-oriented but most of them still depend on traditional measurement tools like on budget and so on.

UNIT-2: Financing and Managing the New Ventures

Q42. Distinguish between the simple types of budgeting and the complex types of budgeting.

The basic concept approach to control is considered to be useful for market offerings.

Q42. Describe in detail the factors which affect the marketing control system.**Answer :****The various factors affecting marketing control system are follows.****Four Factors Affecting Marketing Control System****1. Domestic Practices and Values**

The organizations that have recently entered into the existing business may use customs and practices of the new market. The subcultures can follow the same market practices if the product being implemented has a universal demand. However, it does not work well when the organization is operating in economies.

2. Accuracy of Data

The accuracy of consumer, economic and Demographic (EDD) data greatly affects the performance and marketing. The organizations need to ensure the reliability of data. Also, the uses of measurement must be same while comparing the data.

3. Communication Systems

Control mechanisms are highly implemented by communication system. Specifically, the computers that operate in every countries need appropriate and sustainable communication.

The developing countries face many problems that are associated with the communication system. Many times, the companies experienced shutdown due to power failure, connectivity problems and the problems concerning funds for maintenance.

4. The Product and Service Offer

Marketing control is considered as one of the important types of controls. It comes in different levels such as retail outlets, marketing personnel, retail outlet managers, production and warehouse etc.

5. Annual Plan Control

Annual plan control is implemented to check if the specified annual operating goals are achieved or not.

6. Environmental Influence

The more the environmental influences exist, the more the chances of degradation of control and the control becomes ineffective. For instance, it is easier to maintain current standards of reporting in the country like Germany, but the same becomes difficult in case of Brazil, as the countries have different customs, culture and climate.

7. Economic Stability

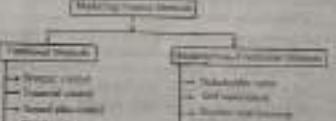
Economic stability, consistency and lack of significant events of standardized measure of performance.

8. Distance

The organizations having smaller of operations across the world generally faces physical and psychological barriers. However, value is different and required services are aligned to a differing stock organizational barriers.

Q43. Discuss the traditional and modern marketing control methods.**Answer :**

There are many marketing control methods available. They are either traditional (concerned type of data) or modern (behavioral type). Some of the important methods are discussed below.

**Figure: Traditional and Modern Methods of Marketing Control****1. Traditional Methods**

Various traditional methods of marketing control are discussed as under:

1. Strategic Control

The main purpose of strategic control method is to evaluate the organization. It checks whether the organization has succeeded in its objective in terms of quality and quantity aspects. Quality controlling and cost controlling are the central parts of it.

2. Financial Control

Financial control is considered as one of the important types of controls. It comes in different levels such as retail outlets, marketing personnel, retail outlet managers, production and warehouse etc.

3. Annual Plan Control

Annual plan control is implemented to check if the specified annual operating goals are achieved or not.

A. Bond Equity Matrix

The objective of bond equity matrix is to measure the equity in increasing or decreasing. It also measures the "source" that is represented in the matrix. The equity can also be assessed through many other techniques including consumer value and user satisfaction measures and innovation.

B. Efficiency Content

Efficiency content is useful to ascertain the market efficiency. It answers whether the marketing can be carried out more efficiently. The answer depends on its link with the firm and staff management.

C. Profit Content

One profit content can be measured by making a comparison of budget with rest of the performance. Also it is useful to disaggregate data down to the channel, product and area. Trend analysis (TVA) role is to examine that customer contact, individual number and new performance. Marketing manager holds responsibility to perform this process.

D. Stakeholders/New Traditional Methods

The traditional "functional" methods of international marketing control are discussed as follows.

E. Stakeholder Value

It is very important to measure the stakeholder value in the marketing problems. Stakeholders and management can increase the stakeholder value by concentrating more on services and products that would produce potential profitability. It is good to apply this idea than trying to satisfy all customers.

F. Self Assessment

Self assessment is always similar to benchmarking. The indicators can be used similarly as similar to the indicators whereas not all their performances are same.

G. Double-Loop Learning

This would ensure if the feedback from performance is observed and applied at the next time.

H. Benchmarking and Best Practice

These techniques are basically applied to check measure the performance on the basis of benchmarking in terms of a firm. Using the industry's "best-practices" for organization to that assess their level i.e., below or above the norm. For example, Several international airlines measure their customer service performance through the process of benchmarking. Benchmarking must be carried out by high level executive either internal or external.

I. KPIs Business

There are five perspectives that forms a basis to this approach.

- Business mission
- Business process analysis
- Business performance management
- A strategic analysis of the client's operations and
- Customer improvement

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A. Balanced Scorecard

balanced score is among the major techniques and to measure the performance of an organization and a measure financial position and tries to build a better scope of innovation.

Balanced scorecard is considered as "tool of managers that gives a complete and comprehensive view of the business". It includes financial measures that the results of actions already taken and future plans, the financial measures are customers and market, internal processes and the organizational measurement and improvement actions, operational measures that are drivers of future financial performance.

The balanced scorecard identifies four key performance indicators:

- Customer perspective, "How do customers see us?"
- Internal business perspective, "What are we doing?"
- Innovation and learning perspective, "Can we continue to improve and create value?"
- Financial perspective, "How do we look to shareholders?"

Each of these perspectives could be evaluated individually along with a combination provides deeper integrated a balanced approach to strategy formulation.

1.8 E-COMMERCE AND ENTREPRENEURSHIP**Q44. Define E-commerce. What are its advantages and disadvantages?**

Answer :

Definition of E-commerce

According to Prabhat Jain—"E-commerce is an exchange of business information using electronic forums including Electronic Mail (e-mail), Electronic Bulletin Board (EBB) and Electronic Data Transfer (EDT). E-commerce technologies are designed to replace traditional paper-based work-flow with faster, more efficient and reliable communication between computers."

Apart from the above definition, "Prabhat Jain" says that "E-commerce is a process of two parties people carrying out business transaction through computer and web and it network like Internet or direct connection".

In simple words, E-commerce is a process of exchange of goods and services by using public and private computer networks comprising Internet.

Advantages of E-commerce

- Some of the advantages of E-commerce are as follows:

i. No Operating Costs

The operating costs are not involved in E-commerce. Businesses have no role to play in cost processing.

UNIT-2: Planning and Managing (Review Version)**A. High Level of Concentration**

High level of concentration can be achieved at the point through E-commerce. Basically, business can sell to larger market by keeping focus market as their target market, with the use of social media such as forums, process of automation, suppliers can acquire information about their consumers. This acquired information can be used by suppliers to supply products and services as per the requirements of consumers which is known as customization.

B. Easy Shopping

E-commerce facilitates "easy shopping". Previously before the introduction of Internet customers had to visit shop personally or purchase online. If they do not like the things available in shop, they had to leave shop. This process will give 10% to 15% customer goes back to their products. This process creates lots of time and 2 hours are very difficult to return for the customers of lotus on shopping. Now through Internet, people can do online shopping by visiting lotus. Customers can have access to the various departments place without wasting their time and energy.

C. Reduced Time

One main advantage of E-commerce is the saved time. Benefit in e-commerce is 24x7. Through E-commerce companies can sold to the market operates worldwide. World Wide Web (WWW) allows the company to sell their products, get quick response from customer, work on their responses and take action without making much investment in physical success of the business.

D. Saving Money

E-commerce facilitates companies to save lots of money. For instance, Chrysler corporation saves more than \$1 billion in materials cost by maintaining relationship with suppliers via web-based networks.

Disadvantages of E-Commerce

The disadvantages limitations of e-commerce can be either of technical type or non-technical type.

Technical Disadvantages/Deficiencies

The technical limitations of e-commerce are given below. However, they can be reduced by appropriate planning and implementation.

- Lack of communication protocols, system security, standards and reliability is the first limitation of e-commerce.
- The telecommunication bandwidth is not sufficient as there is an increase in number of consumers.
- Evolution and change in software development tools is very rapid.
- Integration of e-commerce and internal software with the existing applications and databases is very difficult.
- In addition to the network servers, end users need some special hardware and web servers.
- For e-commerce sites are not compatible with few operating systems and browsers.

B. Non-technical Disadvantages/Limitations

In 1998 a survey was conducted by internet users to know the non-technical limitations of e-commerce. The survey helped in gathering the major ones:

i. Privacy and Security

Security and privacy issues are very important in E-commerce. Security issues like a big concern even during paid encryption. Privacy issues are regarding a certain site. However, concerning comments about security in the forums and privacy in shopping in a long way that consumers have to go. As per the survey, 11.2% stated the security and privacy as major concern.

ii. Authentication and Cost

In order to justify the modern emerging benefits like good customer service and after-service should be made available and opportunity. The cost involved in enhancing e-commerce development may be high. The increasing lack of experience which results in delivery. The percentage given is 24.4%.

iii. Lack of Trust and User Resistance

Terms like "paperless transactions", "e-commerce", "business-to-business" are difficult to carry in a manner in which can easily used in business world, they don't trust each other they large. Overcoming these physical items to virtual items is a very slow process. 44% people said for lack of trust and user resistance because of the negative perception of e-commerce.

Q45. Define E-commerce from different perspectives along with its importance. (Word Power 4, Grid)

OR

Describe E-commerce with examples.

Answer : <http://www.cs.vt.edu/~murali/CS545/Unit2/ECommerce.pdf>

E-commerce

E-commerce or electronic commerce is simply an "online business" wherein the buying and selling of products and services are carried out through internet. It consists of both the business-to-business (B2B) and business-to-consumer (B2C) transactions.

In addition to buying and selling, e-commerce also helps in marketing and servicing, as well as delivery and payment of products through internet, emails, messages or some other networks.

E-commerce can be defined in several ways through different perspectives:

i. Communication Perspective

E-commerce can be utilized as the process of delivering products, services, information or payment through computer networks or any other electronic medium.

ii. Commercial Perspective

E-commerce can be referred as the process of buying and selling products, services and information through Internet or any other online service.

3. Service Perspective

E-commerce is defined as a tool for dealing with the aspects of entrepreneurs firms, management and consumers. Their desire is to reduce the service cost, improve customer service quality, and increase service delivery speed.

4. Business Process Perspective

E-commerce is defined as a process that performs electronic business through electronic markets.

5. Collaborative Perspective

E-commerce is defined as a framework that collaborates with the user and other organizations.

6. Community Perspective

E-commerce is defined as a place where all the community members can gather, learn, interact and collaborate.

Importance of E-commerce

With spread adoption of e-commerce it creates new market opportunities in business activities. The following are the key outcomes of e-commerce:

(i) Improvement in Productivity

E-commerce has drastically reduced the time required for creating and processing a business transaction. Additionally, E-commerce avoids several errors like duplication of records and also reduces data entry and keying work. This results in the improvement of overall productivity.

(ii) Reduction in Cost

From the study experience of E-commerce adoption, a research has shown that using E-commerce in business has resulted in 5% to 10% cost savings. This saving is due to quick and efficient communication and easier access to markets and customers.

(iii) Automation of Business Processes

Consolidating and streamlining business processes enables further reduction in costs. If enterprises are automated, then business can use internet to share information like purchase data and it can be used for forecasting sales.

(iv) Good Customer Service

An important advantage of E-commerce is that there is a direct and better communication with customers. The feedback and suggestions of customers can be assessed quickly and respective changes in the product can be made. Moreover, E-commerce allows customers to shop 24*7 from any part of the world.

(v) Business Expansion Opportunity

Since E-commerce is data oriented, it has increased a broad range of customers from several parts of the world. Therefore, there is a greater chance of business expansion.

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In addition to the above benefits, E-commerce also improves profit margins by automating supply chain management, cost efficiently, serving the needs of customers. Lower costs can be directly reflected in the profit. It can still that E-commerce is the coming future with a greater significance.

Example of E-commerce:

For example if a person wants to buy a shirt, he may directly approach a departmental store, visit it and make payment and take the goods to home. Whereas, in the case of e-commerce system, if a customer wanting to purchase a shirt ordered by some software company. Then instead of taking a direct approach to the customer, he can bring the company's website in their desired phone and download it by paying via electronic means such as credit card, debit card, etc. Once done, the customer can purchase his/her desired shopping items by sitting comfortably at his/her residence. As with e-commerce, the payment can be done through bank account or their wallet and the products are delivered through post while the products are delivered physically.

The other examples of E-commerce are as follows:

1. Shopping website:
The customer can do shopping using e-commerce such as Amazon.com, Flipkart.com, Mynt9, Nykaa, etc.
2. Mobile website:
The customer can do shopping using iPhone, Mi, Apple, Vivo etc used by the audience to purchase mobiles.
3. Transport:
Uber, Ola, Kapruka are the transport facilities where you can book online to move from one place to another.
4. Electronics:
Through the usage of E-commerce, customer can purchase the electronics such as refrigerator, washing machine, computer parts etc by using websites in particular brand such as Digi, LG, Samsung etc.

Q48. Highlight the role of e-commerce in entrepreneurship.

Answer :-

E-commerce provides the entrepreneurs the opportunity to be innovative and creative. It acts as a quick and cost effective between the entrepreneur and his potential customers. Research studies have found that the potential of e-commerce and entrepreneurship is huge. For example, the e-commerce business was \$ 1.379 billion dollars in 2001. It increased to \$ 43.9 billion dollars (33% increase) within one year. The major players in the e-commerce sector are entrepreneurs like Amazon, eBay, Overstock, Flipkart, etc. The present day entrepreneurs are selling more products and services using the internet, rather than the traditional brick-and-mortar stores. The major benefits for entrepreneurs to go to e-commerce include the following:

1. It provides the entrepreneurs a quick, easy and efficient vehicle to reach his target customers.

Q49. Explain the term New Ventures.

To provide a large customer base for the entrepreneurs, the entrepreneurs would have to start own manufacturing, marketing and advertising by using a computer to make it easy to communicate the needs of business. The cheap and wide availability of the internet acting as a facilitator for the entrepreneurs to expand their customer business.

E-commerce is being increasingly used by real estate and small-sized entrepreneurial firms for sales and marketing purpose. Besides, it is reducing the marketing and selling cost. Further, the entrepreneur need to keep record of new less expensive of internet commerce.

(i) Front end operations**(ii) Back end operations****(iii) Front End Operations**

It refers to all the functions concerned with the organization's web page such as, search capabilities, shopping cart, creating and maintaining a secure mode of payment for the customers and so on.

(iv) Back End Operations

These include elements such as a smooth integration of the customers' orders, creating and maintaining a well-structured distribution and a functioning system.

The entrepreneur need to integrate the front end operations and back end operations to ensure that the e-commerce transactions are carried-on smoothly and effectively.

Q50. Briefly explain evolution of sources and methods of idea planning and development a-business ventures. [Ans: Q50, Q51, Q52]

Q51. Discuss the conceptual framework of E-business and its significance.

Major Only Topic: Information Systems Architecture Framework of E-Commerce

Answer :- Major Only Topic: Information Systems Architecture Framework of E-Commerce

For answer refer Unit 1, Q45, Topic: Structure of Information System.

Methods of Idea Planning and Development

For answer refer Q46-1-Q47.

e-business, Vendors/Architectural Framework of E-Commerce

Architectural framework of E-commerce is a combination of different available resources such as DBMS, data storage, communication protocols and computer languages. These resources allow the utilization of data and software for creation of superior applications.

The framework has four distinct layers or service layers they are:

1. Application services.
2. Brokerage services and data management.
3. Interface and support layer.

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4. Specializing and structured different service layers.

5. Standard services.

6. Broad reutilization of basic information services.

Application Services

The layer of framework determines the type of E-commerce application which is to be exploited and the different types of e-commerce application modules are as follows:

1. Product-to-Product-e-commerce.
2. Product-to-Consumer-e-commerce.
3. Consumer-to-Consumer-e-commerce.
4. Consumer-to-Business-e-commerce.
5. Non-Business-e-commerce.
6. Inter-organizational-e-commerce.

Brokerage Services and Data Management

It is an information handling layer of the framework that performs and manages huge amounts of data or information. It acts as a facilitator to measure that values, rates and payments between customers and information providers when provided with some constraints like low price, fast service, or profit maximization for customer. For instance, a customer can go to purchase a specific book from the website through his/her different publications that will be handled with care in respect of the URL and other terms. In addition, the website can find the details of the books especially on different sites to verify the current at best prices. However, in the consumer finds the information technology which can provide the book as per the local, thus huge amount of care and effort is saved.

Some other characteristics of this layer are:

It supports the data management and visual presentation services.

It helps user to achieve quick access update & fast compensating transaction.

Interface and Support Layer

The function of this layer is to provide interface for e-commerce application which outside.

Interactive Catalogue

These are the customized versions for applications such as web based shopping. They are as similar to the paper-based catalogues which possess additional characteristics like pictures and video for making the advertisement more attractive.

Directory Support Services

Directory services help the user to searching and accessing the information by making data from any source to appear in one file. They usually work in the background and try to manage the huge amount of information and manage data for one concerned to ease electronic commerce.

The basic difference among interactive catalogues and directory services is that the former handles the people whereas the latter handles directly with software applications.

4. Secure Messaging and Structured Document Interchange Systems

This layer of the framework deals with the secure transmission of messages by using an appropriate communication system. The message systems usually concern transmission of messages are fax, post, e-mail and phone. However, some of them is being implemented and expectedly fast. Thus, a business anything can go wrong in their transmission and there needs to be some type of compensating scheme between the source and destination. Therefore, enhanced electronic messaging systems like email enhanced fax or Electronic Data Interchange (EDI) are adopted in the system to overcome this problem. The primary advantages using these systems are security, privacy and confidentiality, which are obtained by using encryption and authentication techniques.

Furthermore, this messaging systems are a form of structured documents which consist of the automated interchange of structured and approved messages having specific applications.

5. Middle Ware Services

The layer of the framework is very important as it brings together the different components of the infrastructure such as intranet, extranet, software programs and various modules using them to make the communication with customers. Also, the services will be the connecting from application servers to data center. The ultimate goal has been to that the application can access directly the necessary data in the network instead of application controlling the data.

6. Network Infrastructure or Basic Communication Services

This layer of the framework is responsible for providing a network infrastructure that creates an efficient and effective dialogue between the customer and the supplier. In fact, telecommunication was the medium of creating the communication link, advertisements, in company's connection and in the development of centrally-controlled single worldwide world known as cloud computing.

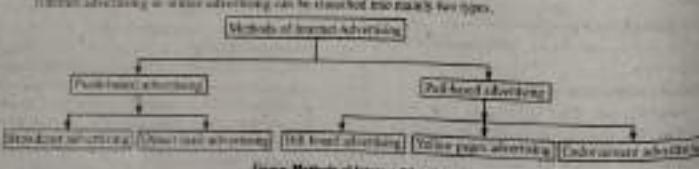
But, this was not sufficient in case of large networks, hence another dialogue was conducted in the internet which can send data efficiently across large networks and less expensive packet switching.

2.9 INTERNET ADVERTISING**Q48. What is Internet advertising? Discuss the methods of internet advertising.****Answer :****Internet Advertising**

Internet web advertising is a form of advertising that uses internet and world wide web to do to deliver marketing information and also to gain customers' attention. Hence, site, email marketing, search engine result, pages are some of the sources of web advertisement. The major advantage of this kind of advertising is information is not restricted to any particular geographic location. This form of advertising is also referred to as interactive advertising that uses interactive media technology to communicate, interactively to promote the customer's buying decision.

Method of Internet Advertising

Internet advertising or web advertising can be classified into mainly two types,

**1. Push-based Advertising**

Push-based advertising is the most difficult type of advertising. This is because to find out customer's interest about products, to start to push out that information and through this advertising is one way. It is also known as active advertising. There are two types of push-based advertising.

1.1 Broadcast Advertising

This is the first type of push-based advertising. Through broadcast advertising, different companies can advertise their products to a limited number of customers. One of the ways by which broadcast advertising can be done is by using television or radio broadcast advertising with television has both benefits and drawbacks.

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#MT-2: Promoting And Managing the New Ventures**Advantages of Broadcast Advertising**

1. Companies through television can easily create the importance of their products.
2. Helps in reaching wide targeted audience.

Disadvantages of Broadcast Advertising

1. It is expensive to advertise through this way.
2. It suffers due to other limitations.

2.1.1 Mail Advertising

This is the second type of push-based advertising. There are advertising in the process in which companies advertise their products by sending mail to different customers.

Advantages of Direct Mail Advertising

1. Through direct mail advertising, companies can target only those customers who were interested in buying their products.
2. Companies can read the product information in their own way. In other words, companies have full control over presentation of the message.

Disadvantages of Direct Mail Advertising

1. There is a possibility that more messages received by customers will be of less importance.
2. Cost associated with this type of advertising is high.

2. Pull-based Advertising

This type of online advertising is also called as passive advertising. Companies by using pull-based advertising gets a better customer response than through push-based advertising. This is because with the help of pull-based advertising form, a feedback loop which directly connects a company and customer established thereby providing meaningful interaction to the customer.

Pull-based advertising can be classified into three types.

2.1.1.1 Bill Based Advertising

This is the first type of pull-based advertising. It is also known as world wide web advertising. In this type of advertising, the company has to include the help of other company for promotion of its products online. In other words, one company promotes its products through other company's trading website.

Advantages of Bill Based Advertising

1. Responsive to implement.
2. Companies through this advertising, can make their products reachable to different customers.

Disadvantages of Bill Based Advertising

1. Expenses linked to creation of sites.
2. It constantly requires from one site to another site in which customer faces problems.

2.1.1.2 Yellow Pages Advertising

In this type of pull-based advertising, companies can promote their products by using yellow pages directory services.

Advantages of Yellow Pages

1. Businesses can be kept for long time.
2. Using yellow pages for advertising is cheap.

Disadvantages of Yellow Pages

1. Details of information is to frequently updated.
2. Limited coverage in the area.
3. It requires a lot of time.

In this type of pull-based advertising, companies ask different advertisers' details to summarize one or promote their products. But in case of online advertisement advertising, a company which customers give feedback to its products. In other words, companies and the customers is evident in products.

Advantages of Broadcast Advertising

1. It helps in new market for products.
2. It helps in building credibility by advertising through television.

Disadvantages of Broadcast Advertising

1. It is an expensive method of advertising.
2. It involves high publicity. (Customer indulges in any type of advertising).

Q49. What are the advantages and disadvantages of Internet advertising?**Answer :****Advantages of Internet Advertising**

The internet advertising offers plenty of advantages to both customers and organization.

1. Global Shopping Environment

With the availability of internet, the customers can conveniently buy or to see online shopping website, view all the available advertisements related to higher priced products, place order for that product, pay bill via electronic payment system and the products will be delivered to their doorstep irrespective of their geographical location.

2. Availability

The customers can view the internet advertisements according to their convenience because internet advertisements or products or services are available 24 hours a day and 365 days a year.

3. Detailed Information About the Product

The internet advertising also provides very customized basis to the advertisers that helps them in creating web-based directed advertisements. So that the advertiser can place as much information about their products as possible. Thus, the customers can view the complete description of the products before the purchase.

4. Visibility

Internet advertisements also support the use of multimedia contents like audio, video, images, graphics, etc. Thus, with the help of multimedia elements, the advertisers can provide visibility to their products or services. The format of internet advertisement facilitates the customers by giving a clear picture of their desired products. For an instance, consider an online retailer for a supermarket, with the help of our internet advertisement, the customer can view the supermarket in which he/she wants to travel, can virtually sit on the selected seat to know the comfort level provided and then make the purchase.

- In order to effectively utilize the available resources, technologies should not be running at low levels of utilization.
- In order to gain the advantage of technological competence from different firms.
- Technically weak firms strategically collaborate with stronger firms in order to survive and clear the obstacles like market share and marketing capabilities.

Strategic Issues Involved in Joint Ventures

- The strategic issues involved in joint ventures are as follows:
- Joint ventures are involved with an aim of taking maximum out of the benefits from partitioning firms and taking maximum to maximize the business of both the firms.
 - Particulars of structuring the corporation by defining joint venture with their own proportion.
 - Joint ventures results in increasing the market share of the firm.
 - Diversification becomes an issue when both the partners in joint venture are from different technological, marketing and management background.
 - Unrelated environmental factors and losses would act as a hurdle in the effective partnership.
 - Opportunities might not be an attractive factor in diversifying various new types of joint ventures, resulting in diversification of previous ones.
 - Threats of existing industry may act as the strategic issue in starting a successful joint venture.

Factors that Contribute to the Success of Joint Ventures

- The following factors are considered as the success factors of joint venture. These factors effectively contribute to the success of joint venture:
- The management of both the organizations need to have open communication about how to manage the joint venture.
 - The motives, expectations, roles and responsibilities of both parties need to be clearly understood by the other venture partners.
 - The technology of both the partners firms need to adjust to the mutual objectives of the joint venture and also cultivate good professional relationship with the other managers.
 - The expectations of the partners from the joint venture need to be reasonable and mutually agreeable.
 - The rating of the joint venture need to be perfect both parties need to study the global market and economic scenario before entering into the joint venture.

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2.10.2 Acquisitions

- Q52.** What is acquisition or takeover? Explain its features and what are guidelines for effective takeovers?

Answer 1:

Acquisition/Takeover

Acquisition is an activity in which one company controls the other company. The company which controls is known as acquiring company and the other company which is under control is target company. In acquisition, business is purchased through cash, stock or combination of both.

Acquisitions are resulting different from mergers. In mergers, 50% of both the companies agree for combining their firm's assets and liabilities whereas in acquisitions, the company which is acquired may not be willing to combine its resources with the acquiring firm.

Features of Acquisitions

- Following are the features of acquisitions:
 - It is responsible for division of the company.
 - It becomes owner of the assets like plant, divisional assets company by purchasing.
 - It is losing the autonomy power of company by purchasing using shares in large quantity i.e., 51 percent or more.

Example of Acquisition:

The Wal-Mart Company in 1998 made a major acquisition. It purchased Capital Cities/ABC Inc., so that it can expand its control in entertainment industry.

Guidelines for Effective Takeovers

An organization in order to have successful takeovers must follow the below mentioned tips and can have a smooth and effective takeover:

- The management should clearly set and mention the key objectives for initiating the process of the acquisition. One important objective is to make profits.
- It must follow a sequential process wherein every step must be used in a stepwise procedure as to how these objectives must be achieved during a particular period of time.
- It is important to ascertain the organizations, synergies, qualities and the compatibility of business styles.
- In the dynamic business environment it is quite essential to predict problems and be ready with list of possible solutions.
- The managing company must greatly focus upon the profit of the shareholders generated from acquisition. Further, it should also take the management of the acquired firm into confidence.
- Conduct a SWOT analysis of both the firms, in order to determine the key areas of strengths and weaknesses of both the firms.

UNIT-2: Financing and Managing the New Ventures

The chief executive officer must play an active role in the process of negotiations.

It must be made sure that the present management of both the firms do not face any kind of threat of layoff.

Employees must be considered as the important factor while planning and structuring the organization.

Finally, organizational members of both the firms must be given equal dignity and respect every time.

- Q53.** What are the advantages and disadvantages of takeovers or acquisitions?

Answer 1:

Advantages of Takeovers

The advantages of takeovers are as follows:

- It helps the firm to utilizing economies of scale in different business operations, such as production, marketing, information systems, financing, etc.
- It helps in replacing inefficient management team with an efficient team, utilized workers of both the companies are combined to form a new management team.
- It is assumed that takeovers are effective measures to protect the interest of shareholders.
- It helps in generating economies of operations, where actually leads to synergistic benefit by combining two different businesses, which are efficient in specific operation.
- It helps the companies which were managed inadequately by the incompetent managers.

Disadvantages of Takeovers

Following are the disadvantages of takeovers:

- It regarded by some economists and authors as a destroyer of jobs and local communities.
- Usually, the communication in takeovers are not fluid.
- It involves many costs in it, such as compensation to lay-offs, management officials and other people who happen in preparing and carrying out a bid.
- Peter Drucker believes, that takeovers destroy the confidence of employees.
- It may lead to redistribution of wealth which causes reduction in efficiency.
- It involves agency costs which are related to agency conflicts that arise in the process of takeover.
- As the size of the firm increases in takeover, the representation of executives increases rapidly, although their efficiency does not improve.
- Dimensionality of scale is suspended in takeover as it may be identified that it may have a great impact on value of the firm.

Q54. What are the reasons behind acquisitions?

Answer 1:

Acquisitions, a business strategy is highly in demand and very popular in the present era. A rapid growth in the size of merger and acquisitions is being observed across the world. There are many reasons, as to why the firms go for acquisitions some of the reasons are as follows:

1. Increasing Market Power

Growing trend market power helps a firm to sell its merchandise at highly competitive prices in the competitive market. Increased market power of the firm would help the firm to become the market leader. As a result, the more sales the products would be sold to the consumers of firms' competition. Market power is usually influenced by the size, resources and capabilities of a firm. Therefore, in order to maintain these factors, firms acquire companies from supplier, distributor or a related business.

2. Overcoming Entry Barriers

Entry new markets is not always an easy task for business firms. In some markets there are large number of entry barriers which blocks the entry of a new firm. The existing firms usually holds strong share in the markets. Thus firms make use of various aggressive strategies and enjoy large share of customer loyalty. Thus it becomes very difficult for the firms to adapt to market and may take longer time. Therefore, acquiring an existing firm would be the best option for the firms to overcome the entry barriers. By acquiring the existing firm, it would become to study and analyze the market within short period.

3. Ease Risk Compared to New Product Developments

New Product Development (NPD) requires high capital and a number of resources as one may not be sure whether the new product would be successful in the market or not. Therefore, there are greater risk involved in NPD than in case of acquisition, products are not new to the customers. Thus firms, existing products will be presented in the market. Thus first, acquiring business of such products would involve lower levels of risk when compared to the risks involved in NPD.

4. Increased Specialization

Basically when a firm tries to diversify its operations into unrelated products, then it needs good capacity to produce them. Acquiring a profitable business of unrelated products would be more beneficial rather than increasing the existing capacity levels.

5. Minimizing Dependency

Carrying out the business by marketing only single product would make a firm depend for its revenue on that particular product. The firm would enjoy good revenue in that favourable market conditions. Instead of high competition, low demand or any other undesirable market conditions, then the revenue would be very less of that particular product. As a result, the complete spectrum of the firm would get disturbed.

2.10.3 Mergers

Q38. What is a merger? What are the types of mergers? Write the characteristics for mergers.

Answer :

Mergers

A merger occurs when two or more companies join together to form a new company which continues to function under its own name. After, one, in the company, which is in existence.

Types of Mergers

A company can merge with another company of three different types. They are as follows:

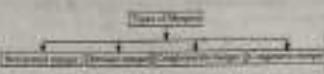


Figure: Types of Mergers

C. Horizontal Mergers

When companies merged in same type of products, distribution or area of business, merge with each other. It is known as horizontal merger.

Example

Combination of two book publishers or two pharmaceutical manufacturing companies.

In this type of merger, companies expand their business and enjoy economies of scale and reduces competition.

D. Vertical Mergers

When companies involved in different stages of production or distribution of a product amalgamate. It's known as vertical merger. Companies usually merged vertically in order to reduce cost of marketing the products, producing and also to increase the cost of manufacturing.

Example

Combining a automobile manufacturing company and automobile marketing company or combining automobile manufacturing company and its packaging company.

Vertical merger can also exist in the form of forward and backward merger. When a specific company merges with its supplier, it is backward merger and if a company merges with its customers, it is a forward merger.

E. Conglomerate Mergers

When companies merged in different fields of business. It known as conglomerate merger.

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Example

Combination of consumer manufacturing, retail trade, insurance, banking and other financial services. Conglomerate firms exist have diverse range of business products, marketing, etc., then only a single large merger becomes successful.

F. Corporate Mergers

When companies merged to same industry, but gather in same business line and a common or similar of ownership.

Example

A pharmaceutical company producing antibiotic drug merging with company producing pharmaceutical drugs.

Corporate merger is useful for those companies who are in sales and distribution chain, to benefit consumers of both the businesses.

G. Reasons/Motives for Mergers

There are many reasons of motives behind merger by some of them are as follows for successful development of the firm. Some reasons which are as follows are as:

1. Strategic Benefit

Strategic benefit mainly aims at achieving long term place and maintaining them. When a firm chooses to buy or expand in a particular industry, acquisition provides few advantages than internal expansion. Some of them are:

(i) Economic of Production and Scale Economies

It can pass over several stages of expansion in a short span of time.

(ii) Minimize low risk and less cost.

Merging in a common market helps in expansion of expansion which is more suitable than developing a new through internal expansion.

2. Economics of Scope

A company can broaden its scope by a combination of skills or assets which it possesses.

3. Economics of Vertical Integration

Economics of vertical integration can be accomplished when companies engaged in different stages of product manufacturing. However, vertical integration is not suitable in all situations. If a company performs all functions on its own then benefit of manufacturing is less.

4. Complementary Resources

Such kind provides a complementary. When there is a complementary resources merge together, they can effectively use the resources and produce innovative products.

UNIT 2: Financing and Managing the New Ventures

1. Managerial Effectiveness

In the event of merger, managerial efficiency, also known, consistency maintained and alternative approach to efficient managerial tools. It leads to the progress of the firm. Another advantage would be to the form of complementarity between the authority of the manager and the shareholders. With the help of manager, the flow of management information can be maintained.

High performance leads to the task of acquisition of a firm. The managers will struggle and improve their performance.

2. Diversification

The main reason for merger is to reduce risk through diversification. Diversification implies diversifying or spreading the business in different product lines. Diversification of risk is the merging concern depends on correlation between the earnings. Correlation explains how the two variables are related or dependent on each other. When there is a negative correlation a higher risk and positive correlation implies lower risk.

Q47. What are the advantages and disadvantages of mergers? Write the factors for failure of mergers. Outline the guidelines for effective merger.

ANSWER :

Advantages of Mergers

The following are the advantages of mergers and acquisitions:

1. A firm can get the easy access to the market and technology through mergers and acquisitions.
2. It becomes easy to gain control to patent rights and technology through mergers and acquisitions.
3. With the help of mergers and acquisitions, the firm can get the firm's diversification and control immediately in the business, technology, employees and distribution networks of the acquired firm.
4. In mergers and acquisitions, when the industry has achieved the optimum capacity level at the best prices, then this strategy will assist the stability of the best quality.
5. The firm can obtain more profit with the formation of international market.

Disadvantages of Mergers

The following are the disadvantages of mergers and acquisitions:

1. Many companies have failed themselves into financial and other problems due to insufficient acquisitions.
2. The acquisitions are not always proper, thus the decision of acquisition can be wrong or ineffective.
3. If an enterprise is taken over, its problems are also transferred along with the firm.

Corporations attack from their associated play their problem like creation technology, cost price, market analysis.

In some instances, mistakes are forced by the bad qualities in the acquisition of domestic firms by the foreign firms.

It is difficult to implement culture as a merger creates an objective business before merging and acquisition operation, from both the countries.

This merger does not add any capacity to the industry.

Risk for Failure of Mergers

The major risk factors of mergers are as follows, many companies usually tends to pay too much to acquire a firm, it costs more than estimated value. Thus, over cost is factor of mergers.

Holdings power representation from the merged, usually found in the merged.

Spending too much—acquisition expenses and costs of foreign companies usually results in failure.

Not having appropriate knowledge and prior the diversification would result in the failure of the merger.

Introducing sales and losses, while acquiring a firm by buying the cost can lose purchasing capacity.

Making efforts to merge various cultures making them fail to work together.

Completely destroying some the key personnel for functioning of the merged firm, results in failure.

Guidelines for Effective Mergers

The following are the guidelines which the firms must follow for making the mergers successful and of success.

1. Mergers needs analysis and systematic planning.
2. Human resources should be given adequate attention to that of internal resources.
3. The assessment of sustainability of a merger is a significant process of mergers.
4. The legal factors should be evaluated carefully and systematically.
5. Successful mergers are the mergers which creates synergy.
6. The integration of both the merging firm should be equally focused with the needs of the merger.
7. The firm should be emphasis on the preparation of a detailed and separate merger plan.
8. Effective communication should be provided for the members of authority and responsibilities of the merging firms.
9. Techniques like "Cross functional" and "M&A" should be devised and implemented for effective execution of mergers.

Answer:

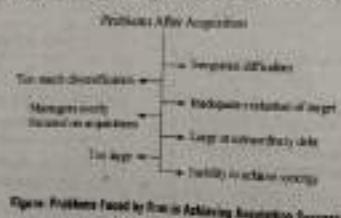
S.No.	Details	Mergers	Acquisition
1.	Meeting	Merger is an integration of two or more companies but only one company remains in business.	Acquisition is an activity in which one company remains in business.
2.	Agreement	In mergers, the CEOs of both the companies agree for continuing their business.	In acquisition, the company which is acquired may not be willing to continue.
3.	Financing	Mergers are financed by cash swap.	Acquisitions are financed by cash and debt contribution.
4.	Type	Horizontal, vertical, conglomerate and cross-share acquisitions are the different types of mergers.	Horizontal, vertical, related and cross-share acquisitions are the different types of acquisitions.
5.	Name	Merger is a generic, technical term of specific legal procedures which may or may not follow acquisition.	Acquisition is a generic term used to explain a number of procedures.
6.	Ownership	In mergers, one company purchases the stock of other company and merged company does not have its existence.	In acquisitions, one company acquires the target company by purchasing voting shares in large quantity (e.g., 21 percent).
7.	Example	ETC, Nokia and Siemens merged into a single entity.	With Disney company acquired control over ABC Inc.
8.	Advantages	Mergers helps in preventing competition.	Acquisition reduces competition by merging the competing firms.
9.	Disadvantages	A merger faces cultural and managerial problems while merging two firms into one.	The acquiring firm may have aggressive culture and the acquired company may have different culture of its own.

Q59. Explain key issues in Acquisition Mergers.

Answer:

Issues in Acquisition

Acquisitions besides playing a significant role in gaining competitive advantage also includes some serious challenges being successful. According to a research, majority of acquisitions i.e., around 60% gives unwanted or disappointing results in their review. The research reveals that only 20% of acquisitions are successful, while 60% of them either yields disappointing results, and the rest 20% are failures. The following are the problems which are encountered after acquisitions.



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UNIT-2: Financing and Managing the New Ventures**Integration Difficulties**

Integrating the operations of two different firms is not an easy task. It is very difficult to integrate financial, operational, manufacturing, logistics and other functional areas of the firm. Integrating the operation plans on acquisition basis is the fundamental concept. Lack of effective integration would give separate status to the management. It would basically result in conflicts and would greatly affect the working conditions of the employees, managers and other entrepreneurs (logistics, clients etc.). The integrating firms should also take into consideration all the aspects such as, finding less efficient supplier cultures, matching the purchase and clarifying the modes of evaluation, building healthy relationships and so on.

1. Too Much Diversification

Diversification to increase the company's advantage and the overall profit of the firm, thus firms are usually strongly interested in diversifying their operations in the international market. But a diversification approach and mergers would often result in redundant operation. As a result it would become difficult for the firm to control and concentrate the services. The result of diversification would directly affect the performance of firms, some of which is very higher than the firm might have in comparison advantage.

2. Inadequate Evaluation of Target

Effective evaluation of target company for merger or acquisition is very crucial. Many firms face certain issues due to inadequate evaluation of acquired company in their pre-acquisition period. Firms usually follow the process of "due diligence" for evaluating the firms which are to be acquired. Due diligence means the due diligence process to evaluate new investors, acquisitions, management evaluations, investment banks and financial due diligence teams. This process usually includes the examination of various related and associated issues including financial management, cultural differences of firms, acquisition period and so on.

3. Managers Overly Focused on Acquisitions

Acquisitions require considerable levels of managerial abilities. Managers need to perform key tasks like identifying highly beneficial firms when it is to be acquired, practical due diligence process, making successful negotiations, managing internal activities and so on. Therefore, managers might be diverted from their actual performance leading to poor functioning and controlling of the existing operations.

4. Large or Extraneous Debt

For the purpose of mergers and acquisitions, researchers have observed that the firms are significantly increasing their levels of debt. Holding by the firms is increasing the source of economies as well as improving prices. In order to pay off the debts, the acquiring firms are usually approaching the financial institutions and other bankers for taking loans debts. Bank bonds gained popularity mainly because of acquisitions and mergers. Due to large or extraordinary debt, the share price is being severely affected in the market.

5. Too Large

Acquisitions mostly usually increase the size of the organization into a larger scale firm. Large scale firms enjoy more benefits such as bulk purchases, low manufacturing costs, less advertising and marketing expenses and so on. But there's a major point regarding and considering large scale operations. Acquisitions demand a lot of initial expenses. To meet operational, the facility of later will operate would be integrated by increased expenses.

6. Inability to Achieve Synergy

Usually the word synergy means working together. When two different firms work together and achieves their goals, which was difficult to be achieved if in case they worked independently then such working together is called as "Synergy". Creating synergy is a difficult task for the firms. It requires considerable efforts to analyze the present, past and future's internal operations of both the firms.

7. Issues in Mergers

There are many issues of importance that need to be dealt with in mergers. These are strategic, financial, managerial and legal issues.

8. Strategic Issues

Initially the compatibility of strategic interests between the two participating firms. It is important to consider the extent to which a merger may lead to positive for the strategic alliance. Once the compatibility of merging firms have to be analyzed. Then the firms have to be matched. The firms have to be a match between the objectives of the firms. A merger should ideally lead to the generation of synergies that would help the joint venture organization to achieve its objective in a better manner.

9. Financial Issues

It refers to the valuation of the firm and the process of financing for merging to take place. Valuations involve assessing the value of the value firm. Through which, valuation is concerned keeping in view the assets, market standing and opportunity, earnings potential or stock value. A common method to do this is the Discounted Cash Flow (DCF) method. Other popular methods can be the asset value, profit-making capacity value, or a combination of these three methods.

10. Managerial Issues

It refers to the problems of managing firms after the merger has taken place. It is important to note that the perception of how the management will take place after a merger also matters and affects the success of the merger itself. Usually, managers are followed by changes in staff, specially chief executives and top managers. If there is an instance from the management about the continuation of the existing employees then the merger will generally fail and if they perceive change, the result will be opposite and the process of merger will be affected. Quite often merger elements are focused because of managerial issues.

4. Legal issues

It relates to the provisions made by law for the purpose of accepts. In India, the provisions relating to merger, amalgamation and other schemes are contained in Chapter V of the Companies Act, 2013.

2.10.4 Franchising

Q80. What do you mean by franchise and franchising? How does it work? What are the advantages and disadvantages of franchising?

Answer :**Franchise**

The word "franchise" is derived from the French word "franchise" which means "privilege". The word franchise signifies a special privilege or right. The term specific franchises, production or individual or group. It is a legal form of starting a business for oneself.

In the initial scenario, the term franchise represents a right provided by a principal, which permits to one or more agents to sell or offer for products or services under its name, trademark, and sales promotional materials. In other words, franchise is an agreement involving the principal and its agents allowing to extend the mutual benefits from the business set up by the principal in exchange for some payments.

Franchising

An agreement or contract is made on the terms of sale of products between two parties. The larger company is known as the franchisor, who enters in franchise. Franchisee operates a retail outlet using the former's brand name of franchise. Franchisor provides training, aids, advertising support and location to franchisee for successful operation of business. The franchisee is a huge amount of value for the right to operate the said firm and this is done in accordance with prescribed procedure by the franchisor.

Working of a Franchise

Almost all the business franchise systems for goods and services work in a similar manner. The individual shall enter into contracts for a complete business package.

The following points help in understanding "How franchising works".

1. Invest money in the franchising activities.
2. Purchase and maintain standardized equipment and/or inventory (generally purchased from the franchisor).
3. Maintain a particular level of quality with performance as specified by the franchisor.
4. Comply with franchise fee along with the percentage of the gross revenue.
5. Maintain continuing business relationship.

Advantages of Franchising

- The advantages of franchising are as follows:
1. It helps a range of skills of experts than other ways of starting a business.
 2. If a franchisor has experience, the franchisee can be at no risk.

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UNIT 21: Financing and Managing the New Venture**Illustration**

One example of franchising is McDonald's. Purchasing of quality products and services is the main feature of an purchasing agreement. Through operational and market the principal, training, accounting systems and various promotional and ethical practices are provided for by the franchisor.

Q80. Discuss the opportunities for diversity in franchising and the challenges of global franchising.

Answer :**Evaluation of Opportunities for Diversity in Franchising**

There are two particular methods in evaluating the world through which an average entrepreneur can evaluate the franchise operations and decide whether to buy a franchise operation or not. One way of the process decision is purchase a franchise (business) considered to be a steady job.

One research study states that, the source to understand the importance of a prospective franchise is gathering appropriate information followed by complete evaluation of franchise opportunities.

In the process of evaluating opportunities for diversity is evaluating franchise various steps or factors. They are as follows:

Step 1: Sources of Information

The first step in evaluating the franchise opportunities is identification of various sources of information about business opportunities. The basic sources of information could be: News papers, Internet, Business publications, Encyclopedias, other sources etc., etc.

1. Entrepreneur magazine having ads on franchise opportunities.
2. Exhibitions and trade shows conducted by franchises.
3. A web site called [franchise.com](http://www.franchise.com) that lists the leading and growing franchises every year.

Step 2: Careful Study About Franchisor

The information regarding franchise has to be obtained before investing in franchise operations. An investment in franchising business without carrying out due investigation about franchisor may result in losses. While investigating about franchisor, the prospective investor must observe the following things:

1. If the franchisor shows very significant record for costs, it is an indication of sound health with solid business.
2. If the franchisor shows low interest in selling, then it indicates that seller is more interested in resale rather than a business. He is uninterested in future.

An investor should remember that most of the franchises will be ready to sell their franchise business to an effective price.

Example

McDonald's offers fast replication of the franchising and also it is known for its rapid global franchise spread.

Step 3: Take Professional advice

Since the Saurabh wants to open a franchise, he has to take the next step in to approach a professional for advice before signing the franchise agreement. The professional analyzes the franchise contract and explain the relevant terms to the franchisee for review.

Step 4: Express the position and negotiate changes associated with the contract

This includes for terms such as: franchise taking back the franchise for certain reasons, termination of franchisee in case of non-compliance, agreement cancellation, or case if the franchisee wants to reproduce the franchise.

Other issues

These include franchise fee, percentage of earnings to be paid to the franchisor, Training requirements, scope and limits of the franchise and sources of material supply. After these discussions, the buyer examines the degree of franchise involvement in the operations such as performance standards, price implications etc.

Step 5: Final Decision

After the successful completion of all the previous steps, the final decision whether to purchase a franchise or not is left to franchisor.

Challenges of Global Franchising

The challenges of global franchising are as follows:

1. The franchisor is responsible for legal, tax structure and has to pay royalty on a monthly basis to the franchisor.
2. Franchisee has no much freedom to operate as he is bound by the procedures laid down by the franchisor.
3. Franchisee must employ the same culture as adopted by the franchisor. The attitude of the staff need to reflect with that of the franchisor.
4. Franchisee is left with small portion of profits.
5. The franchisor cannot cancel the agreement in and when required, he needs to obtain by the clauses mentioned in the agreement.
6. Any conflict among between the parties may be affecting the franchisee than the franchisor.

2.10.5 Public Issues, Rights Issues**Q15.** Write a brief note on public issues and its importance.**Answer 1:****Public Issues**

Public issues is the sale of securities to the public at large and is governed and controlled by the provisions of the Companies Act 1956.

In U.S., public issues of stocks as well as bonds are managed by investment bankers who act as underwriters. Investment bankers act as intermediaries between issuers and investors. For instance, bond and issues are to the investors. Bankers who handle these issues are called as the underwriters. These investment bankers undertake the risk issues by purchasing the securities from the issuer and incurring the risk of reselling the securities to the investors.

Role of the Issuer

The role of public issues can be analysed by understanding the functions of final manager of public issue. Following points were highlighted the role of final manager of public issue.

1. To determine the public issue by calculating the factors like requirement of company's funds, investors' expectation and other factors.
2. To liaise with the stock exchanges or Security Exchange Board of India (SEBI).
3. To manage understanding by financial institutions, bankers and commercial banks.
4. To negotiate and fix the price of public issue with the combination of factors like stock exchange authorities etc.
5. To liaise with the editor of business, business, right issue advertising agencies etc.
6. To design an effective marketing strategy for public issue.
7. To maintain and monitor the public issue during the period of subscription.
8. To help in realising the issue of shares.
9. To assist in securing listing of stocks exchange.

Q16. What are rights issues? What are the guidelines issued by SEBI for rights issues? State its merits.**Answer 1:****Rights Issue**

Rights issue is an offer made given by the company to its shareholders regarding the offer price for the purchase of further shares owned by a company. A right represents an option or choice that has to be made by a shareholder for the purchase of shares at a pre-determined price. A limited company after obtaining the approval from its shareholders issues an issue new shares either equity or preference and terms where the equities distribution of shares without altering the existing shareholders in the company. Section 61 of the Companies Act, 1956 has laid down a procedure for a public limited company who want to issue new share additional after the expiry of the year from the incorporation and the duration of the company. It includes the following steps.

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Issued shares in proportion of those contributed by the paid up capital.

Issue of shares or an offer specifying the range of offered shares.

Accepting the offer for the purchase of offered shares within certain number of days of the offer period, which should not exceed beyond 15 days of the issue of rights. Shareholders can use their right for increasing the offered shares in their possession. The further sub-issues of shares offered in the existing issued shares are called as "rights shares". However, such shares have no pre-emptive right. Subsequent rights issues may be offered to the existing shareholders.

Guidelines Issued by SEBI for Rights Issue

After complying with the legal requirements from and conditions set down by SEBI (Securities and Exchange Board of India), company issues the Right Shares. SEBI has proposed several guidelines for the issue of rights shares which are as follows:

1. All those companies who want to either the shareholders are required to issue an advertisement during the last date of filing a subscription form, specifying anti-dilution of shareholders and so on. Such advertisement needs to be published in atleast two recognised daily newspapers containing all the details.
2. Such advertisement need to be issued prior to one week of declaring the opening date of the subscription.
3. If the shareholders are not in a position to receive offer original or of future value of the firm, he can file a shareholder claim on a plain paper.
4. Rights issue should not be made valid for more than six months if a specified date (or even) need to be allotted for its issue.

Advantages/Negatives of Rights Issue

The following are the advantages of rights issues to the existing shareholders:

1. Increases the prestige which has to be increased by the issue of shares to the public.

2. It is associated with necessary factors as they have to be told to the existing shareholders.

3. It provides for usage of the firm which are normally alternative responses from the shareholders and the investment market.

4. It plays a vital role in maintaining the equitable distribution of shares as it increases the amount of equity base and control of the company is preserved.

5. Through reducing the resources, directors do not only reduce the cost of the opportunity of issuing the new shares to the shareholders and thereby, ways that can bring the strong relationship with the company.

UNIT-2: Financing and Managing the New Ventures**Q17.** What are the factors determining the success of a rights issue?**Answer 1:**

The success of the rights issue of any firm is mainly dependent on its ability to attract the existing shareholders to make investments.

Following factors are important for influencing the success of the rights issue:

Conditions of the Investment Market

1. As the investment market is highly volatile and unpredictable environment is faced. Hence, if the market is like this markets that are less volatile and which undergoes change only due to the occurrence of certain events as the favourable market conditions increase the success of the right issue whereas, if a less volatile market conditions adversely affect the functioning of a firm.

2. Effect of Rights Issue on Earnings Per Share

For every event to be successful, specific time period is required as is the case with the rights issue. During this time period, varying generalisation over the large number of shares such distribution helps in reducing the EPS which is favourable to the decline in the market price of shares. Thus, there are situations in which the market price goes down before the price of the offered shares. Under such situations, not even a single investor would invest in through a loss-making the failure of the entire process of the rights issue. Hence, an assessment need to take decisions regarding the better subscription of shares by considering its impact over an EPS.

3. Size of Rights Issue

Size of the right issue is a major determinant of the success of the rights issue. However, there is no specific fixed rule that has to be followed by a firm while deciding the size of the rights issue. The aim for the issue, the more likely it is to succeed. Hence, there is no rule about what size to have. But it is always safer to have smaller issues. If the size of the issue is comparatively larger than the issued share capital then the market price is more prone to come down below the price of the rights issue. This decline causes reduction in the earnings per share (EPS) value of a firm. Thus, it is advisable to the firm to offer shares in small sizes in comparison to its upper bound. However, if the firm has plans for future expansion, then the issue process is divided into stages.

4. Pricing of the Rights Issue

To a very large extent, the pricing of the right issue influences the success of the rights issue. When deciding the price which it is to be offered to shareholders the management should be very cautious and careful. It needs to be fixed by considering the health of the market condition, conditions of investment market, size of the issue and relatively on earnings per share (EPS). It has been observed that the rights issues are offered at low price than the market price of the share due to two reasons:

1. To enable the shareholders to avoid the losses of the new issue.

2. To ensure that investors find success of due to the market price, it doesn't go below the price of the offered issue, thus giving a guarantee for the success of an issue.

2.10.6 Bonus Issues and Stock Splits**Q18.** What is bonus share? What are its advantages and disadvantages?**Answer 1:****Bonus Shares**

Bonus shares are new shares which are given by the company to its shareholders as a bonus. Bonus can be in any form either cash or bonus. When company issues a position to give bonus it costs it little bonus shares.

The meeting of bonus shares is necessary to "increase dividend paid to shareholders in a given stock company from implied profit". Bonus shares are issued as shares allotted by recapitalisation of the company or through a corporate enterprise.

Profits of the company are converted into share capital with issue of bonus shares. Capital structure of the company is not affected by issuing of shares as it is representation of shareholders equity.

Bonus shares are useful to both shareholders as well as company in many ways.

Advantages of Bonus Shares

Some of the advantages of bonus shares are as follows:

1. Conservation of Cash

While issuing bonus shares company does not require cash. They can utilise the same cash for the purpose of investment in profitable projects. Hence company can move to liquidity position.

2. In Financial Crisis and Commercial Bankruptcy

When there is shortage of cash, a company can turn to a good solution to distribute its share with issue of bonus shares. Company can easily end meet the conditions of the crisis.

3. Solution for Under-capitalisation

Under-capitalisation is a situation in which dividend rate is very high. Rather than paying dividend a company will issue bonus shares to decrease the dividend rate.

4. Expanding the Share Market

Usually, small investors do not get interested towards the stocks whose market value is very high. With the issue of bonus shares, dividend rate is reduced leading to fall in share price which ultimately increase the trade in share market. With a fall in share price investors get a chance to enter their trade.

5. Economical Use of Securities

The expenses incurred while issuing bonus shares is less as it requires undergoing various costs, brokerage, etc. Bonus shares are allotted numerically to shareholders according to their amount of investment.

Advantages of Bonus Shares to Shareholders

Some of the advantages of bonus shares to the shareholders are:

1. Tax saving

Shareholders need not pay any tax on income dividend they receive on the cash dividend where they have to pay tax on ordinary income.

2. Marketability of Shares

Shareholders who are in excess need of money dispose off their bonus shares. In this way, by issuing bonus shares, more people can be attracted and an appreciable market can be created.

3. Increase in Future Profits of the Company

When company announces that profits will increase in future then it creates bonus shares. Usually increase of stock dividend is considered as an indication of increase in earnings.

4. Increased Dividend

When a company is retaining large amount of its dividends, it reduces its bonus shares. Thus it is beneficial for shareholders as they get huge dividends or cash dividend is lesser. Thus, here it provides higher rate of return of shares.

5. Psychological Value

Increase of bonus shares have a positive psychological impact on shareholders. It helps in increasing the value of shares leading to success of the company.

Dissantages / Disadvantages of Bonus Shares

Several disadvantages / limitations of bonus shares to the company are:

1. Shareholders who possess cash instead instead of stock dividend may feel dissatisfied.
2. Capitalization of company in terms of value of bonus shares. It is unlikely when there are huge profits in the company.
3. Shareholders assume that preceding rate of dividend will continue even after issue of bonus shares but it is very difficult for company to maintain same rate of dividend over time.
4. When bonus shares are issued, it leads to restrictions for new investors from becoming the shareholders of the company.

Q67. What is stock split? Explain its reasons. How bonus shares is different from stock split?**Answer :****Stock Split:**

Stock split is nothing but a power stock division. It usually refers to a change in the number of outstanding shares of stock achieved through a proportionate reduction of increase in the par value of the stock.

The management considers this device to make a major difference in the market price of the firm's stock and consequently to its earnings and dividends per share. The stock splits make the market price and market of outstanding shares are affected. The process is the same as dividend, premium and discount percentage remains unchanged.

Reasons for Stock Split:

A portion of reasons may be the splitting of the firm's existing stock. These are:

1. Shareholder Satisfaction of the Share:

The basic reason of stock split is to satisfy demand and easy trade market for the stock. It is agreed that when stock price of a company tend to fall sharply due to economic prosperity of the company and its improved profitability and it is believed that the price of the stock has declined due to the price reduction of shares increasing the number of stock, the management may not be able to sell the shares at the same price. Hence stock split will result in lowering price of stocks will be helpful to easy trade of customers / investors.

2. Need for Growing External Business:

If company is expanding in general field then the customer buy our stock split proper present for new issues. In terms of stock price, market price of shares of profitable and prospective companies rises beyond the reach of a large number of investors. In view of limited availability of shares, companies may experience a great problem in securing desired amount of capital. Thus, to purchase the marketability of stocks, stock split is very efficient.

3. Mergers or Acquisition of Companies:

After completing merger or acquisition through exchange of stock will also split its stock to make the transaction more attractive to shareholders of the firm in making more.

Differences between Bonus Shares and Stock Split:

Bonus shares are different from stock split in following points:

No.	Basic	Bonus Shares	Stock Split
1.	Share value	The average value of the share is fixed.	The average value of the share is reduced.
2.	Business	Profit of business is increased.	Resources are not centralized.
3.	Ownership	The economic ownership of shareholder is preserved.	The economic ownership of shareholder is preserved.
4.	Impact upon profit	Share holder reduce the profits and losses.	Share to no effect of stock split are accumulated profits.
5.	Stock Value	The basic value per share, market price of share and profits per share decline.	The book value per share, market price of share and profits per share decline.

WARNING: Issue of stock split of the stock is a discretion, and issues stock split will be liable to fine 10,000/- rupees.

Q68. Purchasing and Managing the New Ventures**L10.7 Choosing Location and Layout**

Q69. What is Plant Location? Discuss the need for plant location. What are the factors influencing plant location?

Answer :**Facility First Criterion:**

Plant location refers to the choice of specific area at which production plant can be established such that both the efficiency and its effectiveness can be maximized. The selection of suitable place for locating a plant is an important decision which needs to be made by business entrepreneurs before establishing a new enterprise.

Need for Plant Location:

The need for selecting a plant location emerges under the following conditions:

1. When an entrepreneur starts a new business.
2. When the current business could not have any scope for expansion and it had outgrown its original location.
3. When a firm requires and the location is not willing to extend its existing contract.
4. When in possession of the business violates in the degree of market size place.
5. When firm thinks that there is a chance of decreasing the manufacturing cost by moving from one location to other location.
6. There can also be other economic or social reasons such as improved labour supply, change of market conditions etc., for selecting a plant location.

Factors Influencing Plant Location:

The various factors that influence plant location are categorized into specific factors and general factors. Any international multi-national company whilst in establishing a new plant should consider the following specific and general factors.

1. Specific Factors:

The specific factors are as follows:

1. The country's economic stability and favourable towards economic investment.
2. Language and culture should be considered as they have great impact on operating, control and policy problems.
3. Wage rate, taxes and policy should be analyzed carefully.
4. It is good for a company to establish plant nearest to its major regional operational positions.

2. General Factors:

The General Factors are as follows:

1. Availability of land for production and labour requirements.
2. Cost of land, land development and building.
3. Accessibility to the market, irrespective of route and thermal facilities.
4. Availability of inputs like raw materials, labour etc. and availability of administrative facilities such as financial institutions, power, water, roads etc.

Q70. Describe the principles of a good plant layout and its objectives.**Answer :****Principle of Good Plant Layout:**

The following are the principles of layout which provides guidance to the layout engineer for the selection of an ideal layout:

1. The Principle of Minimum Travel:

According to this principle, maximum distance travelled by every worker in each day for the distance between operations in a plant which is kept large in avoiding idle behaviour and save transport distance; reducing the cost of material handling.

2. The Principle of Sequence:

The machine and workstations in arranged sequentially. This principle is effectively utilized to produce layout for plant layout which is highly effective in the process layout.

3. The Principle of Grouping:

According to this principle, the available space needs to be optimally utilized. Two premises have wide acceptance in terms and cities where a piece of land is very much expensive.

4. The Principle of Compaction:

All the significant factors need to be fully integrated and related, producing a well-integrated and compact final layout.

5. The Principle of Safety and Hygiene:

The layout must have provisions for the safety of workers. It must be planned, based on the comfort and convenience of the workers for working there and satisfied.

6. The Principle of Flexibility:

The layout must allow improvements with small flexibility and in minimum cost.

7. The Principle of Minimum Investment:

The total layout must provide savings in fixed capital investment not by ignoring the installation of required facilities but by efficiently and optimally using the available facilities and resources.

Objectives of Good Plant Layout:

The main objective of a plant layout is to optimally arrange all the factors of production in such a way that facilitates for production cost and increasing efficiency to the plant. For attaining the objective, the plant engineer should consider other secondary objectives whilst developing a layout. The following are the objectives of a good layout:

1. To minimize the handling cost by reorientating and combining the material handling and transportation cost.

2. To determine the facilities and points of manufacturing for making one or more products by following techniques. As this information helps in understanding the cost requirements and manufacturing process results from the work details in the notes.
3. To provide adequate space and to maintain enough inventory for both production control and maintenance.
4. To determine the working time of some required goods.
5. To provide units and sub-units meeting production needs by maintaining inventories.
6. To make provisions for ultimate flexibility in the adopted layout so that the minor changes in product design or changes in material specification can be accommodated.
7. To ensure that the space available is utilized optimally.
8. To make the plant maintenance simple and easy.
9. To design and locate the production equipment in the shop in an integrated view of material and movement of items.
10. To encourage the effective utilization of labour.
11. To minimize high turnover of tools at progress.
12. To effectively choose the layout based on improving the productivity and quality of output.

Q27. Mention the different types of layout. Briefly describe each.

(Refer Page No. 280)

Answer: There are 11 types of layout. They are:

The following are the different types of layouts:

	A	B	C	D
Concentric Layout	Concentric	Concentric	Concentric	Concentric
Process Layout	Process	Process	Process	Process
Product Layout	Product	Product	Product	Product

Q28. Product Layout (Process Layout).

This type of layout involves grouping together of similar machines to do operations. The separate machine performing different operations are grouped at one place and connected to the machines. Milling machines, Drilling machines required for a particular type of operation or function are grouped and placed at one location.

This type of layout is generally employed for industries engaged in job order production and non-expensive tool of manufacturing activities.

Q29. Product Layout (Job Layout).

A Product layout is generally required to when there is a mass production of only one product in that operating area. Here, the product is standardized and the production is taken on mass scale. The required machines for the production processes are arranged to the order in which the raw materials will be processed. Each operation on the product is performed on a fixed line. All assembling and processing is done while the product moves towards the fixed end. This type of layout is recommended where continuous production of goods is required.

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Q30. Fixed Layout (Process Layout).

In case of layout of manufacturing, location is thought out keeping in the mind one. The required basic resources such as machinery, instruments, tools, fixtures etc. are fixed from their respective positions in one fixed position where production continues in sequence. In other form of terms, the product moves through sequential processing facilities. Whereas in case of the service option, machinery, equipments, tools and other facilities are arranged for the work in a product process which occurs at one place and the product continues at that place.

Layout by fixed position of the product is relevant in big factory, aircraft manufacturing, Rover cars etc. and big power plant etc.

Q31. Combination Layout (Group Layout) or Cell Layout.

Combination layout is a layout formed by taking the advantages of functional layout and process layout. In this layout machines are grouped into small clusters of process layout and these get it based on the total product layout within a large shop floor. Each cell produces single unit of a family. The machines are arranged according to the sequence of operations. Placing cutting, drilling, turning, etc., and these parts of the family are assembled having an consideration the advantages of product layout.

Combination layout is easier when there are two or more or being made in different types and sizes.

Q32. What are the various factors which affect plant layout?

Answer :

The plant layout refers to the systematic arrangement of machinery, equipment and other material facilities. The following are the various factors influencing the plant layout decisions:

1. Materials

Plant layout is mainly influenced by the availability of material i.e., some arrangements must be done for the proper storage and moving the raw material from the plant area that are converted into finished products. It is advisable for the manager to purchase raw materials systematically at the time of availability which tends to be saved and processed at the minimum cost. Materials availability is very important. The storage and material movement needs appropriate storage spaces and appropriate handling mechanisms through which materials are not only stored but can be efficiently handled at various work stations for their processing. The type and storage cost depends on:

(i) The nature, type and form of raw material which means whether the raw material is liquid or solid, simple or complex and required treatments and number of handling units after availability or non-availability.

UNIT 2: Planning and Managing the New Business

Financial and personal qualifications also influences the success of a business. Specifications must be fit for the firm and financial position of a entrepreneur would have to be considered before selecting a firm. Once the nature of products plays a vital role in the success. For example, production of software is highly risky, so it is suggested to focus on research & development in this area.

2. Product

The objective of designing a layout is to produce-quality products in minimum time & cost. Input-output model related to plant location and efficient layout of plant. Mainly, a central process through the layout works effectively in case of continuous as well as production of step-by-step. The product is fixed because the production technology used in tool and machinery needs to be homogeneous towards the product. Then the size of products in production and other factors of production needs to be given due importance before deciding about the layout and its location.

The demand and sales also affect the plant layout as it decides the quantity of production and also the rate of the equipment, storage space etc.

3. Market

While selecting a layout, the production and management of employees needs to be considered. The need of an organization, with only main employee is different from that of an organization where both stock and workers are involved. Such variations change due to different requirements. The availability of employees also affects the plant layout. The other factors such as health related, labor costs, shift, overtime etc., also affects the plant layout.

4. Machinery

The size and type of machinery to be used is dictated by the product type, quantity of the production and size by management policies. As the production process is a combination of materials, tools and machine. It is very much important to identify both the machine and materials requirements. Mobility and availability of resources are based on nature, size and type of products to be produced. In this context these information are available:

- (i) To move tools, products and workers.
- (ii) To move only products by keeping the machine fixed and
- (iii) To move the worker and machine in the product.

5. Type of Industry

The plant layout decisions is also influenced by the type of industry. The different types of industries are:

6. Workshops

Industries like auto, several electronic and engineering process to their finished products. For example, Chemical and paper industry.

7. Analytical

It involves conversion of raw material into different elements. For example, sugar and produce major happens in sugar industries. Higher value than regular elements.

8. Manufacturing

Used in automobile, pharmaceutical, and electronic devices industries. For example, Metal working industries.

9. Warehouses

Such industries comes under plants from the group of industries like Government, Educational institutions.

10. Services

The location of plant over offices has great impact in different areas. Under the type of layout is decided by the size and size of the area and intensity. Location decides the transportation cost for water, electricity, fuel, roads etc.

Location influences the plant layout decisions in the following ways:

- (i) The size and geographical consider the type of building to be constructed.
- (ii) Location of source of components.
- (iii) Fuel requirements of the company like the transportation factor of the source countries of the firm.

For example, oil companies are concerned, the composition of the country may be influenced by the addition of new or existing stage for the crude extraction. However, when the oil wells are scattered, companies concerned by addition of new wells to the present extraction, based on the number of sites. So industrial building requirement can be determined with effect influences the plant layout.

11. Management Policies

The plant layout is also influenced by the managerial policy. The different management policies include:

- (i) The production volume and the reason for expansion.
- (ii) The scope of automation required.
- (iii) Production in a portion of equipment.
- (iv) Depend on the local delivery of goods to customer policy of production.
- (v) Process policies.

2.10.3 Issues Related to Selection of Layout

Q33. List out the various issues involved in the selection of a layout. ——————

OR

What problems an organization faces if the layout is not appropriate?

Answer :

The problem on which face an organization due to while selecting a layout are as follows:

- (i) Excessive dependence of customers on operational resources lead to increased production, increased storage space by inefficiencies.
- (ii) When the selected type of layout is insufficient to complete the work in required time, it results in low rate of production.

The problem of availability of products should be considered, which causes to cause increased holding costs, inefficiencies in tool dismantling, etc.

3. To determine the facilities and points of concentrating by making use of appropriate location techniques to bring maximum value in manufacturing the new materials and specialized products made from raw stock material to the extent.
4. To provide adequate space and to maintain convenient locations for warehouse-service and service centers.
5. To minimize the moving cost of semi-finished goods.
6. To provide suitable and adequate working conditions for employees, technicians.
7. To make provision for adequate flexibility in the designed layout so that the minor changes in product design or changes in market requirements can be accommodated easily.
8. To ensure that the space available is utilized reasonably.
9. To make the place dimensions compact and easy.
10. To design and locate the workstations adequately in the factory to accommodate flow of materials and movement of men.
11. To encourage the efficient utilization of labour.
12. To maintain high standard of work in progress.
13. To effectively design the plant layout for improving the productivity and quality of products.

Q10. Mention the different types of layout. Briefly describe each.

(Answer: 1. Functional Layout; 2. Process Layout; 3. Product Layout; 4. Project Layout)

The following are the different types of layouts:

(Diagram)

Diagram showing four types of layout:

1. Functional Layout (Process Layout)

This type of layout divides grouping together of certain functions or departments. For example, machine performing printing operations are grouped on one place and similarly like machines, Mixing machines, Cleaning machines, supporting parts of operations or functions are grouped and placed at one location.

This type of layout is generally adopted for businesses engaged in job order production and one-time basis of manufacturing processes.

2. Product Layout (Line Layout)

A product layout is generally adopted to reduce time or losses of production of same type products in like operating areas. Here, the product is standardized and the production is taken on mass scale. The required machines for the production process are arranged in the order in which the raw material will be processed. Each operation on the product is performed on a fixed line. All assembling and processing is done while the product moves towards the final end. This form of layout is recommended where continuous production of goods is required.

WARNING: Since Performance of the plant is a criterion, no firm should opt for LINEAR INVESTMENT, as it may result in poor performance.

3. Fixed-Layout (Shop Layout)

In this case of layout, all manufacturing facilities are grouped and arranged in the work area. The required basic equipment such as machinery, equipment, tools, materials are placed directly adjacent to one another to save time. In other words, when production operations are required, it is easier to access the product easily through stationary production facilities. Likewise, in this case, the access option, Machining, assembly, inspection facilities are located in the nearby so as to produce certain object consists of two or more parts in a sequential manner.

Example: Food production units, product advertising units, holding areas, manufacturing, R&D, laboratories and test rooms, quality laboratories.

4. Conditional Layout (Group Layout) or Cellular Layout

Conditional layout is a layout formed by taking into consideration the management functions involved in product layout. In this layout facilities are grouped and similarly to that of process layout and these cells function on the basis of product because there is large flow load. Each cell produces a single part of a design. The functions are arranged according to the similarity of operations. Examples: casting, rolling, welding etc., and these parts of the facility are essential features considering the advantages of product layout.

Conditional layout is used when an item or product is being made in different types and times.

Q11. What are the various factors which affect plant layout?

Answer :

The plant layout refers to the systematic arrangement of machines, equipment and other relevant facilities. The following are the various factors influencing the plant layout:

1. Materials

Plant layout is mainly influenced by the probability of material i.e., how arrangements must be done for the purpose of moving and storing the raw material into the plant and then get converted into finished products. It is advisable for the factory to purchase raw materials conveniently in the form of semi-finished which needs to be stored and processed at the production units either thermodynamically or chemically. The storage and materials movement needs appropriate storage areas and equipment handling machineries through which material can be safely stored but can be efficiently handled at various units involved for their processing. The type and storage size depends upon:

(i) The nature, shape and form of raw material which decides whether the raw material is liquid or solid, simple or complex and involved rotations and inclined conditions making them either available or non-available.

UNIT-2: Planning and Managing the New Venture

- (ii) Production and material specifications also influences the layout of a factory. Specifications help to fix the physical and chemical attributes of products and weight norms for its construction, surface texture etc. Hence, the nature of primary goods is also one of the criteria for assessment, production of continuous higher items or separately located small components of a line.
- (iii) **Conditioning:**
- Such activities produce raw material with certain physical properties. For example, fibre spinning, leather tanning, pottery.
- (iv) Such activities process raw material from the point of economic cost of utilization of labour force.
- (v) **Location:**
- The location of plant also affects the plant layout in different ways. Firstly, the nature of building or factory for the house site area of the site, and secondly, because the transportation facility for raw material, fuel, roads or tracks.
- (vi) **Environment:**
- The location of plant also affects the plant layout in different ways. Firstly, the nature of building or factory for the house site area of the site, and secondly, because the transportation facility for raw material, fuel, roads or tracks.
- (vii) **Weather:**
- The location of plant also affects the plant layout in different ways. Firstly, the nature of building or factory for the house site area of the site, and secondly, because the transportation facility for raw material, fuel, roads or tracks.
- (viii) **Product:**
- The objective of designing a layout is to produce quality products or services. The nature of product largely influences whether a product is heavy or light, fixed or mobile, related to place location and affects the layout of plant. Hence, a product passed through the various operations. However, as per operations such as production of day-to-day, the product is fixed whereas the production efficiency over an unit and machinery needs to be brought outside the product. Thus, the size of production, its production often factors of production decides as to whether day-to-day operations follow around the plant and its location.

The demand and sales also affect the plant layout as a analysis the quantity of production and also the size of the equipment, storage space etc.

2. Weather

While selecting a location, the position and exposure of employees needs to be considered. The location of an organization, with only male employees a different time than an organization where both men and women are employed, such variable change due to differential requirements. The mobility of employees, also affects the plant layout. The other facilities such as health related, locker rooms, canteen, canteen, also affects the plant layout.

3. Machinery

The size and type of machinery to be used is influenced by the product type, quantity of its production and size by management policies. As the production volume is a combination of materials, size and production it is very much important to select both the suitable and compatible machinery. Mobility and availability of resources are based on nature, use and type of products to be produced. In other words, alternatives are available.

(i) To serve both products and workers.

(ii) To move only products by keeping the maximum load and

(iii) To move the worker and machines in the product.

4. Type of Industry

The plant layout decisions is also influenced by the type of industry. The different types of industries are:

5. Symbiosis

Symbiotic relationship, several elements among production process try to form finished products. For example, Chemical and paper industry.

6. Analysis:

It involves conversion of raw material into different elements. For example, sugar and protein sugar, protein, lactose, Honey and flour sugar etc.

2.10.8. Issues Related to Selection of Layout

Q12. List out the critical issues involved in the selection of a layout.

(a)

What problems an organization faces if the layout is not appropriate?

Answer :

The problems faced due to inappropriate layout include:

(i) Excessive distance of movement of personnel from one place to another.

(ii) Excessive consumption of materials and energy.

(iii) Waste of time and effort in moving materials.

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1. If location of the plant is very suitable according to the type of industry, or needs to high investment costs.
2. Absence of alternative sources, or lack of knowledge amongst the competing production firms.
3. Economic condition of labour type, wage levels or an experienced person.
4. Fixed capacity labour control the scope for expansion.
5. Transportation cost of labour needed to different locations, such as increase in labour cost, indirect costs, distance of locations of production, reduced mobility of workers.

Q10. What is layout planning? Explain tools and techniques of layout planning and explain the designing layout?

Answer :

LAYOUT PLANNING

The designing or planning dimension is responsible for designing and modifying a layout. In manufacturing and service organizations, the layout planning deals with the spatial arrangement of resources so that the performance of the operating system could be optimized. It is a tool of tools and techniques used by layout planning which helps the operations manager to choose resources and area for arrangement of processes by locating the resources.

Tools and Techniques of Layout:

There are different techniques that are available and useful for layout planning. The application of the first dimension technique called as "Decomposition" which is the most commonly used technique. Whereas, the other techniques are used depending on the method of layout. For example, for designing the operations of process layout, resource analysis or work stations, for line balancing technique is used in the methods for designing the product layout.

The tools and techniques of layout are as follows:

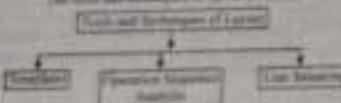


Figure: Tools and Techniques of Layout

1. Decomposition

Decomposition are the design policies which reduce the plan, made up of several parts and which serve as a guide for performing mechanical activities. It constitutes the major representation of the physical aspect of the layout.

The techniques are based on preexisting plan, for drawing and are laid around the drawing on that several layout options can be explored which help in eliminating the unnecessary handling and backtracking of pointers.

It is usually employed for designing the existing layout plan or for developing the layout whose configuration has already been decided by the other layout techniques.

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FREQUENTLY ASKED QUESTIONS AND IMPORTANT QUESTIONS

SHORT QUESTIONS

- Q1. List out the sources of capital.

Ans1: Mention the sources of capital for new business

Ans2: For answer refer Unit-II, Q1.

- Q2. Explain about E-commerce.

Ans1: For answer refer Unit-II, Q2.

- Q3. Define Venture Capital.

Ans1: For answer refer Unit-II, Q3.

- Q4. Write internet advertising.

Ans1: For answer refer Unit-II, Q4.

- Q5. How do you advertise on the Internet for free?

Ans1: For answer refer Unit-II, Q5.

- Q6. Define motivation.

Ans1: For answer refer Unit-II, Q6.

- Q7. Marketing and sales control.

Ans1: For answer refer Unit-II, Q7.

- Q8. What is the difference between a joint venture and a consortium?

Ans1: For answer refer Unit-II, Q8.

- Q9. Give the role of public issues.

Ans1: For answer refer Unit-II, Q9.

- Q10. What is venture capital? Explain the concept and features of venture capital financing.

Ans1: For answer refer Unit-II, Q10.

- Q11. Define venture capital? Explain the concept and features of venture capital financing.

Ans1: For answer refer Unit-II, Q11.

- Q12. What is record keeping? Write its necessity.

Ans1: For answer refer Unit-II, Q12.

- Q13. What is the necessity of record keeping? Discuss.

Ans1: For answer refer Unit-II, Q13.

ESSAY QUESTIONS

Q1. What is finance? Explain the need for finance in a business enterprise. Classify financial needs in detail. What are the various sources available to a small-scale enterprise to raise funds?

Ans1: For answer refer Unit-II, Q1.

Q2. Define venture capital? Explain the concept and features of venture capital financing.

Ans1: For answer refer Unit-II, Q2.

Q3. What is venture capital? Explain.

Ans1: For answer refer Unit-II, Q3.

Q4. What is record keeping? Write its necessity.

Ans1: For answer refer Unit-II, Q4.

Q5. What is the necessity of record keeping? Discuss.

Ans1: For answer refer Unit-II, Q5.

- Q13.** Define Recruitment. What are the objectives of recruitment and explain the recruitment process?
Answer :
 For answer refer Unit-II, Q13.
- Q14.** Discuss the procedure involved in motivating and leading teams in an organization.
Answer :
 For answer refer Unit-II, Q14.
- Q15.** What is financial accounting control? Discuss its role and need to concentrate on financial control.
Answer :
 For answer refer Unit-II, Q15.

OR

Why we need to concentrate on financial control? Explain.

Non-Dec.-17, PPT18A, Q16

- Q16.** Define E-commerce from different perspectives along with its and importance.
Answer :
 For answer refer Unit-II, Q16.

OR

Describe E-commerce with examples.

Non-Dec.-17, PPT18A, Q17

- Q17.** Briefly explain evolution of sources and methods of idea planning and development in E-business ventures.
Answer :
 For answer refer Unit-II, Q17.

OR

Discuss the conceptual framework of E-business and its significance.

Important Question

- Q18.** What are the different types of joint ventures? Explain reasons for forming joint venture and issues involved in it. Highlight the factors which contribute to the success of a joint venture.
Answer :
 For answer refer Unit-II, Q18.

OR

Examine the succession planning in joint ventures.

April-17, PPT18B, Q19

- Q19.** Explain key issues in Acquisition Mergers.
Answer :
 For answer refer Unit-II, Q19.

- Q20.** Explain detail the characteristics of joint ventures and franchising with suitable illustrations.
Answer :
 For answer refer Unit-II, Q20.

- Q21.** Discuss the opportunities for diversity in franchising and the challenges of global franchising.
Answer :
 For answer refer Unit-II, Q21.

- Q22.** What is Plant Location? Discuss the need for plant location. What are the factors influencing plant location?
Answer :
 For answer refer Unit-II, Q22.

- Q23.** List out the critical issues involved in the selection of a layout.
Answer :
 For answer refer Unit-II, Q23.

OR

What problems an organization faces if the layout is not appropriate?

April-17, PPT18B, Q24

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UNIT 3

Industrial Financial Support



Syllabus

Industrial Financial Support Schemes and Functions of Directorate of Industries, District Industries Centre (DIC), Industrial Development Corporation (IDC), State Financial Corporation (SFC), Small Scale Industries Development Corporation (SSIDC), Khadi and Village Industries Commission (KVIC), Technical Consultancy Organization (TCO), Self Employment Service Scheme (SESS), National Small Industries Corporation (NSIC), Small Industries Development Bank of India (SIDBI).

LEARNING OBJECTIVES

- ✓ The Concept of Directorate of Industries and District Industries Centres (DICs).
- ✓ The Concept of Industrial Development Corporation (IDC) and State Financial Corporation (SFC).
- ✓ The Concept of Small Scale Industries Development Corporation (SSIDC) and Small Industries Service Institute (SISI).
- ✓ The Concept of Khadi and Village Industries Commission (KVIC) and Technical Consultancy Organization (TCO).
- ✓ The Concept of National Small Industries Corporation (NSIC) and Small Industries Development Bank of India (SIDBI).

INTRODUCTION

The Directorate of Industries (DOI) is a state level industry which has been set up to implement, monitor and control the various policies and programmes of small scale, medium scale, large scale and cottage industries. The constitution of India states that, the issue related to the small scale industries lies in the state which under the state lie about the expansion and promotion of small scale industries in a state concern.

DIC stands for District Industries Centres. It is one of the programme which will help in the rural areas for development of small scale undertakings at the District level. DIC extends service and support to the rural entrepreneurs under the Scheme for Self Employment for Unemployed Youth (SESYU) and Prime Minister's Rozgar Yojana (PMRY) where it provides employment opportunities to more people at the district level.

The State Financial Corporation (SFC) or RRB was setup in order to provide financial assistance only to small and medium credit industries. SFC engage in assisting small units for infrastructures and technological upgradation through rehabilitation scheme followed by the mainly rural areas under SIDBI need capital scheme.

The Small Industries Development Bank of India (SIDBI) was basically set up as an apex institution for providing financial and non-financial assistance to big and small scale industries. In case of promoting, financing and development of industries comprising mostly of small scale units. Apart from SIDBI, it also coordinates the work of other development finance institutions.

PART-A SHORT QUESTIONS WITH SOLUTIONS**Q1 Explain about DICs.****Answer :**

DICs stands for District Industrial Centres. It is one of the programmes which was setup at the local areas for development of small scale industries at the district level. It was established on May 8, 1973 to assist and administer the framework of Small Scale Industries (SSI) for its development. DIC's extends credit and support to the small entrepreneurs under the Scheme for Self Development for Selected Entrepreneur (SSSE) and Prime Minister's Sampoorna Gram Vikas Yojana (PMKVY) scheme. It provides employment opportunities to many people at the district level.

DICs are mainly handled by the state government. The major internal structure of DICs comprises of its general manager, four functional managers and three project managers for the purpose of providing technical training to the industries at the district level.

Q2 What are the objectives of Industrial Development Corporations (IDCs)?**Answer :**

- The objectives of IDCs are as follows:
- To promote entrepreneurship facilities to entrepreneurs of the state.
- To promote network of industries all over the state as IDC's concern of industrialisation is commercially backed and helps by providing open space and buildings to entrepreneurs.
- To carry out industrial development of the state.
- To develop economic equality and decentralization of economic growth in particular regions.
- To attain above objectives, it supplies roads, power, water, street lighting, drainage and sewage disposal, post and telecommunications, police station, security, fire brigade and other general facilities in the IDC areas.
- It is difficult for the state government to acquire land than the financial instruments for the procurement of land, usually govt. of the state or govt. bodies issued were IDC.

Q3 Explain briefly about State Financial Corporations(SFCs).**Answer :**

The State Financial Corporation (SFC) of India was setup in order to provide financial and financial aid to small and medium industries. It was initiated through the SFC Act which was passed by the parliament on September 28, 1971. The first financial corporation was setup in Punjab in the year 1960. At present there are about 18 SFCs which are operating since 40 years and they function as regional development bank. SFCs engage in assisting small units for working unit and technological upgradation through collaboration scheme followed by the unit type plan practice under SIDBI and capital infusion.

SFC's establishment at lower level have the objective of lending and providing small and medium enterprises for achieving balanced regional socio-economic growth and generating greater employment opportunities.

Q4 What are the financial resources of SFCs?**Answer :**

- The financial resources of SFCs include the following:
- Share capital and reserves
 - Loans from state government
 - Loans from RDB
 - Loans from SIDBI
 - Refinance from RDB and SIDBI
 - Fixed deposits from State Govt., Local Authorities, Public
 - Foreign currency loans of credit from RDB

The funds and debentures of SFCs are mostly introduced by commercial banks, IFC and other financial institutions and SFCs.

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UNIT-3 Industrial Financial Sector**Q1 Write briefly about KVIC.****Answer :**

The Khadi and Village Industries Commission (KVIC) is considered as a leading body. It was constituted by an Act No. 41 of parliament 1951. However, later it was amended by Act No. 12 of 1967 and Act No. 91 of 2008. During Apr 8, 1957, KVIC completely took over the task of former All India Khadi and Village Industries Board.

The main objectives of KVIC are as follows:

- To ensure the employment opportunities for the KVIC employees.
- To encourage the employable and suitable youth.
- To develop self-reliance among the poor individuals with an aim of creating a new community.

Q2 What do you mean by TDCs?**Answer :**

TDC stands for Technical Consultancy Department. It was started by the six Industrial Councils of ministries (SIDBI, SFCs and SSB) to the seven and eighth schedules with their-level financial and commercial banks to serve the consultancy needs of SSBs and new entrepreneurs. TDC was the first one to start TDC in India in the year 1962. Currently, there are 17 TDCs of 17 states. Out of 17, 9 are under SIDBI, 2 under SFC and 2 under IFCI. All the 17 TDCs came to the works of small and medium enterprises.

Q3 What are the Functions of SIDOCs?**Answer :**

The various functions of SIDOCs are as follows:

- It acquires and distributes the scarce raw material.
- Imports machinery on hire-purchase agreement.
- It helps in marketing of goods manufactured by small industries.
- It provides seed capital to the entrepreneurs.
- It provides entrepreneurial assistance to small business and production units.
- It helps in increasing the market share of the day and night markets.

Q4 Explain about NSIC.**Answer :**

NSIC stands for National Small Industries Corporation Ltd. The NSIC was constituted by Government of India (GOI) in 1951 with the main objective of providing and developing SISs in the country. NSIC undertaken several activities like supplying of original and imported machinery on hire-purchase and leasing system, marketing of small industry products on commercial basis, right marketing of small industries product, developing export markets of SISs, and control of small scale units, for setting up new types manufacturing of small industries product, developing export markets of SISs, and control of small scale units, for setting up new types manufacturing of small industries product, importing raw materials, providing training to several technical trainees and cooperation with other Govt. organizations in establishing small-scale projects on turnkey basis.

Q5 What do you understand by SIDBI?**Answer :**

The Small Industries Development Bank of India (SIDBI) was formed by set up an apex institution by providing financial and non-financial assistance to tiny and small scale industries. It aims at promoting, financing and development of industrial enterprises mainly of small scale sector. Apart from this, it also coordinates the work of other development financial institutions.

Government of India (GOI) in order to provide both direct and indirect financial assistance announced in the budget of 1978-79 to start up SIDBI as a subsidiary unit of RDB. However, the SIDBI Act was passed by the parliament in October 1981. Then the functions of the bank commenced from April 2, 1982.

PART-B ESSAY QUESTIONS WITH SOLUTIONS**3.1 SCHEMES AND FUNCTIONS OF DIRECTORATE OF INDUSTRIES - DISTRICT INDUSTRIES CENTRE (DIC)****Q101** What is Directorate of Industries? Explain the objectives and functions of Directorate of Industries.

Model Paper-1

Answer:**Objectives of Industries:**

The Directorate of Industries (DOI) is a state-level industry which has been set up to implement, develop and control the various policies and programmes of small-scale, medium-scale, large-scale and cottage industries. The contribution of DOI to state Govt. in income related to the total state industries has to be quite within the state because the expansion and promotion of small scale industries is a state matter.

DOI carries out its functions under the guidance of Small Industries Development Organisation (SIDO) and other central government, it provides registration and development measures. It is concerned with the district industries offices, extension offices located in districts, sub-districts, taluk and block level. The power of authority to implement and develop the policies is decentralised to the maximum extent level and was created in the Handicrafts Industrial Centres (DIC).

Functions of Directorate of Industries:

1. To encourage and expand the village and small-scale industries in the state.
2. To develop, manage and control the district-level policies and programmes of the Finance Department.
3. To provide encouragement framework which helps in utilising the entrepreneurial opportunities to the max, producing a significant increase in the state industries problem and utilises the resources to the maximum extent.
4. To help the state government in formulating various industry related policies and programmes such as SIDO policy, Industrial policies, IT policies, packages, scheme of incentives etc.

Functions of Directorate of Industries:

1. It helps in registering and managing the Small Scale Industries (SSI).
2. It provides financial assistance to the Small Scale Industries (SSI).
3. It provides access to bulk of domestic raw materials to the industries.
4. It provides important components which are used for importing and exporting the raw materials.
5. It helps to set up the industrial competitive and industrial census.
6. It helps in developing and improving the infrastructures of the industries.
7. It completes various surveys and collects information regarding the industries.
8. It deals with the issues and concerns for the various industries.
9. It manages and controls all the villages and Small Scale Industries (SSI).
10. It maintains communication with other agencies in terms for the development of industries.

Q11 Explain about District Industries Centre (DIC) and objectives of DIC.**Answer:****District Industries Centre (DIC):**

DIC is another District Industries Centres. It is one of the programme which was setup in the rural areas for development of small-scale model villages at the district level. It was established on May 4, 2013 to implement and administer the framework of Small Scale Industries (SSI) for its development. DIC's main aim and support to the small entrepreneurs under the Scheme to Implement the Educated Livelihoods and Youth (SILELY) and Prime Minister's Kisan Yojana (PMKY) scheme. It provides employment opportunities to many people at the district level.

DIC's assessments, issued by the state government. The organisational structure of DIC is comprised of two general manager, four functional managers and three project managers for the purpose of providing technical training to the industries located at the district level.

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UNIT-3: Industrial Entrepreneur Region:**Objectives of DIC:**

- 1. To implement and develop small-scale units in the district.
- 2. To perform an industrial and entrepreneurial survey in order to check the availability of resources such as material, labour, and industrial sites. This survey helps in searching for new product lines and guides the entrepreneurs who are interested in setting up units.
- 3. To plan for schemes effectively and implement a unit production.
- 4. To fulfil the entrepreneurial opportunities of apprentices and artisans in machine, auto, electrical, leather, or repair of machinery with fulfilling the requirements of service manual of any material.
- 5. To forward the proposal of project developed by the entrepreneurs.
- 6. To undertake the work of product development in the small-scale industry.
- 7. To provide training to the artisans.

Q12 Explain the Functions and objectives of District Industries Centre (DIC).**Answer:****Functions of District Industries Centre (DIC):**

The following are the functions of District Industries Centre (DIC):

1. It helps in preparing and implementing the industrial policies at the enterprises who are located in the district for the reference purpose.
2. It prepares action plan to implement the policies and programmes which are clearly defined and identified.
3. It advises the entrepreneurs regarding various issues like selection of appropriate industry and equipment, supply of raw material, supply of machinery, process or repairing machinery etc.
4. It guides the entrepreneurs to take appropriate credit facilities such as loan, deposit and discounting.
5. It helps the entrepreneurs to set up the proper legal agreements and basic statutory parameters.
6. It helps the entrepreneurs to register the business and permission.
7. It helps the entrepreneurs to clear their dues in sufficient capacities, the bank account, submission of monthly, quarterly, and annually relevant to government departments etc.
8. It acts as the nodal centre to implement Prime Minister Kisan Yojana (PMKY) in the district.
9. It helps the various organisations to carry out entrepreneurial development programmes.
10. It helps the entrepreneurs in marketing their products.

Objectives of District Industries Centre (DIC):

The following are the objectives and other services provided by District Industries Centre (DIC):

Pradhan Mantri Krishi Vikas Yojana (PMKY):

It is a scheme introduced for the self-employed youth who are educated but unemployed. To apply for this scheme the individual should possess the following qualities:

- (i) He/she should be a class VIII passed student.
- (ii) His/Her age should be between 18-30 years pertaining to 45% of the individual, women, physically handicapped or belonging to ST/SC.
- (iii) His/Her age should be between 18-35 for intermediate students and PWDs for females.
- (iv) His/her overall family income should not exceed seven lac/-.

Normal Bank Finance Scheme:

A collateral-free scheme provided by DIC for conducting the Small Scale Industries (SSI) in the district. It should have sufficient equity participation while applying for the scheme.

Loan Under Integrated State and Industry (ISI) Act:

This scheme is implemented by providing the Pradhan Mantri Kisan Yojana, the fund of the loan upto 5,000/- and the rate of interest is 8%, with a collateral of 2.5% on regular payment.

State Industrial Scheme (SIS):

The initiatives which established after GL D.L. 2003 in districts for scheme. The following features of State Industrial Scheme (SIS) are as follows:

- (i) SIS helps in creating employment opportunities for the entrepreneurs who are located in the district for the reference purpose.
- (ii) It prepares action plan to implement the policies and programmes which are clearly defined and identified.
- (iii) It advises the entrepreneurs regarding various issues like selection of appropriate industry and equipment, supply of raw material, supply of machinery, process or repairing machinery etc.
- (iv) It guides the entrepreneurs to take appropriate credit facilities such as loan, deposit and discounting.
- (v) It helps the entrepreneurs to set up the proper legal agreements and basic statutory parameters.
- (vi) It helps the entrepreneurs to register the business and permission.
- (vii) It helps the entrepreneurs to clear their dues in sufficient capacities, the bank account, submission of monthly, quarterly, and annually relevant to government departments etc.
- (viii) It acts as the nodal centre to implement Prime Minister Kisan Yojana (PMKY) in the district.
- (ix) It helps the various organisations to carry out entrepreneurial development programmes.
- (x) It helps the entrepreneurs in marketing their products.

Other Services:

The other services provided by DIC are as follows:

(i) SIE Registration:

(ii) Permanent Supplier Registration:
Before commencing the small-scale industries, the registration has to be done. The concerned will come into existence only after registering.

(iii) Permanent Legal Registration:

It is registered when commencing the production of Small Scale Industries (SSI).

(iv) Preference for Power Connection:

The preference is provided for free electricity, free, and public power connection to be replaced with Small Scale Industries.

- (a) Marketing Help to Handcraft Products
It is a marketing service provided for the handcraft products through the participation in State Handicraft Fairs.
- (b) National Project of Bio-Gas Development (NPB)
A simple incineration of a bio-gas plant which is useful for the following:
- It helps in domestic cooking and lighting.
 - It produces the organic manure associated with Nitrogen, Phosphorus and Potassium (NPK) for better yield in agricultural, horticultural and pastoral process.
- (c) Training Programmes
Training programmes are provided for entrepreneurs and industrial activists such as:
- Entrepreneurship Development Programme.
 - Special Training Programmes for Women, Physically Handicapped and Backward Classes.
 - Start-up, SME and Service Centres.

3.2 INDUSTRIAL DEVELOPMENT CORPORATION (IDC)

Q15. Explain about the Industrial Development Corporation (IDC) and its objectives.

Answer :

Industrial Development Corporation (IDC)

The government has established IDC's to help the entrepreneurs in the promotion of industries in their industrial units. Like as business need a significant factor of production and its rates are so high that a certain unit can't afford it. In distant places, people are facing numerous problems and obstructions such as power connections, water supply and telephone connection. This discourages the development of industries especially, the modern entrepreneurs are disappointed while working on these facilities.

The IDC is a state level corporation established at all states. For example, in Maharashtra it is referred as MIDC, in Gujarat it is referred as GIDC, etc. The IDC's objective lies under the guidance of the central, it also looks after the promotion of local, regional and about as per the need of entrepreneurs.

Objectives of Industrial Development Corporation (IDC)

- The objectives of IDCs are as follows:
- To promote infrastructural facilities to entrepreneurs of the units.
 - To generate network of factories all over the state or IDC's commercial industrial region. To economically backward regions by providing new units and buildings to entrepreneurs.
 - To bring up industrial development of the state.
 - To develop economic equality and industrialisation of various growth in particular regions.

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- To attain these objectives, it supply roads, motor vehicles, street lighting, drainage and sewage disposal, power generation, power station, security, fire brigade and other services to the units in the IDC areas.
- It is not difficult for the entrepreneurs to acquire loans from the financial institutions for the procurement of land, sites or plots. If the industrial units are located near IDC.

3.3 STATE FINANCIAL CORPORATION (SFC)

Q16. What do you mean by State Financial Corporations (SFCs)? Write about its objectives and Scope.

Answer :

Model Answer

State Financial Corporations (SFCs)

The State Financial Corporation (SFCs) of India was setup to help the financial assistance only to small and medium size industries. It was initiated through the SFC Act which was passed by the parliament on September 28, 1961. The first financial corporation was established in Punjab in the year 1962. At present there are about 18 SFCs which are operating more than 40 years and they function in regional development task. SFCs engage in creating small units for industrialisation and technological upgradation through rehabilitation scheme followed by the equity type participation under SIDBI and capital scheme.

SFCs established at the state level basis for the objective of financing and promoting small and medium enterprises for achieving balanced regional socio-economic growth and generating greater employment opportunities.

Objectives of SFCs

- Following are the objectives of SFCs:
- To help in establishment of new units which are almost being financed by the SFCs financial corporation.
 - To help in the development and expansion of industry by the rural and urban areas.
 - To increase the promotional activities and establishment of entrepreneurship development programme and activities.
 - To promote those industries which contribute to import of scarce essential goods.
 - To provide soft term loans.
 - To undertake the issue of shares, bonds and debentures of industrial units.
 - To introduce and maintain schemes of export-import incentives and promote entrepreneurship.
 - To develop small scale industry.

The scope of State Financial Corporations (SFCs) is very wide and is applicable to most of the states of India. The main purpose behind the establishment of SFCs is to help the entrepreneurs of India and enable them to set up new industries, undertake modernisation, rehabilitation

UNIT-3: INDUSTRIAL FINANCIAL SUPPORT

and expansion programmes. According to the SFC Act, 1961, the definition of industrial concern may include all the public limited companies, partnership and proprietary concern. Therefore, SFCs may provide financial or any kind of assistance to the industrial concerns which are engaged in the activities like manufacturing and processing of grain, food industry, mining, development of mines, dredging, building, building, providing, road bridge, harbours and so on.

In addition to this, SFCs also empowered to provide loans for starting guaranteed loans, allowing to directly subscribe securities and discounting bills of exchange. SFCs are authorised to lend loans for period of 5 years and can undertake shares and debentures depending upon the deposit in the market within 2 years.

SFCs mainly support and assist Small Scale Industries (SSI) which are mainly organised as proprietorship/partnership concern. But the scope of SFCs assistance is not applicable for Joint Stock Publicly concern. Moreover, SFCs emphasis are on agricultural industrial concern and chemicals making concern.

Q15. Write briefly about the management and financial resources of State Financial Corporations (SFCs).

Answer :

Model Answer

Management of SFCs

The management of State Financial Corporations (SFC) consists of twelve (12) Board of Directors. The functions of a director are listed below:

- Three directors will be nominated by state government.
- One director will be nominated by SFC.
- One director will be nominated by SIDBI.
- Three directors will be nominated by Financial Institutions.
- One director will be nominated by non-governmental organisations.
- Nominating three directors will be selected on the basis of one each from Schedule Banks, Cooperative Banks and other financial institutions.

Along with the above, the state Government appoints a chairman and managing director of SFCs.

Financial Resources of SFCs

The financial resources of SFCs include the following:

- State capital and reserves
- Loans from state government
- Loans from SIDBI
- Loans from RBI
- Refinance from RDB and IDBI
- Fund deposited from State Banks, Local Authorities, P.R.D.C.
- Foreign currency law of credit from IFCB

The funds and interventions of SFCs can mostly be utilised by commercial banks, LDC and other financial institutions and the government for 50% of the total capital (SFC). Total, the reference from SFC is to the other major sources of finance for SFCs.

The SFCs have introduced a scheme of concessionary financial assistance to industrial undertakings mainly located in backward and underdeveloped areas.

Q16. Explain the type of financing under DFC and eligibility for assistance.

Answer :

Type of Financing Under SFC

Following are the types of financing under SFC:

- National Small Industries Corporation (NSIC) and Financing:**

Small capacity small scale units for supply of raw material are discounted and financed by NSIC for a maximum period of 50 days.

- Working Capital Financing:**

This type of finance is provided to the existing units for improving and expanding to meet their operational requirements such as purchase of consumable items, spare and production, payment of electricity bill, statutory dues etc.

- Export Development Finance:**

Finance is provided to the export-oriented industries along with pre and post-disposal finance under the terms and conditions of SFCs.

- Equipment Leasing Scheme:**

The main objective of equipment leasing scheme is to acquire the industrial equipment and machinery. To modernise, expand and diversification of their industries. All basic facilities are extended to SFC units where they include 100% financing at liberal terms and conditions.

- Venture Capital Finance:**

The objective of this scheme is to encourage technology oriented small scale units and first generation to step in new technology areas.

Eligibility for Assistance:

Industries eligible for financing under SFC are those which are involved in the following activities under SFC Act, 1961:

- Manufacture of goods.
- Preservation of goods.
- Mining or development of mines.
- Processing of goods.
- Generation and distribution of power or any other form of power.
- Rail industry.
- Import of passenger or goods by rail, water or air.
- Manufacturing, testing and repairing of vehicles, aircrafts, or boats, trawlers or junks.

8. Assisting, equipping or putting any funds with the help of machinery or power.
9. Linking in providing other facilities.
10. Providing special or technical knowledge or other services for the promotion of industrial growth.
11. Development of any indigenous area of land as an industrial estate.

Q17. Explain the functions and operations of State Financial Corporations (SFCs).

Answer :

Functions of SFCs:

- 1. Following are the functions of SFCs.
- 1. It offers long-term finance to small and medium-scale industries to both public and private sector companies, cooperatives, partnerships and proprietor businesses.
- 2. It extends term loans for the purchase of land, building, plant and machinery, raw materials and other assets.
- 3. It grants loans and advances to industries for a period of 20 years.
- 4. It provides loans and advances to industries repayable within a period of 20 years.
- 5. It provides subscription to industries repayable within a period of 20 years.
- 6. It motivates the potential and promising young women entrepreneurs to start the new projects and help them in carrying out their industrial projects.
- 7. It acts as agent of all the central and state governments like, DBNL, SFCI for grant of loans, bonds, sub-subsidy.
- 8. It grants and capital assistance under the SIDBI scheme.
- 9. It underpins new results, enhances share of industrial consumers.
- 10. It provides guarantee for loans issued in the capital market by scheduled banks, cooperative banks which are to be repayable within 20 years.

Operations of SFCs:

The operations of State Financial Corporations (SFCs) are always at the control of State Financial Corporations Act, 1951. This Act was passed by the Indian Government and made it applicable for all the states of India. According to the Act, the authorized capital of SFCs is fixed by the State Government which may range to nominate and maximum limit i.e., 750 lakhs to 75 crores. However, this capital can be divided into shares of equal value which would be taken by the respective State Government, RRB, Cooperative Banks, Scheduled Banks and other financial institutions whenever required. Insurance companies, private parties and universities from this type of shares are guaranteed by the State Government. Addition to this, the SFCs can also extend its funds by issuing or by selling bonds and debentures, but the value of such issue or sale should not exceed five times of the capital and reserves at 7.10 lakhs.

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- Central Bank are SFCs working or operating in India which are listed below:
- Andhra Pradesh State Financial Corporation
 - Assam Financial Corporation
 - Bihar State Financial Corporation
 - Delhi Financial Corporation
 - Gujarat Financial Corporation
 - Gujarat State Financial Services Ltd.
 - Haryana Financial Corporation
 - Jammu and Kashmir State Financial Corporation
 - Jharkhand State Financial Corporation
 - Kerala Financial Corporation
 - Madhya Pradesh Financial
 - Maharashtra State Financial
 - Orissa State Financial
 - Punjab Financial Corporation
 - Rajasthan Financial Corporation
 - Tamil Nadu Industrial
 - Uttar Pradesh Financial Corporation
 - West Bengal Financial Corporation

Q18. Write in detail about the performance appraisal and problems of SFCs.

Answer :

Performance Appraisal/Evaluation of SFCs:

The performance of State Financial Corporations (SFCs) can be evaluated or appraised with their operation and achievement. The SFCs play a crucial role in satisfying the financial needs of rural and frontier industries of different states of India. The SFCs has formulated and implemented special schemes for assisting entrepreneurs during 1990-93-94. However, the performance of SFCs has been criticized by various analysts based on its administration and targets. Carefully the working and performance of SFCs in various states vary because of different reasons. It has been observed that SFCs are not working to accordance with the financial needs of the rural and frontier industry. Some of the major arguments raised against the performance of SFCs are as follows:

1. Inadequate Assistance.
2. Low level of input progress.
3. Financial and technical experts are absent.
4. Shortage of capital.
5. Difficult and complex procedures of working.
6. Unnecessary and unnecessary formalities.
7. Different attitude towards our businesses.

Thus, the performance of SFCs is critically evaluated and appears on different grounds.

Problems of SFCs:

As the performance of SFCs is criticized on various ground, they face financial problems. Some of the main problems faced by SFCs are as follows:

UNIT-3: Industrial Finance Support

1. Lack of Independence:

They are dependent upon the decisions and rules of State Government, thus, they suffer from the problem of independence. All the SFCs of India dependant at the political permission of states. Due to this reason, the loans will not be available on right time to the right person.

2. Long Period of Loans:

They provide loans to small and medium business enterprises and allow long gestation period to repay the loans. As such, the large number of loans are provided to the small enterprises for longer period than they may not able to payback loans in time. Due to which bad debt ratio and NPLs being heavy losses.

3. Lack of Systematic and Up-to-Date Information:

They suffer from the problem of lack of systematic and up-to-date information. They does not maintain the details of applicants properly due to which the loans granted or to be approved take too much time. Therefore, it gets difficult to manage and control the expenditure.

4. Lack of Sufficient and Skilled Staff:

There is a lack of sufficient and skilled staff in SFCs of every state. Due to this reason it is affecting the proper functioning of SFCs.

5. Limited Resources:

They face problems due to low and limited technical resources. Thus, they may not able to compete and survive in the market as they are not satisfying the financial needs of growing new industries.

6. Improper Submission of Documents:

While granting the loans SFCs face problem of collecting proper documents and estimates based on which loan is availed can be provided to the applicant. Therefore the loans often rejected on the basis of insufficient or low.

7. Failed to Bring Regional Balance Development:

They are failed to bring regional balance development in the industrial sector of every state. It has been observed that there is no even development of industries with SFC's assistance in different state. Some states are developed and some states are facing so many problems.

3.4 SMALL SCALE INDUSTRIES DEVELOPMENT CORPORATION (SSIDC)-SMALL INDUSTRIES SERVICE INSTITUTE (SISI)

Q19. Explain about SSIDCs and SISI.

Answer :

Small Scale Industries Development Corporation (SSIDC):

This bank was setup under the Companies Act 1956. Its main objective is to take care of the needs of the small and cottage industries. SSIDC's is operating through 19 offices.

Functions of SSIDCs:

1. To promote and develop the sector in rural areas.
2. To supply machinery, tools and purchase agreements.
3. It helps in marketing of goods manufactured by small industries.
4. It provides fund capital to the entrepreneurs.
5. It provides management consultancy services to rural and productive units.
6. It helps in increasing the work share of the tiny and small scale units.

SSIDCs are located in Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Jammu and Kashmir, Haryana, Punjab, Rajasthan and Telangana.

Small Industries Service Institute (SISI):

The small industries service institute is one of the extensive training service provider which is a subsidiary of Small Industries Development Organisation (SIDBI). It has extension and production centers in almost parts of the country and finance through many branches or institutes. There are about 36 SISIs, 22 branches. It has a total center spread all over the Nation.

Objectives of SISI:

- The following are the objectives of SISI.
1. To develop the skills of employees and managerial personnel.
 2. To increase the SISI population which maintains the skilled and productive manpower for entrepreneurs.
 3. To help the entrepreneurs in setting up their own small units.
 4. To provide and SISI effective training needs of the workers.
 5. To provide technical training and service to small scale entrepreneurs in specialized fields.

Type of Training Programmes Conducted by SISI:

The following are the types of training programmes conducted by SISI.

1. Industrial Management:

Training in industrial management areas for of concern to small entrepreneurs and supervisory. SISI provides training programmes in the areas of the running efficient organization for the concern. These courses are conducted at Bangalore, Kolkata, New Delhi, Mumbai, Ahmedabad, Hyderabad etc. SISI are some of the management centres offered by SISI.

2. Industrial management units:

3. Specialized courses in management:

4. Technical management units:

5. Allow courses in management subjects:

PRINCIPLES OF ENTREPRENEURSHIP (INTU-HYDERABAD)

2. Technical Training

KVIC units conduct training at various technical areas. It aims to enhance production capacity in order to increase the competitiveness and skills of both skilled and semi-skilled workers so that they can fulfill their job requirements.

The workers receive a basic stipend of ₹ 100 per month. Salaries of the technicians range from ₹ 10,000.

(i) Shop practice course (3 months - full time).

(ii) Trade oriented courses (6 months - full time).

(iii) Product and process oriented courses (2 semesters - full time).

(iv) Short courses (short duration 1-2 months).

5. All India Courses

The courses for benefit of the country are conducted at the centers to regular full time courses. Training is given in how to manufacture the handicrafts, glass blowing and sales of apparatus at the Surat and Bangalore centers.

4. Mobile Workshops

Mobile workshops visit the areas where artisans work and they provide training to them by explaining new dimensions to various techniques like embroidery, short circuit, leather, glass blowing etc. The personnel of KVIC visit the work areas usually in mobile vans.

3.5 KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)

Q28. Explain about Khadi and Village Industries Commission (KVIC) in detail.

Answer :-
Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC) is constituted as a statutory body. It was constituted by an Act No. 47 of parliament 1956. However, later it was amended by Act No. 17 of 1987 and Act No. 30 of 2006. During April 1987, KVIC completely has undertaken the work of former AID (All India) and Village Industrial Board.

Objectives of KVIC

The main objectives of KVIC are as follows:

- To create employment opportunities for the KVIC employees.
- To manufacture the reasonable and suitable goods.
- To develop independence among the poor individuals with an intention of creating rural economy.

Functions of KVIC

The important functions of KVIC are as follows:

- KVIC is concerned with the planning, promotion, organization and implementation of programs that are designed with a purpose of development of khadi and other village industries. Such industries are engaged in the development of rural areas whereas they have low cost and development.

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2. It helps in creating variety of essential raw material as well as to make proper supply to the producers on time.

3. To develop service facilities for the processing of raw materials, semi-finished goods and provides assistance in marketing of KVIC products. Such processes is concerned with the services engaged in for serving KVIC.

4. Protection and improvement of the sales and marketing of khadi and the products of village industries is basically the promoted, further as few details are suggested above.

5. It also include the encouragement and promotion of research in the production, methodology are compared required which makes us to as to make entrepreneurs to analyze and study the problems related with them.

6. It increases productivity by effectively exploiting the non-conventional source of energy and electric power thereby reducing dependency.

The KVIC offices financial aid to those institutions and individuals which are engaged in the development of their mission and provides guidance through help of designs, prototypes and other technical information.

7. It also makes efforts for setting the quality standard for the products of khadi and village industries to serve customers and to give assurance that the products are of high and superior quality.

8. It is also done by through other agencies, economic studies relating to the problem of khadi and village industries as well as research for developing suitable projects for khadi and village industries development.

3.6 TECHNICAL CONSULTANCY ORGANIZATION (TCO)

Q21. What do you understand by Technical Consultancy Organizations (TCOs)?

Answer :-

Technical Consultancy Organizations (TCOs)

TCI stands for Technical Consultancy Organization. It was started by the All India Financial Institutions (AIFI), IFCI and IDBI at the seventeen and eighteen in collaboration with state level financial and commercial banks to serve the consultancy needs of SMEs and rural entrepreneurs. IDBI was the first one to start TCO in Kankla in 1972. Currently, there are 17 TCO all over India. Out of 17, three under AIFI, 2 under IFCI and 1 under IDBI. All the 17 TCO cater to the needs of small and medium sized enterprises.

LIMITED: Industrial Financial Support

The following are the names TCOs in accordance with concerned institutions:

TCOs in Association to Sponsored Institutions

S.No	IDBI (II)	S.No	IDBI (III)	S.No	IDBI (IV)
1	KITCO, 1972	1	HOMCO, 1977	1	GTOCO, 1978
2	NEITCO, 1972	2	RAJTCO, 1978	2	IFCOC, 1978
3	RETCO, 1978	3	MOTCO, 1979	3	MEETCO, 1980
4	UPTCO, 1978	4	SITCO, 1984		
5	APITCO, 1978	5	HARDCO, 1985		
6	HRITCO, 1986				
7	J&KTCO, 1977				
8	WELCO, 1979				
9	NECIN, 1981				

Objectives of TCOs

The following are the objectives of TCOs:

- To provide and co-ordinate consultancy services of covering all stages of project cycle.
- To provide consultancy to state governments of various states.
- To provide consultancy to state level development.
- To provide consultancy to various financial institutions and banks.
- To focus on project reform priorities.
- To focus on feasibility studies.
- To be diversified into different aspects such as developing entrepreneurial capability, providing training, project implementation, rehabilitation, management consultancy etc.

Activities of TCOs

The basic objective of the TCOs is to make a provision of availability of local services to small scale and medium scale enterprises under a single roof. Besides this, TCOs also provide consultancy services to different state-level development agencies. Some activities of TCOs are as follows:

- Conducting industrial potential surveys.
- Identifying project ideas.
- Formulation of a project.
- Evaluation of a project.
- Preparation of project report and Feasibility Studies.
- Project implementation.
- Conducting area development and marketing surveys.
- Providing assistance to entrepreneurs in understanding, technical upgradation etc.
- Providing assistance to such units those involving diagnostic studies to the actual implementation of rehabilitation scheme.
- Providing technical, management and administrative assistance.
- Conducting EDPS, entrepreneurship awareness camps, SEEDY business assistance and technical studies on entrepreneurship.
- Recognizing the potential entrepreneurs and helping them.
- Providing merchant banking services.
- Conducting market research and surveys.
- Undertaking energy audit and energy conservation programs.
- Project supervision.
- Undertaking expert consultancy.
- Undertaking expert oriented projects.

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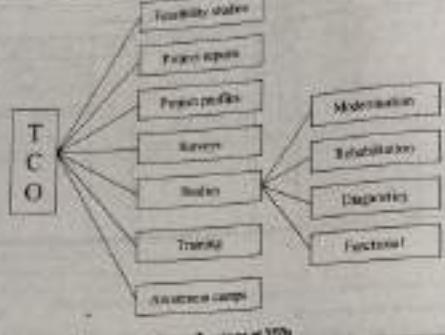
PRINCIPLES OF ENTREPRENEURSHIP (JNTU-HYDERABAD)


Figure: Functions of TCOs

S. No.	Name of TCO	Year of Establishment	Area of Operations	Total no. States/Capital cities in India	
				Fold up States	Laud Sponsored Financial Institutions
1.	Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd. (APITCO)	1975	Andhra Pradesh	10	SPB
2.	Bihar Industrial and Technical Consultancy Organisation Ltd. (BITCO)	1974	Bihar	15	SBI
3.	Gujarat Industrial and Technical Consultancy Organisation Ltd. (GIFTCO)	1975	Gujrat	15	SFC
4.	Gayanachal Industrial Consultancy Ltd. (GARDACON)	1961	Haryana and Delhi	09	SPB
5.	Himachal Consultancy Organisation Ltd. (HCINCO)	1977	Himachal Pradesh	15	SFC
6.	Industrial and Technical Consultancy Organisation of Tamil Nadu Ltd. (ITCTON)	1979	Tamil Nadu	10	SFC
7.	Jammu and Kashmir Industrial and Technical Consultancy Organisation Ltd. (J&KTCCO)	1977	Jammu and Kashmir	15	SPB
8.	Kerala Industrial and Technical Consultancy Organisation Ltd. (KITCHCO)	1972	Kerala	15	SPB

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1.	Maharashtra Financial Consultancy Organisation Ltd. (MFCON)	1970	Maharashtra Projects	15	SPB
10.	Madhya Pradesh Industrial and Technical Consultancy Ltd. (MPTICON)	1972	Madhya Pradesh, Chhattisgarh and Dhar	15	SFC
11.	North-Eastern Industrial and Technical Consultancy Organisation Ltd. (NIEICON)	1973	North-Eastern Region	15	SBI
12.	North-Governor Industrial Consultancy Ltd. (NGICON)	1987	Assam, Manipur, Tripura and Nagaland	15	SBI
13.	North-Eastern Technical Consultancy Organisation Ltd. (NETCON)	1984	Assam and Nagaland	15	SFC
14.	Orissa Industrial and Technical Consultancy Organisation Ltd. (OITCO)	1976	Orissa	15	SBI
15.	Rajasthan Consultancy Organisation Ltd. (RACICO)	1975	Rajasthan	15	SPB
16.	Uttar Pradesh Industrial Consultancy Ltd. (UPICO)	1974	Uttar Pradesh	15	SBI
17.	West Bengal Consultancy Organisation Ltd. (WBCICON)	1979	West Bengal, Bihar, Jharkhand and North Bengal	15	SBI
18.	Technical Consultancy Organisation of Karnataka (TCKSO)	1973	Karnataka	25	Sponsored by Govt. of Karnataka

Table List of Technical Consultancy Department (TCDs)

3.7 NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)

Q27: Write about National Small Industries Corporation (NSIC) and its Functions.

Answer :

Model Paper 4, Q36

National Small Industries Corporation (NSIC)

NSIC stands for National Small Industries Corporation Ltd. The NSIC was established by Government of India in 1955 with the main objective of promoting and developing SMEs in the country. NSIC undertakes several activities like supplying of original and imported machines through purchase and leasing system, marketing of small industry products on commercial basis, export marketing of small industry products, developing export workforce of SMEs, extension of small scale units by taking part in government's promotional programmes, developmental demonstration of industry's prototypes, export policy, supply and distribution of indigenous and imported raw materials, providing training at several technical trades and cooperates with other third world countries in establishing small-scale projects on turn-key basis.

Initially, NSIC had four branch offices at Delhi, Mumbai, Kolkata and Chennai. But in the year 1981, all the four branch offices were merged with the main office and then three branches were formed at Mumbai, Calcutta and Chennai. The branch at Delhi was amalgamated with the main office and is being taken care by an independent Delhi cell.

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Functions of NSIC:

1. It provides the following functions to the SSOs: It provides equipment, raw material purchase and funding systems to SSOs.
2. It enables marketing of SSO's products.
3. It makes a provision for special contribution to the women-entrepreneurs, rural entrepreneurs, weavers, artisans and SSOs based in urban residential areas.
4. It facilitates export of SSOs products and develops export workshop of SSOs.
5. It enables competitive prices and encourages their participation in government procurement programme.
6. It approves the proposals of machine imports, tools and helps in making it available to SSOs for commercial production.
7. It provides technical training to various industries in order to encourage developing technical culture to the young entrepreneurs.
8. It promotes and update latest technology and follows modernization programmes.
9. It helps for and distributes indigenous and advanced craft materials.
10. It encourages diversification and modernisation of SSOs by providing indigenous and imported machinery on lease.
11. It supplies general facilities with the help of prototype development and training centres.
12. It maintains SSOs in third world countries on behalf of India.
13. NSIC has wings in offices in five states in order to boost up the development and activities of State Small Industries Corporations and District Industries Service bureaux.

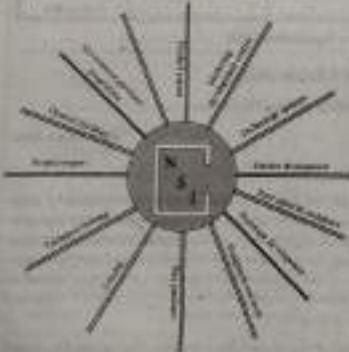


Figure: Functions Provided by NSIC

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The NSIC functions as "targeted approach" to combat to promote entrepreneurship from the scratch to bring about socio-economic development in the country. NSIC provides its support to the SSOs as they lack the availability of physical resources. It supports monetary, manpower and other inputs for the functioning and modernisation of small industries. Thus, it has been an important source in developing new processes, creating a positive industrial base, updating technologies, promoting balanced regional development in rural and urban industries.

3.8 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

Q33: Discuss the role of SIDBI in financing enterprises in India.

Answer: *Micro Project by Small Industries Development Bank of India (SIDBI)*

SIDBI was started by Government of India (GOI) under the Parliament's Act in October 1989 as a wholly owned GOI subsidiary.

The Small Industries Development Bank of India (SIDBI) was basically set up as apex institution for providing financial and non-financial assistance to tiny and small scale industries. It aims at promoting, developing and expansion of industries comprising mostly of small-scale sector. Apart from this, it also coordinates the work of other developmental financial institutions.

Government of India (GOI) in order to provide both direct and indirect financial assistance announced in the Budget of 1989-90 to set up SIDBI as a subsidiary unit of DIL. Hence, the SIDBI Act was passed by the parliament in October 1989. Then the functions of the bank commenced from April 1, 1990.

The objectives of SIDBI are as follows:

1. To take initiative in developing and updating the existing technology and improving the same.
2. To enlarge the network of channels for processing its products of SSI and its link to market and international market.
3. To promote the industries which provide employment opportunities mainly in semi-skilled areas and also develop the strength of people migrating from urban areas to search better jobs in higher order urban and metropolitan areas.
4. To initiate and take up new projects.
5. To improve the infrastructure for Small Scale Industry (SSI) units.
6. To promote the export of products and services.

Capital of SIDBI:

The authorized capital of SIDBI is about 250 crore with an objective to increase it now 1000 crores as mentioned in the act of SIDBI. The institution has also to take over the remaining portfolio of loans which has a value of 4000 crore. This should be undertaken by on 21st March 1996.

UNIT-3: Industrial Financial Support**Question and Assistance Provided by SIDBI**

The bank provides the direct and indirect assistance to the small scale units. SIDBI provided the total amount of assistance in the year 1994-95 of ₹ 4000 crores of which only ₹ 3500 crores was disbursed.

1. Direct Assistance:

SIDBI provides direct assistance to SSI units under project finance scheme, equipment finance scheme, marketing scheme, venture capital scheme, providing leasing facility to SEZCs, SIDCs, SIDIs and the non-seed assistance to institutions involved in the promotion and development of small scale units.

2. Indirect Assistance:

As the bank provides finance under direct schemes, it also extends indirect assistance to small industries by providing funding instruments through SIDCs, SIDIs and other banks. It is long-standing of its schemes that is both direct and indirect through 137 regional offices of SIDBI.

Provision and Developmental Activities of SIDBI:

SIDBI is engaged in promoting tiny and small scale industries with the help of the various promotional and developmental activities like:

1. Agri-based Entrepreneurial Development Programmes (AEDP).
2. Technology-upgradation and modernisation programmes.
3. Micro-credit scheme and Mahila Vikas Yojna to bring economic development of women.
4. Venture capital scheme by providing training and employment opportunities.

Domestic Impact:

The impact of SIDBI on the Indian economy is remarkable. There has been many developments which took place during the last five years in terms of cumulative investment of ₹ 16, 24,348 crores and now employment opportunities of 86 lakh persons. There has been an overall impact on almost of 35 lakh units of leather, glass, readymade garments, plastic development in the overall productivity, quality of product tools and process standards. It aims at new job creation and development in the upcoming future.

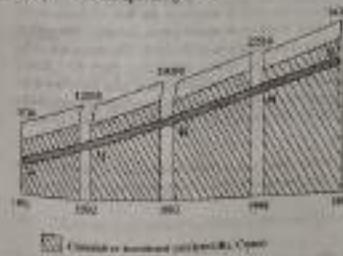


Figure: Economic Impact of SIDBI

Role/Function of Small Industries Development Bank of India (SIDBI):

Q34: Explain briefly about the banks that support Small Scale Industries (SSI). Write the role functions of SIDBI.

Answer:**Banks That Support Small Scale Industries (SSI):**

The following are the banks that support SSI:

1. SIDBI

SIDBI was started by Government of India (GOI) under the Parliament's Act in October 1989 as a wholly owned SIDBI subsidiary.

The Small Industries Development Bank of India (SIDBI) was basically set up as apex institution for providing financial and non-financial assistance to tiny and small scale industries. It aims at promoting, financing and development of industries comprising mostly of small scale sector. Apart from this, it also coordinates the work of other development financial institutions.

Government of India (GOI) in order to provide both direct and indirect financial assistance announced in the Budget of 1989-90 to set up SIDBI as a subsidiary unit of DIL. Hence, the SIDBI Act was passed by the parliament in October 1989. Then the functions of the bank commenced from April 1, 1990.

2. APFI

APFI stands for Andhra Pradesh Financial Corporation. It was set up in the year 1995 to promote various small scale industries in Andhra Pradesh state under the state Financial Corporation Act, 1973. APFI, uses its own capital along with that of Andhra state financial corporation and Andhra state financial corporation on 17 November, 1998. It has launched micro-entrepreneur oriented schemes to offer working capital loans, seed and special capital assistance which meets the requirements of entrepreneurs of financial categories.

APFC helps in infrastructural needs of the state by providing uniform regional disposal and development of resources. It provides seed based assist on various small scale industries and service sector units. It offers support to entrepreneurs and helps in generating employment.

In addition to SIDBI and APFI, various banks that support SSI's are State Financial Corporation (SFC), State Small Industries Development Corporation (SSIDC), National Small Industries Corporation (NSIC) and National Bank for Agriculture and Rural Development (NABARD). The SFCs provide assistance to SSI's in the form of term loans. The SSIDCs and NSICs help in supply of provisions of consultancy services and technical services. They also help in the purchase of machinery or tools. NABARD provides relevant services for rural artisans, cottage and village incomes.

Role/Function of Small Industries Development Bank of India (SIDBI):

The following are the role of functions of Small Industries Development Bank of India (SIDBI):

- It provides financial support to start and function the units run by states or national organizations.
- It provides financial assistance to initiate infrastructure development under scheme of union ministry of small scale industries.
- It decreases and reduces entry壁垒 among local units due to introduction by SSI units.
- It upgrades small scale industries in various other regions by providing new employment opportunities.
- It tackles technical improvements and update existing small scale industries.
- It permits easier register and refund for exports of small scale sectors.
- It provides extensive concessional capital and encouragement of loan by National Bank for Small Units, Micro Finance Banks, SSB, etc.
- The major significant characteristic of SIDBI is its special importance and the new schemes to facilitate marketing activities to the small scale sectors.
- It yields factoring and leasing services.
- The policy focus of support to SFCs, SIDCOs, commercial banks & stock promoting credit distribution system.

Q28. Briefly explain the growth of SIDBI.

Answer :

SIDBI provides development and support services such as loans and grants or various agencies which are working for the promotion and development of SSBs and small industries. The following are the extended activities undertaken by SIDBI in the promotional and developmental areas.

- Entrepreneurship training and industrialization.
- Higher studies development that associates with the needs of the SSI sector.
- Technology upgradation.
- Quality and innovation management.
- Marketing promotion and
- Dissemination of information.

The following schemes supports the entrepreneurial process.

Q29. Micro Credit Scheme

SIDBI established a SIDBI foundation for Micro credit on 27 November 2005, to maximize the door of funds for the people who are in need of finance through Micro Finance Institutions (MFIs). It started its operations in January 1999 with an initial capital of Rs. 1 billion. Below starting its operations, it was functioning as a department of the bank. The main aim of the foundation is to develop a network of strong, feasible and sustainable micro finance institutions. Thus, the informal and formal sources for efficient micro finance services to the poor, especially women. The establishment of this foundation has also provided financial assistance that also increased the management capabilities of the micro finance practitioners and related organizations. SIDBI foundation is given a major position in the country for its efforts of developing capacity assessment model of MFIs.

An agreement has been made between the SIDBI foundation and International Fund for Agricultural Development (IFAD) for developing its capacity (specifically). The foundation has made an action plan that provides finance support and capacity building support to the micro finance institutions.

Q30. Rural Industries Programme

Rural Industries Programme (RIP) was developed in order to offer several facilities such as information, orientation, training and skills supported by relevant technologies and market contacts. Non-governmental organizations, technical consultation, organizations and development professionals facilitate the implementation of the programme.

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FREQUENTLY ASKED QUESTIONS AND IMPORTANT QUESTIONS
SHORT QUESTIONS

Q1. Explain about DFCs.

Answer :

For answer refer Unit-II, Q1.

Important Question

Q2. Explain briefly about State Financial Corporations (SFCs).

Answer :

For answer refer Unit-II, Q2.

Important Question

Q3. Write briefly about KVIC.

Answer :

For answer refer Unit-II, Q3.

Important Question

Q4. What are the Functions of SIDBIC?

Answer :

For answer refer Unit-II, Q4.

Important Question

Q5. What do you understand by SIDBIT?

Answer :

For answer refer Unit-II, Q5.

Important Question

ESSAY QUESTIONS

Q1. What is Directorate of Industries? Explain the objectives and Functions of Directorate of Industries.

Answer :

For answer refer Unit-II, Q10.

Important Question

Q2. Explain the Functions and schemes of District Industries Centre (DIC).

Answer :

For answer refer Unit-II, Q12.

Important Question

Q3. What do you mean by State Financial Corporations (SFCs)? Write about its objectives and Scope.

Answer :

For answer refer Unit-II, Q14.

Important Question

Q8. Explain about SIDCOs and SISI.**Answer:**

For answer refer Unit-II, Q8.

Q10. What do you understand by Technical Consultancy Organizations (TCOs)?**Answer:**

For answer refer Unit-II, Q10.

Q11. Write about National Small Industries Corporation (NSIC) and its Functions.**Answer:**

For answer refer Unit-II, Q11.

Q12. Discuss the role of SIDBI in financing enterprises in India.**Answer:**

For answer refer Unit-II, Q12.

Important Questions

Important Questions

Important Questions

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UNIT 4

Production and Marketing Management



Syllabus

Production and Marketing Management: Thrust Areas of Production Management; Selection of Production Techniques; Plant Utilization and Maintenance; Designing the Work Place; Inventory Control; Material Handling and Quality Control; Marketing Functions; Market Segmentation; Market Research and Channels of Distribution; Sales Promotion and Product Pricing.

LEARNING OBJECTIVES

- ✓ Thrust Areas of Production Management
- ✓ Selection of Production Techniques
- ✓ Plant Utilization and Maintenance
- ✓ Designing the Work Place
- ✓ Concepts of Inventory Control
- ✓ Concepts of Material Handling and Quality Control
- ✓ Various Marketing Functions
- ✓ Concepts of Market Segmentation, Market Research and Channels of Distribution
- ✓ Sales Promotion and Product Pricing

INTRODUCTION

Production management is also known as operation management. Any organization would have three functional areas – Finance, Operations and Marketing. Finance helps the organization to secure money for day-to-day expenses whereas marketing keeps in mind customer's wants, needs and in promoting and selling the product. The third area i.e., operations is responsible for producing the goods or services.

Production is an activity that transforms raw materials into finished products by using processes, machines, men, tools etc. In other words, production is a process dedicated to transform a set of input elements like men, materials, capital and energy into a set of output elements like finished products and services in required quantity and specified quality to achieve the objectives laid down by the organization.

Maintenance management deals with detecting and repairing the malfunctions in an orderly manner for maintaining the availability and performance of essential units to a certain level. It supports production function and maintains the machinery, equipment and plant services in a good operating condition. The activities involved in maintenance management includes maintenance planning, maintenance scheduling, repairing, breakdown and preventive maintenance and control maintenance costs.

Inventory management and control focuses on the development and administration of policies, systems and procedures which will in turn reduce total inventory costs. It covers real functions like customer service requirements, production scheduling, purchasing and traffic. While inventory control refers to the administration of established policies, systems and procedures.

Channels of distribution act as a means for both manufacturers and sellers for distributing their products into the markets and to the final consumers. Thus, channels are therefore required for moving the goods from producers to customers with the help of exchange process by considering the price determinants.

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PART-A SHORT QUESTIONS WITH SOLUTIONS**Q1. Define the term production.****Answer :****Definition of Production****Production**

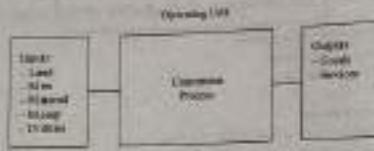
"An organized activity of transforming physical inputs (resources) into outputs (finished products) which will satisfy the product's needs of the society."

— James Rouse and J. R. Parkinson

"Any activity, whether physical or mental, which is directed to the satisfaction of other people's wants through exchange."

— C.M. Rick

Production is an activity that transforms raw materials into finished products by using processes, tools, resources, materials, capital and energy into other words production is a process adopted to manufacture a set of input elements like men, materials, capital and energy into a set of output elements like finished products and services in required quantity and specified quality to achieve the objectives set down by the organization.

**Figure Production Function As a Manufacturing System****Q2. Write any three marketing functions.****Answer :**

The three marketing functions are as follows,

1. Marketing Functions

The various activities which come under the category of marketing functions are,

- Purchasing Activity
- Assembling Activity
- Selling Activity

2. Distribution Functions

Transportation, storage and warehousing activities come into the category of distribution functions.

3. Supporting Functions

Supporting functions support the marketing activities of the company. Standardization, pricing, financing, sales promotion, market information, advertising, risk bearing and research come under supporting functions of marketing.

Q3. What are the different production techniques?**Answer :**

The different production techniques methods are,

1. Job Order Production

Job order production involves the performance of various small jobs. Here, every job is different from the other in respect of nature, cost, consumption of raw materials. Hence, production design could consume a lot of time and money. This method may also involve special machinery and skilled labour.

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Model Paper A, Q1

Model Paper A, Q2

PART-A Production and Marketing Management**Batch Production**

In this type of production, two or more types of products are manufactured in lots i.e., produced at regular intervals. Different products are manufactured and released and then sold in groups of orders. This is generally adopted in pharmaceuticals, groceries.

Mass Production

In this type of production, two or more types of products are produced in continuous stages from raw materials to process. There is no intermediate assembly flow of materials. Output of one operation becomes the input for the subsequent operations. This type of production is followed where bulk production is required.

Q4. What do you mean by maintenance management?**Answer :**

Maintenance is defined as a production management function which deals with the economic problems of maintaining the physical plant in a good working condition. It is one of the important activities of every manufacturing firm as it is very important to make sure that the machines, buildings and services required by other organizations and parts for performing their activities are available.

Maintenance management deals with designing and organizing the measures to an orderly manner for administering the availability and performance of industrial assets on a certain level. It supports production function and maintains the machinery, equipment and plant services on a good operating condition. The activities involved in maintenance management include macroscopic planning, maintenance scheduling, repairing, breakdown and preventive maintenance and corrective maintenance etc.

Q5. Designing the work place.**Answer :**

Work place design organizational designs the process of arranging the transport, visual and cognitive different elements and parts of the organizational structure and culture for adding the goals.

There may be several considerations, as it is not possible to design a specific design for each and every situation. These are certain factors must be considered for designing the organizational structure.

- Nature of an organization
- Technology advances
- Location of business resources in an organization.

Q6. Distinguish between inspection and quality control.**Answer :**

The differences between inspection and quality control are as follows.

No	Basis	Inspection	Quality Control
1.	Monitoring	Inspection is defined as the process of checking the presence of defective items in each stage of production and eliminating the defective process from production.	It is defined as a process of integrating the three aspects of quality such as quality development, implementation and improvement in order to facilitate economical production and high levels of customer satisfaction.
2.	Responsibility	The inspection strategy is the duty responsible person for the inspection.	In quality control, each and every employee of the firm is responsible for monitoring and enhancing the quality of products and services.
3.	Determination	Inspection is associated with the quality of post production i.e., it determines whether the produced products achieved the predetermined specifications or not.	Quality control is an effective system that is associated with the entire production i.e., it determines the means for the production of defectives and recommends proper action to avoid them in future production.
4.	Tools	The tools that are used for inspection include precision tools such as flaw detector.	The tools used for quality control are statistical tools, multi control charts.

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Q10. What are the advantages of inventory?

Answer 1 *(See also Q10, previous page)*

- 1. It helps the organization to have a smooth and efficient working of enterprise.
- 2. It helps in reducing the operating costs in different phases of the organization and brings more income than normal.
- 3. It is very much important for the organization to maintain sufficient amount of inventory, as it helps in meeting the strategic changes in demand and supply.
- 4. It provides advantages of price fluctuations, saving in marketing costs, quantity discounts etc.
- 5. It provides protection to the firm from all unexpected events and also help in avoiding stock risks at minimum cost.
- 6. It helps organization in carrying out the stages of production process continuously and efficiently.
- 7. It increases the sales and improves the customer service.

Q11. What is Material Handling?

Answer 1 *(See also Q11, previous page)*

Material handling involves all those activities that are responsible for the efficient movement of goods, either within a plant or a warehouse or between a plant and a transportation agency.

Material handling is defined as the manual or mechanical movement of the materials between various work stations in a plant, within individual or in batches with the help of various Material Handling Devices (MHDs).

In large scale industries, material handling activity is very critical for the operation of the plant. Thus, a separate material handling department is established to work independently with its own plans and programmes.

Q12. Define Quality Control.

Answer 1 According to ISO (9002), "Quality control is defined as the operational techniques and activities that are used to fulfill quality requirements".

To define quality, consumer argument and systematic actions necessary to provide adequate confidence that a product or service will satisfy the given quality requirements.

In quality control a sequence of inspection and tests are carried out, in order to assure, whether the produced quality is manufactured or not. Quality control will select a random sample of units to make sure that their performance is the required items is within the acceptable limits.

Q13. Write a note on market segmentation.

Answer 1 *(See also Q13, previous page)*

According to Philip Kotler, "Market segmentation is the process of dividing a market into distinct subgroups of consumers with similar needs, characteristics or behaviour, who will require

similar products or marketing mixes". The resulting business segments, which are submarkets, represent the market and their profiles for market segments that have emerged.

Segmentation is the process in which groups of individuals or organizations that play an important role in determining the marketing strategy are identified. There are numerous different markets are classified into smaller and similar submarkets. The main purpose of identifying groups of customers with similar requirements, is to serve them effectively. It acts as the basis through which the manufacturer can develop new products and develop strategies to serve his customers better than the competitors.

Q14. Briefly write a note on "market research".

Answer 1 *(See also Q14, previous page)*

Marketing research is a process which has to do with the gathering, processing, analysis, storage and disseminating of information to facilitate and improve decision-making.

Robert J. Buzzell, Jr.

"Marketing research is a branch of marketing which gives birth to, that condenses specific inquiries into problems, in order to guide decisions."

David Laut and J. Hale

Q15. Define Sales Promotion.

Answer 1 *(See also Q15, previous page)*

"In a specific sense, sales promotion includes those sales activities that supplement both promotional selling and advertising and coordinate them and help to make them effective, such as displays, shows, and exhibitions, demonstrations and other associations with buyers, not in the ordinary course of business."

—American Marketing Association

Sales promotion comprises the range of techniques used to attain predetermined objectives in a cost effective manner by adding value to a product or service either to its attractiveness or end users normally but not exclusively within a short time period?"

— Institute of Sales Professionals, ICP

"Sales promotion, a key ingredient in marketing campaigns, consists of a diverse collection of incentive tools, mainly short-term designed to stimulate greater or greater purchase of particular products or services by consumers or the trade".

— Philip Kotler

Q16. What do you mean by Product Pricing?

Answer 1 Price is the monetary value of the product and it is paid by the customer in exchange for a product or service. Pricing is an important function for a business, while determining the price of the product various factors such as demand and supply of the product, nature of competition, pricing objectives, character of distribution and profitability are taken into consideration. Pricing of a product appropriately, gains customer satisfaction and achieves market acceptability. A clear market analysis and market cost has to be taken while pricing the product. Pricing the product very low or very high is not advisable. The profit for the product must be reasonable and satisfactory to both producer and consumer.

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PART-B ESSAY QUESTIONS WITH SOLUTIONS

4.1 THRUST AREAS OF PRODUCTION MANAGEMENT

Q1. Define Production Management. Explain the process of evolution of production management as operations management.

Answer 1 *(See also Q1, previous page)*

According to the U.S. Department of Education, "Production management is the field concerned with managing and directing the physical and technical facilities of a firm or organization effectively those relating to development, production and manufacturing".

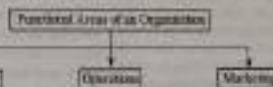
From the above definition, one can understand that:

Operations management studies the process, planning, directing, organizing and operations of production systems to create the desired goods.

- It is a wider term and includes all sub-processes and sub-systems which assist in production of goods and services.
- It is not necessary to get the title of operations manager. Every general manager, works by analysis, some managers can be performing operations management task as all their services assist in producing the goods or services.

Production management or operations management can be defined as, "the branch of management that studies all the processes and systems that are undertaken for converting inputs into value added outputs".

Production management is also known as operations management. Any organization would have three functional areas: Finance, Operations and Marketing. Finance helps the organization to earn money for day to day expenses whereas marketing helps in finding customer's wants, needs and in promoting and selling the product. The third area i.e., operations is responsible for producing the goods or services. Let it be anything you can, for example, books, pens, vehicles, vehicles, or any service related, service of doctor, lawyer, teacher and the like, all these goods and services need to be produced. So the responsibility of operations management is to produce all these goods or services.



Evolution of Production and Operations Management

The history of production management is very much old but has passed through the various stages in much as present position. Its roots have originated from the concept of "division of labour", which was proposed by Adam Smith in 1776.

Major developments that took place in production and operations management can be tracked under the following headings.

Changes that took place over time:

Time	18-19 th C	1960-1970	1970-1980
Mass	Manufacturing management	Productivity management	Operations management or POM

1. Before Industrial Revolution

Due to the occurrence of industrial revolution, goods were produced by highly skilled labour who were producing goods as per customer specifications. This were produced with the following limitations:

- The production process was slow as it was dependent on the skills of labour.
- Replacement of failed parts was costly.
- Lack of economies of scale.

2. Industrial Revolution

The emergence of industrial revolution has brought a drastic change in the field of production. Before reaching the labour workers with machine power, the more remarkable development took place when steam engine was developed by James Watt. It supplied power to operate various machines in factory/industries. From then 400 years, all production took place in cottage industries. Due to industrial revolution, industrial output has increased much because of more inventions in those periods. For instance, in England traditional wooden handloom were replaced by spinning machines. This led to the shift production to grow rapidly, because of which England has started exporting raw cotton from India and was exporting manufactured garments to India.

Inspired of all these major changes, that were taking place among war, politics, management theory and practice were not analogous, many propagators which had the foundation for the condition of scientific management.

3. Scientific Management

During this period, prominent researchers like Charles Babbage, F.W. Taylor and others, have contributed a lot for bringing a successive or revolutionary changes in the field of production by making use of scientific tools and techniques.

In the mid 1900s, Frederick W. Taylor proposed the various concepts of scientific management. According to him a best method of performing a job could be through observation, measurement and analysis. The scientist's theory of management states that it is a duty of every worker to improve productivity and the best method of doing so is by analysing the manner in which the work has to be done and also the actions that has to be performed correctly. By a single worker, function, he added that supervisor should be responsible for designing pay rate system for employee, providing training and infrastructure facilities to efficiently achieve their tasks and also for delegating different jobs based on their skills.

In addition to F.W. Taylor, there were different persons who have pursued their own contributions towards this movement. Some of them include:

(i) Frank Gilbreth, who had laid the foundation of motion study, had proposed a principle of motion economy whose application to small portion of task normally cause productivity improvement.

(ii) Henry Ford developed "Gantt Charts", used for production scheduling. He had also organised various monetary rewards that could be used to motivate workers.

Henry Gantt applied principles of scientific management, proposed by F.W. Taylor, in organisation structure for improving their efficiency.

Henry Ford, employed Taylor's principles in his manufacturing factories.

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4. The Human Relation Movement

Experiments by Elton Mayo revealed that social issues, but mostly influenced workers' productivity. Management theories, were developed by Mayo, Herzberg, Maslow and others based on the famous theory X and theory Y. These three concepts, cover the social and emotional aspects of the workers. Were attained significant importance.

5. Computer Age (1970s)

After World War-II Organisation structure were becoming complex and with the advent of industrial revolution, new management systems got replaced by managers, organisational structure required the existence of computers and capabilities. This further led to the development of digital computers. Today, most organisations are using management techniques which are integrated with computers to enhance the quality and quantity of production.

6. The Japanese Production System

The Japanese dominated many industries globally from 1980s based on their three principles,

- (i) Quality comes first.
- (ii) Continuously improve the product and process.
- (iii) Eliminate waste expenditure.

They also introduced many innovative management techniques like, "Total Quality Management" and others.

Q5. Explain the nature and scope of Production and Operations Management (POM).

Answer :

Nature of Production and Operations Management (POM)

Effective operations management is necessary to satisfy the demands of customers and for working has quality goods and services with the help of efficient and effective skilled personnel. It also helps in maintaining the smooth and efficient operations for obtaining profit returns on investment. The major activities which are involved in the operations of operations management are as follows,

Evaluating customer's satisfaction by understanding their wants and expectations and utilising this data in developing or improving the products and services which in turn supports the long-term strategy of the company.

In order to make effective decisions, the information about the customers, products and services, members, suppliers, employees, costs and finances are utilized.

For responding promptly, quickly and easily to the changing customer needs and expectation, advanced technology is used for designing products, services, manufacturing and service delivery processes, which in turn results in high productivity and profits.

Ensuring the quality in goods, services and processes necessary for minimising the defects, costs and wastes for better responsiveness and business performance.

UNIT-4: Production and Managing Management

Building good will environment by improving the skills of employees and motivating them for involving the education, training, rewards, recognition, promotion, empowerment and other HR practices.

Continuously putting know ledge from its workers, competition, customers and functioning the firm in the global as well as environmental changes.

Making sure that the flow of materials and the related operational activities are coordinated across functional, organisational and functional integration i.e., from supplier to customers.

Thus, the main purpose of operations management is to provide quality products to the customers by continuously improving the performance and costs in a firm operation.

Scope of Production and Operation Management (POM)

Scope means the field or area of respect. The scope of POM is very wide in nature. This is clear from the following key activities i.e., either big or small, product based or service based, to service usually depends on the availability of 46 product good/service. The challenges faced by the operations manager are almost same in every organization. For example, operational function of an airline company would include forecasting, worker, demand and growth, capacity planning, managing inventory, aircraft maintenance facilities. The services may be spread over many countries. Taking care of all these is the job of the operations manager.

The main aim of operations management is to increase the customer satisfaction at the least cost. As such its scope includes long-term strategic decisions and short-term planning.

Scope of Production and Operation Management

Long-Term Decisions	Short-Term Decisions
Product design and selection	Production planning
Process design and selection	Production control
Facility location	Inventory control
New plant design	Quality control
Capacity planning	Management and implementation

Figure 1 Scope of production and Operation Management

1. Long-term Decisions

The scope of operations management involves the long term decisions which are as follows:

2. Product Design and Selection

Selecting the right kind of product mix will directly influence its sale ability in the market. The product design gives the product the competitive advantage in the market. For instance, there exists a wide variety of laptops in the market, each with a different aesthetic design. The design of the product either makes us competitive or non-competitive.

3. Process Design and Selection

This involves, the decisions about the technology, machinery and equipment to be used for production. Each process stage must be planned in detail. Today, more successful organizations are implementing the whole and complete value chain logic in place to make it efficient the production.

4. Facility Location

Facility location is a very critical decision as it involves huge investments and a wrong decision about the location would be very disastrous and will directly affect the production and distribution cost. For example, the Nano Car facility was shifted from West Bengal to Gujarat after conducting the feasibility study.

5. Plant Layout Design

This deals with setting up of machines, storage facilities etc., in such a manner that the raw material moves smoothly from one process to another, without any耽擱 or wastage of time. Many computer aided plant design software are available in the market. For example, Draft, Cad, Capa, Lapp.

6. Capacity Planning

Capacity planning involves the important decisions about how to make the optimum utilization of the resources. Planning must be conducted effectively so that no resources are machine, labour, raw material are under utilized. A machine with a working capacity of 10 hours per day can be used for 10 hours per day. It must neither be used for 8 hours or 12 hours. Tools like Linear programming, break even analysis and decision tree helps the operations manager in making the capacity planning.

7. Short-term Decisions

The scope of operations management involves short-term decision which are to be taken by the operations manager.

1. Production Planning

The main aim of production planning is to make optimum use of resources of production. It also helps the operations manager to forecast and eliminate problems before they materialize. For instance, the manager may order the raw spare parts, keeping in mind that the machine is very old and may break down.

2. Production Control

Control is tool that helps the manager check the actual results with the pre-determined standards. Deviations, if any, are corrected immediately. Production planning and control are popularly known as PPC.

3. Inventory Control

Inventory control is concerned directly related to production function. The operations manager closely monitors the level of raw material being processed, work in progress, finished goods, stores supply etc. For purchasing raw material, the operations manager considers the five 'R's: Right time, Right quantity, Right quality, Right price, Right source.

4. Quality control

A good quality control system checks and monitors the quality of the final product. Many organizations have separate quality control unit who conduct the inspection of goods for any defects. Only after these checks, goods are sent for distribution.

5. Maintenance and Repairs

Maintenance of the plant and machinery is very crucial in an organization. The operating manager takes care of the resources, tools and equipments on regular basis and keeps it in order to avoid the break-down. Once the machine's life time is over it is usually sold and replaced.

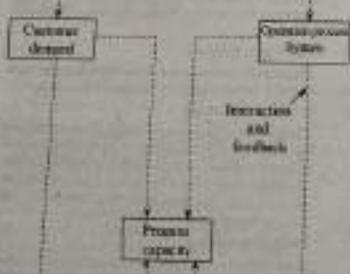
At the short term a cost of the operation can increase due to controlling the resources and tools. So it is better to maintain the resources and tools.

Q16. What are the different elements of production management?**Answer :**

The key elements of production management are as follows,

1. Customer demand
2. Operating resource process
3. Process capacity

An interrelationship exists between these three elements of Operation Management (OM), which is depicted in the figure given below.



Note: Interrelationship between the Elements of production Management

1. Customer Demand

The organization in general have two kinds of customers i.e. internal customers and external customers. The organization holds the requirements of some market segments which can be the local market or the foreign market or both. The local market is the market which operates within the country and the foreign

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UNIT-4: Production and Manufacturing Management

The operation manager should design the structure of operations system as per the requirements of the customer. The resources of these markets are widely distributed so the located portions of the company. Operational managers should plan and structure its operations in an efficient manner to satisfy the customer's demand.

Process Capacity

Process capacity refers to the ability of manufacturing the products and services effectively and efficiently per unit time. It is impossible to increase the total output from the total capacity of the business. For example, one cement plant are installed in series as traditional type of 50 kg capacity and the second cement plant delivered in series in different modes of packaging. Thus, the second cement plant is considered as five bags having a capacity when compared to the capabilities of the first cement plant as it satisfies the requirements through different modes of packaging. Therefore, consumers would like to take the second cement plant for fulfilling their requirements & it is intended to deliver same through different modes such as, 5 kg to 50 kg to 100 kg bags.

The different types of facilities required from the department of plant and machinery, with flow and storage & work space, the firm's capacity will either be used more efficiently, effectively and conveniently. This, in essence is the capability of the business as a whole.

Q17. State the functions of production and operations manager.**OR****What are the various functions of production management?****Answer :**

An organization performs several functions, whereas the production and operations management oversees the delivery of all the functions for obtaining the objectives of the organization. These functions are as follows,

1. Planning

Planning is an important organizational function as all the other aspects in the production process are decided from the project. Effective planning should be done for the smooth functioning of the firm. Planning formulates a set of actions for transforming the raw materials into finished products. It is the responsibility of the operations manager at this place to determine the requirement of resources. Planning helps to determine what quantity of such resource is required, when it is required, and how the process of conversion is for the resources. Thus, the conversion process is developed as a suitable manner for providing the maximum availability of resources and maintaining the utilization of these resources by reducing the losses.

Strategic and systematic planning helps in the effective management of resources by taking strategic decisions under the circumstances.

2. Design and Engineering

Design and engineering involves product design and process design which is the essence of all the other functions of operations management. It makes use of different options for producing the best product. For example, production of certain projects different raw materials such as marble, wood, gypsum, sand, clay and limestone. The proportion of these raw materials changes with the usage of alternatives, such as hydroponics or other materials. Thus, a combination of each plant is required for making a cement. All the products of cement because using sand as fuel i.e., fly ash is useful for producing fly-ash cement.

The functions of design and engineering plays an important role in obtaining different advantage from the initial phase of proposed for a product or service to the final stage of production (passing through different stages). For example, one producer designs different products operations in the industry. Substituting the operations, sometimes prioritize, performs trial runs and refines or filters the operations before starting the final production process.

3. Production

Production function of operations management mainly deals with the production of goods and services which are manufactured and developed by design and engineering departments. Production function organizes all the resources in the right sequence, at the right time and at the best quality. Manufacturing and costing are the main elements of production function. Production function tries to offer continuous interaction through effective and efficient utilization of resources, by producing good quality products at reasonable price and by delivering the goods at the right time to the customers.

4. Maintenance

The maintenance of plant and machinery is an important function which helps the plant and machinery to operate efficiently without any disturbance and disruption. If the maintenance occurs commonly in the process of production due to the failure of machinery and tools, then it may result in different problems like loss of production hours, affects the quality of products adversely and increase product rejections. Various types of maintenance are adopted to maintain assets such as breakdown maintenance, preventive maintenance, predictive maintenance etc. Predictive maintenance must be prioritized and must be kept at the minimum level. A balance should be maintained between the production resistance and preventive maintenance for achieving effective results.

5. Procurement of Raw Materials

Procurement of raw materials deals with the purchasing activities and is engaged in determining proper strategies for purchasing different types of materials like raw materials, consumables, spare parts, etc. Determining the exact nature of supply, purchasing exact quantity, appropriate quality at appropriate time and at reasonable price are the main components of procurement function. the source of supply must be stable and reliable and must be available for a long-term period.

specifications. Purchase and operations management are inter-connected with each other. Thus, purchasing department plays vital role in procurement of materials by ensuring the materials at proper time, acquiring the technical knowledge and skills from the supplier and minimizing the total manufacturing cost.

4. Logistics Management

A manufacturing firm buys the raw materials from the suppliers and sells the final product or services to its ultimate customers. The relationship between the supplier and the manufacturing firm or the customer is called as supply chain or value-supply-chain-the materials to other manufacturing unit which is turns with the product to another [as customer]. All these elements deal with the transportation of materials from suppliers to business concern, storage of these materials in the warehouse, conversion of these materials into final product, storage of final product and finally transporting these products to the ultimate customers. Thus, the activity dealing with the transportation of materials and storage is called as logistics management.

Thus, logistics management connects the supplier, manufacturing unit and the customers altogether. It is also concerned with the formulation and implementation of plans for having control over the performance and attaining efficient operations at minimum cost.

5. Human Resource Management

Human resource management is the major function in any organization. Adapting advanced technology, utilizing the best plants and machineries, new parts, oils and lubricants, accessories and raw materials will be of no use without having efficient manpower resources. The organizations face different problems regarding human resources such as recruited employees, excessive employees, shortage of qualified and skilled personnel, undue different levels of operators. The operations manager should decide the number of employees to be assigned in each and every activity and should select the employee depending upon the organizational requirements. Providing training and developing qualification in the employee for performing effectively results in the organizational efficiency and productivity.

6. Finance

Financial resources of an organization is derived from the sale of products and loans from financial institutions like banks, institutional funds, individual and corporate stock holders. The utilization of these resources appropriately exists in the main concern for the top management. Finance managers play a crucial role in arriving the appropriate funds for enabling the firm to attain its commitment to the suppliers and customers for the supply of raw materials. The sales or the payments reduce the credit worthiness of the firm and the supplier may not agree to the terms of credit payment. In the same manner, the organization must decide on how the available funds can be invested? Which bank to invest? At what interest rate? Interest? Who to invest? And how much to invest? Finance manager comes in the identification and distribution of the resources for different activities as per the requirements of the organization.

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5. Accounting

Accounting is treated as the backbone of the financial system of any organization as it maintains a record of all the statements of financial transactions such as purchase details, sales, expenses to suppliers and contractors, salary computations and disbursements, inventory value, value added and numerous aspects of the company and so on. It also keeps the record of costing details of each item produced and gives information to the departments in making purchase decisions, cost reduction and performance of different cost centres for controlling the spending of the financial resources. The information provided is accounting concept serves as a basis to prepare profit and loss statement making it different levels in the firm. It also helps in computing the actual costs of employees, departments and firm and the classification of employees, departments and firm. Decision-making is impossible in the absence of accounting functions.

6. Marketing

Marketing department basically keeps on connecting the company and its customers. It presents the company as well as its products and helps in making the customers aware about the strengths of the product as well as its organization. It helps the organization to observe the policies, procedures, practices for producing a product at reasonable/affordable price and improving the quality of a product.

The important function of marketing is advertising and developing market strategies for attracting the customer to introducing new products and making trials for new products. The function of marketing function is to gather exact data about the market situation and the present and future demand for the products. Every activity of operations management depends on the marketing projections and predictions made by plant manager, production plan, procurement plan and financial planning. Thus, marketing enables the operations manager to determine the requirements of present and future customers with the help of information collected and analyzed which in turn decides the future of the company.

4.2 SELECTION OF PRODUCTION TECHNIQUES

Q18. Define production. What are the different techniques/methods of production? Explain each technique/method with their respective characteristics.

Answer :

Definition of Production

"An organized activity of transforming physical inputs (raw material) into outputs (the final products which will meet the needs of the society)".

- James Burns and J.R. Parkinson

"Any activity whether physical or mental which is directed to the satisfaction of other people's wants through exchange".

- J.K. Dalkin

LIMIT-4: Production and Marketing Management

Production is an activity that transforms raw materials into finished products by using processes, machines, tools, techniques and input elements like man, materials, capital and energy into a set of output elements like finished products and services in required quantity and specified quality to achieve the objectives laid down by the organization.

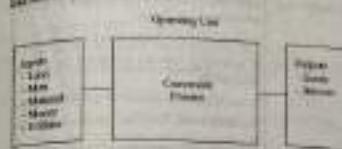


Figure: Production Function in a Manufacturing Concern

Techniques/Methods of Production

The techniques/methods of production are as follows,

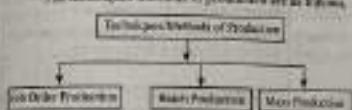


Figure: Techniques/Methods of production

1. Job Order Production

Job-order production involves the performance of various small jobs. Here, every job is different from the other in terms of size, cost, consumption of raw materials. Hence, production does not consume a lot of time and money. This method may also involve special machinery and skilled labour.

Characteristics of Job Order Production

Following are the characteristics of job or order production.

- It produces a variety of jobs or small batches.
- It utilizes general purpose equipment which can be utilized with special tools, fixtures and few different jobs can be made with the same basic machinery.
- The material in-process follows different processing stations as batches through the shop facilities.
- The work does not flow in fixed sequence i.e., job usually follows factory flow at 1 → 2 → 3 → 4 → 5 → etc.
- It is concerned with making order. Normally, job always operate within a field and we do not have item wise operation.
- It requires highly skilled workers.
- It cannot be employed otherwise.
- It has a flexible layout.

2. Batch Production

In this type of production, two or more types of products are manufactured in lots i.e., batches of similar items. Different products are manufactured and dissolved and then sold on request of orders. The similarity approach is preferred in batch production.

Characteristics of Batch Production

- (a) Articles are manufactured in batches as per the specific order placed.
- (b) Duration of labour is variable.
- (c) Flow of materials is intermittent.
- (d) Plant layout is a process type.
- (e) Standardization of processes and standardization of required handling can be adopted.
- (f) Proper maintenance of machinery and equipments is essential.
- (g) Process and product planning is done for each batch.
- (h) Expeditious and corrective actions are very necessary.
- (i) A good production control system must be developed.

3. Mass Production

In this type of production, mass exposures are produced in continuous stages from process to process. There is a continuous and steady flow of materials. Capital intensive investment is the input for the continuous exposure. This type of production is preferred when high production is required.

Characteristics of Mass Production

- (a) There is a scope for considerable division of labour.
- (b) Machinery is used as per the sequence of production.
- (c) Material handling is less reduced to minimum.
- (d) The flow of work is balanced.
- (e) Very little time is consumed in moving of machines.
- (f) WIP (Work-in-Progress) is small as compared to intermittent methods.
- (g) Procedures (standardized) tools and material handling need proper attention.
- (h) Plant layout and facilities are designed based on production capabilities.

Q19. Differentiate between

- Job Order Production and Batch Production System.
- Job Production and Flow Production.

Answer :

- Job Order Production and Batch Production System: The differences between job order production and batch production systems are as follows:

S.No.	Basis	Job Order Production	Batch Production
		Special purpose machines are required depending on whether the factory is engaged in light or heavy engineering.	Special purpose machines are required depending on whether the factory is engaged in light or heavy engineering.
1.	Type of Machines	Single machines will be required.	Different machines to be grouped.
2.	Cost and Time	Cost will be incurred to make products will be high.	Operations time and total time to make products will be longer.
3.	Work in Progress	Work in progress will be high.	Work in progress is similar to job production.
4.	Handling Equipment	It requires standard material handling equipment.	It requires special purpose handling equipment.
5.	Supervision	Supervision is required in supervision.	Supervision is required in supervision.
6.	Example	Ship building, tool engineering etc.	Electrical units, Factories, pharmaceuticals etc.

Q20. What is plant production and flow production?

The differences between these production and flow production are as follows:

S.No.	Basis	Mass Production	Flow Production
		Specialized machines are required.	Standard machines are required.
1.	Type of Machine	All machines and processes will be arranged according to specific sequence of unit product.	The entire factory will be designed like one huge machine to produce a specific product.
2.	Design	Common flow takes place.	Continuous flow takes place.
3.	Time	Cost of production is related to turnover will be less.	Cost of product will be very small.
4.	Cost of Production	Work in progress is less.	Work in progress is more.
5.	Work in Progress	Theoretically, there will be no work in progress between operation stages.	Between stages, there will be no work in progress.
6.	Handling Equipment	Expensive specialized handling equipments are required.	Materials handling and processing will be completely integrated.
7.	Example	Ford, cigarette, TVs etc.	Chemicals, petroleum products etc.

4.3 PLANT UTILIZATION AND MAINTENANCE

Q20. What is plant utilization or maintenance management? Explain its scope and objectives.

Answer :

Plant Utilization or Maintenance Management

Maintenance is defined as a production management function which deals with the routine problems so as to maintain the physical plant in a good working condition. It is one of the important activities of every manufacturing firm as it is very much essential to make sure that the machine, tooling and services required by other organizational parts for performing their functions are available.

Maintenance management deals with developing and expediting the resources in an orderly manner for achieving the availability and performance of industrial units to a certain level. It supports production function and maintains the reliability, equipment and plant services in a good operating condition. The activities involved in maintenance management include: maintenance planning, preventive scheduling, repair, breakdown and preventive maintenance and costed maintenance costs.

Scope of Plant Utilization or Maintenance Management

It is very essential for all the manufacturing organizations to manage maintenance of machinery breakdown, parts wear and tear, tooling down times after a particular period of time. Provisions and attention must be given to all the factory structures such as buildings, walkways, equipments, tools, cranes, lifts and fixtures, waste disposal systems, air conditioning equipments etc.

The scope of maintenance management includes two types of functions as follows:

1. Primary Functions

- (i) The primary function of maintenance are:
- (ii) To maintain existing plant and equipments.
- (iii) To avoid new equipments and buildings.

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Q21. Production and Marketing Management

To maintain existing plant buildings and areas.

- (iv) To provide existing equipments and buildings.
- (v) To inspect equipment and fabrics.
- (vi) To generate and distribute energy.

Secondary Functions

The auxiliary functions of maintenance are:

- (vii) To keep the track of spare parts.
- (viii) To protect the plant (including hot protection).
- (ix) To prevent unnecessary equipment failure.
- (x) To maintain property accounting.
- (xi) To provide judicial services for maintaining services.
- (xii) To reduce pollution and control noise.
- (xiii) To dispose off the waste.
- (xiv) To provide other other service related to maintenance and management.

To save the firms from being loss or damaged.

Objectives of Plant Utilization or Maintenance Management

The maintenance management has the following objectives:

- 1. To reduce the loss of production time due to equipment failure.
- 2. To reduce the repair time and repair cost.
- 3. To effectively utilize maintenance personnel and equipments.
- 4. To enhance the quality of products and to bring improvement of productivity.
- 5. To reduce the losses incurred due to stoppage of production.
- 6. To reduce the frequency of accidents by regularly carrying out the inspection and repair of the safety devices.
- 7. To maintain all productive assets in a good operating condition.
- 8. To extend the life of capital assets by improving their handling mechanisms.
- 9. To reduce the total maintenance cost which is collection of cost of repair, cost of preventive maintenance and inventory carrying costs.

Q21. Write the significance of maintenance management. What is the impact of poor maintenance on the organization?

Answer :

Maintenance is one of the key function of production and operations management in all the production centers. It includes all those activities which are needed for maintaining physical facilities and equipments in good operating condition.

Significance of Maintenance Management

The following points help us to know the significance of maintenance management in production and operations management:

The performance of the company depends on it to the extent it is perceived by the customer. A firm can provide better customer service and can always communicate about their product as result of low efficient maintenance which depends on the quality of the maintenance of assets. To ensure efficiency and effectiveness of the organization, it should be kept in mind that maintenance and inspection of assets and facilities.

Maintenance plays a very important role in quality assurance. It acts as a barrier for maintaining a consistent advantage over the rivals. The maintenance of the equipments results in consistency in product. Maintenance which leads to the production of different parts that don't match with each other gives customers lower value regarding the products. It is also very essential to maintain maintenance which operates within the organization to maintain a high-quality product in production.

The manufacturing organizations want to maintain and reduce production cost every day due to increasing demand and do not provides potential or the time of changing equipment failure. In addition to the cost of equipment failure, the better and less cost caused due to breakdowns, irregularities also face the danger of losing their market share permanently as it will damage the reputation. Such types of performance can be avoided with the help of maintenance & repair.

A effective maintenance manager gives a major importance role in reducing the cost of the company with increase in production. The companies want to have maximum equipments instead of manual labor. For this purpose, they have to depend on the equipments which produce a greater percentage of their output. The equipments must operate continuously within the specifications. With continuous functioning, works and functions, the cost of downtime will be high.

The companies which satisfies all the above factors very high amount of success accomplish. In such type of companies, the failure of equipment causes severe damage to business. So the maintenance function is very important and necessary for increasing production and quality.

Impact of Poor Maintenance

Maintenance operation consists of all the activities which help in maintaining production facilities and equipments in a good working condition. Poor maintenance of machines and equipments have a direct impact on the following:

1. Production Capacity

The machines which are operating due to breakdown will not be able to produce as much as it can support the capacity of production system.

2. Production Costs

Labor costs per unit expenses of the labor does not work due to machine breakdown. The machine and functions leading to stop increases the cost. When production costs goes up, the maintenance cost is increasing as well. In order to maintain the facilities, repair costs, maintenance and labour expenses, labor costs and utility bills also increase due to frequent breakdown of machines.

3. Product and Service Quality

An effective maintenance of equipments results in the production of low quality products. The equipments which are not adequately maintained have regular breakdowns and will not be able to provide satisfactory services to customers.

4. Employee or Customer Safety

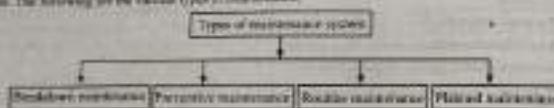
The equipments which are used for longer time will fail at any time and can harm the workers who are working on those equipments. The problems like fire, water-leak and ammonia have to be solved regularly as it can breakdown anytime and can harm the users.

5. Satisfying the Customers

If the equipments used in production breakdowns then it is not possible to produce the products as per the customer's production schedule because of stoppage of work. This occurs results in providing late delivery of products to customers.

Q22. Explain different types of maintenance systems.**Answer :**

Maintenance management mainly deals with the update and safeguard of machinery, building and other fixed assets of firm which undergoes deterioration because of their excessive usage and exposure to environmental conditions over a specific period of time. The following are the various types of maintenance:

**Figure: Types of Maintenance Systems****1. Breakdown Maintenance**

Breakdown maintenance is made when the equipments or machines fail to perform their operations. Only then it is repaired for continuing its correspondence. Breakdown maintenance mainly deals with the equipments or machine repair when they become inoperative, under such circumstances, the firms need the assistance of maintenance department which maintains the position and makes the necessary repairs.

Breakdown maintenance is usually seen in the small factories because they remain passive towards the scheduling work and have tendency of permanent down time which exceeds the normal operating capacity.

2. Preventive Maintenance

Preventive maintenance is usually done for reducing the frequency of plant equipment breakdowns. They can be prevented by cleaning, inspecting, testing and replacement of component parts, which helps in increasing the efficiency of equipments. However, it would be better if after the breakdowns and obsolescence, firms need to put more attention to the inspection route.

3. Routine Maintenance

Routine maintenance deals involve inspection, cleaning, lubrication and repair of production equipments as soon as they have completed their work in period. Routine maintenance is divided into two types which are as follows:

(i) Running Maintenance

In this type of maintenance, the equipment machine undergoes maintenance when they are performing their operations. For example, working press or fabricating the hygiene when the machine is functioning.

(ii) Shut Down Maintenance

In this type of maintenance, the maintenance work is done after the machine or equipment is shut down. For example, servicing the motor units of a factory.

4. Planned Maintenance

Planned maintenance mainly deals with the performance maintenance activities as per the predetermined time and cost schedules. It is also called as scheduled maintenance or predicted maintenance. The activities involved in planned maintenance are inspection of plants and equipments, machinery and buildings so that they can be repaired, lubricated and refitted before the initiation of actual breakdown.

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UNIT-4: Production and Marketing Management

The main objective of planned maintenance is to reduce the number breakdowns of machines which will result into the complete of whole production system. The planned approach of maintenance plays an important role in decreasing the downtime of machine or equipment, for instance cost and helps in increasing the productivity of a process.

Q23. What is preventive maintenance? What are its features, objectives and elements?**Answer :****1. Preventive Maintenance**

Preventive maintenance is usually done for reducing the frequency of plant equipment breakdowns. They can be prevented by cleaning, inspecting, testing and replacement of component parts, which helps in increasing the efficiency of equipments. However, it would be better if after the breakdowns and obsolescence, firms need to put more attention to the inspection route.

The main objective of preventive maintenance is to reduce the chance of unanticipated or major breakdowns. Preventive maintenance involves the following activities:

1. Effective cleaning and installing of equipments.
2. Periodic inspection of plant equipment to increase the longer of breakdowns.
3. Providing repetitive service and maintenance of equipments.
4. Adopting cleaning, cleaning and painting of building and equipment.

2. Features of Preventive Maintenance

An effective preventive maintenance program is characterized by the following features:

1. It uses repair budgets for the major repair costs.
2. Inspectors are used by the inspectors.
3. It maintains planned and proper records about the nature work, cost and scheduled date and time.
4. Its administrative procedures are used for providing the basic requirements and feedback at a follow-up of programmes.
5. Inspectors or inspectors are done on definite schedule with the help of standing orders and by using specific assignments.
6. A team of well qualified inspectors who are capable of identifying the problems and making suitable reports whenever are required.

3. Objectives of Preventive Maintenance

The following are the objectives of preventive maintenance:

1. To reduce maintenance production at low repair cost.
2. To provide security to the workers.
3. To facilitate the work easier of maintenance job.
4. To make the plant equipments and machines always available so that they can be readily used.

To keep the equipments, repair, carrying etc., reduced by maintaining the value of equipment and machine.

To prevent the unnecessary necessity of the plant equipment.

To ensure the optimum productive efficiency of plant equipment and machines.

To reduce the cost of maintenance of production equipments by shortening the route.

Q24. Explain the requirements of an effective maintenance programme. What are the steps involved in a preventive maintenance?**Answer :****Requirements of Effective Maintenance**

The following are the requirements for an effective preventive maintenance program:

1. The maintenance programme should be effectively supervised and administered.
2. Development of an effective labour force schedule.
3. The timely estimates for the building work and be fixed by considering the need of the production department.
4. The maintenance staff should be given clear concerned detailed instructions for the maintenance of work.
5. Most important adequate tools, service materials and accessories required for maintenance.
6. The maintenance function must be adequately maintained.
7. A systematic approach must be used for maintenance.
8. The tools of space parts must be maintained adequately by equipment manufacturers.

indicates space should be left around the machines so that the maintenance work can be carried out easily. The removal of old equipment by reason of machine tool correction and new one's work must be made available.

Step 3: Identified by Preventive Maintenance

The process for preventive maintenance depends on the nature, type of maintenance to be maintained, maintenance methods, typical repair and inspection needs.

The following are the steps involved in a preventive maintenance programme:

Step 1: Identification of Job-Development of a Facility Register

A facility register provides information about the items, activities or operations that need to be addressed. Through facility register, clients indicate the preventive maintenance issues it poses if it's done right to prevent the type of problems.

Step 2: Development of a Preventive Maintenance Schedule

With the help of preventive schedule, method, time and place for performing maintenance work can be known. It specifies what kind of work needs to be done to maintain work for the smooth running of businesses, fixing the maintenance time.

Step 3: Establishment of a History Card

A history history card contains the record of all repairs, maintenance and inspection findings made in respect of machinery during its service period. It also provides information about the frequency of occurrence of breakdowns, type of which causes component break, total downtime required for failure and types of repair or replacement.

Step 4: Preparation of Job Specifications

Job specification is a document providing various information about the maintenance work which needs to be done. Different job specifications need to be developed for the maintenance of different jobs which act as a guide for the maintenance team.

Step 5: Preparation of a Preventive Maintenance Program

A preventive maintenance program represents the classification of specific maintenance work that has to be performed within a specified time period.

Step 6: Creating a Preventive Maintenance Schedule

On the basis of the significance of machines or equipments, their maintenance frequency can be determined. Based on this frequency, preventive maintenance schedule is created. A maintenance programme involves the following sections:

(i) Inspecting of the electrical connection of the machine or equipment.

(ii) Checking the performance of all the parts of machine or equipment.

(iii) Replacing the broken parts or tools.

Choosing the best parts for tools, lubricants, oil, greases and material handling equipment.

Ensuring the control systems.

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Step 7: Reporting the Results

Step 8: Dissemination of an Inspection Report

The inspection personnel presents and releases the functioning of machines and equipment given by the inspection authority. Their findings must be reported in the maintenance form for taking necessary actions.

Step 9: Preparation of a Maintenance Report

Maintenance report is a document issued by the inspection authority that was prepared by the inspection to keep inspection details. In such reports, feedback is mentioned in the opinion about the condition of the equipments or machines.

Step 10: Feedback Mechanism

This is the final step in which clients are asked to review and verify the operation based on the feedback information. This comment or action serves as the basis for bringing improvements to future programmes.

4.4 DESIGNING THE WORKPLACE

Q25. Discuss in detail the following.

- (a) Plant utilization and maintenance
- (b) Designing the work place

Model Answer: Ques. Q25, Ch. 11, Mysore, 2019
OR

Explain various aspects considered in designing the "work place".

Ques. Q26, Ch. 11, Mysore, 2019

Answer -

(a) Plant Utilization and Maintenance

Focuses under Unit IV, Q23.

(b) Designing the Work Place

Work place design organizational design is the process where the management and manage different hierarchical goals of the organization structure and culture for achieving the goals.

The contingency theory states that an organization's structure must be designed to reflect certain rules to fit the set of contingencies, i.e., there are constraints which influence and work to greater success.

There may be several contingencies, so it is not possible to design a specific design for each and every situation. These most important factors must be considered for designing the organizational structure:

1. Nature of an organization
2. Technology advances
3. Function of human resource in an organization
4. Nature of a Organization

The nature of organization refers to the organization of environment, which may involve social, cultural and global environment. The more the changes take place in an organization and environment, the uncertainty level would be greater. Uncertainty is greater if would lead to greater problems.

UNIT 4: Production and Marketing Management

When the organization faces greater problems, it can have well and more try and have more capital, plants and equipment. The organization handles this, need to divide in order to speed up the decision making process and to accomplish its process.

An change is frequently taking place in the present environment, it is necessary to change organization structure in such a way that it delegates authority to the employees for taking important decisions.

If in case the environment does not change and is static, where all the resources are available easily and sufficiently to test, there is such a case coordination and communication among the employees need not be strong.

2. Technology Advances

Technology is the application of skills, knowledge, tools, methods, principles and equipment which are being used in design, production and maintenance of goods & services.

It is found out that the more sophisticated technology, the organization uses it becomes difficult to manage and update. Therefore, according to contingency theory, different organisational structures are being used, then the organization should decide as to how this is in nature, so that it provides to any clients more authority to accomplish the task.

If the case the technology does not change frequently than the organizational structure is designed simply i.e., simple to manage and the clients can have more space and service is enhanced in service area.

3. Human Resources in an Organization

Basic of the employees relationship and nature of human resources are the most significant contingency factor which influences the organization's selection of a structure.

For instance, if an organization demands highly skilled employees then it would need more people to perform the tasks. It needs to be flexible and decentralized in nature. Highly skilled and talented people require more freedom and power as they show slow participation.

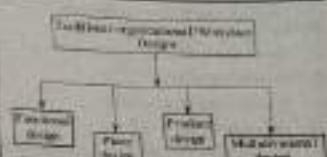
Q26. What are the traditional organizational designs or workplace designs?

Answer -

Organization design is the process by which managers decide and manage elements of organizations to ensure that organization can control the activities which are essential for achieving the set goals.

In other words, the process of designing the organization structure, which contributes to the efficient assignment and roles in achieving the goals. An organizational design is a plan which is based on the set goals.

The following are the four traditional organizational designs:



1. Functional Design

Functional structure is the most widely used one in service and large organizations. For creating a functional organization, the basic 4 departments in the various functions to be performed in the organization. Organizations divide positions and departments on the basis of specialized and integrated activities. Functions such as production, sales, marketing, marketing and so on.

This grouping of activities is based on commonality, knowledge and expertise that each function adds to. When departments are formed on this basis, the organization has a functional structure. Functional authority is the superior right to act with respect to specific activities, processes, products and clients in the organization.

The result of such delegation comes from the extreme division of labour. If the principle of unity of command is to be followed, right authority over these activities would be retained by the manager, but because of several factors, such as lack of central knowledge, lack of authority to implement policies and short attention to overall customer channel, does not allow to exercise this authority.

Thus, delegation of functional authority results in cross-line managers being deprived of some of their authority. Functional authority is not limited to managers of a particular type of department, but it may be exercised by line staff or service departments, even after the latter have become fully responsible functional specialists.

2. Plant-Oriented Structure

(i) In a plant-oriented authority, the staff work to support the plant, process and various directly to the supervisor. The basic purpose of such delegation is to assign more staff members to the specific plant.

(ii) Another form of functional authority exists, where a staff man not only supervises his functional activities, but also oversees the line manager how the information should be put to effect.

(iii) Some lines, unit or plant, are given authority to manage the processes, activities, methods or local policy to be used in certain departments, either line or staff.

- Functional authority can be reported as a part of the authority of functional supervisor. Functional structure is characterized by the following:
- Specialization by function.
 - Emphasis on job specialization.
 - Pyramidal growth of the organization.
 - Line and staff division.
 - Functional authority subordinating various departments.
 - Centralized span of control and job structure.

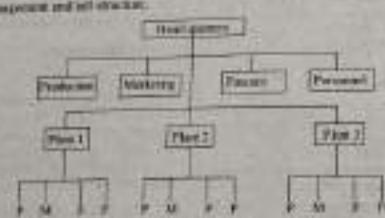


Figure 1: Functional Design

2. Product Design

Grouping activities on the basis of product or product lines is known as product organization. It is usually done in large scale enterprises or manufacturing company. Companies adopting this form of departmentalization were organized by enterprise functions. With the growth of sub units, production managers, sales and service managers, and engineering and the span of management, demand for stability to increase the number of independent subordinate managers. At this point, responsibility on a product division basis became necessary.

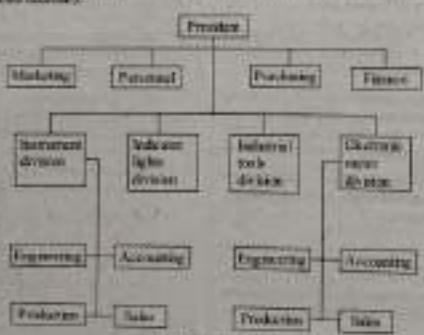


Figure 2: Product Design

3. Place Design

Place design deals with dividing an organization's basic tasks into areas i.e., geographically what building does the important functions of functional design. Place design is also called as geographic area design, which allows local placement of different units to serve as a geographic service under one manager instead of grouping them under different managers at one particular office.

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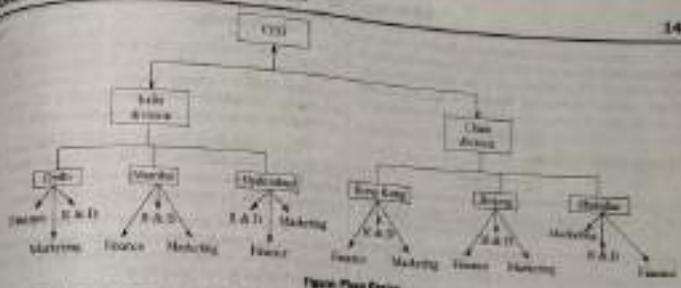


Figure 3: Place Design

The place design is mainly used by MNCs. For instance, the US products profit less than South African ones, therefore the new launching process of these two places would be different.

Place design is greatly used by those organizations whose products cannot be transferred from one location to another and such follow polycentric corporate philosophy. Examples: Nestle and Cadbury, Dow Chemical follows the place design. It has classified the world into four areas like the Middle East, Europe, USA and Africa, the Asia Pacific area.

4. Multidivisional Design

A change in the product design is the multidivisional design of all makes called as M-form. In this design work is organized by creating division on the basis of the product or geographical markets where the products and services are sold.

These division heads are fully responsible for the day-to-day operations of the business. The product divisions are referred with the authority to develop their own strategic plan.

The multidivisional design mainly discusses the problems of the lines, departments or the divisions. An organization following multidivisional design can easily cope up with complex environment by adding the horizontal mechanisms like the marketing roles, task forces, integration roles and the cross-functional teams.

Q27. What are the contemporary organizational designs?

Answer:

Organization design is the process by which managers select and manage elements of organizational resources so that an organization can convert the essential activities to achieve the set goals. Further, it is the process of organizing the operational structure, which results in an effective management.

Contemporary organizations have been established in order to circumvent the deficiencies of the traditional organizational structure and also to use the latest technology. The following are the contemporary organizational designs:

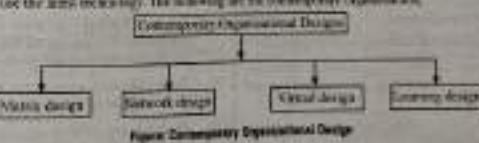


Figure 4: Contemporary Organizational Designs

1. Matrix Design

Matrix structure is the combination of functional and area units, which receive authority from two dimensions of authority. The complementary structures are:

- Pure project structure
- Functional structure

The two complementary structures are merged together to serve better of both. Thus, the structure not only employs multiple dimensions but also related regional, functional and area based organizational culture and behaviour. It allows many functional overlaps not only in terms of communication but also in terms of whole organizational process and behaviour.

Matrix Organization = Matrix Structure + Matrix Culture + Matrix Behaviour

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In Matrix Organization, project manager is usually not assigned complete responsibility for resources, instead, he shall have responsibility in the organization. Matrix organization structure is applied when the organization has large number of similar projects or their values are present in respective. In resources are allocated to other projects.

Design of Matrix Structure

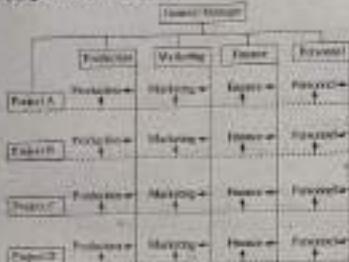


Figure Matrix Design

A project manager is appointed to coordinate the activities of the project. Personnel are drawn from their respective functional departments. The composition of the personnel may vary from either original departments or functional assignments. Thus each functional staff has two bosses, his representative head and his project manager. During his assignment to a project, he works under the coordinate command of the project manager and for rest, he is called upon by his permanent supervisor to perform certain functions needed in the process. Thus, a subordination to his supervisor may receive correction from his bosses. Similarly, matrix supervisor has to share the facilities with others. He reports to a direct line to the ay, but does not have a complete line of command powers.

Advantages of Matrix Structure

- (i) It can be applied to the following types of activities.
 - (ii) Handicrafts, chemicals, i.e., agriculture, chemicals, electronics, heavy equipment, industrial products and pharmaceuticals.
 - (iii) Service business banking, brokerage, construction, insurance and retailing.
 - (iv) Professional activities as accounting, advertising, consulting and law.
 - (v) Non-profit organizations as government agencies, hospitals, research centers and universities.
- Matrix structure has been evolved to overcome the limitations of traditional organizational structures.
- This is being applied to various fields of activities because of its merits and disadvantages, positive and negative, processing and pressure for discontinuation.

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2. Networked Design

A networked design is a group of various organizations whose operations are synchronized through contracts and agreements. Instead of a formal hierarchy of authority, Matrix organization uses an interface mechanism for establishing linkages so it looks out for new ways of increasing effectiveness.

The network design basically includes various interfacing organizations of the core firm. The core firm synchronizes its network, processes and makes a provision for one or two core competencies like marketing or product development.

The network design provides flexibility, decreases quick responses to various changes and opportunities, reduces costs and risks. Networked design help to build up the strategic alliances between the competing firms.

3. Virtual Organization

Virtual organization is a firm whose majority of activities are outsourced. Virtual organization, otherwise called as virtual corporation is defined by recent business work Survey as "The virtual corporation is a temporary network of independently compensated experts, distributed over a wide area linked by information technology to share skills, costs, and gains to one another's benefit. It will have neither central office nor organization chart. It will have no hierarchy, no vertical integration".

Elements of Virtual Organization

The following are the elements of virtual organization.

- (i) **Technology** - Partnerships, contracts, transfer of information are done through the usage of Information Technology, legal issues and speeds of delivery.

- (ii) **Opportunity** - The working of virtual organization is based mostly on opportunity. The companies will try to seek an opportunity and then go apart. Hence, there are temporary partnerships that easily formed.

- (iii) **Excellent Output** - As every company puts in its competence in achieving the target, the output tends to exceed the best-of-everything.

- (iv) **Trust** - The main attribute that binds the organization is virtual organization is trust.

- (v) **Boundaryless** - With an aim of producing an excellent output, companies work beyond their boundaries.

4. Learning Organizations

A learning organization is generally defined as an organization that practices organizational learning. Organizational learning is the distinctive organizational behavior that is prevalent in a learning organization. The two terms 'learning organization' and 'organizational learning' are synonymous and, Organizational Learning is something that the organization does. A learning organization is something that the organization itself is.

EMR-4: Production and Marketing Management

According to Peter Drucker, a learning organization is a continuous search of experience, and the transformation of these experiences into knowledge, accessible to the entire organization and relevant to its own purpose.

The following are the main characteristics of a learning organization.

1. Every individual in a learning organization constantly learns, expands and enhances his/her signature in order to use the approach of systematic problem solving to believe that people are more intelligent in a program than alone.
2. Encourages the people to find their importance to it.
3. Provides transparency where people can understand how their actions reflect the organizational activities.
4. Encourages people to learn from past experience.
5. It takes in for learning from others, aware results and involve in experiments.
6. Encourages learning of one's own strengths and effectively strengthens the organization.
7. Encourages the conflicts through collaborative learning and by assimilating different views.
8. Encourages empowerment and horizontal leadership to build a shared vision, empower people, provide commitment and immediate effects via circular learning throughout the organization.

4.5 INVENTORY CONTROL

Q26: Explain the term inventory control and inventory management, and control and List out its objectives.

Answer :

Inventory Control

Inventory refers to the stock of the products that a firm is offering for sale to produce final products. In other words, inventory is composed of items that can be sold by the firm to fulfill needs of business operations.

Thus, inventory represents the last link of communication of firm, which constitutes an important component of firm's balance sheet. Inventory could be in the form of raw materials, WIP, and finished goods that have been stored in warehouses.

Inventory control is the system by which inventory is managed. The recording of goods as they are received and as they are dispensed, and periodic checking against a physical count is done in order to maintain the inventory balance.

Inventory Management and Control

Inventory management and control focuses on the development and administration of policies, systems and programs which will in turn reduce total inventory costs, delivery and fractions like customer service requirements.

Production scheduling, purchasing and sales. While inventory control refers to the administration of established policies, systems and procedures. Different factors influence, inventory management and control, and few such factors are type of business, type of inventory, volume of sales.

Objectives of Inventory Management

- Some of the objectives of inventory management are explained below.
1. To ensure that raw material, spares and finished goods are supplied to appropriate person at appropriate place in time, maintaining production and sales.
 2. To avoid overstocking and under-stocking of inventory.
 3. To avoid the losses due to obsolescence, through storage and damage.
 4. To provide information for planning and controlling inventory for short-term as well as long-term.
 5. To control the material cost on the overall cost of production can be reduced.
 6. To attain the aims of reducing the stock level.
 7. To ensure good quality of goods at reasonable prices.

Q26: Explain the procedure of inventory management and control.

Answer :

Procedure of Inventory Management and Control

Inventory management and control deals with planning, optimum quantity of inventory at all the stages of production cycle and developing techniques which make sure that the planned inventories are available. The process of inventory management and control involves five steps which are as follows.

Step 1: Assessing the Optimum Inventory Levels

Assessing the levels of inventory which a firm must hold is the most important and difficult task of inventory management and control process. In order to ascertain the level of inventory which a firm should hold all the below factors must be considered. The level of inventory is not a fixed norm, it keeps on changing. So stock must be reviewed frequently.

- (i) The sales trend should be closely reviewed and the inventories should be adjusted periodically to manage the production levels as demanded by market sales.
- (ii) A close analysis of the manufacturing process helps in estimating the actual level of inventory.
- (iii) The estimation of facilities available for decreasing the work in progress immensely significantly.

Step 2: Ascertaining the Degree of Control

The second stage of inventory management and control process is to ascertain the degree of control required for fulfilling the objective of inventory management. This problem can be resolved by classifying the inventory based on classification, i.e., by using ABC classification. ABC classification helps in determining the degree of inventory control.

The items which are "high" in value but "low" in movement come under 'A' class. The resources which are more or less equal in quantity and value come under 'B' class. The items which are "high" in quantity and "low" in value come under 'C' class.

A very high control is required for 'A' category items. If class items do not require high control, but cannot be ignored. 'C' category items are subject to large cost savings and can be controlled on their basis by monitoring.

Step 2 : Planning and Designing the Inventory Control System

In this step, inventory control provides a framework and reporting policies for maximizing and controlling the inventories. This system is held responsible for the order it makes, its delivery, the timing of when the order is placed and tracking the items which has been ordered, in what quantity and date when it has been placed.

This system includes two approaches. They are:

(i) Fixed Order Quantity System

The fixed-order quantity system is also known as 'Q' system. In this system, a fixed quantity of stock is ordered whenever the stock reaches the ordering level.

(ii) Fixed Order Period System

The fixed-order period system is also known as 'T' system. In this system, the inventory is ordered on the basis of a fixed period and not on the basis of the stock level. The size of inventory in 'T' system is larger than the 'Q' system. The order of quantity is different each time, the order is placed.

Step 3 : Ascertaining the Organizational Arrangements

Structure

The first step of inventory management and control process is to ascertain the organizational arrangements. For handling and managing the inventory materials, Production Planning and Control department performs the function of inventory control.

If a firm uses just the inventory control function, it produces planning and control department, then it can attain the following benefits:

- i) It can plan its production schedule effectively.
- ii) It will be able to have timely orders for replacement of materials used in production operations.

The inventory control system is not final. It needs to change frequently at the least time and hope of reorganization keeps on changing from time to time.

Q38: List out the Benefits and factors influencing Inventory management and control.

Answers :

Benefits of Inventory Management and Control

The following are the benefits of inventory management and control:

SUMMARY: Classification of PMS is as follows: A = 10% of total value, B = 70% of total value and C = 20% of total value.

- 1) It makes sure that materials are supplied adequately, inexpensively and shortages are minimal and avoids unnecessary interruptions in operations.
- 2) It helps in reducing the investment in inventories, thereby conserving money and cash flow.
- 3) It helps in reducing the stock effectively by utilizing the department resources to reduce the time.
- 4) It helps in examining the loss of materials caused due to negligence or pilferage.
- 5) It acts as a means for measuring the loss of materials in the purchase, departments of other operating accounts.
- 6) The value of physical inventory acts as a constraint and valuable basis for developing financial statements.
- 7) It helps in identifying and disposing redundant and obsolete items of stock.

Factors Influencing Inventory Management and Control:

The various factors influencing inventory management and control are as follows:

1. Type of Production

The type of production affects inventory management and control. Inventory control plays a significant role in the firms employing continuous production systems. Whereas, in firms employing intermittent production systems the role of regular continuous control of inventory is vital.

2. Kind of Product

The products may be categorized into two types. They are, products with high unit value and products with low unit value. The material used in the production of a product of high unit value, then the production need to be monitored and controlled closely, and if the material used in the product is in short supply then this affects the production and its cost.

3. Quantity of Production

The extent of control of inventory varies plus depends upon the quantity of production. Higher the volume of items produced, higher will be the extent of control.

4. Level of Sales

The most important factor which affects the level of inventory in a company is as level of sales activity of the same company. When the sales of a company increases, the overall level of inventory will also increase.

5. Length of Production

The companies which take sometime to produce a unit, maintains relatively high levels of inventory. So, the day after day during production process can be considered as relatively inventory days.

6. Arrival of Raw Materials

The amount of inventory often required is also measured for the company, as it is the basis for finished goods. The level of raw material inventory depends on many factors such as lead time, storage capacity, rate of obsolescence, physical life of raw materials etc.

UNIT - 4: Production and Managing Inventories

1. Life of Finished Goods

In many companies, finished products have some specific shelf period of life. After the expiry of that period their life is over. In some companies, products lose their value due to changes in fashion, technology, style and due to obsolescence.

Hence, all the above are the factors which determine the shelf-life of inventories to be determined by the company.

Q1: Discuss briefly about various techniques available for inventory control.

ANSWER :

In order to have an effective inventory management, firm adopts a effective control system for inventories. An open ended inventory control technique is useful in finding a solution to the difficult problem of liquidity, inventories profits and reducing working capital of the firm. Some of the important techniques and tools of inventory management and control are:

1. Economic Order Quantity (EOQ)

Economic order quantity is the amount of quantity of material to be purchased for production. It is an important aspect of inventory management in which economic order quantity must be determined as it minimizes ordering and carrying costs. Economic order quantity is the amount of quantity of material to be acquired at minimum cost. The ordering and carrying costs are considered, while evaluating the economic order quantity.

2. Ordering Costs

Ordering costs are incurred by the firm at the time of placing an order or purchasing the material. It depends on the number of orders placed. Hardly are price, due cost also increased.

3. Carrying Costs

Carrying costs are incurred by the firm, only when material is not consumed. It involves cost of storage, interest on investment, obsolescence, insurance etc.

There exists an inverse relationship between ordering cost and carrying costs. When there is an increase in ordering cost, the cost of ordering increases whereas, carrying cost decreases per unit.

Economic order quantity is calculated by using the following formula:

$$\text{EOQ} = \sqrt{\frac{2 \times D \times S}{C}}$$

Where,

- a) Annual requirement.
- b) Ordering cost.
- c) Carrying cost.

2. ABC Analysis

In ABC analysis, a selective approach is adopted and materials are divided into three categories (A, B and C). Items having 40-70% of value and consumption but contributing only 10-20% of total quantity come under 'A' category. Similarly items J, K and L are not charged.

which are of 20% of value and contribute 20% of quantity are of medium, and last category of 'C' items contribute i.e. 30% of total quantity but they are of 10% of total value. Hence in 'A' category, requires special attention of their value, more profit and revenue must be in case of 'A' class. In case of 'B' category items, no special treatment can be provided. Normal treatment can be exercised on 'C' category items.

3. VED Analysis

VED analysis is used in case of inventory management of raw parts. These raw parts are classified based on their importance. They are:

4. Vital Spares

These are very important for production, so they must be stored adequately.

5. Essential Spares

These are also necessary, but very minimum stock is to be maintained.

6. Redundant Spares

It is not necessary to maintain much of these spares because, it can be stocked when that item is low.

Technical staff must be fully responsible for inventing the spare parts and class of each category of raw parts.

4. Just-in-Time (JIT) Inventory Control System

Just-in-time was first introduced by Toyota Company in Japan. In many countries, increasing savings and decreasing productivity, in the meantime, raw materials are purchased just before producing the products. JIT control system implies that there must be only minimum level of inventories and repeat supplies to prevent wastage at the time of work. It reduces storage cost and loss associated in inventory.

5. Lead Time

First want identify the lead time, so order to minimize absolute amount of inventory. Lead time is the time period between placement of order and its fulfillment. Lead time and the level of inventory are directly related to each other. If low lead time, then there more chances to go against it as economy of quantity order during lead time can be easily disturbed. Therefore try to reduce the lead time as it ultimately reduces the level of inventory. Lead time involves administrative lead time and production lead time.

6. SQR Analysis

In order to calculate an effective control of inventory, it is classified as PMS. It includes High, Medium & Low. It is based on classification of price and consumption.

7. SPC Analysis

In the analysis, materials are classified as follows: I, II, III and IV. They are further selected as standard, advanced, inexpensive or the cost. DMR chart which are also needed to maintain quality and II & III & IV are available materials.

5. MOA Analysis:

In this analysis, materials are classified as critical and of less concern. The items which are required are stored for long at the user end and non-critical items are not stored as they are available in all stores.

6. Inventory Turnover Ratio:

In order to maximize utilization of inventory and to verify the status of inventory is effective or not, other two inventory turnover ratio is also kept as stock control. The inventory turnover ratio is calculated with the help of the following formula:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

4.6 MATERIAL HANDLING**Q22. What is material handling? State its functions and importance.****Answer :**

Read Page No. 249

Material Handling:

Material handling involves all those activities that are responsible for the efficient movement of goods, either within a plant or a warehouse or between a plant and a transportation agency.

Material handling is defined as the manual or mechanical movement of the material between storage areas, stations in a plant, either internally or externally with the help of various Material Handling Devices (MHDs).

Movement of materials in an industry can be general, functional or specific. While movement of raw materials from the producer to raw materials to the ultimate delivery of final products. For example, raw materials are manually loaded into a trolley which is then transferred into a truck by a powerless trolley. Thus, the trolley is initially transferred from a site by powerless means and then into a truck.

Modern MHDs automatically carry a material handling system, which involves automatic storage, machining, welding and support services. Material handling can be carried out efficiently when the raw materials that are to be moved are grouped in form of a single unit called a load, which makes the handling equipment to easily carry and transfer the material to the desired workstations.

Functions of Material Handling:

Some functions of material handling systems are listed as follows:

1. Unit Load Handling:

Material handling systems can achieve optimum storage of material or their deployment by following the principles of location, concentration of production, Design of workstations, packaging and storage and transporting the material should avoid material damage and reduce handling expenses.

WARNING: *Hand Pallet truck is a RISIKO! An Accidents happen in MHDs is low (DOL) probability.*

2. Proper Placement of Equipment:

In an industry comprising of production operations, project planning of warehouses and all plant layout, it is essential to evaluate the status involved by the material, production flow, wastage and delay in production. If it is really necessary to move the materials, then movement must done accurately.

3. Proper Selection of Material Handling Device:

Material handling systems should be replaced with automated sources in order to enhance and speed up the movement of the material, without disturbing the production line. An effective method of moving the materials from one place to another by applying the principle of gravity, electro-magnetic, Friction, checks, rollers and induction of the equipment is essential. Installation of standard handling equipments when are used, flexible and a progressive way should be used.

Importance of Material Handling:

The importance of materials handling can be analyzed under the following aspects. They are:

1. Movement:

It is concerned with the transfer of goods from one end of storage facilities or within these facilities. Efficiency of materials handling can be achieved by efficient transfer of goods from and within the storage facility.

2. Time:

Aspect of time can be studied from production and customer's perspectives. In case of production, it refers to the time required for bringing the raw materials to the production site. Efficiency is said to have been achieved if it takes less time for the transfer of goods. Otherwise, it has to increase problems of stock storage, higher insurance and increased space of storage.

Similarly, from the customer's point of view, it is how to the time required by the firm for the delivery of a batch order. Since reduced shipment times, cycle times is said to be significant.

3. Quantity:

Quantity refers to the amount of material transferred per unit time. It is concerned with the organization. It is an important measure in delivering right product to the right customer at the right time in right quantity.

4. Space:

Space refers to the warehouse/ plant capacity used for the materials handling equipment. Such space will be fixed. However, efficiency of operation can be achieved by effectively utilizing this space.

The logistics manager is held responsible for all these materials handling tasks which involves coordination between the different sub-divisions of an organization. Hence, while designing a material handling system, every time one must look to long-term plan and its available resources.

Q34. Production and Marketing Management**Q35. What is the scope of material handling? Explain its related few handling considerations because an integral part of storage space decisions.****Answer :****Scope of Material Handling:**

In large scale industries, material handling activity is very crucial for the operation of the plant. Thus, a separate material handling department is established to handle independent levels of storage and transportation. The following are some of the major activities of material handling department:

- 1. Storage and moving raw material handling and delivery of finished products.

2. Maintenance of material handling equipment methods.

3. Allocation of material handling equipments to their respective locations.

4. Establishing certain procedures and plans for storage, storage and movement of materials as per the requirement, such as raw materials to production department, finished products to the customer, etc.

5. Dealing with the packing and carting of finished products and supplies to shipping.

6. Responsible for handling and management of material equipments.

7. Provides integrated movement of raw processed products and assemblies.

8. Maintaining and maintaining of material handling equipment.

9. Facilitates verification and tracking of raw or finished materials.

10. Also conducts training programme for employees to know about the operation and maintenance procedure, which also includes the safety aspects of material handling.

Material Handling Becomes an Integral Part of Storage Space Decisions:

Material handling is found to be an important constituent of storage space decisions, as it mainly focuses on reducing and optimally utilizing the warehouse space. Efficiency of material handling can be improved by considering the following points.

1. Load Utilization:

In load utilizations, material handling must consider a fundamental principle which states that the economy (expenses) of material handling is closely influenced by the size of load handled. More simply, it is directly proportional to the number of trips i.e., as the number of trips increases, more number of loads is required to unload in which it increases the cost of operations. Hence, some of processes can be made economical by reducing the number of trips. For material handling one of the best method is by consolidating the small packages to form large load which is termed as load consolidation. Palletization and containerization are used for the improvement of a ware-

2. Palletization:

A pallet or a load is a wooden platform usually used for moving goods during manufacture and storage. It is highly important to keep the materials and goods in the form of loads, as it reduces difficulties regarding both handling. Palletization also helps in the organized and systematic use of space and material utilization and load utilization.

3. Containerization:

Usually, containers are used for container handling of materials and load utilization. Containers are used and transported large items, which gives the added benefit of reduced transportation costs. The ability of containers to store the items in more spaces even in open plan without risking any damage, is very less expensive than other forms. Thus, these load also need to be proposed to that it can be used by all the firms.

4. Space Layout:

At the cost of investment to satisfy adherence by the nature of stock in warehouses, this need to maintain a proper balance between the two, while ensuring the overall strength of warehouse.

5. Layout for Storage:

While designing a warehouse, "designer" plays a vital role. If goods are available in large numbers for storage, storage requirements to be taken. In case of a warehouse which is in the starting stage, it is a warehouse, where no stocks is built, week and day change from one quantity, where stocking may be as high as calling high with narrow aisle. However, the layout may yet be capable to cause of increased number of walk-around with aisle and decreased attitude of stocks.

6. Layout for Order Picking:

Order picking means removing the stock from the warehouse per the needs of customers. Order picking becomes difficult and consumes much more time than in loading and unloading of the stock. If the supermarket is alone, then it can simply follow an existing storage system. But, on the other hand, if the supermarket is more, then they adopt a material system for providing for handling the bulk quantity. Some problems faced by the firms during order picking are that it requires a lot of time to fill the order which can be reduced by automation by using specialized order picking equipment by ergonomic design.

Q36. Discuss the role of safety in material handling systems and explain safety principles of material handling.**Answer :****Safety in Material Handling Systems:**

Safety in handling material becomes important due to the advancement in technology in the field of industrial engineering such as automation, robotics, computerized safety control, etc. Safety has also proved great importance in field of engineering. However, the safety is mostly required in material handling systems due to the following reasons:

1. It may damage the materials property and can also hurt the workers, if not handled properly.
2. It can also be the cause of breakdown of an equipment due to accidents.
3. It may result in loss of material, time and damage to atmosphere.

In addition, material handling equipment should be designed according to safety norms and it should be handled with care in order to avoid accidents. The basic causes of accidents associated with the material handling are as follows:

- (a) Striking a load.
- (b) Exceeding the capacity of equipment.
- (c) Improper packing or wrap.
- (d) Loading excess of a load.
- (e) Physical constrainting the operator.
- (f) Improper stacked material.

The accidents related to material handling equipment are mainly due to the failure of operators. Therefore, the operator must be well trained and educated about the safety principles. In case of manual handling, the workers must take steps of proper work practices, equipment and control. They should be aware of all kinds of accidents that may occur during handling. The workers must be capable of eliminating the causes of accidents for adequate minimizing it, so that the accidents can be reduced in material handling.

Safety Principles of Material Handling

Safety principle of material handling indicates that the use of handling methods and equipments must be safe. A safe material handling refers to handling activity without any losses due to materials or equipments. The handling operations should be accomplished such a way that, the possibility of risk of life and damages to material are brought to minimum. This can be achieved by utilizing maximum safety principles over safety policies. Thus, the safety principles includes the following parameters:

1. The material handling equipment should be provided with sufficient guards and safety devices.
2. The person of the equipment must be well trained.
3. Mechanical handling should be preferred for handling hazardous materials.
4. Overloading of the equipment should be avoided.
5. The condition of material handling must be kept in good condition.
6. The materials should be stacked or stacked safely.
7. The floor locking should be sufficient enough to carry out the operation.
8. Appropriate and effective responses.
9. During material handling, the employees must use personal protection equipments.

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In order to obtain zero accident(s) rate, the firm has to strictly follow the safety policies in the work place. Through it, consumes more time for its operation, it increases the productivity by safe handling of the materials. This safety policy deals with rules and regulations for material handling as well as equipment handling. This policy also provides guidelines for various parameters like fire fighting, Disinfection, maximum load on vehicles, label, house keeping, etc. The safety also specifies about the responsibility towards different personnel/departments/levels of the company.

Q36. List and explain material handling techniques.

Answer : New-Delhi, 19.09.2005, Q36
Material handling techniques fall into two types. They are as follows:

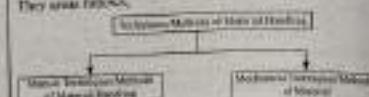


Figure: Techniques/Methods of Material Handling

1. **Manual Techniques/Methods of Material Handling**: In this method, manual handling of materials is the major part of material handling. In this method, the workers have to move the heavy loads by carrying such as lifting, pushing, pulling, etc. This method includes stacking, unstacking loads on pallets, stacking shelves, lifting and lowering loads, moving materials and packing stock.

When the workers perform these kind of activities, due to improper handling or excessive loads, it may result in either physical risk or injury to the workers. Therefore, safety measures have to be taken into consideration during manual material handling.

2. **Mechanical Techniques/Methods of Material Handling**: This is the second kind of material handling activities where the materials are handled beyond the physical capacity of the workers. In this method, different equipments are used to move, store, process, control and protect the materials. The different equipments that are most commonly used are:

- (a) **Cranes**: Cranes are material handling equipments. In this type of equipment, the load is lifted and moved in air to one location within the factory/industry/organization. The major in this type of equipment is concerned about crane load.

- (b) **Lifttrucks**: These equipments help in handling material by moving it in vertically up or down directions. Power driven mechanism is used for lifting and lowering materials.

- (c) **Conveyors**: The conveying equipment has gravity or mechanical power to move the material in a straight or curved path. The material can flow in horizontal and inclined paths with other components or reciprocating motion. Apart from these equipments, the various other equipments used for handling material include trucks, electric hoists etc.

47. QUALITY CONTROL

Q37. Define quality and quality control. What are the functions of quality control?

Answer : Model Project, Q37
Definition of Quality

According to Juran, Quality is defined as, "Fitness for purpose".

But this fitness differs from person to person and it is very difficult to analyze the product/service quality.

"Quality is a product or service which is nothing but the extent to which the customer's needs are satisfied".

"Quality is the sum total of all the characteristics/features of a product or service which meet the needs of the customer".

When the both internal and external customers are been provided with the products and services, then consider their satisfaction then it can be concluded that the product/service is acceptable to user.

Functions of Quality Control

"Quality control is defined as, the operational techniques/activities that are used to build quality requirements".

It follows quality assurance in planned and systematic steps necessary to provide adequate confidence that a product will satisfy the given quality requirements.

In quality control a sequence of inspection and test is carried out, in order to assess whether the predetermined quality is maintained or not.

Quality control will select a random sample of units to see that their performance is the required areas in order to accept/reject units.

Quality of the product is accepted, when the above sample of units meets the predetermined standards, otherwise, if any part of sample is able to meet the predetermined standards, then the quality of that product is not accepted. Hence, improvements are planned in order to improve the quality.

Purposes of Quality Control

Following are the functions of quality control.

To maintain the consistency of quality in all the products manufactured.

To decrease the re-work cost while manufacturing the products and services.

To increase the life time of the products and services.

To reduce the number of dissatisfied customers, by improving the performance and reducing the operating costs of products and services.

To produce the products and services of only high-quality.

To prevent the damaged products to reach the final consumer.

To identify the producer responsible for producing the damaged products and taking measures to correct it.

Q37. Explain objectives and benefits of quality control

Answer :

Objectives of Quality Control

Following are the objectives of quality control.

1. To produce those products which are dependable, satisfactory and economical in nature.

2. To produce the economical products of consistent quality which would be acceptable by the customers.

3. To prevent the defects instead of identifying.

4. To increase the quality awareness among the employees.

5. To make the optimum utilization of resources.

6. To achieve both the customer satisfaction as well as employee satisfaction.

7. To reduce storage and improve quality. To reduce cost problem.

8. To gain the competitive advantage, with the help of producing qualitative products.

9. To gain interchangeability.

10. To maintain proper control of outgoing product by decreasing the defects.

11. To make the manufactured products to be accepted by large number of customers so that the sales of the company increases.

Benefits of Quality Control

Following are the benefits of quality control.

1. To reduce the cost of labour and maintain the better environment.

2. To maintain consistent quality.

3. Increases the customer's complaints.

4. Increases the level of customer satisfaction and employee satisfaction.

5. Improves the operating efficiency and effectiveness.

6. It reduces the inspection activity which would further reduces the inspection costs.

7. It produces higher quality products by reducing variations.

8. It reduces the number of delay in production process and hence product are having to producing the quality products at a very high speed.

9. It will help in introducing the new products and reduce the existing products.

10. It increases the sales which improves the market share.

Q38. What do you mean by quality control? Discuss the need for maintaining quality of goods and services.

Answer 1

Quality Control

Quality control is the process of measuring the actual quality performance of the produced service, comparing actual quality performance with the specified quality standards, and taking any corrective measure if any negative deviation is found between actual quality performance and specified quality standards i.e., if the actual quality performance is less than the specified quality standards.

Quality control helps in controlling several factors simultaneously like labour, materials, machines utilized at the time of production and which influences the quality of finished product. It involves the quality maintenance, quality improvement and quality improvement activities of different departments in the organization for achieving high production and delivery levels in which ensures complete customer satisfaction.

Need for Controlling Quality of Goods and Services

The need for controlling the quality of goods and services can be understood from the problems which may arise due to the lack of adequate quality control system in an organization. These problems are as follows:

1. Customer Dissatisfaction

The lack of quality control increases the operating and maintenance costs of products/services which in turn reduces the revenues associated with the products/services offered by the organization.

2. Increased Cost of Quality Management

The absence of quality control signifies that there is no standard to measure or compare the quality of goods/services.

3. Reward Cost

Reward cost increases while producing the products offering services in the absence of quality control.

4. Loss of Flexibility

Lack of quality control tends to loss flexibility with regard to the use of statistical quality tools.

5. Premium Maintaining in Consistency in Quality

Maintaining consistency in quality of goods and services becomes a difficult task if there is no control on quality.

6. Reduced Life of Products/Services

The life of products/services gets reduced if there is no control on quality.

Q39 Explain about various quality tools used for problem solving and process improvement.

Answer 1

Problem Solving is one of the primary activities of Total Quality Management (TQM). It must be done, by following a standard approach for obtaining results. One of the most important aspect of problem solving is to remove the causes

of problem. So avoiding recurrence of the problem, often the users who implement TQM approach, consider problems as opportunities for improvements.

Process Improvement is a systematic approach developed mainly for the purpose of enhancing a process. Process improvement processes documentation, evaluation and analysis for enhancing the functioning of a process. Some of the objectives of process improvement are enhancing efficiency and effectiveness, aiming for better quality, eliminating waste and unnecessary costs, improving productivity and reducing processing time.

For the purpose of problem solving and process improvement, organizations can make use of various tools for help in data collection and interpretation and even provide the basis for decision making. There are eight tools of quality which are explained as follows:

1. Flowchart

A Flowchart is a pictorial representation of a process, which is useful for investigating, in determining the process, wherein the problem can take place. In a flowchart, the diamond shape denotes the decision points in the process and the rectangular shape denotes the procedure. The arrow is flow chart denotes the direction of "flow" of the steps in the process.

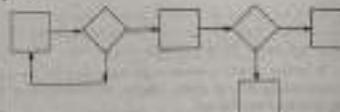


Figure: Flow Chart

2. Check Sheet

A Check Sheet is very simple and is often used for identifying the problems. Check sheets provide a framework which help the users to record and arrange the data collected. It becomes easy for collection and analysis. Check sheets can be used in different formats. The most commonly used format of check sheet, deals with types of defect and the location of defects.

	Date			
Defect	1	2	3	4
X	10	10	10	10
Y	10	10	10	10
Z	10	10	10	10

Figure: Check Sheet

3. Histogram

A Histogram is an empirical frequency distribution tool which helps in identifying the distribution of observed values. If Histogram has a symmetrical distribution, then it indicates identifying range of values and quantity of unusual values.

If a histogram have two peaks, then this shows that there is a chance of having two distributions with different colors, which may be due to two workers or two suppliers with different quality.

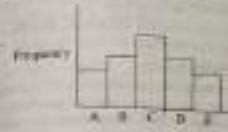


Figure: Histogram

4. Pareto Analysis

Pareto Analysis is one of the quality tool, which is used for emphasizing on the most important problem areas. This technique is also used for classifying the problem areas based on their degree of importance and solving the most important issues listed first. Usually, Pareto analysis is termed as 80-20 rule which implies that, 80 percent of problems are caused due to 20 percent of reasons.

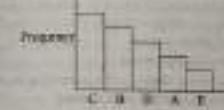


Figure: Pareto Analysis

5. Scatter Diagram

A Scatter Diagram is useful in identifying the correlation between the values of two variables. The correlation reflects the cause of a problem. If the degree of correlation between two variables is higher, then this indicates that points are less scattered. Alternatively, if there does not exist any relationship between two variables, then points will be completely scattered.



Figure: Scatter Diagram

6. Control Charts

A Control Chart is a statistical chart of time ordered data of a sample statistic, which helps in controlling the process and identifying whether the process output is under control or not. It also useful in determining the occurrence of unusual events. It is also useful in determining the occurrence of unusual events. Control charts show the trend which the process took, grade and the causes of the process.

Figure: Control Chart

7. Cause and Effect Diagram
A Cause and Effect Diagram, is a structured approach, which helps in identifying the potential causes of a problem. It is also known as Fishbone Diagram and Ishikawa Diagram. This technique is used for examining the effects of problem solving by determining categories of factors which may lead to problems. This is also often called Brainstorming sessions for arriving the various ideas generated.

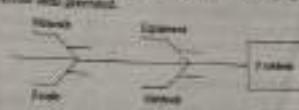


Figure: Cause and Effect Diagram

8. Run Chart

A Run Chart is used for recording the values of a variable over a period of time and helps in identifying the fluctuation that takes place. The main important feature of run chart is that, it can be easily understood and easily interpreted.

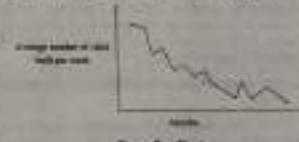


Figure: Run Chart

4.8 MARKETING FUNCTIONS

Q40. Define marketing concept and describe its features.

Answer 1

Definition of Marketing Concept

According to Alford E. Tolson, "The marketing concept is a philosophy applied to the operation of a business in which customer and consumer needs will be approached in competition. These needs will govern the overall planning of each function of the business, as well as overall plan aimed at achieving its production and profit objectives."

According to Philip Kotler, "The marketing concept is customer orientation backed by integrated marketing aimed at generating customer satisfaction as the key to satisfy organizational goals."

According to Pyle – “Marketing is concerned with those activities and selling referred”.

According to American Marketing Association, “Marketing is the performance of planning and executing the flow of goods and services from producer to customer”.

Features of Marketing

The four main characteristics of marketing are:

1. Customer Orientation

Marketing concept focuses on consumer marketing which represent balance between the needs of the market and wants of the consumers and ends up satisfying them. Business is run for the customers, products are marketing concepts. All business and efforts designed to sat the needs and wants of the customer. Customers are placed at the center point and the entire business is concentrated around it. The customer orientation of marketing concept emphasizes a focus selling process.

2. Integrated Management

In order to ensure customer satisfaction and customer satisfaction, every activity of the business should be integrated within another and should be linked with marketing activities.

3. Satisfaction of Customer

Important main activities of the company is satisfying the needs of the customer. If company is successful in satisfying customers needs, the company efforts will result in customer satisfaction. The company following marketing concept must make sure that customer satisfaction results in customer satisfaction. And every marketing effort is considered as very essential in marketing concept.

4. Achievement of Organizational Objectives, Competing, Profit

Through, working among others on achieving customer satisfaction, a firm ignites the significance of economic profits. Actually, customer satisfaction will automatically increase the profit levels of the organization. That, leads us to the four corresponding features of marketing concept.

Q4. Discuss the Functions of Marketing and Marketing Management.

Q4

What are the functions of marketing management?

Ans: Q4-11. 2020A, C19

(With One Note) Functions of Marketing Management

Answer : 1

Functions of Marketing

The core function required in marketing are known as marketing functions. The functions of marketing can be broadly classified as:

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1. **Marketing Function**
2. **Distribution Function and Supporting Function**
3. **Marketing Function**
4. **Purchasing Action**
5. **Marketing Activity**
6. **Marketing Network**
7. **Selling Activity**
8. **Distribution Function**
9. **Transportation**
10. **Storage**
11. **Marketing**
12. **Marketing**
13. **Supporting Function**

- Supporting functions support the marketing activities of the company. Purchasing, pricing, location, sales promotion, market information, advertising, research and so on come under supporting functions of marketing.
- Functions of Marketing Management**
- The functions of marketing management are:
1. **Planning of Marketing Activities**

Planning is an integral part of Marketing Management. This function is based on the marketing opportunity which constitutes the key aspects of a successful marketing management and performance. Market planning is used to

Q5. Explain the Production and Marketing Management

Marketing and sales objectives and thus derive strategies and action programmes that enable the firm to achieve these given objectives. In view of planning, marketer needs to define the sales strategy, location and persons through which different marketing activities are to be performed.

Organization of Marketing Activities

Marketing is a function of classifying the sales activities into sales teams. Different marketing activities include purchase, sale, arrival, packaging, price, advertising and selling. The roles and duties of the manager (e.g., sales manager) and subordinate working under him. The basic element of organizing in marketing management is to carry out the function of sales personnel effectively.

1. Selling for Marketing Activities

Selling function deals with the appointment of different personnel for marketing department. Nowadays, a separate personnel department has been created. Its responsibilities will consist of recruiting, selecting and placing good personnel fit for its vacant posts.

2. Directing the Marketing Staff

Marketing is essentially process of getting things done, i.e., sales. The Marketing manager is not only responsible for planning and organizing the activities, but also for guiding and supervising his subordinates. He should motivate the subordinates through his leadership abilities to do the subordinate tasks efficiently for the attainment of marketing goals.

3. Controlling the Marketing Activities

Controlling is an important function of marketing management. The extent of no-fit-in-area determines the success or failure of any policy of business unit. Even the best ideas or new products are useful if it is not controlled properly.

Q6. Explain the core concepts of marketing.

Answer : 2

The core marketing concepts involve, needs, wants and demands, exchange, offer products, services and experiences, risk, satisfaction, exchanges, transaction, relationships and more. There is a close link between all the core marketing concepts, which can be clearly explained with the help of the following figure.

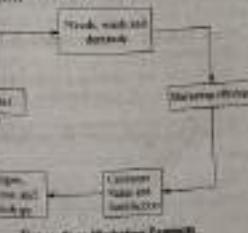


Figure: Core Marketing Concepts

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1. Needs, Wants and Demands

A human need is a state of felt deprivation of some basic satisfaction. Basic needs include the need for food, breathing and shelter. The needs are created by a stimulus which can be the biologically part of human biology. During the course of time, a person may develop need for securities, education etc. Needs determine the specific form of material needs, these are designed based on certain and individual personality characteristics. Wants are usually influenced by the society in which we individual survives. The only difference which is found between need and want is that want is a desire to have something more than what is required for our personal efficiency.

2. Market Offerings

Market offerings refer to the collection of products,

services, information or experiences that can be offered in a market to satisfy a need, or want. A group of benefits that can be offered to customers for satisfying their needs which a customer has perceived is usually referred to as "value proposition".

The major part of market offerings consists of physical products which consists of non-durable goods and consumer materials. Some examples of non-durables are cameras, TV, laptop, smartphone, shampoo, tea, coffee, chocolates, etc. Some examples of durables are automobile, electronic furniture, etc.

Marketing offers not only include physical products but also the intangible products like services, activities or benefits. Examples of services are hotel, banking, travel and travel etc.

3. Customer Value and Satisfaction

Every customer selects products and services based on his/her perception and expectation about the items offered. Basically customer satisfaction depends on the firm's ability to effectively fulfill the expectations of customers.

Customer value is calculated as:

Customer value = Benefits of customer received / Price he purchased - Cost of products

4. Exchange, Transactions and Relationship

Exchange is one of the important concepts of marketing which is a process of obtaining an object by offering another object. An exchange occurs between two or more people, who possess the products/services who carry a certain value to the other. The process wherein somebody offers something and receives the mutual benefit and acceptable benefit for both the parties is usually referred to as "transaction". A transaction takes place when two or more parties agree upon certain terms and conditions. A transaction includes the value exchanged among two or more parties and

even the shifting or switching from one seller to the buyer. Marketing does not mean just in a single transaction which occurs between the marketer and the customer, but try to maintain a long term relationship with their customers by especially satisfying their needs. The objective of marketing is not only to attract new customers and cross transaction but also to maintain customers and legitimate their business with the company.

5. Market

A market is considered as a physical setting where buyers and sellers interact with each other for the exchange of goods. The sellers, manufacturers, intermediaries, buyers, regulators etc., are part of a market i.e., Whole world.

Q4. Discuss five major shifts in marketing management.

Answer :

There are following five major shifts in marketing management which are widely followed in current scenario & IT era. They are:

1. Marketing for Everyone

Marketing is a process of identifying services required to deliver price, products and distinctive good and services to a group of consumers. Marketing is not only acquisition of customer value but also creation of value in core processes like pre-product realisation, sustained innovation and execution and value addition.

2. From Organizing by Product Units to Organizing by Customer Segments

Companies are now shifting from product centric to customer centric. To capture competitive position in the market, organizations are giving more importance to customer satisfaction and creating customer preference.

3. From Making Everything to Building more Goods and Services from Outside

The companies are following the strategy like reviewing own brands and own activities whereby understanding these activities which can be performed at a low cost by a third party.

4. From Using Many Suppliers in Working with Few Suppliers in a "Partnership"

The relationship between suppliers and distributors are becoming strong. Some of the companies consider themselves as "partners" in delivering value to the ultimate customers.

5. From Buying on Old Market Positions to Discovering New Ones

The trend have been shifted, now the companies are focusing on building customer basis, formulating new marketing strategies, diversifying products... rather than following old market trend.

6. From Emphasizing Tangible Assets to Emphasizing Intangible Assets

Selling by assets are the main strength, when the intangibles are not more than market share specially their brand, employees, customers have developed trust etc.

QUESTION / **Outcomes** of Section 4.1 EXERCISES: From last page of Q4 answer

7. From Retailing Business through Advertising to Building Brands through Performance and Interacting with Customers

Communication Marketing mechanism is a blend of several tools for building and nurturing customer brand image based on using a single communication tool.

8. From Attracting Customers through Stores and Salespeople to Making Products Available Online

Customer are an online shopping so that they can sell a lot of their time. Companies are displaying their offerings of products along with their price and features, service and easier processing also on their official website which can be easily accessed by customers. Electronic selling is a process where both buyers and sellers interact with each other through these platforms. Business-to-business (B2B) purchasing is the best e-commerce method of e-commerce.

9. From Selling to Everyone to Trying to be the Best Firm Serving Well Defined Target Markets

Companies are now focusing on more effective way to increase competitive position by considering customer base and preference, preference etc.

10. From Focusing on Profitable Transaction to Focusing on Customer Lifetime Value

The basic idea behind this strategy is to retain old customers by emphasizing on their individual values so that profit margin can be substantially improved.

11. From a Focus on Gaining Market Share to a Focus on Building Customer Share

The major focus of companies is to build customer share by providing a wide range of goods and services to the end customer.

12. From Being Local to Doing Global

Nowadays, firms are adapting coordinated and decentralized approach for maintaining proper relationship between local and global market culture. The companies are improving its local level by following the structure at a global level.

13. From Focusing on the Financial Aspects to Focusing on the Marketing Aspects

Management is focusing on improving marketing instead of just focusing on financial status, customer satisfaction, customer base for product quality etc., which is more helpful in predicting the business results.

14. From Focusing on Shareholders to Focusing on Stakeholders

Managers are implementing policies and strategies to balance the relation not only to shareholders but also to all stakeholders.

Q44. Explain the significance of marketing.

Answer :

Marketing play a significant role in generating profits of the company. No company will not grow fast and sustain unless selling activities are undertaken in that company.

UNIT-4: Production and Marketing Management

The significance of marketing can be divided into two

1. Significance of Marketing to Society

Marketing activities are considered as significant to the following reasons,

2. Significance of Marketing to Society

In developed countries like U.S.A, Germany, Japan and many more nearly 40% of the population are engaged in marketing activities like - Marketing, wholesale distribution, transportation, warehousing, promotional activities, market research activities etc. Manufacturing industry also involves in the implementation of marketing by developing sales activities in their activities.

3. Significance of Marketing to Society

For effective marketing process will succeed in increasing the products services in the market. The production levels of the country has to be increased to match with the increasing demand. Higher the production levels, higher will be the national income of the country.

4. Significance of Marketing to Society

Marketing involves identifying needs and wants of the customers and offering goods and services as per the needs of the customers. This process will automatically, increase the standard of living of the society.

5. Significance of Marketing to Society

Minimizing the distribution cost is one of the objectives of marketing. When distribution cost is reduced, the price of the product will automatically get reduced. The customers who comes purchase products offered at a reduced price can now purchase for products, in price to reduce due to reduction in distribution cost.

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8. Significance of Marketing to Society

An effectively designed marketing system often follows the following steps in the new policy.

9. Significance of Marketing to Society

An effectively designed marketing system often follows the following steps in the new policy.

10. Significance of Marketing to Society

Generating profits is the main objective of each and every business. An effectively designed marketing system assist the company in achieving such objectives. Marketing focuses on minimizing the selling cost and creating demand for the product through various promotional activities. And this focus will lead to profit generation.

155 Answer 4.1 Planning and Marketing

The main aim of marketing can be divided into two

1. Significance of Marketing to Society

The main aim of marketing is planning, advertising and sales i.e. taking various measures pertaining to business like manufacturing of products, how to be produced by the company is decided on the basis on customers demand for the product and sales scenario. While advertising is a marketing activity, Marketing activities are subdividedly elements of other functional areas such as production, finance, purchasing

2. Significance of Marketing to Society

Marketing is a fine interaction of between company and the society. The information related to consumers' tastes, preferences, their behavioral trends and changes in their use to follow through marketing. Apart from this advertisement, other marketing activities can also be taken through advertising, Marketing is also used to aware awareness of the customers regarding the introduction of new products.

3. Significance of Marketing to Society

Marketing increases production and success in increasing the products services in the market. The production levels of the country has to be increased to match with the increasing demand. Higher the production levels, higher will be the national income of the country.

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10. Significance of Marketing to Society

On the basis of segmentation, target market is selected in the market, which a company is going to serve. In a segment, the same user possess some characteristics and a single marketing mix is used. The marketing personnel recognize various characteristics to segment the market and create profile for market segments that have emerged.

11. Significance of Marketing to Society

Segmentation is the process to divide groups of individuals or organizations that play an important role in determining the marketing strategy or decisions. Through segmentation, different markets are created into smaller and specific submarkets. The main purpose of identifying groups of customers with similar characteristics was to serve them effectively. It acts as the base through which the marketers identify their audience and analysis strategies to serve their customers better than the competitors.

12. Significance of Marketing to Society

On the basis of segmentation, target market is selected in the market, which a company is going to serve. In a segment, the same user possess some characteristics and a single marketing mix is used. The marketing personnel recognize various characteristics to segment the market and create profile for market segments that have emerged.

2. Tailored Marketing Mix

Segmentation helps in grouping the customers, on the basis of the customers. Markets are capable of attracting the desired segments of segments and create a marketing mix, which suits their needs. Segmentation enhances customer satisfaction, by tailoring products in different set of needs, which can be identified and fulfilled by the supplier.

3. Differentiation

A company divides its market into different segments so that, it can differentiate its products or offerings between segments and its each segment, it can differentiate its offering or products from competition. A company develops a differential advantage over the competition in this, the customers get attracted and purchase new products.

4. Opportunities and Threats

Markets are very sensitive with the economic fluctuating wealthy. Their try to adopt new approaches and develop systems which result in the emergence of new segments. A company can identify those segments which are not served and fully their needs better than the competitors. In the same way, if a firm ignores its internal market segments, then it may result that to the company as the competitors can rise in the competing area from the market.

Need for Market Segmentation

In all the successful businesses, market segmentation plays a very important role in the marketing strategy and serves as a strong marketing tool. The following points help to know the need and importance of market segmentation.

1. Markets consist of groups of individuals or firms having different needs and preferences. The use of market segmentation helps the marketers to estimate the needs and wants of the consumers accurately.
2. As different market segments have different size and potential, market segmentation helps the decision makers to develop marketing objectives precisely and allocate resources efficiently.
3. The use of market segmentation, helps the marketers to make appropriate selection of target markets.
4. An segmentation helps in developing precise marketing directions, the performance can be assessed effectively.
5. Market segmentation helps the marketers to utilize special care needed in product, distribution, promotion and pricing for marketing up with the consumer groups.

Q48. What are the various levels of market segmentation? Discuss in detail different types of segmentation.

Answer :

Levels of Market Segmentation

The following are the levels of market segmentation.

1. Niche Marketing

Niche is a small group of consumers trying to obtain different types of benefits. Marketers recognize niches by classifying a specific niche segments. Niche markets are used and effectively used in two competition. The marketers of these niches have complete knowledge about the needs of their customers.

2. Mass Marketing

Mass marketing is a type of target marketing in which the marketing programs are created according to the needs and wants of broad customer groups. It is also called as gross market marketing, in which the products or services are price and by communicating its features and advantages will convincing it with distinct and interesting experiments.

3. Customization

In this level of market segmentation, operationally diverse mass customization is integrated with customer based marketing for designing the products and services according to the needs and wants of the customers.

Types of Market Segmentation

There are three types of segmentation. They are:

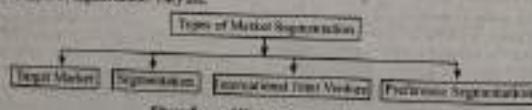


Figure: Types of Market Segmentation

QUESTION: Can Purchasing of the book is a DEMAND or DEMAND is for PURCHASE, according

UNIT 4: Production and Marketing Management**1. Target Market Segmentation**

Target market segmentation is associated with the development of effective products, strategy, planning, etc. This basic process of identifying and describing target markets is often referred to as market segmentation. It is the process of dividing a market into smaller, more homogeneous groups of customers, say children, workers and others.

2. Product Segmentation

When the product offering is being gradually increased and customized by a company, each segment of the firm's market will be served with products that are tailored to its needs. The product segmentation can easily be carried out as the prices where the production of materials parts and finished stock become expensive. Another plus factor for business deal with a cost friendly segmentation is that no one of the profit goes from the other. These segments have lead sales opportunity for the firm to have a high market penetration. The matrix shown in figure is a guide to deciding about product segmentation opportunities.

In a relatively periods, particularly when it is a short amount of materials, there will be an increased tendency to rapidly going to small customers with specialized needs.

Customer's propensity to choose low price over product features	Product and market parameters related to elevating product features or specifying market segments
High	Good prospects for customer segmentation Good prospects for market segmentation
Low	Good opportunities to reduce prices to eliminate price elasticities in accept low-priced, smaller product offerings Good prospects for product-based segmentation

Table: A Guide to Product Segmentation Opportunities

3. Preference Segmentation

According to Philip Kotler "Market segmentation is subdividing a market into distinct and homogeneous subgroups of consumers, where any group can subsequently be selected as a target market to be our marketing strategy."

Preference segmentation includes individuals who have similar relative preferences for all the products in the product class. For example, those individuals who use the Honda model of automobile has more like interests in other models.

The market segment formed in this manner have similar product preferences and are expected to exhibit similar product purchase behavior.

In preference segmentation, the market segmentations is the analysis of perceptions and preferences of the consumer along different products and their features.

Q49. What are the steps involved in the process of market segmentation?

Ans:

There are eight steps involved in market segmentation, which are discussed below.

Step 1: Define a Problem

Market segmentation may failure in assessing different groups with respect to the market segments response to be used in marketing strategies like price or product changes, new product offerings, advertising, discounts etc. This strategy further helps in choosing the correct market segments for the firm's strategy.

Step 2: Choose the Segmentation Basis

Usually the segmentation studies are being conducted by the marketing practitioners with the help of one or two dimensions i.e.,

- (i) Demographic
- (ii) Geographical
- (iii) Behavioral
- (iv) Psychographic

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Step 3: Selection of Descriptors which Define Characteristics or Beliefs in the Segmentation Basis

The next step is to select a set of descriptors which consists of one variable like age, income, gender etc. The presence of derived variables would make the segmenting process a difficult one for the marketers. For instance, the extent of quantity of a product purchased heavily depends upon various variables like age, location, gender, income, culture, social class and so on.

Step 4: Choose a Sample of Consumers who Would Represent the Large Population of Interest

The basic idea of this step is to carry out the research and identify the segments in the local home.

Instead of collecting the data from the complete population, it is collected mainly from a sample of population, and then it is converted into whether the segments exist within the sample or not. If the segments are present within the sample, then the sample results can be used for the complete population to identify the complete segments.

Step 5: Gather Data on Segment Descriptors from the Sample of Consumers

When the marketers collect the data from the sample of consumers, then they can make use of both primary data collection method and secondary data collection method.

Step 6: Identify/Create Segments on the Basis of Selected Consumer Descriptors

The marketers should form the segments by defining what separates a buying line between the different segments. This helps in ascertaining as to which segment each sample consumer may belong.

Step 7: Create Profiles of Segments

As soon as all the respondents are being categorized into various segments, the profiles of these segments are to be organized on the basis of their critical discriminating factors.

Step 8: Convert the Results into Marketing Strategy

This is the most difficult task of the segmentation project. During this stage, the marketer chooses target market group, and formulates suitable marketing mix for the selected segments on the basis of their findings related to segments' expected size and profile.

However, the segmentation study must be successful if the marketers has the capability to understand and use them as guidelines for the design, implementation and analysis of marketing strategy.

Q48. Discuss the bases for segmenting consumer markets.

Answer :

The three variables which are used for segmenting consumer markets are as follows:

1. Geographic Segmentation

The geographic segmented markets are classified into various geographical zones like regions, cities, countries and towns. The geographic segmentation is considered to very important in India because different consumers have

PRINCIPLES OF ENTREPRENEURSHIP (INTU-HYDERABAD)

different preferences and purchase behavior in different regions and states of the country. The geographical features of a market is also amenable and accessible.

2. Demographic Segmentation

Demographic segmentation is a type of segmentation in which the markets are classified into groups depending on the variables like age, family size, family life cycle, income, gender, occupation, education, religion, race, nationality and social class. Demographic variables are very popular among the marketers as it helps in differentiating customer groups.

3. Psychographic Segmentation

The outcome in which psychology and demographics are used for understanding the consumer is called as psychographic. In this type of segmentation, buyers are classified into various groups depending on the psychological or personality traits, lifestyle or values. The values and lifestyles of the customers influences the product and brand selections made by them. Hence, values, lifestyles and personality characteristics of the consumers acts as an important basis for segmenting consumer markets.

4. Behavioral Segmentation

Behavioral segmentation is a type of segmentation in which the buyers are classified into groups depending on their knowledge, attitude, use and response towards a product, occasions, benefits, status of user, usage rate, loyalty index, buyer readiness stage and attitude.

5. Quality Segmentation

Occasion segmentation helps the firms to expand the usage of their products. In this segmentation, buyers are differentiated on the basis of the occasions in which they develop a need for buying and using the product.

6. Brand Segmentation

Many marketers make use of benefit segmentation for segmenting their consumer markets. In this segmentation, buyers are differentiated on the basis of the benefit they want to obtain.

Q49. What are the bases for segmenting business markets?

Answer :

In segmenting business markets, marketers make use of some of the same variables which are used in segmenting consumer markets like geography, benefits and usage rate. However, business marketers also makes use of other regularity for segmenting business markets.

The following are the bases for segmenting business markets.

1. Type of the customer

2. Type of consumer aid

3. Transaction orientation

4. Location of the Customer

Marketers usually segment business markets geographically and concentrate on the geographical location

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UNIT 4: Production and Marketing Management

of the business. For example, the organization which produces and resources are located near the market for reducing the shipping costs.

Other factors based on geographical location for locating the industries near the industry providers because of relative proximity of the firms.

5. Type of Customer

Business markets are segmented based on types of customers such as:

6. Industry

The firms which are selling their products to business customers in different industries will segment their products depending on the industry.

7. Size

The size of the business customers can be determined with the help of the factors like sales volume, number of employees, production facilities and number of office offices. Most of the sellers classify their potential market into large and small accounts with the help of separate distribution channels for reaching each segment. The sales force of the seller can directly reach the large volume accounts but for reaching smaller accounts they make use of middlemen or depends on license or subcontracting.

8. Organizational Structure

Organizations tries to sell their products in number of ways. Some depends mainly on their purchasing departments for controlling the inflow of information, decreasing the number of possible alternatives and conducting negotiations. The selling staffs in these firms need a strong personal selling efforts by purchasing executives. It also requires efficient supporting materials when product exceeds the technical expertise of purchasing managers.

The other buyers are sellers or buyers of the products who are directly influenced by the practice in the purchase process. Such type of buyers involve either of intermediaries, their dealers, contractors working for a long period of time and vary our internal organizations.

9. Criteria for Making Purchase

Buyers want quality products at low costs and on time delivery. This factor plays a very important role for segmenting business markets.

10. Transaction Conditions

Some marketers make use of transaction conditions for segmenting their business markets. The sellers have to change their marketing efforts for managing various buying situations, usage rates, ordering, purchasing and delivery services.

There are three transaction conditions,

1. Buying Situation

On the basis of the buying situation, the marketers segments their business markets.

Q50. Define Base.

The term 'market' indicates where the buyers locate their markets between local, state, national and international. Markets are very important for the firms to earn profits, large volume of their products. Increasing heavy taxes on the firm have forced on high taxes and raised competition.

Q51. Define Method.

Consumers have duals of different ways such as by buying, borrowing or by overusing utility. The power of the products are either used, regenerated or are kept as a waste. All the processes mentioned here depend on the market.

For competing in a market in a limited field market, it is very important for the sellers to have low costs for which it is very essential to keep their edge above the market and what the other firms would do.

How segmentation helps in determining the opportunities which occur in the market.

Q52. Briefly explain the process of segmentation for organizational markets. What are the various benefits of market segmentation? State the various costs involved in market segmentation.

Answer :

Process of Segmentation for International Markets

International market segmentation needs more dimensions than segmentation done in domestic markets in domestic markets. First, markets are required to segment either by country or by region. Depending on the demographic, behavioral and cultural characteristics, which dictate the marketers to find their customers. After segmenting into countries the firms may act as business clusters in domestic markets and similar approaches are adopted.

Segmenting countries as dependent on socio-economic, political and cultural factors. According to marketers the country segmentation is done at the level of state.

1. Country Development

The criteria of segmentation is defined using factors and characteristics of firms and products.

2. Preliminary Screening

The countries that the company wants to serve are identified and countries that others are rejected.

3. More Segmentation

Segmentation does not only focus on the needs of consumers but also on the segments. Many segments are not able to sustainably meet their needs. Interactions with other market segments which compete directly can come up with cross-border segments. When segmenting international markets, companies consider certain risk based approach by countries, time of sale peak and also speed of adoption by consumers.

Benefits of Market Segmentation

The benefits of market segmentation are as follows:

1. Customer Driven

As market segmentation is customer driven, it is compatible with the marketing concept. According to promotional decisions and needs of customers each sub-market are clearly determined and thus accordingly a marketing mix is designed for satisfying these wants.

2. Optimum Utilization of Resources

Making the use of marketing programs to individual customer segment helps the firm to carry out the marketing job effectively and makes optimum utilization of its marketing resources.

3. Growth of Medium Sized Organizations

Development of strong positions in specialized market segments by the medium sized organizations to grow rapidly. For example, Volkswagen, Toyota Company, or Volkswagen had introduced various positions in specialized market segments and has now become the largest producer of cars and major trade for the exports in the world.

4. Reduced Wastage of Resources

Large organizations have sufficient resources to deal in mass marketing and having expensive national advertising campaigns. These organizations adapt market segmentation and convert it at an effective strategy for reaching the market.

5. Competition

Market segmentation helps the small firms with limited resources to effectively compete in one or two small market segments.

6. Segmentation of Markets

If the markets are not segmented, then the customer base increases so that have to make complex decisions for a single purchase when number of same products are available.

Costs of Market Segmentation

Depends on providing various benefits to the firm, market segmentation can be carried out as follows:

1. Manufacturing costs would be higher due to the shorter production cycle.
2. Research costs would be higher due to the type of product new market segments.
3. Promotional costs would be higher when quantity market demands are being less.
4. Overlapping market coverage may result into "overproduction", because one product may drag the market share of other other company's product.

4.10 MARKET RESEARCH

Q51 Define marketing research. State its characteristics and objectives.

OR

What is market research? Explain its nature.

Medium term strategic analysis

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Answer 1**Marketing Research**

Marketing research is a process which has to do with the gathering, processing, analyzing, interpreting and disseminating of information to facilitate and improve decision-making.

"Marketing research is a branch of marketing and agency that studies specific objectives from problems in order to guide decisions".

— David East and J. R. Reiter

Characteristics of Marketing Research

A good marketing research must possess the following characteristic features:

1. Objectivity

Objectivity helps in determining the unbiased solutions to the marketing decision-making problems. The personal views and opinions of researcher with respect to the relation of marketing research problems are not taken into account in objective marketing research.

2. Relevance

Relevance is one of the characteristic features of a good marketing research. Relevance means that, relevance information is not collected along with its related cost. The information gathered is concerned with the decision maker's advice for action to attain the relevance.

3. Systematic

A good marketing research must follow a systematic approach. All the steps of the marketing research process must be planned in such a way that the completion of one step results in the beginning of the next step. In a systematic approach, the researcher cannot go back to the previous stage for correcting the errors. Systematic approach helps in planning and organizing the steps which are dependent on each other.

4. Reproducible

A Reproducible research process can be copied by the researcher having same level of competency and can obtain similar outcome from the research process. In order to develop a good marketing research process, each and every procedure relating to the questions used, sampling methods, data collection methods and so on must be specified in detail.

5. Controllable

The last characteristic feature of a good marketing research is Controllability. The factors which may affect problems in the marketing research process must be controlled. The control factor must take into account two aspects, which are as follows:

- (i) Uncontrollable factors must be recorded.
- (ii) Controllable factors must be classified on the basis of the nature of investigation.

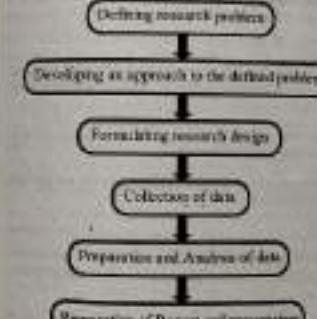
Q52 Explain the scope, need and importance of marketing research under changing business environment.**Objectives of Marketing Research**

The main objectives of marketing research are as follows:

1. To gain knowledge about the market, or to identify new concepts from it. Thus objectives of Marketing Research help in acquiring the knowledge and set as a guiding force to obtain a good quality of research work, which is independent of any external sources.
2. The main purpose of Marketing Research is to gain knowledge about the marketing culture, marketing orientation and marketing decision process so that, the firm can have greater marketing control.
3. To assess the feasibility with which a specific thing takes place or with which it is related to marketing.
4. To identify the cause and effect impacts by testing a hypothesis or a stated relationship among the variables.
5. To provide information related to manufacturers, retailers, suppliers of various types of services.
6. To provide solutions to the problems of the business and industry relating to marketing.

Q53 Explain the marketing research process.**Answer 2**

In general, for larger enterprises, the process of selecting research comprises the following six steps:

**Figure: Marketing Research Process****Step 1: Defining Research Problem**

In the beginning, researchers must define the research problem keeping in mind the object of research. Defining research problem include describing the information needed and use of that information in decision-making.

Step 2: Developing an Approach to the Defined Problem

For developing an approach to solve the research problem, researchers should first understand the need for research. Accordingly, they are required to plan out a theoretical framework for research. Particular analytical models, research questions and hypothesis for testing have to be developed.

Step 3: Formulating Research Design

A research design is a plan of how to conduct a research. It includes the procedures to be followed for the execution of a research project including a research problem, to also suggest appropriate testing methods and alternative solutions to the research problem.

Step 4: Collection of Data

Once the data collection methods are decided, data collection team is formed and supervised. The data collection team follows the guidelines of research design and uses data collection methods that are frequently modified to make easier in data collection.

Step 5: Preparation and Analysis of Data

The collected raw data is sorted and cleaned. Data preparation involves coding and transformation. Data is also analyzed and revised following the guidelines of the research design. Finally, information is generated that aids managers in understanding the research problem and its possible alternatives or solutions.

Step 6: Preparation of Report and Presentation

Finally, when the research is complete, now comes discussing the actual process concerned for the research. Research results are presented for easy understanding of the decision makers. Presentments are made about the research problem and the findings are discussed. It involves drawing tables, charts, graphs, ratios and other tools that simplify the information to support decision-making.

Q54 Explain the scope, need and importance of marketing research under changing business environment.**Answer 3****Scope of Marketing Research**

The marketing has a wide scope which is explained as follows:

1. Problem Solving

Marketing research is the process that uses scientific method to solve the problems related to marketing by providing the relevant information that is needed.

2. Studying the Customers

Marketing research helps in understanding the customer's needs, which are useful in the production of products, that are required by the customers.

3. Collection and Analysis of Information

Marketing research uses various approaches and research designs to gather and analyze the required information. This provides more useful data to the research manager.

4. Identifying Market Opportunities

It helps in utilizing the marketing opportunities by contacting market research, by calculating the market demand. It helps the firms to make strategic market planning and implementation for increasing and evaluating its effectiveness.

5. Principles for Generating Information

Marketing research consists of procedures which are important and useful in achieving the objectives, which are required to support the decisions.

Need of Marketing Research

- The following points highlight the need of marketing research in following situations:
 - When a firm is introducing a new product in the market.
 - When the sales of a product is decreasing and reasons for the decrease in sales are unknown.
 - When information relating to demand of products like facts and figures is not known.
 - When to gather information relating to habits and preferences of the consumers, so that an effective advertising programme can be designed.
 - When firm wants to identify the area of improvements in existing product.
 - When there are rapid changes in income, habits, behavior and preferences of consumers.
 - When to find out the policies and strategies of the competitors so that a company can make necessary alterations in its policies.
 - When the pricing policy of a company needs to be modified, as it is not beneficial when compared to competitor's pricing policies.

Importance of Marketing Research Under Changing Business Environment

Globalization and growth of internet has greatly affected marketing research, due to which principles and methods of marketing research keep on changing i.e., they are fluctuating at a faster rate. It is explained in detail as follows:

1. Impact of Globalization on Marketing Research

- (a) Non-globalization market research grows significantly. Most of the companies and the extensive market research agencies (One example is ITC Nielsen International, which is one among the world's largest marketing research company, widely known for its television ratings).
- (b) Marketing research is considered as one of the important tool which is being used by the companies to identify the needs and tastes of the customers and thereby produce the products as per their needs.
- (c) The companies which are operating their business internationally are required to work on per the strategies that are prevailing in that particular market, so that business operations are carried out effectively.
- (d) Influence of Internet
- (e) The circulation of internet has gained popularity and is being used widely. It has broken all the barriers of communication, so the people can communicate with other people from any country. Hence, it enabled people to stay connected 24 hours a day.
- (f) Internet also helps in collecting information... It helps the researchers to find out the information easily and quickly. As the searching materials are books or library consumed time, the same information can be obtained from the internet very easily and quickly, within few seconds.
- (g) In the changing business environment, internet has proved to be a very useful tool for marketing research as the required information can be gathered without any difficulty.

Q54. State the relationship between marketing research with other disciplines. What are the limitations of marketing research?

Answers :

The relationship of marketing research with other disciplines is explained as follows.

1. Marketing Research and Top Level Management

The marketing research is very useful to the top level management, as it provides the basis for making strategic decisions. Therefore, consideration is given to the management and research department for the success of the marketing research.

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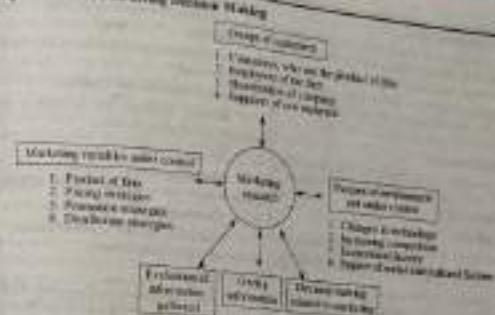


Figure: Marketing Research in Marketing Decision Making

In marketing research, importance is laid down on determining the needs and wants of the consumers and then, the marketing strategies are designed accordingly. This helps in satisfying the consumers, as the products are produced as per their requirements.

The competition in the market can be observed easily with the help of marketing research. It provides the relevant information to the managers on the basis of which sound marketing decisions are taken. Thus, marketing research is a tool for marketing decisions.

3. Marketing Research in Competitive Intelligence

- (a) Marketing research plays an important role with process of collecting, analysing and disseminating the information required by the competitive intelligence.
- (b) The competitive intelligence enables the firms to observe the competitive environment and compete by pursuing a better understanding of the marketplace competitiveness.
- (c) The competitive intelligence provides information to assist assessments about various departments of the organization like marketing, research and development. This information is helpful in the functioning of decision-makers.

4. Marketing Research in Marketing Information System (MIS) and Decision Support System (DSS)

The information gathered with the help of marketing research are termed under various like models and competitive intelligence forms an important part of Marketing Information System (MIS) of its importance. The marketing information system can be described as a process consisting of procedures used for creating, maintaining, modifying and disseminating the information to the decision makers. MIS provides easy information to the decision-makers which help them greatly in the decision-making process.

5. Marketing Research in Decision Support System

The Decision Support System (DSS) has developed in order to utilize the facilities of MIS. The decision support system is the system which includes hardware, software and the use of decision support systems for gathering and processing the information used in decision making. The decision support system is quite different from management information system, as it uses various models and techniques in its functioning. DSS is useful in several ways, such as it leads to improvement in efficiency and effectiveness in the decision-making process.

Limitations of Marketing Research

The limitations of marketing research are as follows:

- (a) **Hurdles in Studying.**
Marketing research becomes disadvantageous, as no approach, as a result, is becoming difficult to have a overall perspective in which a marketing problem is to be solved and studied.
- (b) **Misled by Untrained Employees.**
The principles of marketing research are given and based on scientific laws or rules. But usually there are two major flaws people who have not learned training of the subject.

3. Absence of Communication

There is an absence of a meaningful communication between the marketing management and the marketing research team. As a result, marketing researchers get separated from the main process of marketing. This causes them to get any opportunity to test their findings in the practical marketing situation.

4. Attitude of Researchers

Marketing researchers tend to think that "research is the be all and end all". This attitude further reduces the utility of research in the management.

5. Not Exact Science

Marketing research is not an exact science. There are several difficulties which become obstacles in the way of getting accurate results.

4.11 CHANNELS OF DISTRIBUTION

Q55. Define Distribution Channel. Explain its need and functions.

Answer :

Distribution Channel/Marketing Channel

"A channel of distribution (sometimes called as trade channel) is a product's route taken by the firm in the goods as they move from the producer to the ultimate customer or ultimate user".

William J. Nease

"Every producer seeks to link together the set of marketing intermediaries that best fulfill the firm's objectives. This set of marketing intermediaries is called the marketing channel (also called mid-channel) or channel of distribution".

Philip Kotler

The marketing intermediaries used to transfer the goods from one place to another is called channel of distribution. When the goods reaches the ultimate consumer the process is called as distribution. Distribution channel is also called marketing channel.

Chains of distribution act as a system for both manufacturers and sellers for distributing their products into the market and to the final consumers. Thus, channels are therefore required for moving the goods from producers to consumers with the help of exchange process by considering the price determination.

Need for Distribution Channel

The following points highlight the need for distribution channel:

1. The distribution channels are necessary for the smooth functioning of organization by making the products available to the market based on consumers requirement.
2. They act as a link between the manufacturer and the consumers.

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1. The distribution channel or intermediaries make the exchange process of the product or service at a specific margin.
2. The intermediaries help in the smooth flow of production services.

Functions of Distribution Channel

Several functions are performed by the marketing channels which are as follows:

1. **Buying Goods**
- Marketing channel members purchase a wide variety of goods from the manufacturers or from different channels.
2. **Carrying Stock**
- Marketing channel members assume the risk involved in buying and holding of stock.
3. **Selling**
- Marketing channel members carry out the activities which are needed for selling the goods to consumers or other stages.
4. **Transporting**
- Marketing channel members help in arranging the transportation facilities for delivering the goods at the desired location.

5. Financing

Marketing channel members provide the funds needed for financing the expenses of the channel activities.

6. Promoting

Marketing channel members promote the products by advertising at national and local level or by selling the products personally.

7. Negotiating

Marketing channel members decide on the ultimate price of the products and payment and delivery terms.

8. Marketing Research

Marketing channel members supply the information and report to the demand of the stakeholders.

9. Servicing

Marketing channel members provide various services like credit, delivery, and return.

Q56. What are the various problems in distribution?

Write about the solutions to such problems.

Answer :

Problems in Distribution

The two main problems in distribution are:

1. Discrepancy of assortment and
2. Discrepancy of quantity.

Discrepancy of Assortment

The producer specifies by product which often leads to other discrepancy known as discrepancy of assortment.

An assortment refers to keeping of products in such a way that it is easy to find the required product.

Q57-A. Production and Marketing Management

Marketing is concerned with developing and building an assortment (range) of products and a producer manufactures a set of products (of producer's assessment) and provides it to consumers. Many consumers desire to have a broad assortment of products, but it is not economical for producers to offer wide variety. Discrepancy of assortment is the variation between the producer's assortment and final consumers' assortment. Discrepancy of assortment is due to the consumer desire for a broad assortment, but an individual manufacturer manages a narrow assortment.

Discrepancy of Quantity

The variation between the product's quantity which can be produced cost effectively and efficiently by a producer and the quantity of products which final users or customers usually desire for is discrepancy of quantity. This difference is considered as inventory by wholesalers and dealers to manage and adjust this discrepancy.

Solutions to Problems of Distribution

Discrepancies are rectified by channel specialists with the help of reorganizing activities which modify the assortment of products managed at every level in a particular channel. The first reorganizing activities are:

1. **Accumulating**
2. **Bulk-breaking**
3. **Sorting and**
4. **Assorting**

1. Accumulating

Accumulating refers to collection of products for several small producers and converting it into larger quantities. It is a method through which transportation cost can be reduced and consumers can purchase and storage the products easily. In less developed countries and agricultural nations, accumulating is very useful as there are several small producers.

In professional services like educational and medical services also accumulating plays an important role which consists of an integrated work of several individuals who are experts. Many purposes are served by integrating several small groups of similar products into larger groups. Transportation costs is less for bulk quantities, products can pass through marketing channels less expensively. Accumulation provides a constant supply of products to large numbers of buyers. It allows the producers to concentrate on stocks and replace them, hence reducing losses due to the material supply. If even minor price related to price fluctuations for seller and buyer.

2. Bulk-breaking

Allocation or bulk-breaking refers to division of large quantities into smaller quantities when products have reached the final market. Bulk-breaking helps in

the producer's need and it consists of many middlemen, intermediaries and small dealers in other industries or in whom they sell individual items to their customers.

3. Sorting

Sorting implies segregation of products into suitable and proper respond to various target markets. Sorting is the initial step in classifying an assortment which includes segregating pairs of heterogeneous products into appropriate mass, homogeneous groups on the basis of product characteristics like shape, size, colour or weight.

4. Assorting

Assorting is balancing together a variety of products to suit the target market what is required. It is carried out by people who are easy to fit in the user-industry or intermediaries or final consumer's place of sale to offer a special arrangement for their customers' convenience.

Q58. Develop the channels of distribution in marketing.

Answer : *(With Note R. May / Rev. Dr. C. Venkateswaran)*

Distribution channels can be classified depending on the number of channel levels involved in the distribution function. Every layer of marketing intermediaries which inter-link source and target market and in turn leading to the final buyer or consumer is called a channel level. In every channel, producer and consumer exist. There are two types of marketing channels based on number of levels. They are:

1. Direct Marketing channel and
2. Indirect Marketing channels.

1. Direct Marketing Channel

Direct marketing channel is also known as zero level channel. In this intermediaries are not present. In this distribution system, the goods are sold directly by the producer to the customer. The firms perform all the channel functions and sell the products themselves for reaching the consumers.

Example

Direct marketing firms, Banks, Post offices, etc. are examples of direct marketing channels.

Product

Customer

Figure Direct Marketing Channel

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Q9. Indirect Marketing Channel

It refers to a marketing channel consisting of a number of intermediaries at every level of the channel. In the indirect marketing channel, a third party is used for distributing the goods and services of the company. Based on the intensity of distribution, indirect marketing channel is categorised into the following types:

(i) One Level Channel

In one level channel, only one intermediary exists i.e., either a retailer or a distributor between the producer and the consumer. If the distributor is an intermediary, then this channel is used for specialty commodities such as, washing machines, refrigerators or industrial products.

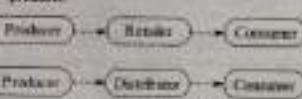


Figure: One Level Channel

(ii) Two Level Channel

In the two level channel, two intermediaries exist i.e., either wholesaler/intermediary and retailer between the producer and the consumer.

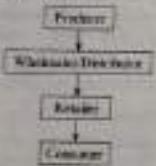


Figure: Two Level Channel

(iii) Three Level Channel

In this channel, three intermediaries exist i.e., distributor, wholesaler and the retailer between the producer and consumers.

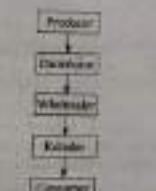


Figure: Three Level Channel

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Q10. Four Level Channel

In the four level channel, four intermediaries exist i.e., the agent, the distributor, the wholesaler and the retailer between the producer and consumer. This channel is mostly utilized for consumer durable goods.



Figure: Four Level Channel

Apart from the above channels, many different combinations of channels exist. Based on the kind of products, different channels are selected. Short channel is adopted for non-durable and perishable goods, whereas longer channel is selected for consumer durable products. Hence, different types of channels are selected for different products.

Q11. Discuss the services rendered by the wholesalers.**Answer :**

The wholesaler services are categorized into two types which are as follows:

- Services to manufacturers
- Services to retailers.

The following are the services provided by wholesaler to manufacturers,

(i) Assist in Promoting on Products

The wholesaler by performing the marketing function help the manufacturer to focus on the production problems.

(ii) Provide Assistance in Large Scale Production

The wholesaler receives orders from retailers and manufacture that is to manufacturers or makes bulk purchases from the manufacturers for resale.

(iii) Distribution Facilities

The wholesaler is responsible for collecting goods and distributing goods to number of retailers and reduce the manufacturer from this task.

(iv) Assisting Demand and Forecasting

With the placement of orders by the wholesaler, the manufacturers are able to control their rate of production and evaluate their demand of sales as per the changes in the demand pattern and directions.

UNIT-4: Production and Marketing Management**planning**

The wholesaler usually deposit some cash in his account with the manufacturers and make bulk purchases at cost from them. This helps in providing financial assistance to the manufacturers.

Assist in Production

The wholesaler places advance order for the period long term demand to help the manufacturer to increase production.

Warehousing

The wholesaler makes bulk purchases from the manufacturer and stores them in the warehouses till the time they are sold to the retailers. This reduces the manufacturer from the burden of maintaining warehouses.

(v) Assist in Sales Organization

The sales organizations are readily available with wholesalers which help the manufacturer in making quick sales.

(vi) Services of Wholesalers to Retailers

The following are the services provided by wholesaler to retailers.

(vii) Facilitation of Purchasing

The wholesaler maintains the stock of goods from the various producers and serve the retailer requirements at regular intervals. As the retailer has to serve several customers, he has to stock different varieties of products. But it is not possible for a retailer to buy different varieties of products directly from various manufacturers. Who has to make his job convenient by buying goods from different manufacturers.

(viii) Low Inventory

The retailer may not be able to make bulk purchases and stock them in warehouses, as he does not have adequate capital and warehouse facilities. The wholesaler makes the goods and supplies it to the retailers in smaller quantities to meet their requirements of low inventory.

(ix) Risk Taking

The wholesaler by maintaining the stock of goods, bears the risk of fluctuations in market prices or deterioration of the goods because of natural calamities, pestilence etc., and saves the retailers from these risks.

(x) Financial Help

The wholesaler provide credit facility to the retailers by applying their goods on credit. The retailer can make the payment for the goods after selling the product to the consumers and collecting money from them.

(xi) Information about new Product

The wholesaler make the retailers aware of the new product, that are being produced, with the help of the information who are employed specifically to spread the product awareness.

Specialization Benefits

The wholesalers are usually specialized in some product lines and produces them. These producers will manufacture the best quality products at a reasonable price. This specialization of service is also provided to the retailers in the particular field from day to day.

Advertisement Advantage

The wholesaler usually be allowed for their goods through effective advertisement. This demand is only met by the wholesaler. Hence, the retailers do not have to spend on advertisements.

Commodity Services

The retail business always have the wholesaler as different sources of retailing but due to expansion of the retail store, the retailer also becomes more about the product quality & the type of advertisement required supplied by the wholesalers.

Transport Facilities

Wholesaler supply the goods to the retailers, through their own transportation, which results in reduction in total transport expenses that are incurred for bringing the goods to markets.

(xii) Price Strategy

By increasing the stock of goods, the wholesaler can offer a large discount for goods when it is required and withdraw from which is not so demand. This helps in saving the retailers from buying at the high price.

Q12. What is retailing? Discuss the functions and services rendered by retailers.**Answer :****Handling**

Relating to a process involving care of goods and handling in the course of valuable products or services that intend to be sold to the final consumers for their personal or household use.

functions of Retailers

The retailers perform several functions which are as follows:

1. Providing Wide Selection of Products

The retailers provide a wide variety of local designs, colors, sizes and prices at one place, which helps the customers to make the best selection. Further, the manufacturers produce specific types of products and if these manufacturers had their own stores which sell their own products, then it would be no motivation for the consumers to purchase different purchasing various products. The retailers provide convenience to the consumers by making the purchase of various brands and varieties available at one location.

2. Sorting

The manufacturers who produce large size or multiple items of products sell their outputs to intermediate buyers and it helps in reducing their costs. The ultimate consumers would like to receive those products.

purchase from a wide variety of goods and services. So, the resellers have to act as a buffer between the interests of producers and consumers by getting goods from different producers, purchasing them in large quantities and selling them in small quantities to the consumers individually. This process is known as storing. In this process, the resellers perform the activities and functions which adds value to the products.

8. Brokering Work

The reseller provides the products in small quantities to the customers to fulfill their needs and the consumption pattern of household. This helps in reducing the costs of warehousing, transportation, and delivery.

9. Rendering Services

The resellers provide many services to the customers which facilitates them to purchase and use the products. These services include providing credit facilities to the customers, maintaining the information to answer the customer's queries and so on. The resellers attract the customers by displaying various products. The services of the resellers help in introducing the customers from manufacturer to the consumer, providing guarantee of products to the buyers, providing after sales service and handling the complaints of the customers if any. The final processing and delivery and installation of the services are done by the resellers of the products at the place of the customers.

5. Risk Bearing

The resellers bear a different type of risk than manufacturers and wholesalers as there is a possibility of a customer coming back and returning the product. In such type of situations, the resellers has to bear the risk of product overstock. But, many firms have low back stocks and the return scheme through which the resellers can reduce the stock risks.

6. Maintaining Inventory

The most important function of the resellers is to maintain the inventory so that the products can be made available for the customers when needed. This will enable the customers to have an easy access to the products and services.

7. Communication Channel

The resellers act as a two-way communication channel between the producers and the consumers. The resellers provide the information about the preferences of the customers and the present and new products to the producers. The resellers also provide information to the customers about the date of the new product launch in the market which helps them to become aware about the products and services of the resellers.

8. Transport and Advertising Function

Resellers help in performing the functions of advertising and transport. Wide varieties of products are transported from the wholesale place to the retail place, and all these arrangements for transfer of goods are done by the resellers. All these functions, the resellers help in the process of carrying, transporting and advertising the products.

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Services Rendered by the Resellers

The following are the services provided by the resellers:

1. Storing or Warehousing

By maintaining the stock of different kinds of goods, a reseller can make the goods available to the consumers whenever they are needed. As the storage function of customers may not be able to stock goods which are used frequently, the reseller achieves them by holding the stocks of those goods.

2. Variety of Choices

The reseller maintains an appropriate mix of product varieties produced by various companies that gives a choice of choices to the customers.

3. Demand Creation

The reseller performs various activities like creating a demand for the wholesalers and producers. The various undertakings by them include displaying products, offering various services such as providing the required information to the customers.

4. Distribution

The reseller is very efficient in distributing the products to the customers. Due to his experience, he possess adequate information about goods which enables him to help the customers in making appropriate selection of goods.

5. Credit Facilities

The credit facilities are provided by the resellers to the customers just for a huge volume of sales.

6. Personal Services

Several personal services are provided by the resellers to the customers like repair services, after sales service and so on.

7. Information

The reseller gathers the information about the marketing trends, changes in fashion, preferences etc., for the resellers so that the customers need through resellers.

8. Other Services

The reseller makes the products available to the customers as per the season, culture, the customers, offers the goods easily, and improves the knowledge of customers about the products.

G80. Explain distribution channel strategy.

Answer :

The marketing strategy of a firm constitutes the important aspect of the corporate strategy, whereas the distribution system is an important function of the marketing strategy. The significance of the distribution function lies in its ability to influence to change a distribution network as it is associated with the management of financial and society relationships. A firm mission and vision are included in the corporate strategy. The accomplishment of the three strategy is highlighted by the marketing strategy. This is done with the help of product and distribution network of the firm.

G81. What factors hold more impact on the distribution strategy of the firm? Name the

Customer Service Levels

The nature of service levels which is being provided to the firm, mainly depends on the nature of customers, its products and services, its share in the market and also on the type of competition commonly observed in the markets. Even under similar conditions, the service levels are duly dictated by the availability of firms. The customers may be categorized into A, B and C using Pareto's Law, so as to take differently running various service levels.

The customers belonging to this category provide a high margin, cooperation towards the growth and development of profits of the firm. As they are very much important for the firm, they are specially treated by offering premium services.

For instance, the automobile firm because firstly on the price version as they contribute heavily for improving the sale of resale.

Category B

These customers provide the contribution on regular basis on average levels. Because of which they occupy a position as far as the priority is concerned.

Category C

The customers which provides low contributions and are sometimes usually come under this category.

Even the intensity of competition also influences the service levels because firms may improve the service levels, if it increases its market share. Service levels could be measured by examining the number of dealerships serving the market, number of customers with which the firm's company's sales present and channel partners. As soon as the service levels are fixed, the distribution objectives could be set.

2. Setting Distribution Objectives

After fixing providing the required service levels, it is also needed to fulfill certain expectations of customers, which they have from the company and its channel partners.

For instance, the resellers who are dealing with the HLL products, may expect the firm to its channel partners to maintain a steady stock of goods with them so that they can have enough of stock of these goods. Then, the HLL firm should fix the distribution objectives by emphasizing more on the customer requirements. Their expectation of the customers might be in terms of place, time and persistence within us.

3. Set of Activities

This element of distribution strategy. Assessment lies in which the firm and its distribution have to perform their activities for the attainment of production and delivery objectives to the customers. The sales persons and the distribution of field usually performs the following tasks:

Conducting sales promotion programs, sales training is conducted monthly, weekly or bi-monthly basis.

Making relevant arrangements for the delivery of products to the places of delivery.

Maintaining inventory level at minimum losses to the sellers.

Ensuring delivery of goods under minimum delivery charges to the maximum customers belonging to the market.

Control of delivery place or not to be far away from service depots.

Guarantees and service information must be updated to the users.

A company is required to follow these rules and avoid other problems like legal, ethical, environmental and many other rules.

4. The Distribution Organization

This component of the distribution strategy includes the implementation of different business functions of distribution, changes for the place of distribution and so on. The key characteristics of the distribution strategy is solving the distribution situation. Following discussions make aware the components:

(a) The level of control: Support that how can be provided to the company in its sales force and supporting which include the utilization of channel partners. There are various activities which are undertaken by the company prevent which includes planning, personnel, sales management, marketing, implementation etc. Most of the activities are performed by the sales people and the managers.

(b) The role of dealer: plays a significant role in distribution, whether to provide more sales, more or less sales, services, financial assistance, study of every customer etc. Due to increase from more selection or variety, one firm needs an outlet for the manufacturing business. To solve this problem, the firms are adopting the model of network of communication channel partners, rather than single partner.

(c) Making facilitation of channel partners such as, distribution, research, quality etc. This determines the roles and priorities for the purpose of selecting and managing the partners.

(d) Determining the objectives for every distribution and making up effective resource for maintaining the activities and measuring the performance of the distribution.

(e) Setting standard terms for the financial movement of the channel partners thereby ensuring best efficient functioning.

5. Policy and Procedure

When the network is vast, consisting of large number of channel partners, then there is a higher possibility of sales people variations and conflicts. It is also associated with the high rate of non-compliance with the policy and guidelines of the company. To fix this problem, the company defines the policy and implementation guidelines clearly. This is usually done in the form of operating manuals which will be communicated by the sales personnel. The distribution organization can be effectively managed with the help of operation manual.

The policy guidelines are also required to maintain:

- (i) Systems for the dispute settlement.
- (ii) Systems for addressing the channel partner's complaints.
- (iii) Extra payments to the channel partners.
- (iv) The extent to which the promotional expenses and service levels coverage could be increased.

6. Key Performance Indicators

The efficiency and the success of distribution strategy can be evaluated only when the firm has adopted some specific measurement criteria for its channel members. The key performance indicators is related to the service levels that are given to the customers. When the service level is attained consistently, then it represents the efficiency of the strategy and the implementation plan. There are some of the significant KPI's which includes:

- (i) The contribution achievement of targets by the authorized product groups and the like.
- (ii) Attaining the desired level of profits.
- (iii) Attaining pre-set targeted market shares.
- (iv) Maintaining stock levels.
- (v) Capability to manage the transportation and the related expenses at the different levels.
- (vi) Effective management of account receivables.
- (vii) Ensuring reduced damages to the products.

7. Critical Success Factors

The success of the distribution strategy requires, when it is supported by the top management of the firm. Some of the significant critical success factors include:

- (i) Well-defined transparent and accurate policy and procedures.
- (ii) Commitment of the channel members.
- (iii) Impressive dealing of the firm with its channel members.
- (iv) Well-defined service policy for customers, offering prompt, competitive & fair channel members who are capable of performing special promotional activities.

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4.12 SALES PROMOTION

Q51. Define sales promotion. What are its objectives, characteristics and significance?

Answer:

Definition of Sales Promotion

"In a specific sense, sales promotion is included those sales activities that implement both promotional selling and advertising and coordinate them and help to make the activities such as displays, shows, and exhibitions, classifications and other promotional selling efforts, are in the ordinary course of business to increase sales volume".

American Marketing Association

"Sales promotion comprises four major objectives and is often inter-linking objectives in a cost efficient manner by adding value or a product or service either to its manufacturer or to its customer exclusively within a defined time period".

Institute of Sales Promotion, IIS

"Sales promotion is a key ingredient in marketing campaigns, consists of a precise collection of promotional tools mostly short-term designed to stimulate greater or greater purchase of particular products or services by consumers or business".

PW&P India

Objectives of Sales Promotion

Following are the objectives of sales promotion,

1. To improve sales volume of the company.
2. To improve and increase the sale of the slow moving products.
3. To arrest and take corrective action against the sales fluctuations, so that constant sales could be achieved.
4. To introduce new features and to expand the product line.
5. To increase the repeat purchase behavior of the existing customers.
6. To cut down the operating costs of the company by increasing the economic inventories.
7. To motivate the dealers so that they can participate in display sales contests.
8. To improve relationship with the dealers and distributors.
9. To create brand recall in the competitive market of the products.
10. To develop sales force towards the attainment of their sales targets.
11. To attract customer's attention from the price and product by supplementing advertising and personal selling efforts.

Characteristics of Sales Promotion

Sales promotion is one of the powerful tool used to achieve various promotional objectives. The following are the important characteristics of successful sales promotion:

4.13 Production and Marketing Management

1. Maximum Effect at Minimum Cost

The nature of promotion objectives can be advertising objective by way of sales promotion or promotional advertising, and the promotion objective is achieved through sales promotion.

2. Motivates Consumers to Buy

Successful sales promotion effort towards purchasing over rather than posturing to future. The role of consumer is to make a final decision to proceed the transaction.

3. Offers What the Consumers Want

Sales promotion should use this strategy which is well described by target consumers. They are exact consumers of the offers are interesting, exciting and sensible to them.

4. The Promotion should be Clear and Uncomplicated

The successful sales promotion have powerful incentive pattern-out the process. There is a direct relationship between voluntary offer and result after. The promotion should be clear so that the consumers can understand the promotional offer fully. If the promotion is not clear, then the target consumers will not get attracted to the offer mode.

5. Promotion should be Highly Visible

The strategy behind making the offer is to attract the target consumers. In this case, the selection of media is crucial. If the promotion is effective, then stimulate high visibility and create publicity.

Significance of Sales Promotion

The sales promotion is gaining high significance because of the following reasons:

1. Rise of consumers in India and due to expansion of Indian market.
2. Evidence of increased spending today in industry is well in all sectors of the economy.
3. Because of sales resistance which reduces the desire to invest in designing the promotion mix of different companies which have been emerging.
4. Fragmentation of viewers and readers in a form of television channels, newspapers, magazines etc.
5. Sales promotion cost is affordable when compared to the cost of mass media.
6. Because of the standardization of both the strategies and product reduction in differentiation between two products were become common in case of consumer goods.

Q52. What are the major steps in designing a sales promotion program?

Answer:

The designing of sales promotion program follows six steps which includes - planning, implementation, monitoring and evaluation. Implementation is considerably the most important step in sales promotion activity as it is influenced by many factors and its logistics is quite difficult. Some of the major steps involved in designing a sales promotion program are as follows:

Step 1: Selection of the Sales Promotion Tools

The selection of the sales promotion tools is an important part of the sales promotion strategy. At this stage, the objectives of the sales promotion are determined by considering the marketing mix elements and overall environment. A careful analysis of the above points will help to select the suitable tools.

Step 2: Advertising the Sales Promotion

Customer promotion is a type of sales promotion which needs more marketing support. Sometimes, this advertising support is provided as an addition to the usual advertising which the business normally carries out. It is used to highlight the promotional offer. Any type of media can be used, like print, television or advertisement.

Step 3: Organizational Issues in Operating a Sales Promotion Campaign

Usually, all the decisions relating to the operations of sales promotion campaign are taken by the marketing staff. The sales promotion campaign is designed by local managers since a sales promotion agency appointed by the company or bank. They have the responsibility to execute the year, budget and administrative responsibilities to sales promotion. Several big companies have introduced their own units to operate sales promotion campaigns for themselves. The names of sales promotion units are mentioned below along with the responsibilities of each unit.

Q53. Discuss the various types of sales promotion?

Answer:

There are various types of sales promotions used by manufacturers who's address the consumers, the media, the financial institution and the suppliers. The various types of sales promotion include the following:



Figure: Types of Sales Promotion

5. Merchandising Support from Dealers is Doubtful
In case of the dealer, dealers do not support merchandising or sales promotion basically to customers even though they need to provide. This aspect of dealers become doubtful.

6. Short-term Orientation

An sales promotion are for a short-period it gives better results for a shorter period. This short-term orientation may have adverse effect on long-term future of the organization.

4.13 PRODUCT PRICING

- Q66:** What do you mean by product pricing? What are the factors affecting pricing decisions?

Answer :

Product Pricing

Price is the monetary value of the product attributes paid by the customer in exchange for a product or service. Pricing is an important decision for a company. While determining the price of the product various factors such as demand and supply of the product, nature of competition, pricing objectives, ethical considerations and profitability are taken into consideration by retailer. Pricing is an appropriate, just, customer satisfaction and outcome market acceptability. A clear market analysis and assessment has to be taken while pricing the product. Pricing the product very low or very high is not advisable. The price set for the product must be reasonable and satisfactory to both supplier and customer.

Factors Affecting Pricing Decisions

The factors which affect pricing decisions are classified into 'internal' and 'external' factors. The organizational factors which affects the pricing decisions are called as 'internal factors' whereas, the environmental factors affecting pricing framework constitutes 'external factors'.

1. Internal Factors

The following are the internal factors which affect the pricing decision.

2. Marketing Goals

Marketing experts consider price as an important element while achieving the marketing goals. Firm can price a product either to acquire sales, market share and profit (which is known as 'pricing for results') or to create a position by promotional pricing. Pricing strategy is one of the tools through which marketing goals can be achieved. Through pricing, entrepreneurs assess their market's independence and services in the competitive market. Therefore, marketing goals are found to be one of the key factors which affect the pricing decisions.

3. Costs

Cost is an essential component of product's price. Production and cost of the firm are closely proportional to each other. There are various types of costs involved in an organization. They are:

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(i) Variable Cost

Variable costs are those costs which varies according to the production level or sales revenue. The total variable cost is calculated by adding the cost component of all the variable expenses.

(ii) Fixed Cost

Fixed cost remains constant over a long period of time and is found to be independent of production at sales revenue. Total cost is an aggregation of fixed and variable cost for any given level of production.

(iii) Average Cost

Average cost is the per unit cost of production.

(iv) Marginal Cost

The additional cost incurred by the firm for the production of one unit of a product is called 'marginal cost'.

3. Other Objectives/Objectives Taken by the Organization

A firm may have various objectives whereas pricing decisions help in their achievement. Firms have various objectives such as maximizing sales revenue, maximizing market share, satisfying customers, maintaining parasitic image etc. Pricing policy should be formed only after proper consideration of the objectives of the firm. Then only, the firm can take appropriate decisions.

4. External Factors

The following are the external factors:

1. The Nature of Market Demand

The demand for a product can never be constant. Due to a highly dynamic nature of market, the demand for a product varies. Hence, the nature of market demand effects the pricing decisions.

2. Consumer Behaviour

Consumer behaviour have an influence on the pricing decisions. Status and behaviour for the purchase of a particular product, brand or service etc., affects pricing when there exists huge number of buyers in a certain area.

3. Competition

Competitor factor contributes significantly while taking pricing decisions. Thus, the competitive environment within which a firm operates plays a vital role in fixing price of a new product. Competition may be from competitors, monopolistic competition, oligopoly competition, duopoly competition etc.

While planning the pricing strategy, cost will also consider the possible reactions of his competitor.

4. Suppliers

Supplier needs to play a significant role in setting price in order to generate sales volume, sales profit margin, developing image and to meet specific goals.

UNIT-4: Production and Marketing Management

Change revision takes place when the situation is static, i.e. if a single commodity brings a consistent change in the prices of wide range of commodities. The organization needs to consider such aspects of less fluctuations.

Authorities and Government

Government rules and policies also holds a major impact on price of products/services. The price cannot be fixed at a high rate as government and other authorities keep a strict watch on pricing the products.

Economic Conditions

The economic conditions which affects pricing decisions are inflation, deflation, demand, competition, buyer's resistance, speculations and government policies.

Q67: Explain about pricing of a new product.

Pricing Strategy for New Products

New products have products to expand their market share and to maximize their profits. New products can be divided into two major. They are:

- Technologically new products due to technological innovations.
- New products emerging due to marketing-oriented modifications.

Difficulties which are Faced by the Firm in Pricing of New Product

Initially, there are five methods of pricing which are not appropriate for new products as a result firms faced difficulty in pricing their new products. Two methods of pricing are:

1. Demand Based Pricing

In this method, no historical data for determining the demand of new products is not available so it is used for fixing their price.

2. Competition Based Pricing

This method is also not suitable for new products because it focuses more on competition rather than on products.

The pricing for new products should emerge on account of:

- The manufacturer of the firm to go for a new product.
- The nature of the product or the nature of services of the product.

Price Requirement in Pricing the New Product

The firm requirement in pricing new product is to achieve one of the following items such as:

- To be an innovator and to make profit margin.
- To optimally realize the market needs prevailing in the existing market.
- To steadily expand product sales over a period of time.

In the first category, firm focuses mainly on bringing innovative products to the market in order to differentiate themselves from others. These efforts from one leads to better sales which they earn on account of product innovation.

In the second category, firm introduces a basic product only at low price for which the market is demand of their products.

In the third category, the company has a desire to expand its product line or has other products. Then it depends because expanding their market and to create a better future associated with 'Technology' involved in it.

Role of Researcher in Pricing

As there is no availability of a standardised pricing method, firms usually introduce new products to the market by following the two strategies such as,

- Skimming Pricing
- Penetration Pricing

In case of skimming price, technologically products are priced at a higher rate which eventually reduces level of interest of firm. Such strategy is available for firm and the market products.

Penetration Pricing

Some firms want to maximize their market share. They believe that a higher sales volume will be achieved per unit cost and higher long-run profit. They set the price of low cost assuming the market is to price-sensitive. This is called 'penetration pricing'.

Thus, it can be concluded that three basic types of pricing strategies for fixing the price of products and services depending on the nature of products.

Q68: What do you mean by pricing strategy? Explain briefly various types of pricing strategies.

Answer :

Pricing Strategy

Pricing strategy is the pricing techniques designed to meet the objectives of pricing. It is very helpful for the marketers in achieving the goals related to attaining profits.

Types of Pricing Strategies

There are five major types of pricing strategies. They are as follows:

1. New-Product Pricing Strategy

As there is no availability of a standardised pricing method, firms usually introduce new products to the market by following the two strategies such as,

2. Skimming Pricing

In case of skimming price, technologically products are priced at a higher rate which eventually reduces level of interest of firm. Such strategy is available for firm and the market products.

Q39. Priceless Pricing.

Some firms want to maximize their market share. They believe that a higher sales volume will lead to enhanced net profit and higher long-run profit. They set the prices at low rates, stimulate the market to be price sensitive. This is called 'pusher price setting'.

Thus, it can be concluded that firms tend to adopt various strategies for fixing the prices of goods and services depending on the nature of products.

2. Differential Pricing Strategy

In differential pricing strategy, different customers selects different pricing strategies for similar products. This differential pricing is made on the basis of the class of customer or on the purchase volume. The different types of price differential strategies are as follows:

- a) Time Differentials
- b) Clock time differentials
- c) Calendar time differentials
- d) Geographical price differentials

3. Psychological Pricing Strategy

Many consumers assume that high prices mean high quality. This is ready true what the consumer is incapable of judging the quality of a product, so they correlate the high price with high-quality. Playing on the irrational psychology, companies can sell the same product in different packaging to two distinct market segments at two different prices.

4. Product Line Pricing Strategies

Most manufacturing firms prefer for the introduction of products line rather than one product. Television companies offer several models in different sizes and models. They offer black and white as well as colour TV's. They have normal screen, ultra-slim and new plasma and LCD screens. These products prices will vary according to size and the technologies and value added. What the firm needs to do is to decide the prices of each product it offers up in the product line. The prices can be arrived at by considering the actual cost of production, the perceived evaluation of the products and values by consumers and the price of competitive products. If the price of a product in a given product line is much higher than the rest in a step larger, consumers will opt for the higher priced product. This will result in more profit, especially when the production cost difference between the products is less than the difference in prices.

5. Promotional Pricing Strategy

Promotional strategy means to push a product. This is done by offering low prices, which in turn, could be even below production costs. Large retailers resort to this by offering a low product at the same possible price to increase traffic in the store. They expect that customers who fail to buy the low-priced items will also buy other at normal prices. Companies must bear in mind that overusing the promotional mean could be responsible for making customers wary of these promotions and only buy it once. It could reduce the product's value in the consumer's mind.

Q40. Explain different pricing methods.

Answer :

There are three types of pricing method. They are as follows,

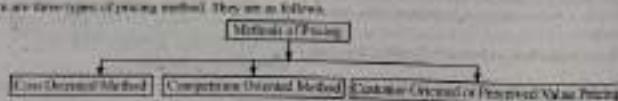


Figure: Methods of Pricing

1. Cost Oriented Method

This method consists of full cost of mark up pricing and marginal cost.

2. Full Cost or Marginal Pricing

This method is cost oriented wherein the market determines the complete cost associated with manufacturing or producing and then adds a mark up to the cost as per the firm's standards. This is considered as standard as any pricing method and most of the time services and products are priced based on this method.

$$\text{Mark up price} = \frac{\text{C}}{(1+r)}$$

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Where

- a) $\text{List cost} (\text{fixed cost} + \text{variable cost})$
- b) Expected return on sales expressed as a percent

Marginal Cost or Contribution Pricing

This method is based on the principle of recovering marginal cost and getting the contribution spent on the methods (fixed cost). This method is best suited for the short term characterized by intense competition in the market.

Competition Oriented Method

This method consists of going up or fall on the trend followed by price.

Going High or Follow the Crowd

This is transaction oriented method. This method is commonly found in oligoplastic market. Under this method the product's price are similar to that of the competing firm's price in the market.

Sealed Bid Pricing

Sealed bid pricing is one of the method of competition oriented pricing. If the firm is engaged in large number of projects, then the suppliers have to submit their quotations as a part of tender. Subcontractor bids help in knowing the firm's cost and understanding competitive market. If the firm offers the quoted price at its cost level, it will be considered as a lowest bidder. Under such circumstances the firm can get only contract but will not be able to earn huge profits. A firm is able to earn profits if it quotes a price by considering expected profit at different price levels.

3. Customer-oriented or perceived Value Pricing

In this type of pricing method, the product is priced keeping up to the value of the customer perceive about the product and their needs. There are two important constituents of perceived value of a product. They are acquisition value and retention value.

The acquisition value refers to perceive the advantages or benefits made by the customer to get the products is increased.

In transaction value both the price of seller and buyer is compared to arrive at a reference price at which it should be sold.

For measuring perceived value, a market can consider following methods.

- a) Direct pricing method
- b) Direct perceived value rating
- c) Diagnostic method
- d) Economic value to the customer

4.14 GLOBAL ASPECTS OF ENTREPRENEURSHIP

Q39. Discuss the various global aspects of entrepreneurship with suitable examples.

ANSWER: www.scribd.com/doc/10313600/Global-Aspects-of-Entrepreneurship

The current business world is the most dynamic and

fast changing business environment for our present

global competition. Our world has become a global village

and countries around the world are sharing different

global trading blocks such as EU (European Union), APEC,

GATT, WTO and many. The various forms of cross-

border trade is increasing and increasing trend becomes

global expansion.

These entrepreneurial activities of becoming a global

entrepreneur is the response set to the global economy as a

whole. Global entrepreneurs create wealth and improved the

international trade and also for the betterment in global busi-

nesses. Global markets need for the entrepreneurs

should had the global vision for the unique, dynamic, diversified

and highly competitive. The success of global business is

entrepreneur is demanded as follows.

1. Economic Aspects

A global entrepreneur should find the global economic environment quite different than the economic system in his local country (domestic country). For example, the economic trends in the domestic market tends to analysis and expand in the specific country, where its entrepreneurial activities are carried out within the same currency. In a global set-up, the entrepreneurial world finds drastic changes in the economic systems. For example, an Indian entrepreneur would find the economic system in US to be highly capitalist whereas there, the same entrepreneur would find the economy to have a communist economy such as China. Change is very rapid and easily expected by the government.

2. Aspect of Infrastructure

The infrastructural development of any country plays a major role in the entrepreneurial development and growth in the country. Global entrepreneurs need to be aware and ready to adjust their enterprise according to the administrative differences of different countries. For example, in USA, it is an advanced developed country with world class roads, rail and other transport facilities which would facilitate the movement of men, materials, etc., as per the business requirement. However, if the global entrepreneur happens to carry his business to underdeveloped country such as Nigeria, he would be prepared for lack of basic infrastructure such as electric supply, communication systems, banking facilities, etc.

Q7. Balance of Payment (BOP):

Balance of payment refers to a country's imports and exports during a specific time period. The BOP of a country would have a direct impact upon its currency rate. The changes in the currency value of a country would impact the probability of the global entrepreneurs. The increasing value of a currency would help the country to export more products and services to other countries at competitive price and revenue. The global entrepreneur need to be calculate of the fluctuation BOP of the countries where he is operating on his business.

4. Political Aspect:

The global entrepreneurs need to adjust the business strategy and business model according to the complex and diverse political and global environment. The source of government, the starting legal rules of a foreign country, etc., would have a direct impact upon the business activities of the enterprise. For example, a global entrepreneur has been exporting car manufactured in his home country to a neighboring country. Due to changing political environment, if both these countries go to war, the business activities of this entrepreneur would be adversely impacted due to the political, social, cultural and financial between these countries. Thus, the entrepreneur need to focus on the changing legal and political environment before initiating global entrepreneurship activity.

In conclusion, it may be stated that the global entrepreneurs need to align his business activities with the different global aspects of global entrepreneurship.

Q7.1. Explain the different stages in International Business for prospective global entrepreneurship.**Answer :**

There are two stages involved in internationalizing an enterprise. They are as follows,

Stage 1: Domestic Company:

The operations, mission and vision of the domestic firms are restricted to the national political boundaries. These firms emphasize on the domestic supplier, domestic market opportunities, domestic customers etc.

The domestic firms examine the country's natural environment and develop strategies for utilizing the opportunities provided by the environment.

These firms do not aim to penetrate if the national boundaries and once if these firms grow beyond its capacity, then they adopt the diversification strategy of entering into new technology, new domestic markets etc.

Stage 2: International Company:

Few domestic firms which expand their production capacities at domestic marketing usually decide to penetrate into the international markets. The firm decided to internationalize their operations comes under this stage. This stage fed that the practices, people and the product of the domestic business are better than the practices followed by other nations. Though the firms concentrate on national businesses, they spread branches to foreign nations.

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FREQUENTLY ASKED QUESTIONS AND IMPORTANT QUESTIONS**BRIEF QUESTIONS**

- (i) Define the term production.

Answer :

For answer refer Unit-IV, Q1.

- (ii) Write any three marketing functions.

Answer :

For answer refer Unit-IV, Q2.

- (iii) Distinguish between inspection and quality control.

Answer :

For answer refer Unit-IV, Q3.

- (iv) What are the advantages of inventory?

Answer :

For answer refer Unit-IV, Q7.

- (v) Write a note on market segmentation.

Answer :

For answer refer Unit-IV, Q10.

- (vi) Briefly write a note on "market research".

Answer :

For answer refer Unit-IV, Q11.

ESSAY QUESTIONS

- (i) Define Production Management. Explain the process of evolution of production management as operations management.

Answer :

For answer refer Unit-IV, Q14.

- (ii) Define production. What are the different techniques/methods of production? Explain each technique method with their respective characteristics.

Answer :

For answer refer Unit-IV, Q15.

- (iii) Discuss in detail the following.

- (a) Plant utilization and maintenance

- (b) Designing the work place.

OR
Examine various aspects considered in designing the 'work place'

Answer :

For answer refer Unit-IV, Q25.

Q10. Define quality and quality control. What are the functions of quality control?

Answer :

For answer refer Unit IV, Q10.

Q11. Discuss the Functions of Marketing and Marketing Management.

OR

What are the functions of marketing management?

Answer :

For answer refer Unit IV, Q10.

Q12. Define marketing research. State its characteristics and objectives.

OR

What is Market research? Explain in detail.

Answer :

For answer refer Unit IV, Q10.

Q13. Develop the channels of distribution in marketing.

Ans.DEC-15, 2015&2016, Q10

Answer :

For answer refer Unit IV, Q10.

Q14. How sales promotion and product pricing are interrelated?

April-17, 2016&2018

Answer :

For answer refer Unit IV, Q10.

Q15. Discuss the various global aspects of entrepreneurship with suitable examples.

OR

Write a brief note on global aspects of entrepreneurship.

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Nov-Dec-17, 2015&2016

Answer :

For answer refer Unit IV, Q10.

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UNIT 5

Labour Legislation



Syllabus

Labour Legislation: Solent Provision of Health, Safety and Welfare under Indian Factories Act, Industrial Dispute Act, Employees' State Insurance Act, Workmen's Compensation Act and Payment of Bonus Act.

LEARNING OBJECTIVES

- ✓ Concept of Labour legislation.
- ✓ Concept of Factories Act, 1948.
- ✓ Solent Provisions of Indian Factories Act, 1948.
- ✓ Industrial Dispute Act, 1947 with its Features and Objectives.
- ✓ Concept of Employees' State Insurance (ESI) Act, 1948.
- ✓ Concept of Workmen's Compensation Act, 1923.
- ✓ Payment of Bonus Act, 1965.

INTRODUCTION

The reforms in labour legislations were undertaken in order to have flexibility in fixing working conditions, reducing the burden of social security, reduction in inspection regime, etc. In India, labour legislation falls under central and state legislations.

KK Das in 1937 defined four principles of labour legislation which include, social justice, national economy, international solidarity, and social welfare. The scholar K. Das, from Trivandrum featured these principles in his 'protective' legislation.

The Factories Act was enacted on September 23, 1948 with an aim to regulate the working conditions in factories and for providing relief and some minimum benefits to the workers. The Act was enforced on April 1, 1949. The amendments to the Act were made in 1950, 1951, 1954 and 1966. The Factories Act is a Central Act enacted by the Government of India for the welfare of the workers in a number of over the country.

A worker is eligible for annual leave with wage when he/she worked for two hundred and forty days during a calendar year in a factory. The leave for an adult is on the rate of one day for every twenty working days and for a child it is one day for every fifteen days.

Leave is regarded as one of the most controversial issue in the field of wage legislation. Right to Paid Holiday (i.e., every 1420th hours) has not been able to satisfy the employee and employer. Initially it was introduced as an ex-gratia payment, but soon on, it took the form of mandatory payment with the help of amendment of legislation (payment of bonus act, 1965).

PART-A SHORT QUESTIONS WITH SOLUTIONS**Q1. What is labour legislation?****Answer :**

The relevant or labour legislations were encouraged in order to have flexibility in fixing and fixing employees, reducing the burden of social security, reduction in inspection regime, etc. In India, labour legislations deals with central and state legislations. Depending upon the object of the study, various labour legislations are classified into different sets.

In India, there are many laws that state that the labour market is rigid. Presently, many laws which are enforced, in an economy was previously separated/large apart from global forces.

Q2. Write a note on Factories Act, 1948.**Answer :**

The Factories Act was enacted on September 21, 1948 with an aim to regulate the working conditions in factories and by providing other and some minimum benefits to the workers. The Act was amended on April 1, 1949. The main amendments to the Act were made in 1950, 1951, 1954 and 1976. The Factories Act is a Central Act enacted by the Government of India for the welfare of the workers. It is applicable all over the country.

Q3. What are the provisions of Health under Factories Act, 1948?**Answer :**

The provisions of Health under Factories Act, 1948 are as follows:

1. Cleanliness (Section 11)
2. Removal of Nuisances and Defects (Section 12)
3. Ventilation and Temperature (Section 13)
4. Bath and Dressing (Section 14)
5. Articles for House-Eification (Section 15)
6. Water Supplying (Section 16)
7. Lighting (Section 17)
8. Drinking Water (Section 18)
9. Emergency Arrangements (Section 19)
10. Signboards (Section 20)

Q4. Industrial Dispute Act, 1947.**Answer :**

The Industrial Dispute Act, 1947 is one of the laws governing Industrial Relations in India. The Act came into force on 1st April, 1947 and has been amended several times since then.

According to Pwllu High court, the basis of the Act is "conciliation of the unitary form of production in an industry".

Q5. What is ESI Act, 1948? Explain its objectives.**Answer :****ESI Act, 1948**

ESI Act, 1948 was introduced basically with an aim to offer benefits to the employees. It makes attempt to achieve the objective of socio-economic justice specified in the directive principles of state policy under Part IV of the constitution (in articles 41, 42 and 43).

Objectives of ESI Act, 1948

The ESI Act, 1948 was enacted with the following objectives:

1. To introduce family insurance scheme for the industrial workers
2. To provide medical benefits at the situations of sickness, maternity and on-duty injury to the factory employees.

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EMT-3 Labour Legislation**Q6. Write a note on Workmen's Compensation Act, 1923.****Answer :**

The Workmen's Compensation Act, 1923 is considered as the oldest and the most significant part of the social security legislation. The main aim of this Act is to develop provisions by giving the compensation to a workman. The main purpose of this legislation is that, by recognizing the significance of suitable safety devices, to decrease the number of accidents to the workers. With the help of this Act, the benefit of workers and the liability has been simplified.

Q7. What are the principles of Industrial Dispute Act, 1947?**Answer :**

The Industrial Dispute Act is based on the following principles:

1. Appointment of machinery (Court of Inquiry) has been set up for the speedy and economic settlement of industrial disputes.
2. Compulsory arbitration is public utility services, including the enforcement of arbitration awards, for non-negotiable strikes and lockouts during periods of conciliation and arbitration proceedings and the administrative awards, referred by the government order are prohibited.
3. Specific time limits for various stages of conciliation and arbitration for determining dispute.
4. An obligation on employer to recognize and deal with representative trade unions for their employees.
5. Visa committee to provide machinery for mutual consultation between employer and employees for better solution.
6. Industrial disputes may be referred to an industrial tribunal where both the parties are satisfied dispute with regard to reference where the appropriate government considers it expedient to do so.

Q8. Define Bonus.**Answer :**

According to Merriam-Webster dictionary defined bonus as "something in addition to what is expected or usually due" or "an equivalent given in addition to an employee's usual compensation or "base".

Q9. What are the provisions of payment of Bonus Act, 1945?**Answer :**

The provisions of payment of Bonus Act, 1945 are as follows:

1. Employee
2. Salary or Wages
3. Proportionate Reduction in Bonus in Some Cases
4. Calculation of Number of Working Days
5. Adjustment of Extraordinary or Extraordinary Bonus Against Bonus Paid Under the Act
6. Deduction of Certain Amounts from Bonus Pursuant to the Act
7. Separate Excluded Classes
8. Disqualification and Dereliction of Bonus

PART-B ESSAY QUESTIONS WITH SOLUTIONS**5.1 LABOUR LEGISLATION-NATURE, OBJECTIVES, PRINCIPLES, FUNDAMENTAL RIGHTS AND TYPES OF ILO CONVENTIONS INFLUENCING INDIAN LABOUR LEGISLATION**

Q10. Explain about labour legislation. Write its nature and objectives.

Answer:

Labour Legislation

The reforms in labour legislations were encouraged in order to have flexibility in hiring and firing employees, reducing the burden of social security, reduction in inspection regime, etc. In India, labour legislature deals with central and state legislations. Depending on the object of the state, various labour legislations are classified into different acts.

In India, there are many laws that which state that, the labour market is rigid. Presently, many laws which are enforced in an economy are previously separated kept apart from globalisation.

- (a) For analysing the labour law, it is very essential to,
- (b) Define a logical structure for classifying the key areas of legislation which are significant to the authority.
- (c) Outline a scheme for displaying the major provisions of these legislations in a correlated way.
- (d) Link Associate the major provisions with the actual application at the workplace.

Nature of Labour Legislation

The nature of labour legislation can be understood with the help of the following points,

1. The labour legislations are the outcome of industrial revolution which are developed by taking into account the actions, events caused by industrial revolution, such legislations are drawn from common legislations as they have been developed to serve special disorders developed under certain social laws. Hence, there are no general or common philosophy, concept and idea in practice, but are specific.
2. It considers individuals as workers, while the general legislation considers them as citizens. The principles regulating labour legislation are affected by the factor of social justice instead of general justice. The workers constitute the weaker section of industrial society who are suffering by the actions of employers. So, all these legislations are developed to protect the weaker and minor justice to them.
3. It helps in solving the issues emerging from the occupational crisis of the industrial. These issues are related to the working hours, wages, working conditions, trade unions, industrial disputes and so on. The labour legislation affects only the individuals who are workers or employees. The person who is not an employer or a worker is not directly affected.
4. As different individuals perform different roles, different laws are framed for controlling different roles. The role which decides which legislation comes under the category of labour legislation, social legislation or general legislation. These legislations needs to achieve the specific objectives of the target groups such as,

 - (a) To give assistance and support.
 - (b) To control large absence.
 - (c) To promote equality.
 - (d) To provide and maintain security.

5. It is necessary to change the labour legislations according to the changes in requirements for controlling the conditions of labour in the industry. These changes has to be made on regular basis, otherwise they become obsolete and irrelevant.
6. It includes all contractual obligations, which develops new rights and obligations. This function along with the guarantees and does not interfere any personal or civil rights.

Objectives of the Labour Legislation

- The different objectives of labour legislation in India are as follows,
1. To ensure justice relating to social, political and economic.
 2. To provide opportunities of the workers regardless of caste, creed, religion and beliefs for their personality development.
 3. To protect the weaker section of the society.
 4. To maintain industrial peace.
 5. To derive economic growth conditions.

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UNIT-5: Labour Legislation

- To protect and improve the standards of living.
- To mitigate the workers from any form of exploitation.
- To ensure the right of workers to organize and constitute associations for self-help.
- To assure the right of workers to form a jointly for improving their working conditions.
- To make the state a provider of the welfare and bring benefit of standardised conditions in case of employment.
- To ensure human rights and human dignity.

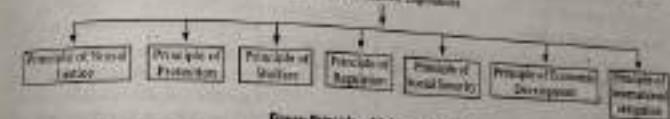
Thus, the labour legislation objectives are the developing concepts which need continuous efforts for amending them.

Q11. Explain the modern principles of labour legislation.

Answer:

The modern principles of labour legislation are classified by different scholars in different ways.

R.K. Das in 1937 defined four principles of labour legislation which includes, social justice, material resources, monetary and social welfare. The scholars of Britain, French, U.S.A. gave four features of law regulation and labour legislation. The scholars of labour laws from the global aspect are almost find law features as follows,

Principles of Labour Legislation**Figure Principles of Labour Legislation****1. Principle of Social Justice**

International Labour Organization (ILO) states that "Labour and living peace can be established only if it is based upon justice" and in its Paris Charter of 1948 states, "All human beings, irrespective of race, creed or sex, have a right to pursue material well-being and their spiritual development in conditions of freedom and dignity, without fear and without repressing". Add to this, the principle of social justice is based on the establishment of cordial relationship and removal of various other causes of grievances of labourers like, working hours, wage rates, payment of wages, bonded labour etc. It tends to equality between men and women, working hours, payment of wages, employment terms etc.

Some Laws relating to principle of social justice are listed below,

- 1. Central Labour (Regulation and Abolition) Act, 1936
- 2. Abolition Slavery Act, 1883
- 3. Equal Remuneration Act, 1976

2. Principle of Protection

The principle of protection states that, providing protection to those labour who protect their own interests as well as other known against the risk involved with industrial laws. It uses due to, fixed work schedule, employment of children under 14 years, working under dangerous operations, low wages, malpractices in providing wages etc. In 1902, Beach and Minors of Amendment Act, was regulated to reduce the Industrial work loads on labourers.

Some Laws relating to principle of protection are as follows,

- 1. Factories Act, 1948
- 2. Mines Act, 1952
- 3. Child Labour (Prohibition and Regulation) Act, 1986
- 4. Payment of Wages Act, 1936 and minimum wages Act, 1948

3. Principle of Welfare

The principle of welfare was enacted to provide basic welfare facilities to the workers at their work place and improve the standard of living of the workers and their family members. The application of this principle is to maintain industrial relationship and satisfy workers.

Some laws relating to principle of welfare are as follows,

- 1. Mine, Mines Labour Welfare Fund Act, 1946
- 2. Bonded Workers Welfare Fund Act, 1978
- 3. New Labour Welfare Fund Act and Welfare Provisions under the Factories Act, 1948 etc.

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4. Principle of Regulation.

The principle of regulation balances the relationships between two superior ones i.e., among workers and the organization and between employer and the organization. On the other hand, it protects the interest of society. The principle comes in to force to curb the disputes arising due to employer's strong position when the workers demand the rights confirmed above them and when the actions, look over affect the society at large.

Some laws relating to principle of regulation are as follows:

- ♦ Trade Unions Act, 1926.
- ♦ Industrial Disputes Act, 1947.
- ♦ Trade Unions and Labour Relations (Consolidation) Act, 1992 of Central Government.

5. Principle of Social Security.

The principle of social security works to benefit society by providing income securities in the form of pension, minimum benefits, employment and old age. This law is classified into two types:

- ♦ Social insurance legislation.
- ♦ Social assistance legislation.

In social assistance legislation, workers avail the benefits as rights and do not contribute for creating such rights, whereas in social insurance legislation, workers avail the benefit by paying the premiums/assurance and fulfilling eligibility conditions.

Some laws relating to principles of social security are as follows:

- ♦ Worker's Compensation Act, 1923.
- ♦ Maternity Benefit Act, 1961.
- ♦ Employee State Insurance Act, 1948 etc.

6. Principle of Economic Development.

The principle of economic development was created to improve the industrial and economic development by:

- ♦ Maintaining industrial relationships.
- ♦ Enhancing better worker relations.
- ♦ Scheduling meeting of workers for participation in management.
- ♦ Forbidding unlawful practices.
- ♦ Increasing the needs and welfare amenities of workers etc.

7. Principle of International obligation.

The principle of international obligation was created to resolve the issues and settlement of disputes. This law was proposed by international organizations such as ILO, UN and other bodies. It covers wide areas such as, hours of work, weekly rest, holidays, wage, employment of children of minimum age, right to work, employment of women with maternity benefits, paid per etc.

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Q12.) Explain the fundamental rights as incorporated in the Indian Constitution.

OR

Explain the fundamental rights of labour legislations.

Model Paper (B) Q12a

Answer :**Fundamental Rights**

Fundamental rights are incorporated in part III of the Constitution under Article 13 to 35. The "Freedom Movement" for "Independent India" is the main reason behind these provisions. The guiding principles include fundamental rights in Ambedkar's Constitution of India (1949) and Nehru Report 1949.

Classification of Fundamental Rights

- Right to Equality (Article 14 to 18)
- Right to Freedom (Article 19 to 22)
- Right against Exploitation (Article 23 to 24)
- Right to Education (Article 25 to 28)
- Cultural and Religious Freedom (Article 29 to 30)
- Right to Constitutional Remedies (Article 32)

Right to equality is provided by the original Constitution under Article 21 but it was removed by 42nd Amendment Act, 1976. At present, it is available under Article 301.

2. Right to Equality (Article 14 to 18)

- (i) Article 14 guarantees equality before law to all citizens or equal protection of laws.
- (ii) Article 15 states that no one should not discriminate any citizen in the basis of caste, colour, religion and sex etc.
- (iii) Article 16 states that equal opportunity is provided to all citizens in matters related to public employment.
- (iv) Article 17 abolishes the practice of untouchability.
- (v) Article 18 prohibits states from exceeding taxes except for military or academic.

3. Right to Freedom (Article 19 to 22)

- (i) Article 19 is the most important part of the Constitution. It provides 5 freedoms to the citizens. They are:
 - (a) Right to freedom of speech and expression (19(1)-(a))
 - (b) Right to freedom to assemble peaceably and without arms (19(1)-(b))
 - (c) Right to freedom to form associations or unions (19(1)-(c))
 - (d) Right to freedom to move freely throughout the territory of India (19(1)-(d))
 - (e) Right to freedom to reside and settle in any part of the territory of India (19(1)-(e))
- (ii) Right to freedom to practice any profession or to carry on any occupation, trade or business (19(1)-(g))

Unit 5: Labour Legislation

Note : Article 31 (f) i.e., The freedom to acquire property is removed by the 42nd Amendment Act, 1976.

- (vi) Article 20 states that no person shall be coerced of any offence except for violation of a law.
- (vii) Article 21 describes about Right to Life i.e., no person shall be deprived of his life or personal liberty except according to procedure established by law.
- (viii) Article 21-A describes that state shall provide free and compulsory education to all children of the age of six to fourteen years.
- (ix) Article 22 states that no citizen who is unemployed or disabled will not be without being educated.

Right Against Exploitation (Article 23 to 24)

- (i) Article 23 prohibits the traffic in human beings, beggar and forced labour.
- (ii) Article 24 prohibits employment of children who are under the age of 14 years in any factory, mine or in any other hazardous conditions.

4. Right to Freedom of Religion (Article 25 to 28)

- (i) Article 25 states that subject to public order, morality and health etc., all persons are equally entitled to freedom of conscience and the right to profess, practice and propagate any religion.
- (ii) Article 26 states that subject to public order, morality and health, every religious denomination or any section thereof shall have the right.
- (iii) Article 27 states that no person shall be compelled to pay any tax for the promotion or maintenance of any particular religion or religious denominations.
- (iv) Article 28 states that no religious instruction shall be provided in any educational institution.

5. Cultural and Educational Rights (Article 29 to 30)

- (i) Article 29 states that any citizen having a distinct culture, language or script of its own shall have the right to conserve the same.
- (ii) Article 30 states that minorities, other based on religion or language, shall have right to establish and maintain their own educational institutions.

6. Right to Constitutional Remedies (Article 32)

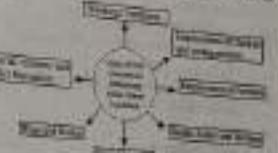
Article 32 states that every citizen has the right to move to superior court by appropriate proceedings for the enforcement of the rights guaranteed by the Constitution of India.

Q13.) Write about the establishment of I.L.O. Discuss the types of International Labour organization (ILO) conventions influencing Indian labour legislation.**Answer :****Establishment of I.L.O.**

ILO is the only international labour organization which takes up the responsibility of making the international standards of labour which further helps the international trade. They include a range of subjects like wages, hours of work, child labour, safety and health, industrial health, safety and welfare, social security, principles of labour, right to organise and human rights.

Types of International Labour Organization (ILO)

The 4 types of International Labour Organization (ILO) conventions influencing Indian labour legislation are as follows:

**Right Types of 48 Conventions Influencing Indian Legislation**

1. Working Conditions:
 - (i) Minimum Age (Labour) Con. No. 13, 1938.
 - (ii) Medical Examination of Young Persons (and Con. No. 10, 1921).
 - (iii) Night Work of Young Persons (Labour) Con. No. 16, 1938 and No. 41, 1945.
 - (iv) Minimum Age (Underground Work) Con. No. 17, 1967.

2. Employment of Children and Young Persons.

- The conventions related to employment of children and young persons includes the following:
- (i) Minimum Age (Labour) Con. No. 13, 1938.
 - (ii) Medical Examination of Young Persons (and Con. No. 10, 1921).
 - (iii) Night Work of Young Persons (Labour) Con. No. 16, 1938 and No. 41, 1945.
 - (iv) Minimum Age (Underground Work) Con. No. 17, 1967.

3. Employment of Women

- The conventions related to employment of women includes the following:
- (i) Night Work (Labour) Con. No. 6, 1918.
 - (ii) Night Work (Women) (Revised) Con. No. 41, 1919.
 - (iii) Equal Remuneration Con. No. 103, 1951.
 - (iv) Discrimination (Employment and Occupation) Con. No. 111, 1958.
 - (v) Maternity and Work (Workers) Con. No. 45, 1953.

4. Health, Safety and Welfare

The intervention related to health, safety and welfare includes the following:

- (i) Prevention of Industrial Accidents Act, (No. 22), 1979
- (ii) Power-driven Machinery Act, (No. 22), 1929
- (iii) Labour Inspection Act, (No. 26), 1923
- (iv) Guidance of Machinery (No. 18), 1963
- (v) Occupational Safety and Health Act, (No. 33), 1981
- (vi) Welfare Facilities Act, (No. 102), 1956 and
- (vii) Workers Housing Act, (No. 121), 1961.

5. Social Security

The intervention related to social security includes the following provisions:

- (i) Employees' State Insurance Act, 1948
- (ii) Workmen's Compensation Act, 1923
- (iii) The Payment of Gratuity Act, 1972
- (iv) The Employees' Provident Fund and Miscellaneous Provisions Act, 1952
- (v) Coal Mines (PF) Act, 1948

6. Wages and Bonus

The interventions related to wages and bonus includes the following provisions:

- (i) Industrial Arbitration Act, 1976
- (ii) The Payment of Wages Act, 1936
- (iii) The Minimum Wages Act, 1948
- (iv) The Payment of Bonus Act, 1965

7. Industrial Relations and Conflict Prevention

The intervention related to industrial relations and conflict prevention includes the following provisions:

- (i) The Industrial Dispute Act, 1947
- (ii) The Industrial Employment (Ac) Act, 1946
- (iii) The Trade Unions Act, 1926

5.2 THE FACTORIES ACT, 1948 - SALIENT PROVISIONS OF INDIAN FACTORIES ACT, 1948

Q14: Write about Factories Act, 1948 and explain objectives of Factories Act, 1948.

Answer 1

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Factories Act, 1948

The Factories Act was enacted on September 23, 1948 with an aim to regulate the working conditions in factories and for providing relief and compensation benefits to the workers. The Act was enforced on April 1, 1949. The amendments to the Act were made in 1950, 1951, 1956 and 1976. The Factories Act at Central level is enacted by the Government of India for the welfare of the workers. It is applicable all over the country.

Each state has framed its own set of factory rules to administer and implement the provisions of the Central Factories Act.

WARNING: Non-compliance of Factories Act is CRIMINAL and anyone found guilty is liable to face LEGAL proceedings.

Important Definitions

1. **Adult:**
An adult is a person who has completed 18 years of age.
2. **Adolescent:**
An adolescent is a person who is between 15-18 years of age.
3. **Child:**
A person below the age of 15 years is referred as a child.
4. **Young Person:**
It is a term which includes both child and adolescent.
5. **Worker:**
Worker is a person who is either employed directly or through an agency (including contractor) with or without the knowledge of the principal employer in any manufacturing process or in cleaning and/or part of the machinery or premises and for manufacturing process or to any kind of work incidental to or connected with the manufacturing process or the labour of the manufacturing process. Workers do not include any member of the armed forces of the state.
6. **Manufacturing Process:**
The term "manufacturing process" includes any process for:

 - (i) Making, repairing, altering, breaking, remaking, packing, using, cleaning, washing, breaking up, assorting or otherwise treating or adapting any article or substance with the intention of reuse, reprocessing, sale, delivery or disposal;
 - (ii) Generating, manufacturing or manufacturing power;
 - (iii) Pumping water, oil, sewage or any other substance;
 - (iv) Constructing, reconstructing, repairing, repairing, mending or breaking up ships or vessels;
 - (v) Composing types for printing, printing by letter press, photography, lithography or other similar processes of book binding;
 - (vi) Storing or preserving an article in cold storage.

Factory

The term factory includes:

- (i) A place where ten or more people are working or were working on any day of the preceding twelve months and in any part of which a manufacturing process is being carried out with the help of power or by hand or by both;
- (ii) A place where twenty or more people are working or were working on any day of the preceding twelve months and in any part of which a manufacturing process is being carried out without the help of power or by hand or by both.

A factory does not include a mine which is subject to the provisions of the Mines Act, 1952 and a mine not belonging to the armed forces or a nuclear training school or a research hotel or racing place.

UNIT-2: Labour Legislation**1. Machinery**

From 1970 onwards machinery was all those appliances whose power is generated, transformed, transmitted or applied are included under the term "machinery".

2. Director

Director is a term used for the proprietor, partner or one of the directors who has the ultimate control over the affairs of the factory.

3. Manager

Manager is a person who manages the factory and is appointed by the manager or authorized in the Chief Inspector of Factories of the state. Clerical personnel may be the manager in some instances.

4. Worker

Means of some kind of work being carried out by two or more sets of workers working during different periods of the day, each of such period is called a shift.

5. Shift

A sum of hours long of work being carried out by two or more sets of workers working during different periods of the day, each of such period is called a shift.

6. Calendar Year

A period of twelve months beginning with the first day of January in any year.

Objectives of Factories Act, 1948

The Factories Act, 1948 was passed with the following objectives:

1. To regulate and control of the working conditions in the factories.
2. To provide protection to the workers from long hours of work.
3. To improve of health and sanitary conditions of work in the factory.
4. To ensure safety of the workers against accidents or disabilities and other equipments and taking care that the workers are not employed for any work which involves dangerous machinery.

To regulate and control the provisions of the Act through appointment of inspector by the State Government. These inspectors have the power to enter any premises and take samples of the substances used there and exercise such other powers as may be prescribed.

Q15: Briefly explain the important provisions of Factories Act, 1948.

Answer 2

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Ans. 1948

The following are the important provisions of Factories Act, 1948:

1. Previous Relating to Approval, Licensing and Registration of Factories

For answer refer Unit-V, Q18

2. Problems Regarding Health

For answer refer Unit-V, Q17, Refer only Sub Headings

3. Problems Regarding Safety

For answer refer Unit-V, Q18, Refer only Sub Headings

4. Problems Regarding Workers of Factories

For answer refer Unit-V, Q19, Refer Problem Regarding Workers of Factories Q18, Sub Headings

5. Problems Regarding Working Hours and Holiday for Adults

For answer refer Unit-V, Q20, Refer only Sub Headings

6. Previous Relating Employment of Women and Young Persons

For answer refer Unit-V, Q21, Refer only Sub Headings

7. Problems Regarding General Laws with Regard to Keeping Annual Leave and Wages

For answer refer Unit-V, Q22, Refer Problem Regarding General Laws with Wages, Refer only Sub Headings

8. Previous Relating to Safety of Certain Dangerous Operations

For answer refer Unit-V, Q23, Refer only Sub Headings

9. Protection

For answer refer Unit-V, Q24, Refer only Sub Headings

10. Rights and Obligations of Employers and Employees

For answer refer Unit-V, Q25, Refer Rights and Obligations of Employers and Employees

Q16: Briefly explain the provisions in the act relating to licensing and registration of factories.

Answer 3

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The various provisions for approval, licensing and registration of factories under Factories Act 1948 can be given as follows:

Fact and every employer who wants to construct or expand the factory must take the permission of state government or writing. For the purpose of construction and expansion, the employer must submit all the plans and specifications of construction to the chief inspector or the state government.

The employer must report his factory and revised acquire the license to operate it. He must pay the prescribed licensing and registration fees along with the license as required by the government.

The license shall not be granted or renewed unless a warrant is given by the employer to pay

4. In order to get permission, the applicant needs to apply to the state government or chief minister along with all the plans and specifications. If by the 31st day no notice is given to the government within 2 months from the date it was sent, then the application can consider that the permission is granted.
5. When the state government or the chief minister does not grant permission to the applicant for construction or extension or registration or licensing of the factory, then the applicant can appeal to the central government within thirty days of which goes to the state government.
6. The government shall not consider that extension of factory in case of the replacement or addition of any machinery or plant along can reduce the minimum space needed for safe working area. The extension of factory shall not be allowed unless the replacement of machinery affects the environmental conditions such as heat or dust, or emission of smoke or fumes that are harmful to the worker's health.

5.2.1 Provisions Regarding Health, Safety and Welfare of Workers.

Q17. State the provisions regarding health in Factories Act 1948.

Answer - 1 Model Paper, Q17a

Provisions regarding health are contained in the sections 13 to 20 of the Act. All these provisions are designed to be carried out by employers in order to protect the health of their workers.

The provisions regarding health are explained below.

1. Cleanliness (Section 13)

As per section 13 of the Act, each and every factory should be kept clean and free from liquid flows, spouting from pipes or other innumerable sources.

The preventive measures to be undertaken are,

(i) The floor of each work room should be cleaned about once in a week by washing the floor with disinfectants.

(ii) Partition and ceiling of the work area, all kinds of walls, roofs and tops of passages and passageways must be repainted at least in five years. If all these are painted with washable white paint then they must be repainted after time in three years and washed with water about once in every six months. In case of smooth impervious floor, cleaning should be done once in every 14 months. In other cases, while washing or colour washing should be done once in every 12 months period.

(iii) Dust and dirt on floor, vehicles, staircase and passages should be cleaned daily by sweeping.

(iv) At the time of manufacturing, floor coverings and other protective measures should be taken up for proper drainage.

(v) The dates on which sweeping should be done are recorded in a register.

2. Disposal of Waste and Effluents (Section 13)

In order to prevent wastes and effluents, some rules have to be followed by state government with respect to disposal of wastes and effluents.

3. Ventilation and Temperature (Section 13)

The following conditions to be taken care,

(i) The temperature at working area should be kept at considerable level to workers and comprising of work location should be close to the health of workers.

(ii) Suitable ventilation should be maintained at work place to allow fresh air to come in and to allow air to go out from the room. Windows, ventilators or electric fan may be arranged in a factory for this purpose.

(iii) The material and design of walls and roofs in a factory should be such that they help the temperature low.

4. Heat and Fumes (Section 13)

If required, exhaust appliances will be arranged in one or the areas where dust, fumes and other innumerable factors and these areas are kept close. Stationary internal-combustion engine will run only after the extinction of fire, fumes or other vapours in the open air and other internal-combustion engine will be used in the work area only after undertaking preventive measures to overcome dust, fumes and other vapours which might cause harm to the health of workers.

5. Artificial Humidification (Section 13)

The state government might set some rules for factories which create artificial humidity.

6. Setting Standards for Washrooms

(i) Control the methods used for increasing the humidity of air artificially.

(ii) Issue the tests for identifying the humidity of the air to be created and measured.

(iii) Arranging suitable ventilation and cooling of the air in the work area.

7. Over Crowding (Section 16)

The work area should not be over crowded with large number of workers as it may cause harm to the health of workers working in such crowded areas. According to the Act, in each and every work room a worker should be allotted with 3.3 square metres of space in case of old factories and 4.2 square metres of space in case of new factories. The chief inspector of factories can decide how many workers can be allowed to work in each workroom.

8. Lighting (Section 17)

According to the Act, sufficient and appropriate lighting should be arranged at the places where workers of a factory are working or passing through. The lighting may be artificial lighting, natural lighting or both. The state government is required to set standards for sufficient and suitable lighting for the different types of factories.

UNIT-5: Labour Legislation

1. Drinking Water (Section 18)

Proper arrangements need to be made in such and areas to make available sufficient amount of pure drinking water to workers. The places where drinking water is available should be marked clearly in regional language. Drinking water plant should be placed atleast 5 meters away from toilets or washing place.

2. Conveyance Arrangements (Section 19)

For providing necessary services, separate arrangements must be made for male and female workers. Transport should be provided whose main responsibility is to keep the health and work area clean. If the factory consists of more than 25 workers then safety of prescribed factory type must be arranged a convenient location accessible to workers when they are in the factory. Floors, internal walls of temple or conference and industry blocks in places may be arranged. All these should be cleaned once every week to disintegrate or disperse germs.

3. Spaceman (Section 20)

An enough number of spaceman should be arranged in each and every factory at convenient places. The spaceman must be kept clean and hygienic condition. Each and every person in a factory should use spaceman to spit. If anyone spit outside spaceman that that person will be punished with not more than 1 rupee fine. The state government might set rules with regard to kind and number of spaceman to be maintained in every factory.

Q18. What are the provisions which shall be made in every factory regarding the safety of factory workers?

Answer - 2 Model Paper, Q18a

Section 23 to 41 of the Indian Factories Act deals with safety provisions. The safety provisions include,

1. Fencing of Machinery (Section 23)

Each and every dangerous component involved in the manufacturing process should be fenced to provide safety to the workers. In a factory, each and every dangerous component of machinery, every flywheel connected to main drive, every moving component part of a main motor, the head race and tail race of each and every water wheel and wheel race and each and every component of an electric generator, motor or motor conveyor, each and every component of transmission machinery should be properly fenced with safety considerations. The government has right to lay down the rules pertaining to fencing of machinery.

2. Work on or Near Machinery in Motion (Section 23)

In order to protect the safety of workers, any component of the machinery has to be tested when the machine is in moving condition. This test and lubrication must be undertaken by workers who are well trained adult and who are staying 100-150 centimetres. These workers are not supposed to move a moving policy except when belt is round than 1.5 m in size, and the belt joint is either fixed with better fused. Young children and women are not permitted to work in lubricating, cleaning or adjusting any component of moving machinery, if they are to be protected from the injury of such moving machine components.

3. Employment of Young Persons or Dangerous Machines (Section 25)

Young persons are prohibited to work in dangerous machines.

(i) They are prohibited with other substances regarding for dangerous chemicals for health and commerce related to its nature up.

(ii) They are not allowed to work in dangerous machine or food items involved in work on dangerous machine under the guidance of experienced person.

4. Working Gear and Devices for Cutting Off Power (Section 26)

An appropriate working gear like certain kinds of devices are required to be arranged. Such gear will be used in each and every factory to ensure the stopping belt. Correct actions must be taken up to stop belts from running back to the set position. Driving belts should not be run starting in reverse, when they are not in motion. Therefore, the setting of gears should be made available in every work place.

5. Self-Acting Machines (Section 26)

Trailing components of a self-acting machine not act over one another so that the machine will be permitted to run only in one direction. The machine will be permitted to take off in any belt from running back to the set position. Driving belts should not be run starting in reverse, when they are not in motion. Therefore, the setting of gears should be made available in every work place.

6. Casting of New Machinery (Section 28)

As per section 28, broad and heavy factory casted on 17 April, 1948, each and every machine which works will power must be properly designed to protect the workers from danger.

Section 28 of the Indian Factories Act says that every broad and heavy machine or a dangerous casting in planning. The person doing so will be subject to fine which is to be paid to the government.

7. Protection of Occupants of houses and Children near Cotton Operas (Section 29)

Women and children are not allowed to engage in activities like growing cotton when cotton is sown in soil, the one exception to this is that they can be employed in other parts of the factory i.e., the end, off loom and other cotton-related and delivery unit are situated in two different parts of the factory. For managing such two parts, written permission has to be taken from the inspector.

8. Safety of Lifting Machinery (Section 28 and 29)

As per sections 28 and 29 of the Indian Constitution, each and every factory should maintain lifting machine, ropes, chains and lifting tackles of great quality. Whether all these are working properly or not should be tested once in every two months by a licensed individual.

PRINCIPLES OF ENTREPRENEURSHIP (JNTU-HYDERABADI)

9. Revolving Machinery (Section 39)

In every factory or a factory where revolving process takes place a paper has to be affixed which contains information about working premises, speed of every revolving machine such as ring road, basket, pulley, flywheel or discospective when are required to be made available to it that can revolving part is not closed.

10. Pressure Plant (Section 39)

Section 31 of the Indian constitution says that, if factory operation creates the atmospheric pressure then effective measures have to be taken right over the operation to avoid endangering the working person.

11. Floors, Stairs and Means of Access (Section 42)

Article 32 of the Indian constitution states that, each and every factory should properly construct and maintain all floors, stairs, steps, passages and passages in the factory. Means of access for every individual in the factory must be provided and maintained at every work location.

12. Fire Escape, Openings in Roofs (Section 33)

Each and every pit, stamp, openings in floors etc., should be properly fitted to prevent danger at work place.

13. Excessive Weight (Section 36)

As per article 36 of the Indian constitution, no individual should be exposed to a factory to lift more than forty kilo load which might cause loss of injury. The state government might give to the maximum weight which adult women, children and adolescents should be allowed to lift, move or carry in a factory.

14. Protection of Eyes (Section 39)

In order to protect the eyes of workers from particles of dusts coming out from the manufacturing process or from exposure to faulty lightings, the state government might need the protection of effective lenses and protecting glasses.

15. Protection Against Dangerous Places (Section 36)

No individual will be permitted to go into tank, chamber, vat, tank, pipe or other enclosed place where dangerous fumes exist. People are allowed to enter these kinds of places of apparatus after other effective means of a green air facilitated in the factory to enter into tank, vat, tank, pipe, chamber etc.

16. Protection Regarding the Use of Portable Electric Light (Section 36 A)

According to section 36 A,

- Portable electric light or other electric appliances of voltage more than 24 volt should be allowed to use near tank, vat, chamber, pit, pipe, that or other enclosed area these kinds of places construction should be made to these areas.

- In case, if atmosphere gas, due to some error in area like tank, pipe, chamber, pit, pipe, that or other enclosed area these kinds of places construction should be made to these areas.

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17. Explosive or Inflammable Dust, Gas etc. (Section 37)

In case of factory, where stored/dusted presence give rise to gas, dust, fumes or vapour, all possible measures have to be taken up to stop explosion by

- Prevention collection of dust, gases, gas or vapour
- Proper enclosure of place or machinery utilising the manufacturing processes
- Isolation or exclusion of all practical source of ignition

18. Protection in Case of Fire (Section 38)

In each and every factory, precautions have to be taken by a government. The exit doors should not be locked and the old ones opened quickly. The exit doors should be constructed in such a way that they are opened automatically. The words which must be used in situation of fire should be specified in the language understandable to maximum number of workers working there.

19. Power & Repair Specifications of Defective Parts or Tools of Stability (Section 39)

Section 39 of the Indian constitution Act give power to inspect, record, examine of a factory. Inspector will send a written order to engage to provide him details about defective parts or inspection of stock manager to test the stability of tools as per the specifications given by him and send him the results of such tests.

20. Safety of Buildings and Machinery (Section 40)

Section 40 of the Indian constitution Act give power to inspect, record, examine of a factory. An inspector might send a written order to engage to provide him the reasons to the authorities before a specified date for the protection of machinery and buildings. If the answer is about to come from inspector he given power to prevent the use of those machinery, buildings etc., till they are modified.

21. Maintenance of Buildings (Section 49 A)

If inspector finds that there is a building or part of a building in a factory which is not repaired properly and may cause harm to the health and welfare of workers then in this situation inspector might send a written order to manager of such factory which causes the manager to be undertaken by a supervisor or both before the specified date mentioned in the report.

22. Safety Officers (Section 30 B)

In case of factory, where less than 1000 or more than 10000 workers are appointed or where according to case government manufacturing process involve risk. Dangerous disease, injury or other hazardous substances harmful to health of the people working there, the occupier of a factory appoint safety officers as per the specification. The qualification, role and responsibilities and term of office of safety officers will be decided by the state government.

23. Power to Make Rules (Section 41)

The state government, assume power to frame rules in addition to provisions regarding safety mentioned in the Act.

UNIT 8: Labour Legislation

Q. Explain the provisions of Welfare of Workers.

A. Answer 1

The action given below certain detailed provisions for welfare of workers. The different provisions stated will be as follows:

1. Working Facilities (Section 42)

Every factory must provide the following facilities, sufficient and appropriate facilities to the worker for working must be given and maintained for the workers use in the factory.

Both male and female workers must be provided with separate and sufficient concerned facilities for their use.

These facilities must be conveniently used and shall be kept clean.

2. Facilities for Starting and Drying Clothing (Section 43)

The regulatory powers of this section are follows:

Every factory where an ordinary employed workers are over than 100 shall be provided with appropriate facilities for the starting and drying clothes.

With the fair day of paid working hours which is the workers can reasonably brought to bear, in case of a provision of the facility over the workers are not allowed to leave their working place.

3. Starting of Work Areas and Laundry Services (Section 43)

The regulatory powers of this section are follows:

Every factory where an ordinary employed workers are over than 100 shall be provided with appropriate facilities for the starting and drying clothes.

The state government may set the standard of facilities to the starting and laundry and to be held in any facility or class or decoration of facilities from the stand of this section.

4. Cricket Pitch (Section 43)

According to section 43, every factory where an ordinary employed workers workers do not more than 100, shall provide a suitable room or rooms for the use of cricket under the age group of 12 years. This room shall be equipped by required facilities for running, playing and in bats. Every person present shall be liable to receive for the purpose of working and changing the dress of the children and for the supply of free or of refreshments or both. 20% of total body must be provided to conduct cricket training for children in enterprise time intervals.

The act contained the basic provisions to the stated rules as follow:

• To specify the most popular and be selected with respect to the environment, accessibility, location and other requirements in every place to be selected.

• To fix rate the essential provision of each facility for the children care, appropriate provision attached for working and changing the clothes.

• To ensure the availability of providing facilities or arrangements or both for such children.

• To provide the facilities to encourage for their children as required interests.

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- Q. 8. Welfare Officers (Section 49)**
According to section 49,
 (i) The factory where no ordinary employed worker are under 16 years of age appear in the States like the number of adult workers as specified.
 (ii) The state government may impose certain qualifications and conditions of service if efficient being required.
- Power to Make Rules in Connection with Welfare Activities (Section 50)**
Under this section, the state government is authorized to formulate rules as follows:
- To enforce compliance with other such alternative arrangements for the workers welfare and betterment of conditions from the enterprises along with the provisions of law.
 - To direct every factory or group of factories that the representatives of ordinary employed workers in the factory shall be consulted with management of welfare facilities.

5.2.2 Provisions Regarding Working Hours and Holidays for Adults, Employment of Women and Employment of Young Persons

Q20. State the provisions regarding working hours and holidays for adults under Factories Act, 1948.

Answer : *Model Paper, 2019*

The Factories Act 1948, aims both personnel and non-personal factors in some. Therefore, the number of working hours for all factories are 16 hours max. The following are the provisions regarding working hours and holidays for adults:

1. Hours of Work (Section 51)

As per the provision, an adult worker can be allowed to work for maximum 16 hours a week.

According to section 51, the daily working hours of an employee/worker must not exceed eight hours.

In this regard, Section 55 states that, the employee is not allowed to work for more than five hours without an interval of half an hour at least. The approval of that proposal is essential to increase the work period including the intervals of rest (section 56).

2. Weekly Holidays (Section 52)

The employee/worker must be provided with a holiday on Sunday. If he/she is made to work on weekly holiday (i.e. Sunday) then it is necessary to take him/her a full day holiday within three days.

If the manager decides to make the employee work on Sunday, then before taking any action, the manager can take permission from the chief inspector. If permission is granted then the notice regarding working on Sunday need to clearly displayed on the notice board.

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- 3. Compensatory Holidays (Section 53)**
Under workers in industry work on weekly holiday under the provisions of this Act, then immediately within a month or less, the workers must be granted with compensatory holidays equal to the number of holidays he/she had worked.
- 4. Night Shifts (Section 54)**
According to section 54, when an employee works for night shift, then his/her hours are counted.
- The weekly holiday is having 50% hours and 50% compensatory higher shift only.
 - The Number of hours worked by an employee after midnight shall be regarded as previous day and the subsequent day after the shift ends is considered as a period of having two days.
- 5. Extra Wages for Overtime (Section 55)**
An adult worker could be required to work overtime that may be four hours and 40 hours a week. This provision must be made by the industry have pay and a given for working overtime. In this regard, the state government shall fix the rate on extra working hours of employees. A worker is not allowed to work overtime continuously for more than seven days and the number of overtime working days in continuous. These amounts should not be more than 75 days.
- 6. Notice Period of Work for Adults (Section 56)**
In any factory, the management must clearly notify the periods of work of adults; categories of workers in groups according to their skills, roles and workloads. If any changes are to be made in the work system, then the management must notify/deliver the inspector regarding such changes before implementing the changes.
- 7. Double Employment (Section 60)**
An adult worker should not be allowed to work in a factory on a day, if he/she had already worked in another factory on the same day.
- 8. Overlapping of Shifts (Section 58)**
According to this provision, the shifts must be arranged in such a manner, that the two workers are not assigned with the same type of work at same time.
- 9. Right of Adult Workers (Section 62)**
The management should entertain a record of adult workers. That name or record should include information such as worker's name, type of work he/she performs, the place to which the worker belongs, work shift etc.

Q21. Explain the provisions on employment of women and employment of young persons under the Factories Act, 1948.

Answer : *Model Paper, 2019*

Under the Factories Act 1948, provisions concerning employment of women are:

1. Hours of Work

There are strict restrictions over the working hours of women. The provisions states that women should not be allowed to work more than the regular time hours of work and the working hours should be between 6 am and 7 pm. Except to the weekly holiday or any other holiday, there should not be the change of such timetable for women.

5.2.3 Latest Legislation

1. Work on or Near Machinery in Motion

As per section 12 (2), a workman not be allowed to work between 60° part or machinery while it is in motion. The strength of a worker for work on clean or running machinery is 1000 kg and is contrary to the act.

2. Extra Working Hours

The State Government may set rules concerning the maximum working hours which can be worked, hired or served by child workers, child care, and children who work in factories, and such shall not be exceeded upto 14.7 hours. Additionally child may not be allowed to work in places which is longer required.

3. Dangerous Operations

According to Section 520, the state government may set rules to restrict the workers from carrying out work in dangerous or hazardous to the health of workers.

4. Children

As per Section 56, if a factory employs any child from every month then workers must be provided with notice for children having age not more than six years.

5. Prohibition of Employment of Women Near Certain Occupations

As per Section 56, if a factory employs any woman from every month then workers must be provided with notice for children having age not more than six years.

Prohibition Regarding Employment of Young Persons:
Some restrictions are imposed on the employment of young persons under the responsibility of state government to protect the health of young citizens. They are:

1. Prohibition of Employment of Young Children (Section 63)

A child under fourteen years is restricted from working in factories.

2. Child or Adolescent to Carry Tools (Section 68)

A child above fourteen years working in a factory must receive certificate of fitness from the organization or doctor referring fitness certificate.

3. Certificate of Fitness (Section 69)

The certificate of fitness is issued by a certifying surgeon. The certificate is issued after the examination of physical fitness of a child. This certificate will be valid only for 1 year.

The certificate shows the age of a child i.e., state that demonstrates physical status of child i.e., his/her ability to work in factory and his/her capability to perform the work for full day. A young person or the manager of a factory, where the company wants to work can apply for the fitness certificate.

4. Effect of Certificate of Fitness Granted to Adolescent (Section 70)

The child who received certificate of fitness is regarded as adult and hence all the provisions concerning the adult workers considered as applicable to the child. To work in a factory, the child's age must be more than seventeen years.

Employment of and Working Hours for Children (Section 71)

As per this provision, the child is not allowed to work for more than four and a half hours per day and are provided free working shift for hours.

5. The Ability to which the children work hours exceed 14.7 hours and a half daily shall not be allowed to work in places which is longer required.

Like one of the 2000 hours working while, children are not allowed to work in dangerous while, looking to two different factories on the same day, but a different employer.

6. Notice of Period of Work for Children (Section 72)

As per this provision, the child need to provide notice about the period of work to which the child is subject to work.

7. Notice of Child Workers (Section 73) that have the following information about the child:

(i) The name of the child

(ii) Notice of the work carried out by child

(iii) The group to which the child belongs to and

(iv) Certificate of fitness issued

8. Books of Work to Correspond with Notes (Section 77) and Register Under Sections 75 and 76

As per this provision, child should be allowed to work in any factory, that can work based upon the terms and period of work for children, which is displayed at the factory.

9. Power to Inspect Workplaces (Section 78)

The authority has authority to prevent or encourage of heavy sailing that.

(i) The medical examination of child by its certifying surgeon is required and

(ii) If the child is not fit to work, the doctor should be prohibited from working in factory.

10. Power to Make Rules (Section 79)

The State Government makes the rules concerning:

(i) The cause of definite correspondence. The person has higher wages more.

(ii) The physical standards which a person needs to possess to undertake his/her job to be permitted to work in factory.

(iii) The provision of certificates imports.

(iv) Assessment of due dates to the companies sent from issuing the certificate.

(v) Fines that are to be paid in the certifying workers.

5.2.3 Provisions on Annual Leave with Wages, Special Provisions, Notice of Certain Dangerous Occurrence, Rights and Obligations of Employers and Employees and Penalties

Q22. Explain the following.

- (A) Provisions regarding annual leave with wages

- (B) Special provisions under the Factories Act, 1948.

Answer :

Model Answer (1000)

(A) Provisions Regarding Annual Leave with Wages

The provisions regarding annual leave with wages are:

1. Annual Leave with Wages (Section 79)

A worker is eligible for annual leave with wages when he/she worked for two hundred and forty days during a calendar year in a factory. The leave for an adult is at the rate of one day for every twenty working days and for a child it is one day for every fifteen days. The annual leave is allowed irrespective of his service either short or not for the last 240 days.

In order to compute the 240 days of a calendar year, few conditions are considered:

(i) Days lay-off by contract

(ii) There shall not be more than twelve weeks maternity leave for the women.

If the worker has not taken leave in the present calendar year, then these leaves can be carried to the subsequent year, as a limit of 78 days for adults and 48 days for child weekly holidays or holidays for children are not regarded as leave. An application for annual leave should be submitted to the manager or manager.

2. Wages During the Leave Period (Section 80)

A worker shall be allowed a leave with wages. The wages during the leave period will be equal to the regular full time average. Calculation of wages during leave period excludes overtime and bonus whereas the allowances are included.

3. Payment in Advance to Certain Cases (Section 81)

The advance payment of wages can be made to adult or child if the number of leaves taken is not less than four days in case of adult and ten less than five days in case of child.

4. Mode of Recovery of Liquidated Wages (Section 82)

As per the provision, if an amount is due from the employer, then the recovery of such amount shall be done as delayed wages.

5. Power to Make Rules (Section 83)

The state government makes rules for inspection to ensure to update record of the losses of workers, so that, the register can be kept available to the inspector for examination whenever required.

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(B) Special Provisions under the Factories Act, 1948

i. Department of Factories (Section 84)

The state government in response to the application, declares that the different branches or departments of a factory are regarded as separate factories.

ii. Exemption During Public Emergency (Section 85)

As per Section 85 of the A.F., the factories are exempted from performances according to the provision of Act at the time of any public emergency. This exception is given by notification of State Government. The exemption can be made for three days or more than three weeks.

iii. Power to Apply the Act to Certain Premises (Section 86)

All provisions of Act are applicable to all the factories in which the manufacturing process is being carried out. The State Government may apply the provisions irrespective of whether the employees working are less than or more than or they are not employed by occupiers but working with the intent of premises.

iv. Exemption of Public Institutions (Section 86A)

The State Government provides exemption to the places such as workshops where the manufacturing process is carried out and is attached to any institution of education, training and reference. The exception will not be allowed for the premises concerning buildings or working hours.

v. Dangerous Manufacturing Process or Operation (Section 89)

The state government is authorized to make rules to regulate the factories wherein the manufacturing process involves risk and has possibility of causing injuries to the workers specially the children and women are prohibited to work in such kind of manufacturing process. Penalties Medium Corporation of workers is to be imposed and this for accident or death compensation is to be paid by factory owner.

Any specific materials which causes harm to the workers are to be prohibited and controlled. Additionally the corresponding equipments must be provided to the workers to protect them from injuries.

vi. Notifiable Accidents (Section 89)

If an accident took place in factory and as a result of the workers are got injured or died, then the manager of the factory must notify this to the legal authority concerned. The authority to report to the condition may carry out the enquiry of the accident within a month. The injured workers must be allowed to take rest for 48 hours or more than that depending on the seriousness of injury.

Q23. Explain briefly the following with respect to Factories Act, 1948.

(A) Provisions relating to notice of certain dangerous occurrences.

(B) Rights and obligations of Employers and Employees.

UNIT 5: Labour Legislation

Answers :

i. Provisions Relating to Notice of Certain Dangerous Occurrences (Section 88A)

If any dangerous incident occurs in a factory which causes severe injury or disability to a worker. Then the manager of that factory should give notice to the concerned authority about such incident.

ii. Notifiable Diseases (Section 89)

If a worker gets affected with any disease as specified in the schedule of the Act, then that worker should be immediately taken to the medical practitioner. This is the responsibility of manager to notify the relevant concerned authority. In response to the accident, the medical practitioner is required to send the report immediately to the chief inspector of factories. The report including the workers name, full address, and his disease with which the worker is suffering with, the name and address of factory to which the patient belongs to and work.

Incase if the medical practitioner fails to send the report of the patient, then he will be charged with a fine of not more than fifty rupees.

The diseases mentioned in the schedule of Act are:

1. Lead poisoning (from contact due to processes or compound of lead)
2. Lead tetraethyl poisoning
3. Phenolphthalein poisoning or the effects of it
4. Mercury poisoning or the effects of it
5. Manganese poisoning or the effects of it
6. Arsenic poisoning or its effects
7. Peritonitis caused due to rat poison flour
8. Carbon disulphide poisoning
9. Chromic acidization or its effects
10. Anthrax and soot.

iii. Enquiry into Accidents and Diseases (Section 90)

With a view to avoid the accidents and diseases, the State Government appoints the persons having good knowledge of legislation to assess enquiry of the accidents taking place in the factory. These persons will have the right to examine the power of inspection.

iv. Rights and Obligations of Employers and Employees

i. Rights of Employers

The employer has the following rights to the employee workers. They can dismiss, laid off, reduce and modify their terms and benefits among others.

This may stop to work against the interests of the Act and can go through the legal procedure of short working hours, remuneration, weekly holidays and overtime conditions.

(i) They can deduct demands for advance payment of annual leave if there is no leave for more than 15 days.

(ii) They can demand double payment for overtime work.

(iii) As per the provisions of the Act, a worker has right to get wages for actual hours irrespective of the duration of his service or whether he has performed the service in the calendar year or not.

ii. Obligations of Employers

According to the Act, the workers are not allowed to

(i) Dismissed by notices or subject the instruments of punishment or loss of wages which you provided to the workers without notice of the workers.

(ii) Deduct from the wages which are postponed or value services in due course of time.

G24. What are the penalties specified in Factories Act, 1948?

Answer :

As per the Factories Act, 1948, if any factory performs manufacturing or service activity, which is contrary to the Act, then that factory is liable for penalties. The penalties and provisions specified in the Act are discussed as follows:

1. General Penalties for Offences (Section 92)

If any factory performs anything against the rules and provisions of Act, 1948, then the owner/Manager of factory will be liable for penalty in terms of imprisonment of two years or fine upto one lakh rupees or both. If the factory continues to violate the rules even after the deduction of punishment, then in such case, the fine would be one thousand rupees for each day of continuous violation.

2. Liability of the Owner (Section 93)

If the owner of the premises, has many buildings and he/she runs out these buildings in different States, then according to the Act, that owner is responsible to provide from factories or Services like drainage, water supply, lighting, ventilation and materials and etc., to all factories. The owner may require an order from State Government to provide these facilities even if not provided earlier.

3. Penalty After Previous Conviction (Section 94)

If a person repeats acting contrary to the same provisions of the Act, then he/she will be associated with imprisonment upto 3 years or fine upto ten thousand rupees or both of the same year.

In case, if the offence results in an accident leading to death of a worker, then the fine would be thirty five thousand rupees if the accident leads to death, and ten thousand rupees if the accident leads to bodily injury.

4. Penalty for Obstructing Inspectors (Section 95)

If any person in the factory tries to prevent the Inspector from making any action to maintain any workers appearing before the Inspector for investigation or fails to submit regular documents whenever required will be liable for the punishment such as imprisonment of which may extend to six months or fine upto ten thousand rupees or both.

5. Penalty for Blocking the Information (Section 96)

Under this section, if any person attempts to publish or discuss the information which is the outcome of the sample survey conducted by the inspector. Then that person will be punished in terms of imprisonment which extends to three months or fine upto ten thousand rupees or both at the same time.

6. Offence by Workers (Section 97)

If any worker of the factory, violates any provision of the Act, then he/she will be liable for the fine five thousand rupees.

7. Penalty for Using False Certificate of Fitness (Section 98)

A person will be penalized with imprisonment which extends to five months or fine upto one thousand rupees or both if he/she will fully tries to use the certificate of fitness issued to other person.

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PRINCIPLES OF ENTREPRENEURSHIP (JNTU-HYDERABAD)

8. Penalty for Preventing Double Employment of a Child (Section 99)

With the concern of prevent a child performing a double employment (i.e. work) in two different factories on the same day but different times than the parents or guardians of that child will be provided fine which extends upto one thousand rupees, in case, if the parents/guardians are not aware about the double employment of a child then, this punishment is not applicable.

9. Presumption as to Employment (Section 100)

A person is assumed as an employee in a factory, if he/she is found in the factory during working hours or when the machinery is in motion, other than the lunch time of one hour.

10. Burden of Proof (Section 100)

If a court regards the worded person as employee under any, then the entire responsibility would be imposed on the accused for proving that said person is not employee.

5.3 INDUSTRIAL DISPUTE ACT, 1947

G25. What is Industrial Dispute Act, 1947? State its features and objectives.

Answer :

Industrial Dispute Act, 1947

The Industrial Dispute Act, 1947 is one of the four governing Industrial Relations codes. The Act came into force on 1st April, 1947 and has been amended several times thereafter.

According to Pabal High Court, the basis of the Act "standardization of the conditions of workers in an industry".

Features of Industrial Dispute Act, 1947

The salient features of Industrial Dispute Act, 1947 are as follows:

1. A permanent machinery of conciliation has been set up for the speedy and peaceful settlement of industrial disputes.
2. Compulsory arbitration in public utility services, including the enforcement of arbitration awards, has been recognized.
3. Strike and lockout during pendency of conciliation and arbitration proceedings and the arbitration award, enforced by the government order are prohibited.
4. Specific time limit for various stages of conciliation and arbitration, in certain delays are prescribed.
5. An obligation on employees to receive pay and do not withdraw from trade union has been imposed.
6. Works committee to provide machinery for mutual consultation between employers and employees has been set up.

Industrial disputes may be referred to an industrial tribunal where both the parties to any industrial dispute, apply for such reference where the appropriate conciliation committee is unable to do so.

6.2. Labour Legislation

The Act includes 40 Sections grouped into seven Chapters, such chapter dealing with:

- Chapter I - Preliminary matters
- Chapter II - Various authorities under the Act
- Chapter III - Reference of disputes to various authorities
- Chapter IV - Procedure, powers and duties of tribunals
- Chapter V - Unfair labour practices
- Chapter VI - Penalties for illegal unions
- Chapter VII - Miscellaneous provisions.

The Act has five schedules, such schedule deals with:

- Schedule 1 - Specifies the industries which may be declared to be the public utility services.
- Schedule 2 - Matters within the jurisdiction of Labour courts.
- Schedule 3 - Matters within the jurisdiction of Industrial tribunals.

- Schedule 4 - Conditions of service for change of which notice to be given.

- Schedule 5 - Unfair labour practices.

The Act gives some definitions in different sections. They are:

- Appropriate Government (Section 2),
- Award (Section 2b),
- Employer (Section 2g),
- Industry (Section 2j),
- Industrial Dispute (Section 2k).

The Act provides the following machinery for settling the industrial disputes.

6. Classification

- Work Committee (Section 3)
- Conciliation Officer (Section 4)
- Board of Conciliation (Section 5)

7. Arbitrations

- Court of Inquiry (Section 6)

8. Adjudication

- Labour Court (Section 7)
- Industrial Tribunal (Section 7A)
- National Tribunal (Section 7B)

Conciliation can be described as "quasi-adversarial" Arbitration and Arbitration and Adjudication are called "adversarial mechanisms".

9. Rejection of Industrial Dispute Act, 1947

Objectives of the Act, in accordance with the judgement made by supreme court are as follows:

To promote measures for securing and preserving safe and good relations between the employers and the employees.

To determine the differences and to get the disputes settled by appropriate authority.

1. To provide a regular machinery for amending and settling of industrial disputes between managers and employees, between workers and workers and between workers and employers.
2. To prevent illegal strikes and lockouts.
3. To prevent strikes or workmen or masters of specific establishments, engaged in similar or connected occupations.
4. To give the workers benefit of collective bargaining and protection of their rights.

G26. What are the different types of Industrial Disputes?

Answer :

The following are the different types of industrial disputes:

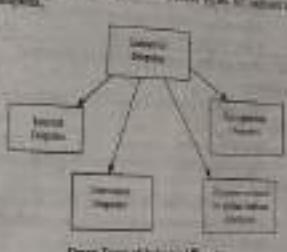


Figure: Types of Industrial Disputes

1. Industrial Dispute

Industrial disputes are disputes in economic disputes in conflicts of interest. It mainly deal with the protection of the terms and conditions of employment for workers in the industry. Universally such disputes arise when there is a demand of basic issues or a process for better wages, possibility, job benefits, or other management issues and problems.

As there are no hard and specific regulations defining such disputes, the dispute panel has to adapt to specific local disputes.

2. Grievance Disputes

Grievance disputes are also known as legal disputes involving conflicts of interest. They originate from a single worker or group of workers in the same group as a person agreed for the day's work. Grievances are related to the field like over time payments, promotion, demotion, rates for work.

The concerned person should resolve such disputes in a timely manner as, if these disputes are not resolved quickly, it may result in below-level working relations and a sense of indifference which hinders the management and the workers.

1. Disputes Related to Industrial Labour Practices

These disputes arise as a result of social discriminatory treatment of employees, who actively participate in trade union activities in the management. The aim of such unfair labour practice is to sustain or prevent the employees from joining trade unions.

In many countries labour laws are intended to prevent such unfair practices.

4. Recognition Disputes

This type of dispute arises if the management does not want to recognise a trade union for collective bargaining. Such a refusal may be because of the different mindsets like,

(a) The management refuses to recognise the cause of trade unions as it dislikes the trade unions due to trade unionisation.

(b) The management refuses to recognise trade unions as there are more than one trade unions, causing conflicts due to recognition. In such a case, the parties may follow the guidelines of voluntary codes of discipline as laid down in different agencies.

Q27. What are the causes of Industrial Disputes?**Answers :**

The causes of industrial disputes can be categorized as follows:

1. Industrial Causes

The following factors that cause industrial disputes are,

(a) The employment methods or policies followed by the management in employing an individual may sometimes be the causes for the industrial disputes.

(b) The type of work, employment working conditions, availability of resources to do the work, working hours etc., may lead to industrial strike.

(c) Rights and obligations and their interpretations by employees and employers.

(d) Disagreements in other form of disciplinary actions.

(e) Agreements that are regional and exclusive.

(f) Separation or dislocation of the functions of an employee.

(g) Increasing population and rise in cost of living.

(h) Rivalry among trade unions.

(i) Attitude and temperament of industrial workers.

2. Managerial Causes

The management practices which are not in accordance

with legal requirements and which are unfair or unfair are the causes of disputes.

Some of the managerial practices that cause industrial disputes are,

(a) Discriminatory Labour Policies. Many of the labour practices adopted by the management may lead to industrial strikes. They are,

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- (i) Discharging or suspending the workers by way of discrimination or any other discriminatory means.
- (ii) Assigning a task to the workers which is not remunerative or profit.

- (iii) Forcing the employee to join a particular trade union or refusing from joining a trade union.
- (iv) Unfair or discriminatory Displacement: If management of workers by adopting the age-old management philosophy, unfairness working culture of the organisation may become the cause of industrial disputes.

- (v) Disrespect of management to creative employees in decision-making.

- (vi) Management unwillingness to recognise a particular trade union.

3. Government Machinery

Though government acts as a mediator between the management and workers in settling the dispute, sometimes government related factors become the source of industrial disputes.

Various government related factors that cause industrial disputes are,

(a) Variations in economic policies like Privatisation and Liberalisation may cause many strikes and disputes in the industrial relations.

(b) Improper and inadequate labour laws and their implementation.

(c) Government's inability to set whether labour laws are perfectly implemented by the employees.

(d) Lack of confidence of employees and employers in government's conciliation machinery.

(e) Failure of Government's conciliation machinery in solving the disputes.

4. Political and Legal Causes

Many political and legal factors interfere in the smooth working of industrial relations and cause industrial disputes.

Various political and legal factors include,

(a) Policy influencing the relationship between management and workers.

(b) Political instability.

(c) Stratified central state relations.

(d) Existence of multiple labour laws.

5. Economic Causes

Royal Commission on Labour in India says that the causes for any strike are mainly or largely the economic reasons.

Various economic reasons are,

(a) Low Wages: Increase in the prices may demand for increase in wages and the less wages given may be the cause for industrial dispute.

(b) Unemployment: In the present day demand for jobs is high and the less wages given may be the cause for industrial dispute.

(c) Inequality of orders given by employer.

(d) Withdrawal of any statutory privilege.

Q28.1. Industrial Legislation

(a) Disband (Sect): Rise in price may also demand for more Democratic Administration and the requirement of better and more comfortable of their needs may cause industrial strike.

(b) Increasing Industrial Profit: Rise in the profit demand for workers' share in the increased power of profit and the unwillingness of the management may cause industrial disputes.

Q28.2. Explain the measures or methods to resolve Industrial Disputes.**Answer 1.****Measures or Measures to Resolve Industrial Disputes**

The following several measures are provided under the Industrial Disputes Act, 1947.

1. Conciliation

Conciliation is one of the most important method for representation and resolution of industrial disputes through the intervention of a neutral third party. Conciliation is defined as the process by which the services of a neutral third party are used in a dispute as a means of helping the disputing parties to settle their differences and to arrive at an amicable agreement or agreed solution. It is a process of rational and orderly discussion of differences between the parties in a dispute under the guidance of a conciliator.

International Labour Organisation**2. Arbitratory Arbitration**

If the proceeding of the conciliation fails to resolve the dispute, then the conciliator officer may refer it to another independent party, appointed by the mutual agreement of the disputants. Both the parties to the dispute give out the responses to the arbitrator who listens and gives his award of judgment on the dispute. He is only required to produce a report by conducting fair hearings by collecting all the available facts about the problem, the report needs to be submitted to the government which publishes its judgement within the 30 days from the receipt of the report. After a period of 30 days it will become a final binding for all the members of the dispute either they directly or indirectly linking the settlement.

3. Adjudication

Adjudication is the process in which a nominated party appointed by the government intervenes into the dispute with a view to give the final settlement. Failure of conciliation to settle the dispute leads the government to refer the dispute to adjudication. Adjudication can be done by,

4. Labour Courts

The Labour court includes one independent person who is known as the presiding officer who is or has been working as a high-court judge or a district judge for atleast 3 years and who is having a judicial or law experience for more than a period of 7 years.

The Labour court deals with the disputes which are related to,

- (a) Legality of order given by employer.
- (b) Withdrawal of any statutory privilege.

- (c) Strike or lockout.
- (d) All major wage or general wages of the industrial tribunal.

5. Industrial Tribunal

The industrial tribunal also consists of one presiding officer who is appointed by the government. It's jurisdiction is much wider than the labour court's jurisdiction in order to provide relief to the persons involved in the proceeding. The members are appointed by the concerned government. The industrial tribunal makes judgments in the following matters,

- (i) Compensation and other allowances.
- (ii) Working hours.
- (iii) Working shift.
- (iv) Classification on the basis of gender.
- (v) Disciplinary rules.
- (vi) Entitlements and so on.

6. National Tribunal

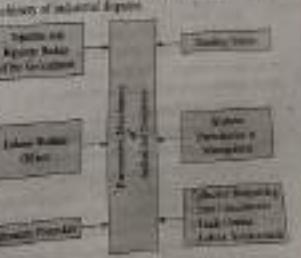
National tribunals also consist of independent persons who are known as independent body and are appointed by the central government in order to resolve the national disputes which can affect the interest in different states.

Q29. Explain Guidelines for Handling Industrial Disputes and Settlement of disputes, according to Industrial Disputes Act.**Answer 1.**

The guidelines for effectively handling of industrial disputes are determined in detail with the help of conciliation mechanism for prevention and settlement of industrial disputes. That are,

Procedure Mechanism for Prevention of Industrial Disputes

The mechanism for preventing industrial disputes has been set up to maintain harmonious relations between management and employees. The following steps represent the procedure mechanism of industrial disputes.

**Figure: Preventive Machinery of Industrial Disputes**

1. Tripartite and Bipartite Bodies of the Government

Tripartite bodies at the working level of consultation machinery at the national and regional level for the purpose of resolving industrial disputes in India.

The government of India has established a number of tripartite bodies for resolving labour issues. The three most notable tripartite bodies are,

- (i) The Indian Labour Conference (ILC)
- (ii) The Standing Labour Committee (SLC)
- (iii) The Conciliation on Committees.

Like tripartite bodies, the practices and policies of bipartite bodies shaped the industrial relations in India by resolving the differences between parties. They are labour management committees constituted as a part of a grievance process in order to resolve disputes.

The bipartite constitution has only two parties i.e., Employers and Employees are two separate bipartite bodies Work Committees and Joint Management Councils.

2. Standing Orders

Standing orders refer to the specified set of rules and regulations which control the working conditions of employees. It includes the duties and responsibilities of both the employees and their managers.

Standing orders is one of the methods of maintaining industrial harmony and peace. It provides the employees and workers with rules and regulations, norms and responsibilities that help in maintaining harmonious relations between employees and employers, thereby results in "Peace".

3. Labour Welfare Officer

Section 49(1) and (2) of "The Factories Act, 1948" says that a factory consisting of 200 or more workers should have of at least one welfare officer and if the number of employees are more than 2,000, the Assistant and/or Additional Welfare Officer should be appointed besides the welfare officer. A Labour Welfare Officer should advise and assist in implementing legislative and/or regulatory provisions relating to the better life working conditions, health and safety etc.

4. Worker's Participation in Management

Three distinct Workers Participation in Management as "It is a mutual and co-ordinated involvement of person in a group situation which encourages him to contribute to goals and share responsibility in them". WPM aims at providing a chance to the workers to have a say in the management affairs.

5. Grievance Procedure

A grievance procedure is an organized sequential process which is meant to sort up the conflicts of the employees.

It is quite difficult to avoid grievances in an organization. Therefore, for solving the grievances in an organization, a grievance procedure consisting of four steps was developed. A time limit is being set for solving the grievances at each step. As the grievance procedure consumes lots of time and disrupts the employees, it is intended for the organizations to settle the disputes as soon as possible.

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4. Collective Bargaining

Collective Bargaining acts as an important tool for the prevention and settlement of disputes. Collective Bargaining takes place when the representatives of both workers and management meet to discuss upon employee wages and benefits, to frame working rules and to settle the disputes.

Settlement of Industrial Disputes

The various methods for settlement of industrial disputes are represented in the following figure:

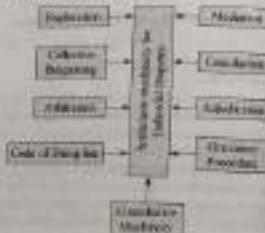


Figure: Settlement Machinery for Industrial Disputes

1. Exploration

Exploration is an attempt to settle the disputes in which the government appoints a board or a committee to investigate into the dispute. Exploration may be compulsory or optional. It is compulsory when the government appoints a "Court of Inquiry" to explore into the dispute without informing the parties. It is optional when either or both of the parties to the dispute apply for investigation on the problematic issue. When employer or trade unionist approaches the government and states should be stopped. Exploration has no serious impact on the dispute because it just analyses the facts about the dispute and tries to bring about a cordial relation to the status.

2. Mediation

Mediation is one of the methods to settle the disputes in which a third person mediates both the parties in decision-making.

In the method of third person, neither represents his own nor his judgment on the parties but just acts as a mediator. Mediation mainly aims at adjusting the differences between the parties and tries to bring them to a voluntary agreement so the work is not disrupted. Arbitration can be an another form of conciliation based on conciliation board.

3. Collective Bargaining

Collective Bargaining acts as an important tool for the prevention and settlement of disputes. Collective Bargaining takes place when the representatives of both workers and management meet to discuss upon employee wages and benefits, to frame working rules and to settle the disputes etc.

5.1.1.2. Labour Legislation

1. Constitution

Constitution is one of the most important method for prevention and settlement of industrial disputes through the intervention of a neutral third party.

2. Arbitration

Arbitration is the process in which a neutral third party is asked to intervene into the problematic situation. The arbitration process analyses the bargaining position, listen to both the parties to the dispute, gather the information, identifies the cause of dispute and recommends actions that are acceptable and achievable and bind both the parties.

3. Adjudication

Adjudication is the process in which a neutral third party, appointed by the government, intervenes into the dispute with a view to give the final settlement. Failure of conciliation to end the dispute leads the government to refer the dispute to adjudication.

4. Code of Discipline

The code of discipline aims at defining the duties and responsibilities of both the workers and the employers. According to Third Five Year Plan, Code lays down some responsibilities for both the workers and management with an aim of promoting harmonious industrial relations.

5. Grievance Procedure

A grievance procedure is an organized sequential process that is meant to end up the conflict of the employees.

It is quite difficult to avoid grievances in an organization. Therefore, for solving the grievances in an organization, a grievance procedure consisting of four steps was developed. A time limit is being set for solving the grievances at each step. As the grievance procedure consumes lots of time and disrupts the employees, it is beneficial for the organizations to solve the disputes as soon as possible.

6. Conciliatory Machinery

The conciliatory machinery act by the government is aimed at the law to settle the disputes. Conciliatory machinery mainly aims at bringing the parties together by removing the differences between them and by settling the dispute.

Conciliatory Machinery operates at four levels, i.e., plant level, industry level, state level and national level. The different conciliatory machinery at different levels are,

Plant Level

At this level, works committee and joint management council are involved.

Industry Level

It includes wage boards and industrial committees.

State and National Level

Includes Indian Labour Conference (ILC) and Standing Conciliation Committee (SLC).

5.4 EMPLOYEE STATE INSURANCE (ESI) ACT, 1948

Q36) What is Employee State Insurance (ESI) Act, 1948? Explain its importance, objectives and applicability of ESI Act, 1948.

Answer :

Employee State Insurance (ESI) Act, 1948

ESI Act, 1948 was introduced mainly with the objective to offer security to the employees. It also makes attempts to achieve the objective of socio-economic justice identified in the Directive principles of state policy under Part IV of the Constitution of India. ESI Act, 1948 is considered as a social legislation for ensuring the right to work, adequate and proper paid employment, freedom from unemployment, old age, widowhood and disablement, and other risks in case of personal injury or illness or death or loss of limb or health, protection of work and insurance against loss of pay due to temporary incapacity or permanent incapacity or any other similar kind of accident.

Important Definitions of ESI Act, 1948

The important definitions of ESI Act, 1948 are,

1. Employee

Under Section 2(b) of the Act, Employee means a person engaged in any process employed in any establishment for the work of a master or contractor or in service of a master or contractor.

2. Wage

The word "Wage" means all remunerations that are paid in respect of each of the conditions of decent and fair work, which also consists of any payment in the form of approved leave, leave or other leave which is legal and necessary for resting or for health, protection of work and insurance against loss of pay due to temporary incapacity or permanent incapacity or any other similar kind of accident.

3. Travelling expenses or value of living expenses

Any paid wages special expenses.

These expenses do not include

Payment of contribution to the previous fund or pension fund.

4. Contribution

Contribution is the sum of money paid by the employer to the corporation in respect of employee.

5. Corporation

Corporation is the ESI institution maintained under ESI Act.

6. Employment (E)

Any work caused to the employee by his association or employment.

7. Employment (E)

Any work caused to the employee by his association or employment.

FOR ENGINEERING STUDENTS

6. Principle Employer

Principle employer is the occupant or owner of the factory.

7. Sickness

Sickness is an employer's condition which requires medical treatment and inaction from the employee based on medical evidence.

Objectives of ESI Act, 1948

The ESI Act, 1948 was enacted with the following objectives:

- To provide health insurance scheme for the industrial workers.
- To provide medical benefit in the situation of sickness, maternity and on-the-job injury to the factory employees.
- To provide pensional payment to the dependents of their dependents, cause of permanent disablement of the industrial worker.
- To provide pensional payments to the insured person in case of sickness certified by an officially appointed medical practitioner.
- To assist periodical payments to the insured women employees in case of sickness or maternity.

Applicability of ESI Act, 1948

The implementation of the scheme is territorial under section 10(1). This Act initially applied to all the factories adopting power and employing 20 or more persons on wages under the second 10% of the Act. The provisions of the Act is extended to cover:

- The factories using smaller power and employing 10 to 19 individuals.
- The factories not using power and employ 20 or more persons.
- Scope.
- Hospitals and dispensaries.
- Chairman and private trustees.
- Newspaper publishers and
- Rail road transportation undertaking which employs 20 or more persons.

Q31. What are the various benefits provided by Employee State Insurance (ESI) Act, 1948?**Answer :**

The various benefits provided by ESI Act, 1948 are as follows:

1. Sickness and Extended Sickness Benefit

An insured person is entitled to get sickness benefit at the rate of standard benefit for a period of all days between any two consecutive benefit periods for sickness. The eligibility criteria for availing such sickness benefit is that the contribution of an insured person should be payable for not less than half the number of days of the subsequent contribution period. Any insured person who is suffering from special long-term ailment, qualifies for receiving extended rate of sickness benefit which is 20% higher than the standard benefit rate and is approximated to the next higher multiple of 5 paise for a period of 124 or 309 days.

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2. Maternity Benefit

An insured woman is entitled to receive maximum benefit as for standard benefit rate approximately equivalent to 100 wages for a period of 12 weeks and it, which are more than 4 weeks will exceed the standard benefit rate. The maximum maternity benefit is provided for married age. Generally, the eligibility criterion for maternity benefit is 60 days or more or less preceding contribution period of one year.

3. Displacement Benefit

When a person suffers an injury during the course of his employment, he will get free medical treatment and temporary disablement benefit which is 70% of his wages and is only 1/16 the sum of temporary disablement limit. But on the condition that such disablement has lasted for not less than 3 days excluding the day of the accident. If there is permanent total disablement, the insured person will be provided with a life pension or full time which is generally 20% of his wages but if partial permanent disablement a person it will be provided with life pension. This type of benefits are also paid for dependents.

4. Dependent Benefit

The dependent benefit deals with providing timely assurance to the eligible dependents of an insured person who either dies by accident or by an occupational disease occurring during the course of employment. The pension at a rate more than the standard benefit will be given proportionately to the widow and children. The dependent benefit is generally payable to a dependent person or grandparent for life if there is no widow or child left and such benefit is equal to 1/16th of the full rate. But if there are two or more parents or grandparents then in such case the pension will be paid until the death of the insured person.

5. Funeral Benefit

The funeral benefit was started in 1968. In this type of benefit, the oldest surviving member of the deceased insured person will be given a payable amount of not more than one thousand five hundred rupees benefit. The insurance value of such benefit is 5 rupees from the date of the insured person.

6. Medical Benefit

The medical benefit is considered as the most important benefit of the scheme. It includes free medical attendance and treatment of insured persons and their families. The medical benefits are divided into three types which are as follows:

- Revised medical rate.
- Exempted medical care.
- Full medical care.

Q32. Write a note on the following.

- Registration and administration under ESI Act, 1948
- Restrictions, protection, penalties and damages under ESI Act, 1948
- Registration and Administration Under ESI Act, 1948

- Registration and Administration Under ESI Act, 1948
- The following is about registration and administration under ESI Act, 1948.

Part II: Labour Legislation**Registration under ESI Act, 1948**

According to the section 2-A of the Act, the organization of a factory (or) establishment with the employees state insurance corporation is a statutory responsibility. The senior factory officer established to which the Act is applicable of the first time has to submit a declaration of registration filled in the form O1 to the suitable regional office within 15 days after the applicability of the Act. After receiving the O1 form the regional office will evaluate the coverage and once it is decided whether the applicability of the Act to the factory or establishment it will assign a code number to the employee.

The registration forms of the employees are considered as declaration forms. It is the responsibility of the principal employer to get the declaration form filled in by all the employees included in the scheme.

The statutory registers which have to be maintained are as follows:

The register of employees:

The accident book in which all accidents to employees during the course of employment is maintained.

Unification Under ESI Act, 1948

The corporate body which is known as the Employees State Insurance Corporation (ESIC) manages all the schemes include the members such as employees, employer, in parlour, central and state governments and medical referee. Basically, this board based body is liable for policy framing, decision making and monitoring the operations of them by a Standing Committee which is formed from the top corporate body. The union minister of labour, is the head of the board and acts as a chairman of such corporation.

The chief executive officer of the corporation is in charge of all so constituted as an ex-officio member of the Corporation and its Standing Committee. For the purpose of implementation of the scheme, the ESIC has established a network of regional office and local offices all across the country. Regional director manages the regional office. All the regional director manage the local offices. The medical benefits are managed by the respective state governments.

3. Restrictions, Protection, Penalties and Damages under ESI Act, 1948

The following is about restrictions, protection, penalties, losses and damages under ESI Act, 1948.

4. Registration and Administration Under ESI Act, 1948

A person who is authorized to get the benefits specified under the Act is not authorized to get some benefits under any other Act. An insured person will not be authorized to get benefit in the same time for the following:

Aid of sickness benefit and maternity benefit of the sickness benefit and disablement benefit for temporary disablement or

The maternity benefit as well as the disablement benefit for temporary disablement.

In case, an insured person is admitted for care for medical benefit by the way home or going to work for medical benefit.

Protecting Under ESI Act, 1948

An employee whose employer is not providing the scheme will be entitled to the benefit of the scheme if the employee has been employed for a minimum period of 12 months. Any form of notice of discharge, discharge or reduction during such period of time is considered as valid and legitimate.

The employer can discharge an employee during the notice under the following cases:

- Any person who has committed robbery, dacoity, theft and has been found guilty for the same.
- Any person who is managing medical expenses for sickness apart from 10 to 15 days after his pregnancy and who has been reaching out for her pregnancy and who has been convicted for her pregnancy.
- Any person who is engaged in trade or who has made a business transaction under 17 and Regulation 46.

Pensions and Benefits Under ESI Act, 1948

The Act with regard to different classes provides pension and damage. It can, however, estimate damages and who has been guilty in the case, the liability will be payable for every such offence and is restricted to a particular sum which is not exceeding up to ₹ 2000/-

In case, if a manager of firm fails to make contributions and doesn't take the such subsequent others a person will be held responsible to pay punctually for a due of imprisonment which may extend up to six months and a fine not less than ₹ 1000/- besides the person would be compelled to pay a fine, maximum upto ₹ 1000/-

Under section 17(4) of the Act, any person can sue the district collector or the head of his service. He may file a complaint to the concerned authority or the concerned officer to take the appropriate action.

According to regulation 10, if a person is incapable to pay interest on premium payment for a period of 15 days, then the liability of the concerned authority or the concerned officer to take the appropriate action.

Further, the responsibility of the concerned officer to pay the due amount of daily premium as per section 17(5) of the Act for the damage caused under the various circumstances. When the damages are due to the negligence of a person in that incident.

Miscellaneous Under ESI Act, 1948

Under the same Act, the state insurance Act, the benefits which are payable under the scheme to an insured person in respect of the contribution period of 10 years for the right to get medical or medical benefits or medical services.

PRINCIPLES OF ENTREPRENEURSHIP (JNTU-HYDERABAD)

In case of the dispute taken place under the provisions of the Act, first the issue needs to be resolved with the help of the employee's insurance cover and then by any civil court. MCA appeal will be filed before the High Court from in case of the employer's insurance cover, but only in case it includes a significant question of law. The period of limitation for such appeal is 60 days and delay would be construed only for certain disputes.

5.5 WORKMEN'S COMPENSATION ACT, 1923

Q33. Write about Workmen's Compensation Act, 1923 and State its features.

Answer:

Workmen's Compensation Act, 1923

The Workmen's Compensation Act, 1923 is considered as the oldest and the most significant part of the social security legislation. The main aim of this Act is to develop provisions for paying legal compensation to a workman. The most important benefit of the legislation is that, by minimizing the significance of work-related safety devices, it decreases the number of accidents for workers. With the help of this Act, the benefit of workers and the state has been improved.

Important Definitions of Workmen's Compensation Act, 1923

1. Dependents

The dependents would be a wife, unmarried daughter, children of a deceased member.

2. Master

A person below 18 years is referred to as a "master".

3. Partial Disability

It is a disability that occurs to a worker with temporary nature and that reduces the worker's capacity of earning.

4. Total Disability

It is a disability that causes to a worker in which the worker is unable to work or earn at all.

5. Workmen

A workmen is a person who is employed at a factory, service and various establishment to earn his/her income.

Features of Workmen's Compensation Act, 1923

The salient features of principles of workmen's compensation act are:

1. Doctrine of Added Peril

The principle of added peril suggests that if an employee while performing the business, task or work of his employer, becomes ill in some other task, which is not generally reported by performer as per his employment contract, in that situation he cannot claim the employer for the risk involved in such task. The doctrine of added peril is applied only when the worker comes in contact with the accident while performing his actual duty.

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QUESTION 3: Labour Legislation

Employer's Liability in Case of Occupational Disease

The subsection (2) of section 3 outlines about the provision of compensation if an injury is caused due to the occupational disease. Schedule III of the act includes the compensated diseases. The schedule III is classified into three parts i.e., A, B and C. Any contracted disease shown to be an occupational disease belonging to the employment mentioned in schedule III.

Fatal Injury

The injury generally means a physiological injury. A general injury not only means a physical or bodily injury but can include the nervous shock, mental injury or strain.

Accident

The definition of the term "accident" is not given under the act. It generally refers to the actual cause of accident and the time in which the accident occurred and the time during which it occurred. It is very essential to have a causal association or relation between the injury by accident and the accident.

Arising Out of and in the Course of Employment

The term "arising out" refers to the actual cause of accident and the time in the course of whom the place and circumstances in which the accident occurred and the time during which it occurred. It is very essential to have a causal association or relation between the injury by accident and the accident.

Explain Importance and principles governing Workmen's Compensation Act, 1923.

Answer:

Importance of Workmen Compensation Act, 1923

Importance of Workmen Compensation Act, 1923 for Business

It helps both the employer and employee by giving clear information regarding under what cases employer is liable for compensation.

This helps that employee is eligible to the benefits of law irrespective of negligence.

It provides a simple technique for retrieval of compensation.

It provides the right to employee for asking about his/her compensation from employer.

It makes employee to feel protected against any manipulation made by in calculation of compensation.

Principles Governing Workmen Compensation Act, 1923

Some of the principles governing workmen compensation

Employer's Liability for Compensation

The employer's liability to pay compensation is restricted only by the provisions of the Act. According to section (1) of section (1), the liability of the employer to pay compensation rests on the following four conditions:

(i) A personal injury should have been sustained to a worker by an accident.

(ii) The incident must take place at the time of employment.

(iii) The injury should either lead to the death of the worker or to total or partial disablement for a period more than 3 days.

A personal injury should have been sustained to a worker.

Such injury should be caused by an accident.

The accident must be related to the time of employment. The injury should occur due to the activity of the worker or to complete or partial disablement for a period more than 3 days.

2. Employer's Liability in Case of Occupational Diseases

The subsection (2) of section 3 outlines about the provision of compensation. An injury is caused due to the occupational disease. Schedule III of the act includes the compensated diseases and it is classified into three parts i.e., A, B and C. Any contracted disease shown to be an occupational disease belonging to the employment mentioned in schedule III.

3. Personal Injury

The injury generally means a physiological injury. A general injury not only means a physical or bodily injury but can include the nervous shock, mental injury or strain.

4. Accident

The definition of the term "accident" is not given under the act. It generally refers to the actual cause of accident and the time in which the accident occurred and the time during which it occurred. It is very essential to have a causal association or relation between the injury by accident and the accident.

5. Arising Out of and in the Course of Employment

The term "arising out" refers to the actual cause of accident and the time in the course of whom the place and circumstances in which the accident occurred and the time during which it occurred. It is very essential to have a causal association or relation between the injury by accident and the accident.

6. Amount of Compensation

The amount of compensation payable by employer would be as follows:

(i) In case of death, 50% of the monthly wages of Rs. 1000 whether it is more, goes to 2,000 the compensation must be paid to the dependents' family.

(ii) In case of permanent total disablement mentioned schedule of section 4, 60% of the monthly wages of Rs. 1000 whichever is more is to be paid to the dependents' family.

(iii) Under schedule I of section 4, if the worker is disabled to the permanent partial disablement is being considered as such percentage of the payable compensation due to the percentage of the loss in working capacity.

(iv) Permanent partial disablement is being considered as schedule I of section 4 and such percentage of compensation payable in case of 10% loss in working capacity.

(v) In case of a temporary disablement, 60% of the monthly wages for the period of disablement (12-12) whichever is greater would be liable to compensation.

The payment of compensation starts to make prior to the disablement. It will be calculated on the basis of the date of accident. In case the accident is occurring and was not reported from the date, then the compensation would be given for maximum opportunity of being back to normal may be 10 per cent of a basic salary of 1200 p.m. as a legal limit not more than the maximum limit of any school day limit.

4. Discretion of Compensation

The following points do not have regular compensation and discretion:

(i) The employer does not have to pay compensation to a worker whose injury has led to death as in a worker who is under legal obligation due to his/her circumstances, compensation can be paid by depositing with the government.

- (iii) Any other amount which is payable due to an injury, that is generally payable as compensation can be deposited with the commissioner on behalf of the individual who is authorized to do so.
- (iv) The compensation amount can be also one deducted with respect to any compensation deposited with him by depositing the money under sub-section (D) as compensation to a deceased worker, the commissioner (the commissioner is satisfied), will provide a certificate so as to be served on the employer in a suitable manner and ask the depositors to be present at a specific place where may then be sensible that the application of the compensation if the compensation is fully satisfied with the amount which he may consider it as essential, then he will return the balance of the money to the employer by whom it was paid. The commissioner on the application made by the employee will provide confirmation representing compensation to all the claimants involved.
- (v) The compensation which is deducted to a deceased worker is addressed by the depositor made under sub-section (A) and is stored among the dependents of the deceased worker or any other person or the percentage which the compensation may find available or not be selected to receive compensation who is considered as suitable by the commissioner.
- (vi) The amount of compensation deposited with the commissioner is payable to any person, but if the person to whom the compensation is paid is not a woman or a person under legal disability then the amount shall be paid to the next closest person.
- (vii) If the amount deposited with the commissioner is payable only to women or to any other person who is under legal disability, then such amount of compensation can be deducted, applied or paid with any other benefit for the woman or to the person during his/her disability as per the instructions given by the commissioner.
- (viii) If an application is sent on behalf of dependent or any other terms by which the compensation is entitled such as negligence of children by the parents or the to any other circumstances of any dependent that the commissioner has to deduct the amount of compensation or in a manner in which the maximum amount to any such dependent is increased, applied or don't work benefit.
- (ix) After the compensation charges any order under sub-section (B) with respect to the payment of compensation to any person who has acquired the compensation by fraud, representation or when injured person derive a direct profit or on behalf of such person using the resources in the manner specified in section 21.
- 6. Notice and Claims of Accidents:**
- When an accident occurs, it is essential for the injured workers to give the accident notice in writing to the employer. The main aim of giving notice to the employer is to make sure that the employer check all the facts of the accident and the employee take appropriate steps to minimize the consequences of the accident.

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Q37-S: *Laws & Legislation*

Objectives of Payment of Bonus Act, 1965

- 1. To decide statutory liability especially on the employer extended by rules to pay bonus to employees.
- 2. To define the principles of bonus payment.
- 3. To impose limit for maximum and minimum bonus payable and naming the same as "allowable" and "other" bonuses.
- 4. To offer machinery for enforcement of employer's liability towards.

Important Definitions in Payment of Bonus Act, 1965

The payment of Bonus Act, 1965 includes key terms such as "available surplus", "allowable bonus", "allowable", "other" and "bonus", which decide some accounting and taxation knowledge. The different terms define the results over a given accounting periods. Hence this act and clearly defines the accounting period, as no financial results of an entity.

1. Accounting Year with respect to a Corporation

The accounting year with respect to a corporation is the year ending on the day on which the books and records of the corporation tends to be closed and balanced.

2. Accounting Year with respect to a Company

The period during which the profit and loss account of the company, given below to the annual general meeting, which is held in a year or part is called as the accounting year with respect to a company.

3. In any Other Case

The year starting on 1st April or if the accounts maintained by the employer of an organization closed and balanced on other day instead of 31st March, then in such case, the employer selects the year which ending date for the accounts are closed and balanced.

The specified bonus must be distributed from the available surplus on the account of company. Profitably available surplus is considerable percentage of available surplus, while the available surplus is obtained after extracting the liability for gross profit.

Step Involved in Computation of Bonus

The steps involved in the calculation of bonus are as follows:

Step 1:

In the first step, the gross profit is calculated and the financial statements are prepared as per the rules of the accounting. The section 4 of this Act outlines the method used for calculating the gross profit as per the schedules 1 and 2 of the act. Schedule 1 outlines the method for banking companies, while schedule 2 outlines the method for other companies.

Step 2:

After calculating the gross profit as per section 4, certain amount is deducted as prior charges from it. The prior charges is specified in the section 6 of the Act. This step helps in calculating the available surplus as per the section 7 of the Act.

Step 3:

For both gross profit and prior charges, the following differences are added:

Direct tax on gross profits for the previous accounting year, direct tax on gross profits of the accounting year, interest on bank balance or bank to pay during the last accounting year.

Step 4:

The available surplus would be the amount equal to 60% or 67% of the taxable surplus. In case of non-banking companies it would be 67 percent, while for other companies it would be 60 percent, for all the capital purposes of persons of the concerned.

2. Explain the various provisions related to Payment of Bonus Act, 1965

OR

What are the salient features of the Payment of Bonus Act, 1965?

Some of the provisions for salient features of payment of Bonus Act, 1965 are as follows:

- (ii) If the amount which is less than ten rupees, that is generally payable as compensation can be deposited with the Commissioner on behalf of the individual who is authorized to do so.
- (iii) The compensation received can be an adequate discharge with respect to compensation deposited with him.
- (iv) By depositing the money under sub-section (i) to compensation to a deceased worker, the compensation to be calculated will partly go to his wife or surviving dependents according to the nature and extent of his dependents.
- (v) If the money due due to the service of a widow, the compensation would be given to the employee along with the compensation due to the employee taking the claim beyond his/her death.
- (vi) If the compensation wholly or partially goes to the employer by whom it was paid, the compensation on the application made by the employee will provide a settlement compensating comprehensively all the claimants made.
- (vii) The compensation wholly or partially to a deceased worker is influenced by the deduction made under subsection (i) and is shared among the dependents of the deceased worker or any other person in the percentage which the compensation may bear initially or may be allotted to another dependents who is considered as eligible by the commissioner.
- (viii) The amount of compensation deposited with the commissioner is payable to the person, if the person to whom the compensation is paid is a woman or a person under legal disability, then the amount shall be paid to the substituted person.
- (ix) The amount deposited with the commissioner is payable to the person or to any other person who is under legal disability, then such amount of compensation can be recovered, applied or even with any other benefit for the person or to the person during his/her disability as per the instructions given by the commissioner.
- (x) If an application is made on behalf of dependents or any other person by which the compensation is satisfied with the help of children by the person, or due to any other contribution or any deposited then the compensation may either be deducted the amount of compensation or in a manner in which the sum payable to any such dependents is allotted, applied or distributed.
- (xi) The compensation deposited under sub-section (i) with respect to the payment of compensation to any person, who has acquired the compensation by fraud, conversion or other illegal means then the amount paid to or on behalf of such person shall be recovered as per the specified in section 31.
- 5. Notice and Claims of Deductions:**
- When an application is made for the payment of compensation, the notice and claims of deductions have to be submitted to the employer in the application. The intention of giving notice to the employer is to make sure that the employer checks all the facts of the accident and the employee take appropriate steps to enhance the compensation of the workers.

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Q5.1) Labour Legislation

Objectives of Payment of Bonus Act, 1965

The detailed objectives of the payment of bonus act has been articulated by the Supreme Court as follows:

1. To reinforce statutory liability especially on the employer included by the act to pay bonus to employees.
2. To define the principles of bonus payment.
3. To impose limit for maximum and minimum bonus payable and relating the same to "on-off" and "other" principles.
4. To offer uniformity for enforcement of employer's liability towards.

Important Definitions in Payment of Bonus Act, 1965

The success of Bonus Act, 1965 includes key terms such as "available surplus", "allowable surplus", "gross profit", "on-off" and "other", which needs basic accounting and taxation knowledge. The different bonuses under may vary by different accounting periods. Hence, this act also nicely defines the accounting period as the bonus calculation depends mainly on the financial results of an entity.

1. Accounting Year with respect to a Corporation

The accounting year with respect to a corporation is the year ending on the day on which the books and accounts of the corporation needs to be closed and balanced.

2. Accounting Year with respect to a Company

The period during which the profit and loss account of the company placed before the annual general meeting, whether it is one year or not is called as the accounting year with respect to a company.

3. In any Other Case

The year starting on 1st April or if the accounts maintained by the employee of an organization are closed and balanced on other day instead of 31st March, then in such case, the employee enters the year which is ending on the day on which the accounts are closed and balanced.

The specified bonus must be distributed from the available surplus of the workers in a company. Contribution's available surplus is considered as percentage of available surplus, while the available surplus is calculated after subtracting the basic charges from the gross profit.

4. Basis Involved in Computation of Bonus

The steps involved in the calculation of bonus are as follows:

Step 1:

In the first step, the gross profit is calculated and the financial statements are prepared at the end of the accounting year. The section 4 of the Act outlines the method used for calculating the gross profit per the schedules 1 and 2 of the act. Schedule 1 outlines the method for banking companies, while schedule 2 concerns the method for other companies.

Step 2:

After calculating the gross profit as per section 4, certain charges are deducted as per charges, item 4. The price charges as specified in the section 6 of the Act. This step helps in calculating the available surplus as per the section 3 of the Act.

Step 3:

For both gross profit and price charges, the following differences are added:

Gross profit as gross profits for the previous accounting year, grossed up as gross profits of the accounting year, amount to be paid or liable to pay during the last accounting year.

Step 4:

The available surplus would be the amount equal to 60% or 50% of the available surplus. In case of non-banking companies, it would be 57 percent, while for other companies it would be 50 percent. For all the above purposes, 50 percent of the available surplus is calculated as available surplus.

Q5.2) Explain the various provisions related to Payment of Bonus Act, 1965.

OR

What are the salient features of the Payment of Bonus Act, 1965?

Answer 1:

Some of the provisions or salient features of payment of Bonus Act, 1965 are as follows:

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SPECTRUM ALL-IN-ONE JOURNAL FOR UNDERGRADUATE STUDENTS

1. Employee

An individual employed in any industry or a place or engaged in work more than INR ₹ 10,000 per month for performing any skilled or unskilled manual, supervisory, managerial, administrative, technical or clerical work for fixing or rewarding on the basis of the expense or implied terms of employment by contract or agreement.

2. Salary or Wage

The salary or wage denotes the remuneration or which are made in form of money. The terms of employment are either expressed or implied and are payable for an employment or for the work done in such employment. A bonus denotes allowance which is paid to an employee due to increase in the cost of living, but does not involve the following:

- Other allowances for temporary employees.
- The allowances for any hours worked above eight hours, medical attendance or other services or facility services like disease, medical grants and other articles.
- Traveling allowances, bonus and a payable compensation to the employee.
- Any paid or payable contribution by the employer to any pension fund or provident fund or for the employee's benefit under any law which is in practice.
- The different allowances such as reimbursement of compensation, or any gratuity or other concessional benefit payable to the employees or any form of ex-gratia payment made to such employees.

3. Proportionate Reduction in Bonus in Some Cases

If an employee has not worked for all the working days over working year, then each employee will be paid a minimum bonus of INR ₹ 100 or as the case may be, or INR ₹ 60 and if the bonus is more than 8.33 percent of his salary or wage for the number of days he has actually worked in the accounting year, then it shall be decreased proportionately.

4. Calculation of Number of Working Days

To meet the purpose of section 13, an employee is considered to have worked in an organization in any accounting year, and also on the days as when:

- The employee has been laid off dismissed under an agreement or as allowed by standing orders under the industrial displacement act, 1947 or under the industrial disputes act, 1947 or under any applicable law to the establishment.
- The employee was ill-leave with salary or wages.
- The employee was absent because of temporary disablement occurred due to the accident which took place during the course of employment.
- The employee was on maternity leave with salary or wages in the accounting year.

5. Adjustment of Contingency or Instantaneous Agreed Bonus Payable Under the Act

All employer can deduct the amount of bonus paid from the amount of bonus payable by him to the employee under section 13 but only at the following two cases:

- If an employee has partially paid his/her own or other contingency bonus to an employee; or
- If an employer has paid a part of the bonus payable under section 13.

6. Deduction of Certain Amounts from Bonus Payable under the Act

In any accounting year, if an employee is exposed to guilty for any kind of financial misconduct which led to the financial loss to the employee, then under the act, the employer is allowed to deduct the loss incurred from the amount of bonus payable to the employee and he is entitled to get the balance (if any).

7. Separate Establishments

A department or undertaking or branch is considered as a separate establishment when the profit and loss accounts are raised and maintained for such departments or undertaking or branch.

8. Disqualification and Discharge of Bonus

The bonus can be deducted by an employer for the year if the employee is dismissed for fraud or misuse or violated fiduciary duty in the operation of the establishment or theft, misconduct or damage of any property or misconduct resulting in the financial loss to the organization.

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OMT-B Labour Legislation**Q17. State the applicability and non-applicability of Payment of Bonus Act, 1965. Explain short notes on the same.****Answers:****Applicability of Payment of Bonus Act, 1965**

The payment of bonus act is applicable to:

- The companies listed in India.
- All factories and establishment wherein 20 or more workers are employed during any day of period covering one year or less than 10 employees are working.
- In order to compute the number of employees for applicability of the act per day analysis, the day to take the employees who are not withdrawing more than INR ₹ 10,000 per week and who has worked not more than 100 days in an accounting year shall be eligible for bonus.
- Bonus to be paid within 8 months from the expiry of the accounting year.
- After the application of the act it continues to apply even, if the number of employees falls below 10.
- This act is even applicable to the government corporations and government owned enterprises which provide public or social services in competition with the private sector.

Non-applicability of the Payment of Bonus Act, 1965

The payment of bonus Act is not applicable in the following cases:

- Government employees.
- The employees of local bodies, unions, etc., public sector insurance employees and LIC employees and armed forces and self-help units, financial institutions, charitable hospitals, social welfare organizations and defense employees.
- Any non-profit organization.
- This act is also not applicable to an establishment in the public sector but only if the establishment is to public sector to sell the goods or provide services in competition with an establishment in the private sector and the value of the services or work is not less than 20 percent of the gross income of the establishment.

Bonus and Minimum Bonus:

Generally, from the allowable margin, the bonus paid to the employee is equal to their wages. Bonus paid is the minimum of the original salary or wages or INR ₹ 100 whichever is higher.

This also includes following points:

An employee is eligible for bonus payment if he/she works for a minimum of 30 days in a particular accounting year.

A salary or wage of the employee must be INR ₹ 10,000 or less.

Though the salary may exceed INR ₹ 10,000 for calculating the bonus, the maximum limit is calculated as ₹ 10,000 only.

An employee is not eligible for bonus if he/she is involved in any service to his/her employer or cause damage to his/her employer or establishment or theft, misappropriation or damage of any property of establishment.

If an employee has not worked for all the working days in an accounting year, then his/her bonus will be pro rata.

The maximum bonus is payable even through the organization does not have a fixed scale or rates of bonus.

The organization has made the maximum bonus as a statutory right. These rules are explained in the main chapter which is indicated under section 16.

Engineering Students

Q38. Who are the employees exempted from the Payment of Bonus Act, 1965? What will be the effects of paying bonus to employees?

Answer :

Employees Exempted from the Payment of Bonus, 1965

- The following employees are exempted from the Payment of Bonus Act, 1965.
- Employed by Life Insurance Corporation of India.
 - (Excluded) listed under any scheme belonging to Dock Workers Act, 1948 and numbered by local registered employee.
 - Employees exempted by,
 - The Indian Red Cross Society or any other institution of social status.
 - Educational institutions and universities.
 - Institutions such as social institutions, hospitals and charitable concerns, whose establishment does not aim at making profit.
 - Belonging to RRB.
 - Hired through contractors for the purpose of building operations.
 - Employed by any industry which operates under the authority of any state government department or central government department.
 - Belonging to road water transport companies working in the routes that pass through any other country.
 - Employees belonging to,
 - The Industrial Finance Corporation of India.
 - The Unit Trust of India.
 - The Industrial Development Bank of India.
 - The Agricultural Refinance Corporation.
 - The Deposit Insurance Corporation.
 - Any financial corporation constituted under Section 3(Section 3A) of the State Financial Corporation Act, 1951.
 - Any financial institution which is established in public sector and which the central government specifies in its official Gazette relating to its objects, capital structure, its degree of financial assistance etc.
 - (iii) Specimen also exempted from the Act as defined in Clause (42) of Sec. 3 of the Merchant Shipping Act, 1958.

Effects of Paying Bonus to Employees

Bonus is an additional payment received by an employee in addition to the regular pay. Payment of bonus to employees bring both positive and negative effects.

Positive Effects

- Some of the positive effects of payment of bonus are,
- Payment of bonus may be used as an incentive where employees are required to meet specific goals.
 - Payment of bonus motivates the employees in achieving the goals.
 - Payment of bonus appreciate employees for their hardwork during a year or in a specific time period.

Negative Effects

- Some of the negative effects of payment of bonus are,
- Payment of cash bonus proves to be a costly affair for a company.
 - Employee is required to pay tax on the bonus he/she received.
 - Bonus can be paid to employees in different ways like profit sharing, incentive for attainment of goals, bonus at the end of the year or holiday bonus. The amount or percentage of bonus differ from one another in different methods of bonus payment. An employee who had received less amount of bonus may feel jealous of employee who had received high amount of bonus.

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SHORT QUESTIONS

- Q1.** What is labour legislation?

Answer :

For answer refer Unit-V, Q1.

- Q2.** Write a note on Factories Act, 1948.

Answer :

For answer refer Unit-V, Q2.

- Q3.** What are the provisions of Health under Factories Act, 1948?

Answer :

For answer refer Unit-V, Q3.

- Q4.** What are the principles of Industrial Dispute Act, 1947?

Answer :

For answer refer Unit-V, Q7.

- Q5.** What are the provisions of payment of Bonus Act, 1965?

Answer :

For answer refer Unit-V, Q9.

ESSAY QUESTIONS

- Q6.** Explain the modern principles of labour legislation.

Answer :

For answer refer Unit-V, Q11.

- Q7.** Explain the fundamental rights as incorporated in the Indian Constitution.

OR

Explain the fundamental rights of labour legislation.

Answer :

For answer refer Unit-V, Q12.

- Q8.** Write about Factories Act, 1948 and explain objectives of Factories Act, 1948.

Answer :

For answer refer Unit-V, Q14.

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PRINCIPLES OF ENTREPRENEURSHIP (INTO-HYDERABAD)

Q11. What is Industrial Dispute Act, 1947? State its features and objectives.

Important Question

Answer :
For answer refer Unit V, Q11

Q12. Explain the measures or methods to resolve Industrial Dispute.

Important Question

Answer :
For answer refer Unit V, Q12

Q13. Explain Guidelines for handling Industrial Dispute and Settlement of grievances, according to Industrial Dispute Act.

Important Question

Answer :
For answer refer Unit V, Q13

Q14. What is Employee State Insurance (ESI) Act, 1948? Explain important definitions, objectives and applicability of ESI Act, 1948.

Important Question

Answer :
For answer refer Unit V, Q14

Q15. Write about Workmen's Compensation Act, 1923 and State its features.

Important Question

Answer :
For answer refer Unit V, Q15

Q16. Define bonus and state the objectives of Payment of Bonus Act. Explain the important definitions in Payment of Bonus Act, 1965 and the steps involved in computation of Bonus.

Important Question

Answer :
For answer refer Unit V, Q16

Q17. Explain the various provisions related to Payment of Bonus Act, 1965.

Important Question

OR

What are the salient features of the Payment of Bonus Act, 1965?

Important Question

Answer :
For answer refer Unit V, Q17

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