UNIT 1

Introduction to Entrepreneurship

Syllabus

Introduction to Entrepreneurship: Definition of Entrepreneur, Entrepreneurial 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 Formalities.

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 Formalities.

Introduction

Robert D. Hisrich 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 the 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 associated individuals, undertaken to initiate, maintain 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 idea. 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. It other words, it serves as a road map which helps an entrepreneur 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".

Scanned By Scanner Go

PART-A SHORT QUESTIONS WITH SOLUTIONS

Q1. Who is an Entrepreneur?

Answer : **Model Paper-III, Q1(a)**

Robert D. Hisrich 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 many definitions of leadership, the one that best describes the 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".

"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, Q1(a) | May-19, (R16)(H), Q1(a))**

OR

Define Entrepreneurship.

Answer : **Nov./Dec.-19, (R15)(A), Q1(a)**

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

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

According to Peter Drucker, "Entrepreneurship is neither a science nor an art. It is a practice. It has knowledge base. Knowledge in entrepreneurship is a means to an end. In deed, what constitutes knowledge in practice is largely defined by the ends, 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, policies, production, product development and the organizational structure. The functions of an entrepreneur are shown in the following figure,

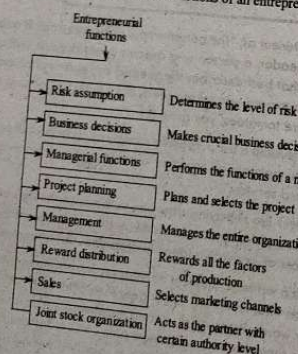


Figure: Functions of an Entrepreneur

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q4. Differentiate between intrapreneur and entrepreneur.

Answer : **(Model Paper-II, Q1(a) | April-17, (R13)(A), Q1(a))**

Following are the differences between intrapreneur and entrepreneur.

S.No.	Basis	Entrepreneur	Intrapreneur
1.	Definition	According to Peter F. Ducker, "He is one who always searches for a charge, responds to it and exploit it as an opportunity".	Intrapreneurs are the innovators and software professionals who lend their innovative ideas to the organization under which they employed.
2.	Decision	He is are greatly involved in the decision-making process.	He does not gets involved in the decision-making process and remains restricted to his work.
3.	Nature of Rewards	His rewards vary with the changes in levels of risk, profit or loss.	He get is fixed rewards for the work and also extra reward would be given for his innovations.
4.	Risk and uncertainty	He is the sole responsible person for all the risk and uncertainties associated with the business. In other words, he face high risk.	He faces medium or average level of risk.
5.	Role	He manages his business as well as the customer.	He serves himself as customer and the sponsorer.

Q5. What are the ethics of an entrepreneur?

Answer : **April-17, (R13)(A), Q1(b)**

Following are the characteristics of business ethics to be followed by an entrepreneur,

1. Ethical decisions varies with an individual's point of view. Each person observe ethical question within their frame of reference.
2. Ethical decisions are not restricted, but they have impact on different situations.
3. Ethical decisions comprises 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.
4. Most of the ethical decisions does not give clear results and it is also not clear that what will be the result of unethical decision of individual or organization.
5. Entrepreneur is solely accountable for his/her unethical decision or actions.
6. Ethical decisions are voluntary actions taken by human beings as they have freedom of choice and free will.

Q6. Mention the different types of entrepreneur.

Answer : **Nov./Dec.-17, (R15)(A), Q1(a)**

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

1. Classification Based on the Nature of Business

Entrepreneur are classified on the basis of nature of the business as follows,

(i) Business Entrepreneurs
(ii) Trading Entrepreneurs
(iii) Industrial Entrepreneurs
(iv) Corporate Entrepreneur/Intrapreneur
(v) Agricultural Entrepreneurs/intrapreneur

2. Classification Based an the Use of Technology

It has become mandatory for the organizations to make use of latest technology in order to prosper well and quickly. Entrepreneurs on the basis of technology are classified as follows,

(i) Technical Entrepreneurs
(ii) Non-technical Entrepreneur
(iii) Professional Entrepreneurs

3. Classification Based on the Motivational Level

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

(i) Pure Entrepreneurs
(ii) Induced Entrepreneurs
(iii) Motivated Entrepreneurs
(iv) Spontaneous Entrepreneur

Scanned By Scanner Go

4. Classification Based on the Levels of Growth

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

(i) Growth Entrepreneurs

(ii) Super-growth Entrepreneur

5. Classification Based on to the Stages of Development

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

(i) First Generation Entrepreneurs

(ii) Modern Entrepreneurs

(iii) Classical Entrepreneur.

Q7. What are entrepreneurial traits?

Answer : (Model Paper-II, Q1(b) | Nov./Dec.-19, (R15)(A), Q1(b))

The various entrepreneurial traits are as follows,

1. Cognitive ability
2. Goals and objectives
3. Business secrecy
4. Human relations capability
5. Good communication skills
6. Technical knowledge
7. Independent
8. Hardworking nature
9. Innovative
10. Optimistic
11. Good organizer
12. Good Predictor.

Q8. State the entrepreneurial motivations.

Answer : May-19, (R16)(H), Q1(b)

Dalton E. McFarland defines, "Motivation refers to the way in which urges, drives, desires, aspirations or needs direct control or explain the behaviour of human being".

Entrepreneurs can use many motivational practices to motivate the employees in achieving the set goals. Some of the important practices are,

1. Rewards

Employers are greatly motivated by rewards in the form of seniority and membership, job status, competency and performance.

2. Goal Setting

One of the powerful motivational practices is "Goal Setting". If performance goals are set in a correct manner, then it will motivate the employees to a great extent.

3. Flexibility

Employees feel motivated when they are provided with flexi time, flexible benefits, MBO and other such benefits.

4. Empowerment

When the employees are empowered, they believe that they own the jobs. Thus, it leads to improvement in performance of employees.

Q9. What are the objectives of EDPs?

Answer : Sept.-20, R16(H), Q2(a)

The objectives of EDPs are,

1. To promote and build up the entrepreneurial ability or the quality i.e., need for achievement or nach factor.
2. To analyze the environment setups related to small scale businesses.
3. To select a product and formulate project for the product.
4. To understand the processes and procedure for establishing a small enterprise.
5. To acquire knowledge about the sources of production and to provide assistance for setting up a small enterprise.
6. To inculcate the necessary managerial skills required to carry out the business.
7. To study the benefits and drawbacks of being an entrepreneur i.e., to know both sides of a coin (pros and cons).

Q10. What do you understand by mobility of entrepreneurs?

Answer : May-19, (R16)(H), Q1(c)

Movement and mobility have played an important role in the human history across the globe. After all, the human beings swing between two poles i.e., movement and settlement. It is a historical fact that human movement results from various factors such as social, economic, political and cultural factors. "Brain drain" is the phenomenon which is being witnessed in the present era, wherein 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. Entry of MNCs in India and intrapreneurship serve as the finest examples of locational and occupational mobility of entrepreneurs.

Q11. Define a business plan. April-17, (R13)(A), Q1(c)

OR

Write about business plan.

Answer : (Model Paper-III, Q1(b) | Nov./Dec-19, (R15)(A), Q1(c))

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. It other words, it serves as a road map which helps an entrepreneur 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".

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q12. Write the features of business plan.

Answer :

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

1. It explains 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 integrates major functional areas of the enterprise, such as personnel management, marketing, financing, production etc.
3. It provides answers to interested parties such as the potential investors, suppliers, employees, promoters 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 reach there? Who are the potential customers? What is the product/service being produced by the enterprise? etc.

Q13. Write types of business plans.

Answer : (Model Paper-I, Q1(b) | Nov./Dec.-19, (R15)(A), Q1(d))

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

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

Q14. Discuss the methods of generating ideas.

Answer : Nov/Dec.-17, (R15)(A), Q1(b)

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

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

Q15. How is business plan evaluated?

Answer : Nov./Dec.-17, (R15)(A), Q1(c)

The entrepreneur need to prepare a business plan which is in sync with the requirements by the potential lenders 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 suppliers, bankers and private investors would evaluate the business plan in following different ways,

1. Evaluation by Suppliers
2. Evaluation by Financer/Bankers
3. Evaluation by Investors
4. Evaluation by Customers

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

Answer : Nov./Dec.-17, (R15)(A), Q1(d)

Depending upon the functional plans and programs, the marketing plan is developed and detailed marketing plan acts as a base for setting the marketing objectives and strategies. The content of the marketing plan comprises the following elements.

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

Q17. What is a financial plan?

Answer : April-17, (R13)(A), Q1(d)

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 areas of marketing plan such as the promotion plan, new product development plan etc. Further the 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.

Scanned By Scanner Go

PART-B ESSAY QUESTIONS WITH SOLUTIONS

1.1 ENTREPRENEURSHIP - DEFINITION, CONCEPT, TYPES, ELEMENTS AND FUNCTIONS

Q18. Explain about the entrepreneur and its types.

OR

What is meant by Entrepreneur?

(Model Paper-II, Q2(a) | Sept.-20, (R16)(H), Q1(b))

Answer :

Definitions of Entrepreneur

1. According to Adam Smith "entrepreneur is defined as a person who only provides capital without taking active part in the leading role in enterprise".
2. According Richard Cantillon all persons engaged in economic activity as entrepreneurs".
3. According to Joseph A Schumpeter define "entrepreneur as a person who introduces innovation changes is an entrepreneur. He treated entrepreneur as an integral part of economic growth. The fundamental source of equilibrium was the entrepreneur."

Types of Entrepreneurs

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

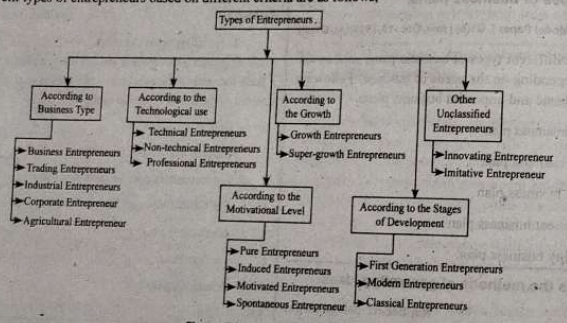


Figure: Types of Entrepreneurs

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 mainly concerned with transforming ideas into reality. Entrepreneurs make use of marketing as well as production resources to promote their new 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 recognizes the potential markets, 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 manufacturers who recognize the essential needs of the customers and then produce products according to the customer's needs in the market and satisfy the market needs. They are product-oriented people who basically establish an industrial unit with the hope and desire of making a new product.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

(iv) Corporate Entrepreneur

A corporate entrepreneur is a person who plans, develops and manages a corporate body. He/she makes use of his/her innovative and creative skills in organizing and managing corporate undertakings.

(v) Agricultural Entrepreneurs

Agricultural entrepreneurs deal with the agricultural activities such as ploughing and marketing crops, fertilizing 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.

2. According to the Technological Use

Entrepreneurs on the basis of technology are as follows,

(i) Technical Entrepreneurs

The technical entrepreneur does not conduct any sales promotion activities. He/she focuses upon the production activity and service rendering activity. The basic potential of a technical entrepreneur is his/her production skills.

(ii) Non-technical Entrepreneur

Non-technical entrepreneur does not deal with the technical aspect of the business. They lay more attention on marketing and distribution strategies in order to develop their business.

(iii) Professional Entrepreneurs

Professional entrepreneurs are those who are merely interested in starting up a business but not in either maintaining or promoting the business after its establishment. The professional entrepreneurs usually sells out the established business and starts up another venture with the help of sale proceeds.

3. According to the Motivational Level

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

(i) 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 his/her personal interest, ego or status.

(ii) Induced Entrepreneurs

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

(iii) Motivated Entrepreneurs

New entrepreneurs are motivated by the wish of self-fulfillment. They enter into the market with an objective of producing and marketing new products for the consumers. If the product reaps the cost factor and results in profit generation, entrepreneurs would be motivated further to perform their tasks more efficiently than they used to do it before. It is the human nature i.e., a bit of appreciation and motivation which would lead to greater effects on one's personality.

(iv) Spontaneous Entrepreneur

Spontaneous entrepreneur establishes the entrepreneurship by making use of their innate qualities. The spontaneous entrepreneurs are creative, confident, daring, fearless and hard working which inspires them to go for entrepreneurship. Spontaneous entrepreneurs are greatly convinced by their confidence level and innate capabilities.

4. According to the Growth

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

(i) Growth Entrepreneurs

Mostly growth entrepreneurs enter into high growth industry with higher growth prospects.

(ii) Super-growth Entrepreneur

Super-growth entrepreneur depict or highlight the broad growth of performance in their ventures. The growth of their performance is visible and clear from the liquidity of funds, profitability and gearing.

5. According to the Stages of Development

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

(i) First Generation Entrepreneurs

First generation entrepreneur is an individual who is creative and innovative in nature and uses these skills and establishes an industrial unit. He/she is basically an innovator who amalgamates various technologies in order to produce a new product or a service.

(ii) Modern Entrepreneurs

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

(iii) Classical Entrepreneurs

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

Scanned By Scanner Go

6. Other Unclassified Entrepreneurs

The other unclassified entrepreneurs are,

(i) Innovating Entrepreneur

Innovating entrepreneur is an individual who possesses the characteristic features of a dynamic information assembler and is responsible for the critical analysis of results derived from various combination of factors. Innovating entrepreneurs are mostly hostile in nature. They utilize their intelligence by making optimum utilization of the alternative opportunities. Innovating entrepreneurs are mostly found in developed countries and are rarely seen in underdeveloped countries.

(ii) Imitative Entrepreneurs

Imitative entrepreneurs are those individuals who possess the characteristic feature of willingness to follow successful innovations or other entrepreneurs. Imitative entrepreneurs copy the techniques and technology created by others. They are adoptive 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.H Cole, "Entrepreneurship is the purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or organize a profit oriented business unit by production or distribution of economic goods and services".

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

According to Peter Drucker, "Entrepreneurship is neither a science nor an art. It is a practice. It has knowledge base. Knowledge in entrepreneurship is a means to an end. In deed, what constitutes knowledge in practice is largely defined by the ends, that is, by the practice".

Concept of Entrepreneurship

The concept of entrepreneurship can be perceived differently by different entrepreneurs. Few consider it as 'risk-bearing' while others view it as 'innovating' and few others consider it as 'thrill-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 management of risk-taking appropriate to the opportunity and through the communicative 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.

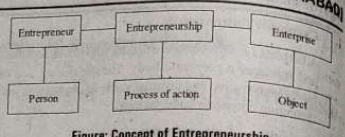


Figure: Concept of Entrepreneurship

Elements of Entrepreneurship

The following are the two basic element of entrepreneurship,

1. Innovation and
2. Risk bearing.

1. Innovation

Innovation to an entrepreneur is like what water is to a fish. Innovation means either doing something new or unique from 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 reinnovate them and sell at lower prices. The latest example of innovation is mango-fruity, which is now made available in small cartons instead of big bottles. These small cartons are disposable in nature. Once used they can be disposed off and can be handled easily. Thus, it can be inferred that the entrepreneurs need to produce an innovative products as per the needs of customers.

2. Risk Bearing

Flying on sky is not an easy task. One needs to put in extra efforts to reach that 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 enjoying profits or suffering loss because of cut-throat competition, changing tastes and preferences of the customers, scarcity of essential commodities and so on. An entrepreneur must be capable enough to predict the levels of risk involved. He must be a risk-taker and not a risk-avoider. It is his risk-bearing ability which motivates him to take '*n*' number of ventures even if few of them fails.

Q20. Explain the functions of an Entrepreneur.

Answer :

The functions of entrepreneurs are broadly classified into four categories. They are as follows,

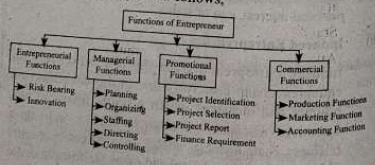


Figure: Functions of Entrepreneurs

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. Entrepreneurial Functions

The basic functions of entrepreneur involved from starting an enterprise and managing its operation are considered as entrepreneurial functions. These functions are classified into following types,

(a) Risk Bearing

The primary function of an entrepreneur is to predict 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 in the market and so on. These risks are not insurable. If any one of these is materialize 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 to an entrepreneur is like what water is to a fish. Innovation means either doing something new or unique from 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 reinnovate them and sell at lower prices.

2. 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.

(a) Planning

Planning is outlining 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 opposite of random action. Hence, as far as possible, a definite programme of action is made.

(b) Organizing

Organizing is one of the basic function of an entrepreneur through he/she manager and run 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, many etc at one place.

(c) Staffing

After the objectives have been formulated the next step in the management process is to procure suitable 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.

(d) Directing

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

(e) Controlling

Controlling consists of making the results tally with targets or achieving close correspondence between plans 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.

3. Promotional Function

The functions performed by entrepreneur for generating idea and promoting business activities are referred as promotional functions. These functions are classified into following types,

(a) Project Identification

An entrepreneur selects the project on the basis of market conditions or "a project having a good 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 ideas/ idea 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 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. It other words, it serves as a road map which helps an entrepreneur in reaching her/his destination.

(d) Finance Requirement

It is not easy to start an enterprise without financial support. Thus, the entrepreneurs need financial support 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 several other things needed. Therefore, finance is regarded as "the life blood of any business".

4. Commercial Functions

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

(a) Production Functions

Production of goods and services is an important function performed by an entrepreneur. This function is performed by entrepreneur after establishing the enterprise. It involves decisions such as, selection of site for factory, selection of design and layout, categorization at products and services to be produced etc.

Scanned By Scanner Go

(b) Marketing Function

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

(c) Accounting Function

Maintaining business accounts properly is very essential for any organization or enterprise. In entrepreneurship business, entrepreneur will be the only responsible person to manage all commercial functions like accounting in most of the cases. Therefore, he/she need to maintain the record of all business transactions in proper order or as per accounting standards. This will enable the entrepreneur to identify the profit or loss position of the business.

1.1.1 Role of Entrepreneurship

Q21. Explain the role of entrepreneurship or entrepreneurs in different fields.

OR

How does an entrepreneur contribute to the economy and society?

Answer : **April-17, (R13)(A), Q3(b)**

Entrepreneurs or Entrepreneurship are the major contributors to the economic growth and development with their skills and capabilities such as - leadership, management, creativity, innovation, R & D techniques, productivity etc.

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

1. Role in Society

Entrepreneurial firms puts a dramatic impact on society by providing innovative products and services which may enhance the productivity, improve health, make life easier. 'Amgen', is one of the best example of entrepreneurial firm which has put a great impact on the society by producing drugs to improves people's lives and also helped to launch biotech industry.

2. Role in Economy

Economic development of a nation refers to an increase in the real per capita income over a long period of time. It is a fact that economic development does not takes 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 unrevealed or hidden opportunities. Basically, the entrepreneurs look for a change, identifies need and then combines with all the resources, materials and capital in order to produce a new product or a service.

Other Roles

The other roles of entrepreneurship in Indian economic development can be summarised as follows,

(i) It helps in accumulating capital through effective mobilisation of saving of general public.

(ii) It declines unemployment which is the root cause of all social economic problems by providing quick large-scale employment.

(iii) It develops BRD [Balanced Regional Development].

(iv) It ensures equitable distribution of income, wealth and even political power in favour of the public.

(v) It declines the concentration of economic power in the hands of few.

(vi) It results in effective and optimum utilization of capital and resources.

(vii) It helps the optimal utilization of capital and resources.

(viii) It helps in developing backward and forward linkages which further helps in economic development.

(ix) It develops the country's export trade, which is an important sources for economic development.

It can be concluded that entrepreneurship serves as a catalyst of economic development. It is well said that "an economy is the effect for which entrepreneurship is the cause".

3. Role in Large Firms

Small entrepreneurial firms help large entrepreneurial firms in producing their branded products. Usually, small firms may produce components which are required by larger firm in assembling their final products. Thus, the concept of entrepreneurship encouraging small as well as larger firms in increasing their production with mutual benefits. For instance, U.S firms advertise on Spanish websites by purchasing media exposure of Latin American companies.

The entrepreneurial growth was increased significantly after the Second World War and has lead to a great increase in the number of entrepreneurs. A drastic increase was viable during the third five-year plan period, but the entrepreneurs did not have the entrepreneurial ability.

Tata, Birla, Mafatlal, Dalmia, Kirloskar and many more entrepreneurs are the finest examples of small entrepreneurs who have grown beyond the expected size and have established new business frontiers in the modern era.

Q22. Briefly explain the role of entrepreneurship in economic development.

Answer : **(Model Paper-I, Q3(b) | April-17, (R13)(A), Q6(a))**

Economic development of a nation refers to an increase in the real per capita income over a long period of time. It is a fact that economic development does not takes 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 unrevealed or hidden opportunities. Basically, the entrepreneurs look for a change, identifies need and then combines with all the resources, materials and capital in order to produce a new product or a service.

Entrepreneurship or entrepreneurs plays a vital role in the process of economic development in following ways,

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. Improvement in Percapita Income

Entrepreneurs locate and exploit opportunities. They convert the latent and idle resources like land, labour and capital into national income and wealth in the form of goods and services. They help to increase Net National Product (N.N.P) and percapita income in the country, which are important yardsticks for measuring economic growth.

2. Balanced Regional Development

Entrepreneurs in the public and private sectors help to remove regional disparities in economic development. They set up industries in backward areas to avail various concessions and subsidies offered by the Central and State Governments.

3. Capital Formation

Entrepreneurs mobilize the idle savings of the public through the issue of industrial securities. Investment of public savings in industry results in productive utilization of national resources. Rate of capital formation increases which is essential for rapid economic growth. Thus, an entrepreneur is the creator of wealth.

4. Improvement in Living Standards

Entrepreneurs set up industries which remove scarcity of essential commodities and produce new products. Production of goods on mass scale and manufacture of handicrafts, etc., in the small scale sector help to improve the standard of life of a common man. These offers goods at lower cost and increase variety in consumption.

5. Economic Independence or National Self-reliance

Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture indigenous substitutes of higher to imported products there by reducing dependence on foreign countries. Businessmen also export goods and services on a large scale and there by earn the scarce foreign exchange for the country. Such import substitution and export promotion help to ensure the economic independence of the country without which political independence has little meaning.

6. Backward and Forward Linkages

An entrepreneur initiates change with a chain reaction. Setting up on an enterprise has several backward and forward linkages. For example, the establishment of steel plant generates several ancillary units and expands the demand for iron, ore, coal etc. These are backward linkages. They give an organization its momentum. Entrepreneurial behavior is critical to the long term vitality of every economy.

7. Create Employment

Entrepreneurs generate employment both directly and indirectly. Directly, self-employment as an entrepreneur offers the best way for independent and honourable life. Indirectly, by setting up large and small scale business units they offer jobs to millions. Thus, entrepreneurship helps to reduce the unemployment problem in the country.

8. Other Roles

The other roles of entrepreneurship in Indian economic development can be summarised as follows,

(i) It helps in accumulating capital through effective mobilisation of saving of general public.

(ii) It declines unemployment which is the root cause of all social economic problems by providing quick large-scale employment.

(iii) It develops BRD [Balanced Regional Development].

(iv) It ensures equitable distribution of income, wealth and even political power in favour of the public.

(v) It declines the concentration of economic power in the hands of few.

(vi) It results in effective and optimum utilization of capital and resources.

(vii) It helps the optimal utilization of capital and resources.

(viii) It helps in developing backward and forward linkages which further helps in economic development.

(ix) It develops the country's export trade, which is an important sources for economic development.

It can be concluded that entrepreneurship serves as a catalyst of economic development. It is well said that "an economy is the effect for which entrepreneurship is the cause".

Q23. Explain the measures taken by Government of India for developing rural entrepreneurship in the country.

Answer : **(Model Paper-II, Q2(b) | Nov./Dec.-19, (R15)(A), Q2(a))**

The following are the measures taken by government of India for developing rural entrepreneurship in the country,

1. Credit and Finance

Government employs various promotionary programs in rural areas.

(i) Swarna Jayanti Gram Swarozgar Yojana (SGSY)

The main objective of this scheme is to provide financial assistance to the micro-enterprises located in the rural areas. Apart from providing financial assistance to the enterprises, it also helps in organizing the poor or economically backward units into self-help groups, provides infrastructural and marketing facilities.

(ii) Prime Minister's Rozgar Yojana (PMRY)

The main aim of developing this scheme is to help the educated youth set their own business venture. Initially, this scheme was developed for country's urban areas. But later on, it was implemented rural areas as well.

(iii) Rural Employment Generation Programme (REGP)

Khadi and Village Industries Commission (KVIC) has launched this scheme to generate self-employment opportunities in rural areas and to develop entrepreneurial skills of rural unemployed youth.

Scanned By Scanner Go

(b) Marketing Function

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

(c) Accounting Function

Maintaining business accounts properly is very essential for any organization or enterprise. In entrepreneurship business, entrepreneur will be the only responsible person to manage all commercial functions like accounting in most of the cases. Therefore, he/she need to maintain the record of all business transactions in proper order or as per accounting standards. This will enable the entrepreneur to identify the profit or loss position of the business.

1.1.1 Role of Entrepreneurship

Q21. Explain the role of entrepreneurship or entrepreneurs in different fields.

OR

How does an entrepreneur contribute to the economy and society?

Answer : April-17, (R13)(A), Q3(b)

Entrepreneurs or Entrepreneurship are the major contributors to the economic growth and development with their skills and capabilities such as - leadership, management, creativity, innovation, R & D techniques, productivity etc.

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

1. Role in Society

Entrepreneurial firms puts a dramatic impact on society by providing innovative products and services which may enhance the productivity, improve health, make life easier. 'Amgen', is one of the best example of entrepreneurial firm which has put a great impact on the society by producing drugs to improves people's lives and also helped to launch biotech industry.

2. Role in Economy

Economic development of a nation refers to an increase in the real per capita income over a long period of time. It is a fact that economic development does not takes 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 unrevealed or hidden opportunities. Basically, the entrepreneurs look for a change, identifies need and then combines with all the resources, materials and capital in order to produce a new product or a service.

Other Roles

The other roles of entrepreneurship in Indian economic development can be summarised as follows,

(i) It helps in accumulating capital through effective mobilisation of saving of general public.

(ii) It declines unemployment which is the root cause of all social economic problems by providing quick large-scale employment.

(iii) It develops BRD [Balanced Regional Development].

(iv) It ensures equitable distribution of income, wealth and even political power in favour of the public.

(v) It declines the concentration of economic power in the hands of few.

(vi) It results in effective and optimum utilization of capital and resources.

(vii) It helps the optimal utilization of capital and resources.

(viii) It helps in developing backward and forward linkages which further helps in economic development.

(ix) It develops the country's export trade, which is an important sources for economic development.

It can be concluded that entrepreneurship serves as a catalyst of economic development. It is well said that "an economy is the effect for which entrepreneurship is the cause".

3. Role in Large Firms

Small entrepreneurial firms help large entrepreneurial firms in producing their branded products. Usually, small firms may produce components which are required by larger firm in assembling their final products. Thus, the concept of entrepreneurship encouraging small as well as larger firms in increasing their production with mutual benefits. For instance, U.S firms advertise on Spanish websites by purchasing media exposure of Latin American companies.

The entrepreneurial growth was increased significantly after the Second World War and has lead to a great increase in the number of entrepreneurs. A drastic increase was viable during the third five-year plan period, but the entrepreneurs did not have the entrepreneurial ability.

Tata, Birla, Mafatlal, Dalmia, Kirloskar and many more entrepreneurs are the finest examples of small entrepreneurs who have grown beyond the expected size and have established new business frontiers in the modern era.

Q22. Briefly explain the role of entrepreneurship in economic development.

Answer : (Model Paper-I, Q3(b) | April-17, (R13)(A), Q6(a))

Economic development of a nation refers to an increase in the real per capita income over a long period of time. It is a fact that economic development does not takes 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 unrevealed or hidden opportunities. Basically, the entrepreneurs look for a change, identifies need and then combines with all the resources, materials and capital in order to produce a new product or a service.

Entrepreneurship or entrepreneurs plays a vital role in the process of economic development in following ways,

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. Improvement in Percapita Income

Entrepreneurs locate and exploit opportunities. They convert the latent and idle resources like land, labour and capital into national income and wealth in the form of goods and services. They help to increase Net National Product (N.N.P) and percapita income in the country, which are important yardsticks for measuring economic growth.

2. Balanced Regional Development

Entrepreneurs in the public and private sectors help to remove regional disparities in economic development. They set up industries in backward areas to avail various concessions and subsidies offered by the Central and State Governments.

3. Capital Formation

Entrepreneurs mobilize the idle savings of the public through the issue of industrial securities. Investment of public savings in industry results in productive utilization of national resources. Rate of capital formation increases which is essential for rapid economic growth. Thus, an entrepreneur is the creator of wealth.

4. Improvement in Living Standards

Entrepreneurs set up industries which remove scarcity of essential commodities and produce new products. Production of goods on mass scale and manufacture of handicrafts, etc., in the small scale sector help to improve the standard of life of a common man. These offers goods at lower cost and increase variety in consumption.

5. Economic Independence or National Self-reliance

Entrepreneurship is essential for national self-reliance. Industrialists help to manufacture indigenous substitutes of higher to imported products there by reducing dependence on foreign countries. Businessmen also export goods and services on a large scale and there by earn the scarce foreign exchange for the country. Such import substitution and export promotion help to ensure the economic independence of the country without which political independence has little meaning.

6. Backward and Forward Linkages

An entrepreneur initiates change with a chain reaction. Setting up on an enterprise has several backward and forward linkages. For example, the establishment of steel plant generates several ancillary units and expands the demand for iron, ore, coal etc. These are backward linkages. They give an organization its momentum. Entrepreneurial behavior is critical to the long term vitality of every economy.

7. Create Employment

Entrepreneurs generate employment both directly and indirectly. Directly, self-employment as an entrepreneur offers the best way for independent and honourable life. Indirectly, by setting up large and small scale business units they offer jobs to millions. Thus, entrepreneurship helps to reduce the unemployment problem in the country.

8. Other Roles

The other roles of entrepreneurship in Indian economic development can be summarised as follows,

(i) It helps in accumulating capital through effective mobilisation of saving of general public.

(ii) It declines unemployment which is the root cause of all social economic problems by providing quick large-scale employment.

(iii) It develops BRD [Balanced Regional Development].

(iv) It ensures equitable distribution of income, wealth and even political power in favour of the public.

(v) It declines the concentration of economic power in the hands of few.

(vi) It results in effective and optimum utilization of capital and resources.

(vii) It helps the optimal utilization of capital and resources.

(viii) It helps in developing backward and forward linkages which further helps in economic development.

(ix) It develops the country's export trade, which is an important sources for economic development.

It can be concluded that entrepreneurship serves as a catalyst of economic development. It is well said that "an economy is the effect for which entrepreneurship is the cause".

Q23. Explain the measures taken by Government of India for developing rural entrepreneurship in the country.

Answer : (Model Paper-II, Q2(b) | Nov./Dec.-19, (R15)(A), Q2(a))

The following are the measures taken by government of India for developing rural entrepreneurship in the country,

1. Credit and Finance

Government employs various promotionary programs in rural areas.

(i) Swarna Jayanti Gram Swarozgar Yojana (SGSY)

The main objective of this scheme is to provide financial assistance to the micro-enterprises located in the rural areas. Apart from providing financial assistance to the enterprises, it also helps in organizing the poor or economically backward units into self-help groups, provides infrastructural and marketing facilities.

(ii) Prime Minister's Rozgar Yojana (PMRY)

The main aim of developing this scheme is to help the educated youth set their own business venture. Initially, this scheme was developed for country's urban areas. But later on, it was implemented rural areas as well.

(iii) Rural Employment Generation Programme (REGP)

Khadi and Village Industries Commission (KVIC) has launched this scheme to generate self-employment opportunities in rural areas and to develop entrepreneurial skills of rural unemployed youth.

Scanned By Scanner Go

2. Training Programmes

Issues related to training and skill development could be resolved by conducting the training programmes.

(i) 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 necessary and basic skills required for the establishment, management and administration of new venture can be imparted among those who are intended to establish their own ventures/units soon after the completion of their school studies.

(ii) Entrepreneurial Development Programmes (EDPs)

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

(iii) Management Development Programmes (MDPs)

MDPs are conducted with an objective of providing training to the existing entrepreneurs which enables them to improve their management as well as the decision making skills through MDPs, both productivity and profitability of the rural ventures could be improved drastically.

3. Extension Facilities

Government provides extension service to the existing entrepreneurs for making them aware of the latest technological advancements, whose knowledge helps the rural farmers to improve their productivity. For instance, kisan call centers are the prominent extension facilities provided to the farmer for obtaining expert advice on various agricultural-related aspects.

Q24. What are the phases of entrepreneurship development programmes?

Answer : Sept.-20, (R16)(H), Q2(a)

The Entrepreneurship Development Programmes (EDPs) has three phases which are as follows,

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

1. Pre-training Phase

The name itself is explanatory of this stage. It includes all those activities and preparations which are essential to start up a training programme. This stage involves the following,

(a) Entrepreneur selection
(b) Arranging the required infrastructure.
(c) Inviting the guest faculty to provide training.
(d) Setting up inauguration programme.
(e) Selecting appropriate tools and techniques.
(f) Appointing selection committee for selecting trainees.
(g) Advertising and campaigning.
(h) Preparing application form.
(i) Framing training syllabus.
(j) Conducting surveys for identifying opportunities in the given environment.

2. Training Phase

The main aim of this pahse is to transform an individual into an entrepreneur and to bring a desired change in the behaviour of the trainees. In other words, it can be explained as to develop 'need for achievement' or 'nach factor' i.e., creating motivation among trainees. The following changes are to be observed by a trainer in the trainee's behaviour,

(a) Is the candidate focusing upon her/his project idea?
(b) Is the trainee motivated to adopt entrepreneurial career and holds the capacity to bear risk?
(c) Does there exist any variation in his entrepreneurial outlook, skill, attitude, role and so on?
(d) What is the behaviour of an entrepreneur?
(e) Which traits are highly lacking/absent in the trainee?
(f) Does the trainee holds the knowledge of technology, resources and other entrepreneurship prerequisites?
(g) Whether the trainee is skillful in selecting the viable project, mobilizing 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 a new set 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, weakness and loopholes if any in our previous work. It provides suggestions and guidelines to frame future policies to improve the performance and avoid loopholes.

In short, follow-up in EDP ensures,

(a) Reviewing the pre-training phase
(b) Reviewing the training process and
(c) Reviewing past training approach.

Q25. Explain the entrepreneurial motivation approaches and discuss the process of entrepreneurial development with appropriate illustrations.

Answer : May-19, (R16)(H), Q3

Approaches for Entrepreneurial Motivation

The three entrepreneurial motivation approaches are,

1. Need for Achievement (nAch)
2. Need for Power (nPow) and
3. Need for Affiliation (nAff).

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. Need for Achievement (nAch)

Need for achievement refers to an individuals's wish to achieve something with his/her own efforts. In other words, it means that an individual will achieve excellence in efforts.

2. Need for Power (nPow)

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

3. Need for Affiliation (nAff)

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

Process of Entrepreneurial Development

There are three stages involved in helping a person become entrepreneur,

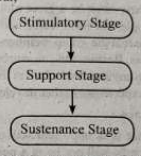


Figure: Process of Entrepreneurial Development

Stage-1: Stimulatory Stage

In this stage, stimulatory activities are carried out to create interest in entrepreneurs. These activities act as a base for developing entrepreneurs in the society. The stimulatory activities include,

(i) Planned publicity for entrepreneurial opportunities.
(ii) Providing education related to entrepreneurship.
(iii) Providing motivational training and counselling to new entrepreneurs.
(iv) Identifying the best entrepreneurs using scientific methods.
(v) Guiding the entrepreneurs in selecting product or service and preparing project reports.
(vi) Setting up forums for entrepreneurs.
(vii) Recognizing and giving reward to existing entrepreneurs.

Stage-2: Support Stage

In support stage, support activities that facilitate in creation of business are implemented. Entrepreneurship is nurtured and promoted when support activities are carried out. The various support activities include,

(i) Registration of enterprise.
(ii) Developing product prototype.
(iii) Arrangement of land, finance, power and common facility centre.
(iv) Providing management consultancy services and marketing support.
(v) Guiding the entrepreneurs in selecting the machinary and plant.
(vi) Getting approvals and licences.

Stage-3: Sustenance Stage

Sustenance activities are implemented in this stage. These activities help the entrepreneurs in operating their business efficiently within a society. The sustenance activities include,

(i) Modernization
(ii) Diversification
(iii) Expansion
(iv) Getting additional finance
(v) Research and development support for enterprise survival
(vi) Providing support for the growth of entrepreneur.

1.2 ENTREPRENEURIAL TRAITS

Q26. "An entrepreneur possesses certain entrepreneurial traits". Discuss. Model Paper-III, Q2(a)

OR

List the characteristics of a successful entrepreneur.

Answer : April-17, (R13)(A), Q3(a)

The qualities of entrepreneurs plays crucial role in the success and failure of an entrepreneur. Mc Clelland and Robert D. Hesrich has listed out some essential qualities that must be posses by a entrepreneur. They are as follows,

I. Traits/Qualities of Entrepreneur Given by Mc Clelland

According to Mc Clelland, following qualities or traits must be possessed by a entrepreneur,

1. Goals and Objectives

Entrepreneur must have clear goals which not only enables him to produce efficient goods but also to carry out the subsidiary activities in a correct way. The goals and objectives of a successful entrepreneur may be to launch a new product, to increase the turnover or to cater to the needs of the society.

2. Business Secrecy

An entrepreneur must be a guardian of his business secrets. If the business secrets are leaked and reaches the trade competitors, then it would be a powerful weapon in the hands of his competitors. Therefore, an entrepreneur must be very careful while selecting his assistants and subordinates.

3. Human Relations Capability

Emotional stability, personal relations, considerations and tactfulness are regarded as the most vital personal traits of a successful entrepreneur. In order to widen the business scope and earn more and more profits, an entrepreneur must maintain good relationships with his customers. Any entrepreneur would be successful in achieving a competitive position in a market, if he/she is able to maintain a good and trust worthy relationship with customers. Merely maintaining good relationships

Scanned By Scanner Go

with the customers does not serve the purpose. Besides maintaining good relationships, the entrepreneurs must also maintain cordial relations with their employees. When employees are happy and satisfied with their boss (entrepreneur) it automatically motivates them to put in their maximum efforts. An entrepreneur who maintains friendly and cordial relations with the various stakeholders like suppliers, customers, debtors, creditors, bankers and community at large will succeed much easily than those entrepreneurs who maintain poor human relations.

4. **Good Communication Skills**

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, debtors, customers and employees is more likely to be successful than the ineffective communicators.

5. **Technical Knowledge**

An entrepreneur must possess technical knowledge. Even though the acquisition of technical knowledge is not an easy task. So one needs to put in a little of hard work and efforts to be technically sound and fit.

6. **Independent**

Independence or being independent is one of the common features 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 wish to take self-decisions and enjoy greater degrees of independence. Hence, an entrepreneur would like to dominate others but would never like to get dominated by others.

7. **Hardworking Nature**

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 inspite of his hectic schedule and stressful and tedious hours avoids the failure of his business. In short, an entrepreneur works relentlessly throughout his life.

8. **Innovative**

As, change is said to be universal constant it can never be static. Similarly, the taste of the customers changes from time to time. Thus, the entrepreneurs in order to cope up with the changing trend, need to initiate research and development activities to produce the customized product. Many entrepreneurs such as Tata, Birla, Kirloskar and many other entrepreneurs have their own R & D departments.

9. **Good Organizer**

All the factors of production are not available at one site. An entrepreneur needs to search and select the best resources for the production process. Thus, it is essential that an entrepreneur knows how to organize and get the work done properly. The success of the business merely depends upon the ability of an entrepreneur.

10. **Good Predictor**

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 tastes, fashions, attitude, preferences, technological changes and many more and prepare a defensive strategy to get rid of them.

II. Traits/Qualities of Entrepreneur Given by Robert D. Hesrich

According to Robert D. Hesrich, following qualities or traits must be possessed by a entrepreneur,

1. **Motivator**

An entrepreneur must be a great motivator. He should motivate people and form teams and groups and must also take care that the group members are motivated on a regular basis. Besides this, an entrepreneur must also create such an environment wherein the individual seeks growth and experiences career development.

2. **Self-confidence**

Self confidence is an important skill of an entrepreneur without which he will not be in a position to motivate his employees to achieve collective goals or a common goal.

3. **Long-term Involvement**

The minimum number of years an entrepreneur must invest in one's own business varies from 5 to 7 years. One must not expect any miracle to take place over night or in a short span of time. The entrepreneurs must be determined and committed once they get into the business.

4. **High Energy Levels**

An entrepreneur must be energetic and dedicated as the success of any individual is highly dependent on the efforts and hardwork he used to put in his tasks.

5. **Persistent Problem Solver**

Creativity is an essential element in entrepreneur's characteristics. An entrepreneur needs to be ambitious to accomplish a task or solve a problem.

6. **Initiator**

An entrepreneur must be an initiator. He must come up with innovations and new creations and also at the same time he must be capable of making appropriate and optimum utilization of all the resources.

7. **Goal Setter**

An entrepreneur must be able to set challenging but realistic goals. An entrepreneur must set goals and should define the ways to achieve them. They must avoid deviations and follow the right path.

8. **Moderate Risk Bearer**

An entrepreneur must be a moderate risk bearer and must learn from the failures. It has been rightly said that, "failures are the stepping stones to success".

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q27. Describe the process of developing entrepreneurial competencies.

Answer : (Model Paper-I, Q3(a) | Sept.-20, (R16)(H), Q1(a))

Competencies are the underlying characteristic features of an individual, which results in superior performance. This is showcased by an individual's unique/different behaviour in different situations or individuals behaving differently in different situations. The Kakinada experiment has proved that the entrepreneurial competency can be induced among youngsters via education and training. Competency finds expression in human behaviour. 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 essential to identify a competency before developing it. Acquiring a new behaviour develops by understanding and recognizing a specific competence.

Step-2: Self-assessment

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

Depending upon self-assessment the individual is rated and with the help of these ratings the competence level of an individual is determined.

Step-3: Competency Application

After knowing one's position and ratings in a particular competency, it is essential to practise them on a regular basis in different activities. For the purpose of making new behaviour a part and parcel of one's personality, the particular behaviour 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 behaviour a part of one's behavior and then practising a particular behaviour or competence, it is essential to examine one's own behaviour in order to sharpen 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 new behaviour. This would help in knowing how the new behaviour has been rewarded, which would further allow an individual to either sustain or give up the exhibition of a particular behaviour in her/his future life.

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

Answer : May-19, (R16)(H), Q2

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

Entrepreneurial Competencies

Entrepreneurial competencies as per the two studies are discussed below,

I. Entrepreneurship Development Institute of India (EDI) study

II. Individual Research Studies (IRS).

I. 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 initiative 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 these and makes optimum use of it.

3. **Consistency**

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

4. **Looks Out for Information**

Entrepreneurs conduct 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. **Zealous to Work**

Entrepreneurs are highly committed and dedicated to work and make '*n*' number of sacrifices to accomplish the task.

7. **Highly Efficient**

The basic/primary goal of an entrepreneur is to reduce cost and time and earn more profits. For doing/achieving this, she/he makes lots of efforts.

Scanned By Scanner Go

8. **Good Planner**

Fundamentally entrepreneurs are good planners. They design and follow achievable plans.

9. **Problem Solver**

Entrepreneurship is a process which entails lots of hurdles and primarily all these problems are being solved by an entrepreneur.

10. **Self-confident**

An entrepreneur greatly believes in her/his strengths and abilities and is confident of what she/he does.

11. **Assertive**

Entrepreneurs are good in asserting their problems with others for the betterment of their enterprise.

12. **Convincing**

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

13. **Good Controller**

Entrepreneurs very critically examine and scrutinize other's work and see to it that it is done according to the set standards.

14. **Well-wisher of the Employees**

Entrepreneurs consider employees as an asset of an enterprise and therefore make efforts towards enhancing their welfare. Employees are being treated as one of the factors of production with emotions and feelings.

15. **Effective Strategist**

Establishes the most proficient strategies to influence employees to achieve their goal.

II. **Individual Research Studies (IRs)**

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

1. Enterprising nature
2. Growth oriented
3. Innovative
4. Welcomes the advanced and latest technology
5. Keenly watches and adapts the changes.

McCrory states the following points regarding the entrepreneurial competencies,

1. Invests income in enterprise
2. Emphasizes on quality
3. Versatile in nature
4. Makes optimum use of an opportunity
5. Makes optimum utilization of the limited resources.

B.C.Tandon enlists the following characteristics,

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

Thus, after going through various research studies, it can be concluded that the major entrepreneurial competencies can be as follows.

1. Enterprising
2. Risk-bearer
3. Creative
4. Aspirational
5. High need achievement
6. Change-agent
7. Hard worker
8. Good organizer
9. Efficient manager
10. Able administrator
11. Quick decision maker
12. Highly committed
13. Firm determination.

Types of Entrepreneurs

For Answer Refer Unit-I, Q18, 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 youngsters.
2. They have the high levels of energy.
3. They hold the minimum basic education.
4. They are pleasant in nature.
5. They are hard working by nature.
6. They are zealous.
7. They are highly organized and self-confident.
8. They are self-made men.
9. They are well disciplined.
10. They have a planned approach.
11. They are mostly trained and experienced.
12. They are entrepreneurial enthusiastic.
13. They have small quantities of capital.
14. They operates in limited geographic areas.
15. They focus on the production of a single product.
16. They enjoy meagre profits.
17. They possess high levels of flexibility.
18. They are determined but the Job opportunities are few as the small-scale entrepreneurs employ only limited number of employees or labourers.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

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-up their capital from large number of shareholders.
4. They register 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 launching and promoting goods in the market.
9. They have huge turnovers.
10. They have easy accessibility to the 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 consumer awareness programmes to create demand for their product.
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 usually distribute free samples to the general public as a part of the sales promotion activity.
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 : Model Paper-III, Q2(b)

The distinguishing features of an entrepreneur and a manager highlight the point 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. Eventhough, both managers as well as entrepreneurs strive to accomplish the same goal, still they differ from each other in many ways.

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

S.No.	Basis	Entrepreneur	Manager
1.	Nature	An entrepreneur is courageous, self-confident and optimistic. He makes his own fortune.	Managers are goal-oriented and ambitious but they are scared of other's ability with regards to optimism.
2.	Focus and risk	They focus upon technology and market. They are moderate risk takers and they invest heavily.	They focus upon the inter-organizational activities and 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 needs and guide product conceptualisation.
4.	Status	They do not care about their status symbol.	They are very much concerned about their status symbol.

Scanned By Scanner Go

5.	Decision making	They are independent with regards to the decision making process and do not require anybody's consent.	They are highly dependent upon their superiors and CEOs to take any decision in the organization.
6.	Failures and mistakes	They consider failures and mistakes as the stepping stones to success and learn from these experiences.	They avoid mistakes and postpone failures recognition.
7.	Problem solving approach	They mostly resolve problems by applying their own approaches without systematically considering formal structures.	They assign the tasks and solve the problems.
8.	Family background	They usually come from those families, who either had small business or agricultural background. Most of the entrepreneurs either have poor relations with father or have no father.	They belongs to educated families and mostly their family members had worked for reputed organizations. Managers are mostly independent of mother, hold good relationship with father and are little dependent.
9.	Educational level	They are either graduates or less than that, but they possess qualities and qualifications like high achievement motive, real thinking, predicting skills, risk-bearing and so on.	They are highly educated professionals and possess unique qualifications in terms of good management knowledge, theory and practice.
10.	Rewards	Entrepreneur's reward is his profit which is not certain.	Manager enjoys a salary every month which is fixed and certain in nature.

Q32. Define Intrapreneur. Distinguish between Entrepreneur and Intrapreneur.

Answer :

Definition of Intrapreneur

Intrapreneurship is also known as "corporate entrepreneurship". It basically deals with innovations which results in corporate divisions or subsidiary ventures in large scale organizations. Hallways of Washington bureaucracies named intrapreneurship as "Intra-Corporate Entrepreneurs" (ICE) and "Intra-Corporate Venturing". Intra-corporate venturing is much popular in academic field.

Intrapreneurs can be defined as the creative or innovative individuals who disrupt the organization in a constructive way to produce new products or services. They are mostly independent in nature and hold certain level of autonomy. Corporate entrepreneurs who create new products and services rarely hold the commensurate responsibility of taking a personal stake in their creations. They do not assume any personal risk or any profit or loss.

Differences Between Entrepreneur and Intrapreneur

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

S.No.	Basis	Entrepreneur	Intrapreneur
1.	Definition	According to Peter F. Ducker, "He is one who always searches for a charge, responds to it and exploit it as an opportunity".	Intrapreneurs are the innovators and software professionals who lend 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 gets involved in the decision-making process and remains restricted to his work.
3.	Nature of Rewards	His 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 sole responsible person for all the risk and uncertainties associated with the business. In other words, he face high risk.	He faces medium or average level of risk.
5.	Role	He himself takes-care of the business as well as the customer.	He serves himself as customer and the sponsorer.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1.2.2 Entrepreneurial Decision Process, Ethics and Social Responsibility of Entrepreneurs

Q33. Explain the entrepreneurial decision process.

Answer :

The entrepreneurial decision process consists of the following four steps,

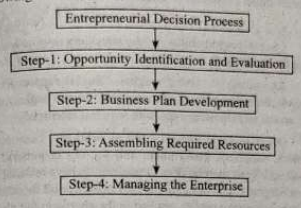


Figure: Entrepreneurial Decision Process

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, by listening to customer complaints, the entrepreneur can get an idea to create/develop a unique product to satisfy the customer expectations or wants.

Creativity plays a significant role in opportunity identification. It refers to the intellectual power of an individual to perceive and create something totally new or modify an existing product by adding new features to it. In simple words, creativity is equal to imagining something new.

According to Michal Michalko, the creative persons can be divided into two classes. The first class consists of artistic or talent such as painters, lyricist, musicians, etc., and the second class includes the persons with entrepreneurial qualities who uses creativity to come up with unique solutions for addressing business problems.

An entrepreneur can use the PMI approach of creative thinking.

Where,

P = Plus/Positive

M = Minus/Negative

I = Interesting.

While exploring a new business idea, the entrepreneur may first focus on 'P' aspect which is the positive aspect of the idea. Then next, he may explore the 'M' aspect which is the negative aspect of the idea. If the idea holds the potential, then the I aspect is used wherein the entrepreneur may further examine the idea, after collecting more information related to 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 opportunity, 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 capitalize the business opportunity. The entrepreneur has to contact the suppliers of raw material, supply chain partners and so on for obtaining the resources.

Step-4: Managing the Enterprise

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

Q34. 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 behaviour.

John Donaldson defines, business ethics as a study of moral (ethical) matters pertaining to business, industry or related activities, institutions or practices and beliefs.

Nature of Business Ethics

The following aspects enable the entrepreneur in defining the nature of business ethics,

1. The ethical issues usually take place in core areas of management. Sometimes, their scope goes beyond the common issues of bribery, collusion and theft. Recently, they have extended into the areas of corporate acquisitions, merger of firms, marketing policies and capital investments.
2. Compliance with the ethics enable the managers to be honest for himself as well as even for the society as a whole. The effective performance of a job and quality of work of a manager both results in success of a business. The ethical issues often take place as managerial dilemmas, measured by revenues, cost and profits and the specified performance.
3. The ethical questions are particularly of two types overt and covert. Example: bribery, theft, sabotage, collusion and so on.
4. The different characteristics as represented in figure (1) helps in making ethical decisions.
5. Ethics is commonly observed as unstructured.

Scanned By Scanner Go

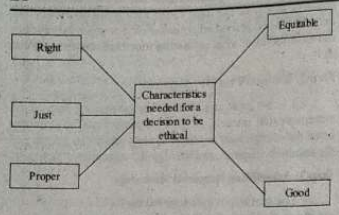


Figure (1): Characteristics of an Ethical Decisions

6. The decisions related to ethics should show few requirements to others also. Any decision which proves as advantageous to oneself but not to others is determined as unethical decisions. The decisions are considered to be ethical when they lead to welfare of society at large.

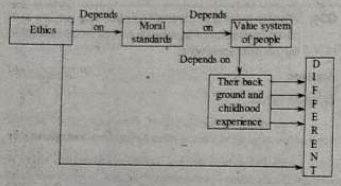


Figure (2): Different Ethical Practices of People

Characteristics of Business Ethics to be Followed by an Entrepreneur

Following are the characteristics of business ethics to be followed by an entrepreneur,

1. Ethical decisions varies with an individual's point of view. Each person observe ethical question within their frame of reference.
2. Ethical decisions are not restricted, but they have impact on different situations.
3. Ethical decisions comprises 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.
4. Most of the ethical decisions does not give clear results and it is also not clear that what will be the result of unethical decision of individual or organization.
5. Entrepreneur is solely accountable for his/her unethical decision or actions.
6. Ethical decisions are voluntary actions taken by human beings as they have freedom of choice and of free will.

Q35. Define social Responsibility. Discuss the responsibility of an entrepreneurial business towards the different interested groups.

Answer :

Social Responsibility

"Social responsibility refers to the businessmens decisions and actions taken for reasons atleast partially beyond the firms direct economic or technical interest".

– Keith Davis

Social responsibility is "the managers responsiveness to public consensus". *– A.Berle.*

According to other thoughts, "Social responsibility contends that management is responsible to the organization itself and to all interest groups with which it interacts".

Other interest groups such as workers, customers, creditors, suppliers, government and society in general are viewed equally as shareholders. Organizations have realized that by discharging social obligations, they build a solid foundation to continue to make profits, not just in the short-run but also in the long-run.

Social Responsibility of Entrepreneurs

Social responsibility of a business is viewed as conducting its operations in a free 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, profits earned etc., in order to encourage them to either directly participate in the management actions or to provide powers to intervene. It is necessary to protect the interests 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 customers. It should not provide harmful products and goods of hazardous nature.

3. Towards Workers

The management should adopt such policies which are recognized by trade union, which create a sense of belonging 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 Creditors

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 fulfill all the obligations agreed and should have good relations with them.

5. Towards the Government

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

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

6. Towards General Public

The management should protect the interests of society and support community development activities. It should behave with the people in proper manner and desire to improve their standard of living.

1.2.3 Opportunities for Entrepreneurs in India and Abroad

Q36. Discuss the opportunities for entrepreneurs in India and Abroad.

Answer : Nov./Dec.-17, (R15)(A), Q2

Opportunities for Entrepreneurs in India

The Government of India has initiated the "Make in India" campaign to boast entrepreneurial development in the country. The field of entrepreneurship is both rewarding and challenging in nature. The various governmental agencies such as the NSDA (National Skill Development Agency), NSDC (National Skill Development Council), under the ministry of skill development and entrepreneurship had been working hard to provide opportunities for budding Indian entrepreneurs.

There are many entrepreneurial opportunities available in various industria sectors in India, as discussed below,

1. Opportunities in Tourism Sector

The tourism sector in India provides a vast opportunities for budding entrepreneurs. The Indian subcontinent is blessed with excellent tourist attractions such as hill stations, beaches, diverse cultural experience, desert tourism and so on. Entrepreneurs can create business opportunities for themselves in tourism related activities such as transport and logistic, hotel and restaurants, tourist guides and so on.

2. Opportunities in Healthcare Sector

Entrepreneurs can avail business opportunities that exists in the Indian healthcare sector. India has the second largest population in the world. Thus there exists a very big healthcare market in India. The entrepreneurial opportunities in the Indian healthcare sector exists in the areas such as providing good hospitals, manufacturing and sales of medicines, generic and ayurvedic medicines, manufacturing marketing and sales of medical equipment in the online and traditional healthcare markets.

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 good 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 clips, computer centres, skill development centres etc are some of the areas of interest for entrepreneurs.

4. Organic Farm Sector

The organic food farming sector holds a promising opportunities for prospective entrepreneurs in India. Consumers have become highly health conscious with regard to the fruits, vegetables and other edible items. This sector holds good opportunity for entrepreneurs. Who are desirous of getting into the organic forming business.

5. Opportunities in Transportation Sector

India is a vast country and has one of the largest network of roads and railways in the world. The government of India has emphasized upon the development of transport infracture in the country. Prospective entrepreneurs can look for business opportunities in transport related area such as providing only taxi services, air taxi services, logistic management for perisible goods such as fruits, fish, live stock, medicines etc. Further business opportunities can also be found in areas of industrial raw material transportation etc.

6. Opportunities in Textile Sector

The Indian textile sector is one of the largest in the world. India export 13% percent of the total global textile requirement. Entrepreneurs can find good business opportunities in the organized and unorganized textile sector. Areas of interest for entrepreneurs include production, marketing and sale of textile raw material, production of textiles, handloom, powerloom and handicraft sector. The entrepreneurial opportunities in the textile sector is the most lucrative and rewarding, 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. Franchizing

Starting a franchise is a great option for an inexperienced entrepreneur. It offers all the necessary support to the entrepreneur by providing ready business model, marketing, strategy and branding. There are several hundreds of businesses which are looking for business partners across the globe. The tendencies of franchising keep changing over a period of time. Fast food and lodging franchises are the most popular and successful franchises. In recent years health and fitness franchise, luxury retail and "green" energy businesses have been gaining popularity globally.

2. Tourism-Based Business

Tourism-based business located in abroad at a popular tourist destination can be a promising opportunity to increase the income of an entrepreneur. The entrepreneurs can choose small and large businesses according to the demands of the place, personality and interest. Small businesses like ice-cream parlour, bakery don't require must investment but offer good income if located in a busy location. Bicycle, car rentals, shuttle and taxi services to tourist excursions etc., can also be considered as productive business. In this business, it is very essential to acquire and maintain a good reputation for staying competitive and successful.

3. Internet and Laptop Based Business

Online business offers flexibility of location and time and is much budget friendly. Various websites offer freelancing jobs, online translator, web-developing etc. The capital required is relatively low, when compared with other businesses. Example: Amazon in.

Scanned By Scanner Go

4. **Export/Import**

A store can be opened in a new country with goods imported from native country. Stores with this kind of unusual goods prosper well in the local markets. 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 in an online store by staying in contact with reliable suppliers and steadily developing the business.

Q37. Define "International Business". Explain about the need, significance and opportunities for entrepreneurs in Abroad.

Answer :

International Business

The business activities which are carried out across countries/national boundaries is called as 'International Business'. The business activities may comprise of transaction of economic resources such as goods, capital services and commercial transactions such as sales, investment, production of physical goods or provision of services which includes banking, finance, insurance, construction, trading etc. Thus, international business is a wider term as it includes 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 became one of the crucial and inseparable in concept of the present scenario. It is significantly playing a greater role if both the level. i.e., macroeconomics and macroeconomics levels. In this present world, every country (i.e., either developed or developing) need to import goods which are not available in its boundaries for this purpose, they need to carried out international business with the other countries which means doing business beyond the boundaries of the nature. The following are some points which explain and highlights the needs of international business,

1. To increase the volume business of country through exporting and importing of goods and services.
2. To satisfy the requirement and needs of the people and offer them different choices or brands.
3. To promote the concept of Foreign Direct Investment (FDI) especially in the developing countries.
4. To spread the ideas and circulate or capital invest over all the world.
5. To reallocate the resources for competing at the global level.
6. To provide employment opportunities.
7. To allow the acquisition of huge variety of products in the country.

Significance of International Business for an Entrepreneur

The significance of International Business is discussed as follows,

1. The International Business plays an important role on account of its international transactions at both the levels such as macro economic and micro economic levels.
2. It improves balance of payments in the country.
3. It facilitates the transactions of foreign exchange which leads to improved import requirements of the country.
4. Introduction of FDI in International Business helps the country in the following ways,
   (a) Proper utilization of natural resources.
   (b) It balances the amount spent on Research and Development aspect.
   (c) It has its position in the international market.
   (d) It maximizes profit out of the international trade.
   (e) It strives towards developing managerial capabilities in order to improve economic development programmes.
   (f) It acts as an effective tool for gaining huge foreign exchanges and latest technology in order to face competition internationally.

The international business also offers various alternatives to firms to expand its markets globally. The firms can enhance corporate wealth either by exporting its products to acquire huge share in the market globally or can acquire import-inputs from least-cost locations so that the firms can reduce cost and can maintain competitive edge at the macroeconomic level.

In order to avail cheap labour components, the firms make production in capital abundant economy but exports this to labour abundant economy under offshore assembly operations. The product once assembled can have its 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 seeing the high demand of markets in foreign countries can avail production in those markets so that it can earn profits and subsequently reduce transportation cost and tariffs. The firms can invest huge capital and advance technology in the selected foreign locations where the firm products are in demand. Transfer of technology is one of the ways that the firms can earn profits and can reduce the costs involved is Research and Development (R and D).

1.3 CREATING AND STARTING THE VENTURE

Q38. Elucidate the four steps involved in developing personal creativity and state the methods to initiate ventures.

Answer :

Process/Stages of Personal Creativity

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

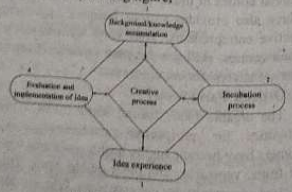


Figure: Creative Process

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. **Background/Knowledge Accumulation**

Investigation and knowledge accumulation are the prerequisites of successful creations. Background/knowledge search can be carried out in different ways,

(i) Extensive reading of related data.
(ii) Conversations and meetings with people working on the same area.
(iii) Participating in professional meeting and seminars.
(iv) Going through magazines, newspapers and journals to find articles concerned with the field.
(v) General gathering of relevant information.

2. **Incubation Process**

The subconscious mind of creative individuals continue to think on the variety of the information gathered during preparation phase. The process of incubation occurs at the time of sleep or at the time of carrying out unrelated activities. This kind of behaviour enhances the creative ability of an individual. Following are some of the ways to induce incubation,

(i) Being away from the creativity process by getting involved in basic and personal daily routines.
(ii) Physical exercise and reereation.
(iii) Allot time for meditation and relaxation.
(iv) Recall the problem before going to bed.

3. **Idea Experience**

A very exciting phase in the creative process is idea experience. This phase occurs when an individual finds an opportunity he was awaiting. This is also called as "eureka factor" and is often wrongly perceived as the only step in creative process. Some of the ways to induce idea experience are,

(i) Fantasies and day dreams about the problem.
(ii) Regular practice of hobbies.
(iii) Work in a free and leisure environment.
(iv) Take the problem as a secondary but burning issue.
(v) Carry a note book always to note down ideas as and when they arise.
(vi) Have a break in between the heavy work schedules.

4. **Evaluation and Implementation of Idea**

A highly difficult step in the creative process is evaluation and implementation of the idea. This step requires high courage, 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 generated in the third step has to be shaped and tested. Following points facilitate in carrying out this step successfully.

(i) Enhance physical energy levels with good diet and exercises.
(ii) Improve the knowledge on business and business planning process.
(iii) Test the idea with people in the same field and get expert advice.
(iv) Acquire knowledge about selling process and organizational policies and practices.
(v) Take the challenge to implement new ideas and learn from mistakes.

Methods to initiate a New Venture

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

1. **Creating New Venture**

For answer refer Unit-I, Q40.

2. **Acquiring an Established Entrepreneurial Venture**

For answer refer Unit-I, Q43, Topic: Steps in Acquiring Established Venture.

3. **Franchising**

For answer refer Unit-II, Q60, Topic: Franchising.

Q39. Explain the steps involved in starting an enterprise.

Answer :

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

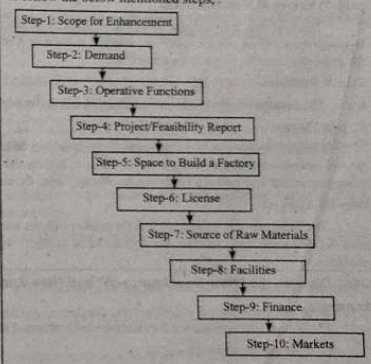


Figure: Steps Involved in Starting an Enterprise

Step-1: Scope for Enhancement

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

Step-2: Demand

It is mandatory for the firms to predict the demand for the product or services. Various techniques of demand forecasting like salesmen's forecasts, regression analysis and so on can be followed for predicting/forecasting the demand for the product.

Scanned By Scanner Go

Step-3: Operative Functions

The most essential operative functions like the purchase, marketing, administration, finance, human resource and so on must be ascertained by the firm.

It is also important for the firm to assess/evaluate the strengths of the enterprise in terms of manufacturing and marketing areas.

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, growth and improvement of the firm. It must also make sure that the project is worthy enough to result into the establishment of the firm.

Step-5: Space to Build a Factory

An appropriate and sufficient place must be looked out for the establishment of a factory. The following are few factors that affects the ascertainment of the space,

(i) Easy accessibility and nearness or short distance from the source of raw material.

(ii) Easy availability of skilled labour near the factory.

(iii) Availability of land in industrial area.

(iv) Scope for expansion in the future.

Step-6: License

The license and permission must be taken from different departments of government before commencing the business. Firm should be registered with the registrar and some legal formalities must be completed under the provisions of particular acts.

Step-7: Source of Raw Materials

The next step is to enquire about the availability of raw materials in our country i.e., India. For instance, the location as to where the materials are available i.e., whether in India or Abroad. If it is in India then how far is that place and if it is not then the import formalities needs to be carried out.

Step-8: Facilities

The essential facilities such as machines, tools, technology, power, water, road connectivity etc., must be made available.

Step-9: Finance

Finance is regarded as an essential element to start an enterprise. Without finance there would be no enterprise. There are two options of raising finance, for every firm, to borrow the money or to bring own funds. Funds can be borrowed from the issuing securities and the own funds can be obtained from the shares and bringing back the profits in the firm.

Step-10: Markets

The firms can survive and grow in the market with the use of an appropriate marketing strategies and its markets. The firm must decide clearly as to whether the demand of its products would be met in the local market or they can be sold in the other countries.

Q40. Discuss the "New-New Approach" and "New-Old Approach" for creating new ventures.

Answer :

There exist 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 initiative to 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 get great demand.

Examples

Smartphones, plasma TVs, GPS devices, organic products etc.

All the products unique in the market are the results of the efforts made by research and development (R&D) department of many organizations. The rapid entry of new and unique products has increased the consumer expectations about quality.

New products are invented or discovered through the following process,

(i) Listing out the tough experiences 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. Example: Development of Facebook by Mark Zukerberg.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Following are the various trends creating business opportunities,

	Sectors		Opportunities
(i)	Green products	❖	Organic foods and Organic fabrics
(ii)	Alternative energy	❖	Solar, Biofuel Fuel cells and Energy conservation
(iii)	Health care	❖	Healthy food, Exercise, Yoga, Meditation Niche Gyms and Children
(iv)	Niche Consumables	❖	Chocolate, Burgers, Coffee Houses and Wines
(v)	Home automation and media storage	❖	Lighting control, Security systems, Energy and comfort management, Networked kitchen appliances etc.
(vi)	Internet opportunities		
	(a) Mobile ads and Concierge services	❖	Cell phones and PDAs
	(b) Niche social networks	❖	Seniors, Music fans
		❖	Groups of local users
	(c) Virtual economies	❖	Online auctions
	(d) Educational tutoring		
	(e) HR services	❖	Match making, Virtual HR, and Online staffing.
(vii)	Technological opportunities	❖	Nanotechnology and Wireless technology.

2. New-Old Approach

Not all the ventures are new. Some are the results of polishing old ones. Thus, new-old approach is adopting the existing idea and making improvements in it or entending the offerings to the area which were not concentrated before.

Examples

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

New-old approach is a risky operation as there are high 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.

Q41. 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 enter 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 builds reputation as the pioneer or industry leader. It would create a lasting impression in the mind of the consumers.
2. Leadership poses the firm in a place who is first to deliver the buyers and provides the chance to create customer relationships which helps to set-up loyalty.
3. The first movers have first and unchallenged 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. Being the first helps the firm to create brand superiority.
6. These first mover 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 a first movers are,

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

Scanned By Scanner Go

Q42. What are some of the tangible resources that the new entrepreneur might need in order to go into business initially?

Answer :

The assets which can be visualized or measured like financial capital and manufacturing equipment are called tangible resources. Tangible resources includes physical, financial and organizational assets. Raw materials, technology, equipment, geographic location and premises comes under physical resources. Financial resources are the cash assets required to create products and services to obtain other essential resources. The firms resources during start-up are the most important elements for its success and survival. The tangible resources the new entrepreneur need in the business initially are,

1. Capital
2. Partners
3. Employees and
4. Suppliers.

1. Capital

It refers to the money required by entrepreneur to produce products or to provide services. Capital (financial capital) is the most important tangible resource required to successfully perform business operations. It includes both fixed long term capital and also working capital.

2. Partners

The partners own and manage the company. General partners are liable for partnership's debts and responsibilities. Limited partners does not have control on the company, they act as investors.

3. Employees

They are the persons who work on contract to do particular services for the employer in return for money. They are a very vital requirement right the time of starting any business enterprise.

4. Suppliers

Suppliers are the persons and firms who supply the raw material to the enterprise. They are a vital requirement for the success of any enterprise. Preferably, the suppliers who provide raw material on credit are more significant to the new business enterprise.

1.3.1 Acquiring an Established Entrepreneurial Venture

Q43. What are the steps involved in acquiring an established entrepreneurial venture? State the advantages of acquiring an ongoing venture.

Answer :

Steps in Acquiring Established Venture

Acquiring an existing venture involves the following steps,

Step 1: Recognition of Personal Preferences

Before acquiring a business, entrepreneurs should take into consideration some personal factors. Entrepreneur's background, skill, knowledge, interests and experiences are to be recognized before selecting the type of venture. Apart from this personal preferences size, location, design etc., should also be considered.

Step 2 : Examination of Opportunities

Entrepreneurs before buying a venture need to analyse the opportunities available in the market. The various sources available for examination of opportunities are,

(a) Business brokers are the middle men specialized in business opportunities who provide assistance in identifying the suitable venture.

(b) Newspaper ads can be another source. A clear study of all newspapers (especially sections) has to be done.

(c) Trade sources include suppliers, distributors, manufacturers, trade schools and associations etc., which provide information about the ventures for sale.

(d) Professional sources include accountants, lawyers, management consultants etc. They usually possess clear information about the availability of venture for sale.

Step 3: Evaluation of the Selected Venture

The next step to evaluate certain factors of the venture selected for purchase. The factors to be evaluated are,

(a) Business environment under which the selected venture operates has to be analysed properly to know the potential of the venture.

(b) Financial data analysis has to be done properly to know the earning capability of the venture. The data to be analysed includes profits, sales, operating ratio etc.

(c) Business assets are to be analysed properly before the purchase of the venture. Assets to be examined include, Inventory, Furniture, machinery, accessories, Bills receivable, Copyrights, patents, trademarks, business name and Goodwill.

Business assets include both tangible and intangible assets.

Step 4: Key Questions to Ask

Before buying a venture, an entrepreneur needs to answer and ask certain questions. These include:

(a) Why the business is kept for sale?
(b) What is the present physical condition of the business/ venture?
(c) What is the inventory condition in the business?
(d) What is the status of the company's other assets?
(e) How many employees are going to remain with new owner?
(f) What type of competition the business faces?
(g) What is the financial position of the company?

Advantages of Acquiring an on Going Venture

The most important advantages of acquiring an on going venture are,

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. Less Fear about Future Failures

Starting a new business is a risk-oriented task. Its success cannot be predicted and if loss occurs, it leads to bankruptcy. Acquiring an already existing business reduces this risk and there will be less fear about future failure. As business is already into the market and customer know about it very well, an investment into an already existing business is wise decision. The only thing is that the hidden internal problems need to be analysed before acquiring an ongoing venture.

2. Less Time and Effort

An existing business already has well organized inventory, equipments, employees and facilities. No time need to be spent in these activities again by the new owner. A running business has good relationship with external people such as, supplier, lawyers, accountants, customers, bankers etc. Hence no time and effort are required to build these relations again. The new owner can get advice and assistance from suppliers, lawyers and accountants (if required).

3. A Good Price

There are chances that the price to purchase an already existing business is below the fair market price. The prospective entrepreneurs get the chance to purchase existing business for less price under the following situations,

(a) Owner willing to sell the business quickly due to retirements, or any sort of illness.
(b) Owner willing to raise money for any emergency requirement.
(c) Owner requires money to invest in some other better and profitable venture.

Q44. Outline the basic requirements to start a venture. Explain about the sources of new ideas.

Answer : Nov./Dec.-17, R15(A),Q3

Basic Requirements to Start a Venture

For answer refer Unit-I, Q39.

Sources of New Ideas

For answer refer Unit-I, Q45, Topic: Sources of Innovative Ideas.

1.4 SOURCES OF NEW IDEAS

Q45. What do you mean by Idea Generation? Write about various sources on innovative ideas for an entrepreneur.

Answer :

Idea Generation

An entrepreneur need to develop new products and services. The new product development begins with the investigation and hunt for new ideas or concepts which is mainly called as "idea generation". Few marketing professionals and specialists advised that the concept of generation of new ideas for development of a new product can be best utilized by tailoring these products according to the needs and requirement of customers which were not met earlier by the organizations. The innovative product ideas come from making discussions with various groups and using creative techniques to know the emerging desires and wants of customers.

Sources of Innovative Ideas

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 idea. In reality, there are various effective sources of innovative ideas (entrepreneurial opportunities).

1. Trends

Trends refers to changes in the current thinking and way of living of major population, whose observation will facilitate an entrepreneur in recognizing the potential opportunities. An entrepreneur must study the following trends,

(i) Societal Trends

Societal trends includes age demographies, senior citizens, health and growth consciousness.

(ii) Technological Trends

Technical advances, mobile phones, internet, e-commerce etc., come under technological trends.

(iii) Economical Trends

Increasing disposable income, two wage-earners in each family etc., come under economic trends.

(iv) Government Trends

Fluctuating government policies and regulations, increase in petrol prices etc., come under government trends.

2. Unanticipated Occurrences

The unexpected or unplanned situations usually bring innovative surprises to people.

3. Incongruities

Incongruities are the gaps that occur when there exists the difference between the expected situation and the reality.

Simply, (Incongruities = Expectations – Reality).

4. Industrial and Market Changes

Consumer attitudes, technological changes, industrial growth and other developments are the reasons behind market fluctuations. Industries and markets bring changes in their structure, design, working methodology etc., entrepreneurs should be aware of all these changes and identify the venture opportunities. Many of the modern entrepreneurs observed these changes and started their ventures.

5. Demographical Shifts

Demographic shifts are vital and provide many new opportunities to the entrepreneurs. These shifts include the trend changes that occur in population, age, education, occupations, geographical changes etc.

6. Perceptual Changes

Perceptual changes are intangible as they occur in people's interpretation and perception about facts and concepts perceptual changes is one of the sources of innovative ideas. Perceptual changes provide entrepreneurial opportunity to entrepreneurs.

7. Knowledge–Based Concepts

These are the results of new thinking, modern knowledge and new methodologies and form the basis for brand new creations and innovations. These kind of entrepreneurial opportunities are proven to be beneficial, but take much time for initiation and implementation, as they require testing and modification.

Scanned By Scanner Go

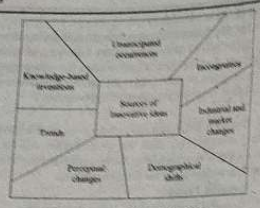


Figure: Sources of Innovative Ideas

Q46. From an entrepreneurial perspective, explain the significance of the statement, "A good idea is not enough".

Answer :

A good idea alone is not sufficient for a successful business. In order to have a successful venture, products or services should be sourced, produced, priced and distributed appropriately to satisfy the customers. Entrepreneurs along with team must perform these functions to achieve the goals. For instance, consider silly mugs which were produced in variety for children to drink milk and juice.

The concept behind silly mugs was to sell ordinary regular mugs but named it as "Original silly mugs". Mugs were produced in different colors with fun shapes to attract children. It may look funny and seasonable but it may generate little money. Entrepreneur could realize that beside an idea, sourcing, manufacturing and distributing is required to make sure that promises made are delivered to customers. Entrepreneurs are compensated for their time and effort in the form of return on investment. A good idea is required in case of marketing. Beside this, monetary and non-monetary resources are also needed to convert an idea into reality.

In order to convert a good idea into business, smart entrepreneur should interact with customers for development of product on continuous basis. It is different from market research techniques that are based on surveys, questionnaires and focus groups. It requires close relationship with customers so that they give true feedback.

A successful business is based on opportunity rather than idea. Opportunities must be able to diagnose, analyze and debate whether idea could be an opportunity or not. Opportunities are not clear to everyone, they can be understood with the support of mentors, bankers, venture capitalists and advisers. Entrepreneurs must innovate with illogical thinking and then shape idea into reality by producing products or services. A person who does not implement his idea is imaginative but not innovative. Innovative person would bring new things which require passion, determination and commitment.

Creativity is one of the essential feature of a business plan specifically to explain competitive advantage for marketing the product or service.

1.5 METHODS OF GENERATING IDEAS

Q47. Explain the important techniques for generating new ideas.

OR

Explain the method of generating ideas.

April-17, (R13/A), 10M

Answer :

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

1. Attribute Listing

It this technique, the features and functionality of a product is used to produce new product ideas with improved features and functions.

2. Checklist Method

In check list method, several queries are made for determining what can be done to the phenomenon for enhancing or redeveloping it. The queries may be like, Can we add? Subtract? Rearrange? Modify? Enlarge? Adjust? What are the contrasting characteristics? What are the other uses? What are the other new ways of utilizing it? What are the other ways of manufacturing it?

For instance, various advancements in computer technology like high speed internet access, search engines like google, social networking sites like google+, facebook etc.

3. Mind Mapping

This technique starts with a thought and builds an idea to conceptualise and develop a complete new method of producing a product.

4. Brainstorming

Brainstorming is an exercise where one has to produce list of all the possible solutions to a given problem. The list that produced has to be based on individual judgement involving what is correct, wrong, acceptability, unacceptability by others. One has to feel free and develop number of new ideas.

5. Synectics

Synectics is a greek term which means "arranging the distrust elements together". The synectics theory is based on the assumption that the success in problem solving can be enhanced by using non-rational thought which results in rational solutions. Thus, the process deals with converting the strange into familiar and the familiar into strange.

6. Free Associations

An advertising genius, James Webb Young, produced the idea of new combination of thoughts which is a similar technique like analogies. According to James Webb Young, new patterns are established by keeping two different concepts together. The idea of free association incorporates mind shift which views the things from different perspectives. In free association, if a person thinks of a word in his mind, then everything which is related with the word that comes in mind are listed.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

7. Lateral Thinking

According to Edward de Bono, the master of lateral thinking described that in reality, some perceptions, concepts and limits are assumed before solving a problem. But in lateral thinking, individuals try to rethink, challenge or modify these perceptions. The individual examines new ways to look at the things, to exercise rigid controls on thinking and to promote ideas having low probability. This is also called as out-of-the-box thinking.

8. Forced Relationships

They itemize several criteria and compare each with the other. For example: In designing a new office furniture forms, desks, shelves, bookcase etc are considered.

9. Group Creativity

In group creativity members of a particular group conceptualize and think of new ideas. One of the common technique of group creativity is brainstorming, it refers to producing as many ideas as achievable from a group or team.

10. Reverse Assumption Analysis

In this technique, the assumptions about a product or business are reversed or changed completely. For example: A restaurant previously used to have menus, charged for food and served food to customers. But now this has been reversed, the menu's have been displayed, customers now have to do self service for themselves and food charges will be charged only when the customer sits the table.

Q48. What is creativity? Explain the methods of generating creative ideas through groups.

Answer :

Creativity

Creativity in the organizational decision-making is the most significant feature of employees and process. It is often regarded as a mental process and is related with developing a new product or problem solving. It is not possible for a company to create a unique image and gain competitive advantage, if it cannot effectively differentiate its functioning style and nature of product offerings. A product has a broad scope and can either be tangible or intangible. Creative thinking and linear thinking are different from each other as linear thinking is convergent thinking which basically emphasizes on solution, while creative thinking is divergent or different. Hence, creative thinking is also known as 'out-of-the box thinking' or 'right-brain thinking'.

Methods of Generating Creative Ideas of Groups

The most famous techniques which are used for group creativity are as follows,

1. Brainstorming

The brainstorming is one of the most effective technique to solve problems. It helps in expressing thoughts clearly, boosting each member in an organization so that they can share their ideas and experiences. It is mostly used in the organization to consider the opinions of every individuals by way of brainstorming so that the best idea can be taken immediately. Moreover, it does not require more preparation for facilitator as it requires only flipchart or whiteboard and some pens.

The following are some of the useful ground rules used in brainstorming session in order to focus on the issue.

(i) State clearly the problem, when working in a group, follow the objectives required for brainstorming session to initiate.

(ii) Impose time limit for the brainstorming session.

(iii) Systematically organize ideas and information to club those for refining ideas.

(iv) After completion of the session, try to prioritize, rank and eliminate those ideas which are not so important.

(v) Conclude the brainstorming session by focusing on action plan and action time scale.

2. Synectics

Synectics is a Greek term which means 'arranging the distinct elements together'. This creative process is created by William J.J. Gordon, who is an executive of Arthur D. Little Inc; Cambridge, Massachusetts.

The synectics theory is based on the assumption that the success in problem solving can be enhanced by using non-rational thought which results in rational solutions. Thus, the process deals with converting the strange into familiar and the familiar into strange.

This process significantly depends on analogical and metaphorical thinking. The following are the three types of analogies which are widely used in synectics are Fantasy, Direct Analogy and Personal Analogy.

3. Thinking Hats Method

Dr. Edward De Bono is the world's leading authority towards direct teaching of practical management thinking. His techniques brought amazing results to organizations including large and small across the world. The teaching of De Bono have great impact on individuals from a wider range of cultures, educational backgrounds, occupation and age groups. His teachings has been classified into six thinking hats. They are as follows,

Six Thinking Hats

(i) White Hat

(ii) Red Hat

(iii) Black Hat

(iv) Yellow Hat

(v) Green Hat

(vi) Blue Hat

4. Nominal Group Technique (NGT)

This technique is suitable for small groups consisting 8-12 people. It is commonly used for problem recognition and prioritizing method. The NGT sessions tackles only one question and are carried out for about 1½ to 3 hours.

NGT is same like brainstorming session, the only difference is that it relies on an understanding that few goals can be effectively achieved when they are written instead of discussing. Thus technique is considered as most effective and productive when compared to the brainstorming as it is carried out systematically.

Scanned By Scanner Go

5. **Vote**

All the individuals should be allowed to analyze the ideas and then vote the best ones. Each individual is permitted to give six votes. They can either give all the six votes to the single idea, which they feel as best or else five votes to one idea and one vote to the other, or two to one idea and four to the other etc., as per their perception.

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

6. **Report**

Report involves the following

(i) All the members are organised into groups so as to discuss about the most important ideas.

(i) The votes are shared within the group and are then tabulated.

(iii) A group report which exhibits the ideas with highest points is prepared.

(iv) Give time for short group presentations and their solutions.

7. **Fishbone Diagram**

Cause-and-effect analysis is the scrutinization of the problems (effects) for determining the causes and for finding out the areas from where data can be collected. It is mainly used by the teams who are facing the problem and want to determine the main cause for emergence of the problem.

Cause-and-effect diagram was developed by a Japanese expert Kaoru Ishikawa. It is also called "Ishikawa 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 number of reasons/causes and determination of the causes/reasons, for the problem helps in solving the problems effectively. Cause-and-effect diagram helps in determining the causes as well as their effects (problems).

Structure of Cause and Effect Diagram

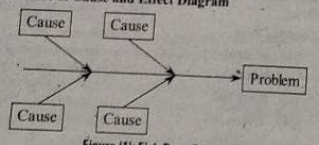


Figure (1): Fish Bone Diagram

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.

Steps Involved in Constructing a Cause and Effect Diagram

The cause-and-effect diagram is constructed in a brainstorming atmosphere wherein all the participants are encouraged to participate in the problem solving process. The following are the steps involved in constructing a cause-and-effect diagram.

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

2. In the second step, the main causes of the problem are determined and written down in the four boxes of the cause and effect diagram. These causes can be categorized as machines, methods, materials, manpower (4M's), places, procedures, people, policies (4P's), surroundings, suppliers, system and skills (4S's).

3. In the third step, all the possible causes of the problem are brainstormed and are accordingly placed on the cause and effect diagram. All the potential causes should be listed in their respective categories.

4. In the fourth step, all the main cause categories must be analyzed. The causes having the maximum chances are to be circled off on the diagram.

5. In this step, the causes which are circled are reviewed for determining the exact reason of the problem.

6. Finally, the most likely cause is determined.

The figure (2) is an example of cause-and-effect diagram.

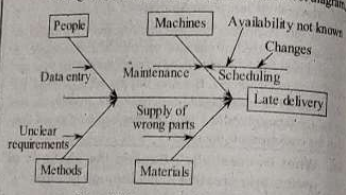


Figure (2): Cause-and-effect diagram.

People, machines, methods and materials are the potential causes for the problem of late delivery and several subcauses are raised within the main cause.

1.6 CREATIVE PROBLEM SOLVING

Q49. What is creative problem solving (CPS)? State its advantages?

OR

What is creative problem solving?

Answer : (Model Paper-III, Q3(a) | April-17, (R13)(A), Q2(a))

Creative Problem Solving (CPS)

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

Definition of creative problem solving (CPS)

"Creative thinking involves three basic states, fact-finding, idea-finding and solution-finding".

– Osborn.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

(i) **Fact-finding Stage**

It involves two elements 'problem-definition' and 'preparation'. Problem-definition deals with defining the problem into various parts and preparation facilitates understanding of the problem by gathering related data to the problem concerned.

(ii) **Idea-finding Stage**

This stage deals with producing best ideas so as to refine them to the extent possible.

(iii) **Solution-finding**

This stage deals with selecting the best/potential ideas from among the ideas to solve the problem efficiently.

Advantages of Creative Problem Solving (CPS)

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

1. It acts as a source for exploring those areas which are benefitted for both personal life and organization.
2. Exploring potential areas in an organisation leads to competitive advantage.
3. It provides various alternatives to select the best among them for problem- solving.
4. It helps in controlling external forces.
5. It is widely used for ill-structured problems.
6. It helps in accepting the challenges and fulfilling them efficiently.
7. It is helpful in analytical thinking and creativity which is most useful to the organisation.
8. It leads to growth in an organisation.
9. This model possesses systematic and relatively structured elements which helps in solving the problem efficiently and in short-time.
10. Organisations utilize CPS because it is best suitable for group settings.
11. It is an effective tool for problem solving stress and uncertainty.
12. It is widely applied in the areas like R and D, engineering, new product development, strategic planning, marketing and advertising etc., by the organisation.

Q50. 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 : May-19, (R16)(H), Q4

Factors Influencing the Discovery or Creation of Opportunities

For answer refer Unit-I, Q71, Topic: Factors Influencing Discovery (or) Creation of Opportunities.

Stages Involved in Creative Problem Solving

For answer refer Unit-I, Q71, Topic: Process of Creative Problem Solving.

Business Plan to Set Up a Coffee Shop Tasty Coffee

The business plan to establish a tasty coffee, coffee shop includes the following details,

1. **Executive Summary**

The coffee shop is meant to meet daily needs of the local coffee adicts and a meeting place for friends, family etc. It will also offer best coffee with different compliments such as pastries, free books, magazines, games etc.

(a) **Objectives**

The objectives of the company are,

(i) To become best served coffee shop in the area.

(ii) To turn in profits right from the first month of the operations.

(iii) To maintain a 60% gross margin.

(b) **Mission**

The mission is to create an unique place for their customers to socialize, feel good and comfortable to enjoy the best coffee in their area.

2. **Company/Management Summary**

It is a limited company involved in selling. Coffee and other beverages within 900 sq. feet. The investors include Kumar and Khanna, who owns a cumulative of 70% of the capital and their friends John and Kathy hold minority stakes in the company.

(a) **Company Location and Facilities**

The company will be located in the first floor of a commercial complex in Mumbai. The company will be placed within the walkable distance from the gated communities and colleges. The owners took 900 sq. feet land for their start-up on lease for 3 years and an option to extend their lease tenure.

(b) **Capital**

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

3. **Business Concept and Product Summary**

The company's product list includes high quality coffee varieties such as espresso, mochas, cappuccino, cold coffee with skimmed milk and soya milk. A special variety shot of espresso, bullet coffee etc., are also included in their menu.

4. **Market Analysis**

The consumption of coffee is very high in the country to screw their stress. The location of the coffee shop which is near to the gated communities and colleges creates a strong customer base. The company will strive hard to build loyal customers with their best offerings and services.

Scanned By Scanner Go

The market for the company includes the employees in the nearby companies, families from the residential communities and teenagers and staff form the colleges.

5. **Strategic Plan**

The strategy of the company is to attract new customers along with retaining the present customers. Focus on developing a loyal customer base helps in increasing referrals thereby sales.

6. **Competitive Strategy**

It is also necessary to retain in the market by providing not only the best coffee but also good ambience which require sofas, chairs, dim light, relaxing light music to destress the customers will create a competitive advantage over the competitors.

7. **Fin ncial Plan**

The company will capitalize the funds with start-up capital. Proper management helps to establish a loyal customer base and consistently increased sales growth with which it will double the net worth within 2 years. Maintaining 60% gross margin along with operational expense will help to develop cash to finance future growth needs.

Q51. Write brief notes creativity and Entrepreneurship.

Answer : Nov./Dec.-19, (R15)(A), Q2(b)

Creativity is the ability of a person to come up with new ideas and to identify different ways of looking at a problem and opportunities. It is an important trait of a successful entrepreneur. Creativity and entrepreneurship go hand-in-hand. An entrepreneur should be creative not just in generating new ideas, but also in running the business through ups and downs. Without creativity, the entrepreneur will not be able to deal with cut throat competition and make progress. Creativity helps the entrepreneur in the following ways,

1. Creativity provides a competitive edge to the business, thereby enabling a company to increase its turnover.
2. The company can-increase its market share by offering creative and unique products/services to the customers.
3. Creative entrepreneurs can face tough competition as they adopt new methods, technique and ideas depending on the situation.
4. Through creative thinking, an entrepreneur can satisfy the customers and employees. As a result, the employees will contribute their best to achieve organizational goals.

While some successful entrepreneurs are creative nventors, it is not necessary that the creative inventors should lso be entrepreneurs. There are many entrepreneurs who use e idea of others. However it is often observed that successful ntrepreneurs are highly creative in nature and their own ideas otivate them to succeed in the business.

Q52. Sheila has a degree in robotics and she loves to design products She started her career in 'Robotic' which uses high end technology in all their products. Her job profile includes travelling a lot also. Whenever she travelled she noticed that disabled people have difficulty in maneuvering their wheelchair from one place to another because in some places ramp is not provided and there is no way they can walk up the stairs. She came up with an idea of a wheelchair which can be used on stairs easily. She decided to quit her job and start her own company. She realized that her idea was the first stage in the process of innovation.

Identify the concept and explain the steps in its process.

Answer : Nov./Dec.-19, (R15)(A), Q3

The given concept is creativity.

Creativity

Creativity is generally viewed as a mysterious and vital talent which can be developed and enhanced. Some individuals have greater ability to be creative while others have a little. But everyone has creative ability to some extent. Creative process seems to be easy for people who acquired educational and environmental encouragements to think creativity. While for others creative process seems to be a difficult task.

Steps in Creativity Process

There are five steps in the process of creativity. They are,

1. **Idea Generation**

A very exciting phase in the creative process is idea experience. This phase occurs when an individual finds an opportunity he was awaiting. Usually, an idea comes into the mind of entrepreneur based on his curiosity and interest. The entrepreneur tries to find opportunities that match with his idea. This is also called as "eureka factor" and is often wrongly perceived as the only step in creative process.

2. **Preparation**

Based on the idea, interest and curiosity, the entrepreneur starts searching for answers to implement the idea. If the entrepreneur aims at launching a new product then he should first conduct market research as to check whether his idea will work successfully in the future or not.

3. **Incubation Process**

The subconscious mind of creative individuals continue to think on the variety of the information gathered during preparation phase. The process of incubation occurs at the time of sleep or at the time of carrying out unrelated activities. This kind of behaviour enhances the creative ability of an individual.

4. **Verification Process**

This stage is considered as the testing stage, where the entrepreneur checks whether his idea is of value or not. This is a critical stage of creativity process as problems start to arise from here. This step requires high courage, self discipline and work organization.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

5. **Innovation**

Innovation is an entrepreneurial process where ideas are translated into an application which has market value. It involves a lot of continuous hardwork to manage finances, strategic operations and marketing strategies.

1.7 NATURE AND SCOPE OF BUSINESS PLAN

Q53. What is a business plan? Discuss the nature and scope of business plan. Model Paper-I, Q2(a)

OR

Elucidate the various features of a business plan.

(Refer Only Topic: Features or Nature of Business Plan/ Game Plan)

Answer : Nov./Dec.-17, (R15)(A), Q4

Business Plan

Initiating any business enterprise is a highly challenging and risky situation. Thus, an entrepreneur need to write down all the various business related activities in a sequential order. Which would be referred as business plan.

A business plan may be defined as a written document containing in detail, the various internal and external elements involved in starting the business enterprise. According the Professor Belinda, "A business plan addresses the integration and coordination of effective business objectives and strategies, when the venture contains a variety of products and services.

Features or Nature of Business Plan/Game Plan

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

1. It explains 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 integrates major functional areas of the enterprise, such as personnel management, marketing, financing, production etc.
3. It provides answers to interested parties such as the potential investors, suppliers, employees, promoters 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 reach there? Who are the potential customers? What is the product/service being produced by the enterprise? etc.

Every entrepreneur is advised to write a detailed business plan. It is advisable that the entrepreneur may take the help of other professionals such as lawyers, marketing Gurus, technical engineers, etc. The aim is to produce an objective and feasible business plan. If the potential entrepreneur wants to take the help of any firm he can take the series of professional firms who would help the entrepreneur to prepare a good business plan as per his requirements.

Scope of the Business Plan

A business plan has a wide scope as it need to answer all the questions posed by diverse stakeholders such as venture capitalist, inventors bankers supplies creditors, legal advisors, technical engineers, the entrepreneur himself and so on.

The business plan need to be prepared from the perspective of various stakeholder such as,

(i) Firstly, the business plan need to focus upon the perspective of the entrepreneur. He need to clearly articulate about what the business enterprise aims to achieve and what is the potential need gap that the product/beruce of this enterprise would fulfil.

(ii) Secondly the scope and value of the business plan need to focus, upon the marketing aspect. The business plan need to clearly articulate about the marketing strategy the business intends to adopt for successfully marketing, product/service.

(iii) Finally, the business plan need to be easily understandable for any prospective potential investor.

Thus a business plan is a valuable tool which would help the entrepreneur, investors and other stakeholders to familiarize with the business venture, its objectives, goals and long term strategy.

It helps the various stakeholders in the following ways,

(a) It helps the various stakeholders to determine the viability/feasibility of the business venture.

(b) If helps the entrepreneur to smoothly run the business enterprise as it acts as a guidance road map for smoothly running the business organization.

(c) It is a major source of information to the potential investors who intend to invest in the business venture.

Q54. What are the uses of business plan? List various types of information that may be needed for writing a business plan.

Answer : April-17, (R13)(A), Q4

User/Significance of Business Plan

The preparation of a business plan is highly important for an entrepreneur. The significance uses of business plan is highlighted in two ways,

1. Firstly, it acts as a road map. It gives an account of the direction an enterprise is leading towards, what are its objectives, where it wants to be and how it will fulfill its objectives. Project report helps an entrepreneur to stick to the right path and avoid deviations. It is often observed that improper planning of goals and objectives lead to failure of the businesses.
2. Secondly, project report helps in attracting lenders and investors. Even though, it is not obligatory for the SSIs to prepare project report, but still it is useful and advantageous to the SSIs in several ways. Project reports helps the SSIs in obtaining financial assistance from the financial institutions and the commercial banks.

Scanned By Scanner Go

The banks and the financial institutions heavily depend upon the economic stability or the credibility of the project. Based on the profitability and benefits of the project it will be appraised and the banks go through the project report to know how much finance is actually needed by the entrepreneur to take up the project. Today, apart from the financial assistance, the institutions provide other facilities, such as work shed, raw material, seeds capital financing. Ultimately, it is the quality of the firm's project which outweighs the decision to lend or invest funds.

Information Needed for Creating a Business Plan

A project report should be prepared with utmost care and diligence, it must be concrete and finished business plan so that it earns support in getting finance which helps in running the business efficiently. The more concrete and complete the business plan, the more likely it is to earn the respect of outsiders and their support in making and running an enterprise. A good project report must have the following information,

1. General information
2. Promoter
3. Location
4. Land and building
5. Plant and machinery
6. Production process
7. Utilities
8. Transport and communication
9. Raw materials
10. Manpower
11. Products
12. Market
13. Working capital requirement
14. Funds
15. Others.

1. General Information

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

2. Promoter

An entrepreneur's educational qualification, work experience and any related experience should be enclosed 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 also the locational benefits must be included in the project.

4. Land and Building

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

5. Plant and Machinery

The cost of acquiring machinery, capacity, supplier and the cost of additional assets required must be enclosed in a project report.

6. Production Process

A project report should disclose all the details of the process of production, process chart, technical know how, technology alternatives available with the production program.

7. Utilities

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

8. Transport and Communication

A project report must enlist 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 materials, their cost and other alternatives associated with raw materials.

10. Manpower

A project report must be inclusive of the detailed information of the skilled and semi-skilled human power requirement, sources of manpower supply, cost of hiring them and the cost of training given to the manpower.

11. Products

An exclusive details of the product mix, product's substitutes, the network and the distribution channel, competition and their capabilities, input-ratio must be included in the project report.

12. Market

A list of market details such as the consumer list, types of market i.e., local, national or international, sales promotion practices and devices, intended market research must be included in the project report.

13. Working Capital Requirement

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

14. Funds

Division of project cost in terms of cost of machinery, land and building, miscellaneous assets and money (funds) required to meet the working capital requirements of the project.

15. Others

(i) Cost of production and returns in terms of profits of first ten years.

(ii) Break-even analysis of the project.

(iii) Schedule of implementation of the project.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1.8 WRITING BUSINESS PLAN

Q55. Explain the different stages involved in writing a business plan.

Answer :

Unlike large-scale industries, SSIs do not make use of complicated methods for preparing a project report. Even within the SSIs, all the firms may not use the same type of information.

The level of information to be provided in the project report depends upon the size of the unit as well as the nature of the production. Vinod Gupta has enlisted a general set of information in his study, "Formulation of a project report". Project formulation is being divided into eight stages which are as follows,

Stage-1: General information

Stage-2: Project description

Stage-3: Market potential

Stage-4: Capital costs and sources of finance

Stage-5: Assessment of working capital requirements

Stage-6: Other financial aspects

Stage-7: Economic and social variables

Stage-8: Project implementation.

Stage-1: 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 capabilities of the entrepreneur

(iv) In case of partners, state all the above mentioned characteristics of all the partners individually.

(b) Industry Profile

A reference of industry analysis to which the project belongs, i.e., either to its past performance, present status, its organization, its problem, etc.

(c) Construction and Organization

In construction and organizational structure of an enterprise, if it is a partnership firm then its registration with the registrar of firms, applications for obtaining registration certificate from the directorate of industries/ 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 product over its substitutes.

Stage-2: Project Description

Project description includes the following details of a project,

(a) Site/Location

(i) Exact location of an enterprise.

(ii) Whether it is owned by an enterprise or taken on lease.

(iii) Industrial area.

(iv) No objection certificate from the municipal authorities, in case if the enterprise is located in the residential area.

(b) Physical Infrastructure

Physical infrastructural includes the following,

(i) Raw Materials

- Need of raw material
- Whether inland or imported
- Sources of raw material supply.

(ii) Skilled Labour

- Availability of skilled labour
- Organizing and taking care of training sessions.

(c) Utilities

- **Power**

  Need for power, load sanctioned and power availability.

- **Fuel**

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

- **Water**

  Quality and source of water must be clearly mentioned.

(d) Pollution Control

Scope of dumps, sewage systems and sewage treatment plant must be vividly mentioned in the project report in case of industries producing emissions.

(e) Communication System

The means of communication to be used i.e., telephone, telex, e-mail etc., must be stated in the project report.

(f) Transport Facilities

The mode of transportation, its need, potential means of transport, distance, hurdles must be enclosed in the project report.

(g) Other General Facilities

Availability of general facilities such as machine shops, welding shops and electronics repair shop must be listed in the project report.

Scanned By Scanner Go

(h) Production Process

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

(i) Machinery and Equipment

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

(j) Plant Capacity

A project report must enclose the installed licensed plant capacity along with their shifts.

(k) Selection of a Technology

The technology which is selected and the means to acquire it must be enlisted in the project report.

(l) Research and Development

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

Stage-3: 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/status.

(b) Expected Price

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

(c) Marketing Strategy

Marketing strategies 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 products 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 entrepreneurs 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 goods such as land and building, plant and machinery, installation costs, preliminary expenses etc. Working capital margin must also be presented. Sources of both the finance i.e., owner's fund and funds from financial institutions and banks must also be shown.

Stage-5: Assessment of Working Capital Requirements

The need and source of working capital should be diligently and vividly mentioned in the project report. It is always better to prepare working capital requirements in the prescribed formats designed by limits of requirements. It will also reduce banker's objections.

Stage-6: Other Financial Aspects

A project report must also include an estimated profit and loss account depicting the income from sales, cost of production, allied cost and profits. Similarly, an estimated balance sheet and cash flow statement must be prepared to depict the financial position and requirement at different stages of the project.

Besides these, a break-even analysis must also be conducted in order to find the break-even point. A Break-even Point (BEP) is a point where there is no profit or no loss. It depicts the gestation period and the likely moratorium i.e., a temporary halt of an activity essential for repaying the loans.

BEP is computed as follows,

$$\text{BEP} = \frac{F}{S - V} \times 100$$

Where,

F = Fixed cost

S = Sales projected/estimated

V = Variable costs.

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

Stage-7: Economic and Social Variables

A project report must also show the abatement costs i.e., the costs for controlling the environmental damage. The costs incurred in arranging the effluents and emissions must also be included.

Besides these the project report must also highlight the following points,

(a) Employment generation
(b) Import substitution
(c) Ancillarization
(d) Local resource utilization
(e) Exports
(f) Area development.

Stage-8: Project Implementation

Project implementation is the last stage in formulation of a project report. All the entrepreneurs must prepare a time-table or an implementation scheme in order to accomplish all the project activities in time. Time management is very important because, if there is a delay in any project activity then the project cost may overrun.

Project delays in India have become common. Project implementation delays, endanger the financial viability of the project on one hand and props up the entrepreneur to quit on the other hand. Thus, it is essential to draw up an implementation schedule for the project and then stick to it firmly.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q56. 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 objectives of writing a business plan?

(Refer Only Topic: Purpose of Preparing a Business Plan)

Answer : (Model Paper-I, Q2(b) | Sept.-20, (R16)(H), Q4(a))

Business Plan

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

Purpose of Preparing a Business Plan

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

1. A business plan is prepared to determine the roadmap 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 alliances by attracting sound 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 identify the problems in the financial plans and to take corrective actions.
8. It helps in communicating with the business stakeholders effectively.
9. It helps in taking start up decisions to assure the investors and to plan the operations according to the forecasts.

Contents of a Business Plan

A business plan consists of the following contents.

1. Cover Page and Table of Contents

Cover page forms the first page and is must for every business plan. It creates a first impression of the plan to the readers and should be professional and clear. The cover page provides information regarding

(a) Name of the business/company.
(b) Logo, 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 easy identification.

2. Executive Summary

Executive summary provides a gist to the reader regarding the business plan. It presentsthe key points from the entire business plan to attract the reader to go through the plan. The venture capitalists/financers first shortlist the plans based on the executive summary. It is a formal statement and provides information regarding the profile of entrepreneurial team, budget, risks, strategies, description of the industry and market environment.

3. 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 starting the venture. It includes the specifications of the products/services offered by the entrepreneurs along with the photographs, designs, etc.

4. Management Summary

This section presents the description regarding the details of owners, qualifications of management team and investors. Management summary should not exceed four pages.

5. Business Strategy

This section presents the detailed SWOT analysis, nature and competition in the industry, entry barriers, market and customers. It also includes the mission, vision, plans and business strategies. Business strategy should not exceed 2 pages.

6. Marketing Plan

This section includes the market analysis such as analysis of market size, growth, customer segments, value proposition, strength of competitors etc. Marketing plan of a company play a key role in attracting and retaining the stakeholders as it decides the success and failure of the product/service and its customer reach. The plan should also include the marketing strategies along with a reliable market intelligence report to support it. It should not exceed four pages.

7. Operations Plan

This section presents the key physical necessities of business operation such as location, raw materials, suppliers, employees etc. It also includes the breakeven analysis, quality control measures and the production process.

8. Financial Plan

It is one of the important section of the business plan. It presents the information of the other sections in financial terms. This section presents the feasibility of the business idea and its ability to attract the investors. It also provides a detailed analysis of financial statement. It should not exceed 4 pages.

9. Appendix

Appendix is the last section of the business plan which includes the related necessary documents, project milestones, (such as market survey report), process flow charts, photographs etc. The appendices should not be more than 10 pages.

Scanned By Scanner Go

Q57. To whom do you present the business plan? What is the importance of good oral presentation of business plan?

Answer : Sept.-20, (R16)(H), Q3(a)

The business plan is presented to investors, bankers, venture capitalists, lawyers, suppliers, potential large customers and consultants.

The importance of good oral presentation of a business plan is highlighted below,

1. A good oral presentation provides an opportunity to persuade potential investors and sell them the business plan.
2. It is considered very effective as it involves strong persuasiveness and control.
3. It helps to save time. It is ideal for situations where quick action is required.
4. It can be very effective when some change in pitch, intensity and tone are made in presentation.
5. It helps to build a healthy relationship with the interacting parties.
6. It is very helpful due to its flexible nature. It can be changed according to the requirement.
7. It is suitable for employees as they feel they can get instant clarification and feedback.
8. It is very cost effective when compared to other methods of presentation.

Q58. Explain the procedure for preparing a good business plan. Prepare a business plan for a small scale food processing unit.

Answer : April.-17, (R13)(A), Q5

Procedure for Preparing Good Business Plan

For answer refer Unit-I, Q55.

Business Plan for a Small Scale Food Processing Unit

Unlike a large scale enterprise, small scale business units, do not employ complex methods for preparing the business plan. The following is a sample business plan for Annual Dairy Corporation, owned by Mr Rakesh Ambani.

Executive Summary

Mr Rakesh Ambani has been involved in the milk and dairy production business for the past 5 years. They have been working as whole sale suppliers of milk and related products in the nearby villages. Mr Rakesh plans to start a full fledged dairy business supplying dairy products such as milk, cheese, cream, butter etc. He had developed an attractive and standardized pack for the product. His financial analysis of the enterprise shows a positive cash flow and profit from the first year of initiating the business.

Background and History

Mr Rakesh Ambani has been involved in the dairy food industry for more than five years. He had gained good knowledge about milk procurement from various sources, processing of milk, preparation of other dairy products, storage and delivery of the products as and when required.

Market Description

The dairy market in India has a very huge potential. India is the largest producer of milk globally. There exists a huge market potential for milk and other related dairy products in the Indian and international market.

Marketing Strategy

Anul dairy corporation has good contacts with reputed large scale food processing firms, to whom it intends to market and sell the products. Mr Ambani enjoys good business rapport with two such big business houses. They would be his target customers. The firm has developed very good packaging for the products, as per the needs of its customers.

Processing Plants

Anul dairy incorporation would enlarge its already existing processing and storage facilities, so as to accommodate raw materials and finished products, as per the new business requirements.

Capital Cost and Source of Funds

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

Government Grants →	6 Lakhs
Bank loan (@ 3%) →	5 Lakhs
Personal finances →	4 Lakhs
Total Capital	15 Lakhs

Project Implementation

The final and the most crucial step of any business plan is project implementation. Mr Rakesh Ambani intends to finalize all formalities and initiate the business activities by the end of year 2017.

Q59. What are the common errors in project formulation?

Answer :

Project formulation is important. It is mostly observed that managers do commit certain errors while formulating project reports. Some of the errors involved in project formulation are as follows,

1. **Product Selection**

Entrepreneurs sometimes go for the wrong product without taking into consideration the size of the product, market, future demand, competitive position, life cycle, availability of required labour, raw material and technology.

2. **Capacity Utilization Estimates**

It is mostly seen that the entrepreneurs make over-optimistic estimates of capacity utilization. These estimates are usually made on wrong assumptions. These assumptions are not made in accordance with the current enterprise performance, prevailing market conditions, competitive atmosphere, the technical snags and so on.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

3. **Market Study**

Most of the entrepreneurs often does not conduct a good market study and make an assumption that the entire market is waiting for their product. As product production is basically for eventual sale. Therefore, the market study is of great significance.

4. **Technology Selection**

Technology to be used differs from product to product on the basis of nature of the product. Right type of technology must be selected which can be bought within the available financial resources. Thus, there should be technological feasibility.

5. **Location Selection**

Entrepreneurs mostly commit two common mistakes in selecting a location as follows,

(i) Firstly, they get lured by the government's incentives and concessions for setting-up industries at a specific location, without taking into consideration the market proximity, availability of raw materials, manpower and infrastructural facilitates.

(ii) Secondly, most of the entrepreneurs selects a location only because it is their home town or ancestral property.

6. **Selection of Ownership Structure**

Most of the entrepreneurs fail because of their wrong selection of the ownership structure. Therefore, selection of an ownership structure must be made carefully after taking all the factors into consideration.

1.9 EVALUATING BUSINESS PLANS

Q60. Write a brief note about how potential lenders or investors evaluate the business plan.

Answer :

The entrepreneur need to prepare a business plan which is in sync with the requirements by the potential lenders 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 suppliers, bankers and private investors would evaluate the business plan in following different ways,

1. **Evaluation by Suppliers**

The potential suppliers of raw material or finished goods or semi finished goods would evaluate the business plan from their of own feasibility perspective. They would focus on key areas such as,

(i) The scope for long term supply of the raw material or semi finished goods to the business venture.

(ii) The supplier would evaluate the business plan from the profitability perspective. For example, the potential supplier would calculate the potential profit it could get by supplying the raw material to the business venture. Further, the supplier may need to purchase a new transport truck exclusively to supply the raw material to the entrepreneur. Thus, he would evaluate the business plan to ascertain whether it is good or bad to invest in a new transport truck for this new business enterprise.

2. **Evaluation by Financer/Bankers**

The entrepreneur may approach any bank to secure finances for the enterprise. The entrepreneur need to submit a business proposal/plan to the banker. The banker would be more interested to study the profitability model of the business venture. He would be interested to know how soon the financed capital would be returned back and what percentage of interest would the bank earn by providing the loan to the entrepreneur. Further, the banker would ask for the various fixed assets of the of venture which would be pledged against the venture capital loan provided by the bank to the enterprise.

Generally bankers and other lenders focus upon four 'C's of the business venture,

(i) Credit worthiness of the enterprise

(ii) Character rating of the enterprise

(iii) Cash flow schedule of the loan.

(iv) Collateral attached against the loan.

3. **Evaluation by Investors**

The prospective investors such as the venture capitalist evaluate the business plan from a different perspective. They are more interested to know the character of the entrepreneur i.e., his ambition and willingness to run the enterprise successfully. Before lending large sums of money, the investors would evaluate the business plan to know about the profit margins they expect in future and also the time duration within which they can get back their capital and exit the venture. The investors are partial owners in the business venture. Thus, they would scrutinize the business plan in detail from the production perspective, marketing perspective, cash management of the enterprise and the extent till which the entrepreneur would himself get involved in the day to day business activities of the enterprise.

4. **Evaluation by Customers**

The potential customers are important stakeholder for the business venture. They would purchase the products/services of the enterprise after studying the long term commitment of the entrepreneur.

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

Scanned By Scanner Go

Q61. Discuss about the feasibility report preparation and evaluation criteria for business plan.

Answer : (Model Paper-III, Q3(b) | Nov./Dec.-19, (R15)(A), Q4)

Feasibility Report Preparation

Preparation of feasibility report/feasibility study report involves the following steps,

Step-1: Conduct a Research to find Business Need

Before writing a feasibility report, it is necessary to find the business need and make a detailed research on it regarding its expected time frame and the impact it can have on business success etc.

Step-2: Find Solutions

Once you make a reach on business need and got a clear idea about project to be initiated, the next step is to find solutions to fulfill that need. There should be multiple solutions to solve the problem.

Step-3: Analyze Each Solution

Now each solution is critically analyzed to find information like,

(i) how much cost will the company incur if it opts for this solution?

(ii) How much time is required to implement the solution?

Each assessed solution should be aligned with the business needs. To evaluate/assess each solution, various 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 each solution include undertaking online research to other organizations, time boxing and prototyping.

Step-4 : Suggest the Most Appropriate Solution

In this step, the most appropriate solution is chosen based on the lower risks 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 appreciated if the management find it to be feasible.

Evaluation Criteria for Business Plan

For answer refer Unit-I, Q60.

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

Answer :

Project appraisal is nothing but the assessment of a project. Project appraisal is conducted for both proposed and executed projects. When it is conducted for proposed projects it is called 'ex-ante analysis' and for executed projects it is called 'post-ante analysis'. A project appraisal is done to know the viability of the project, it acts as a cost and benefit analysis of several aspects of the proposed project. An entrepreneur must evaluate different proposals of project before allocating the scarce resources for the best project.

Economic, financial, technical, market, managerial and social aspects are appraised before selecting a project. The financial institutions appraise the projects to know the creditworthiness before providing funds or loan for the project. For the financial institution, the process of appraisal is a process wherein a leading financial institution makes an independent and objective assessment of different aspects of an investment to arrive at a final decision of whether it can be financed or not.

Methods of Project Appraisal

Project appraisal includes the following analysis.

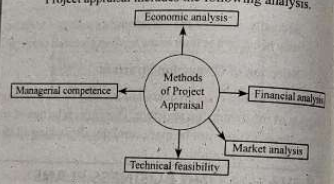


Figure: Methods of Project Appraisal

1. Economic Analysis

The economic analysis of the project involve requirements for raw materials, capacity utilization level, estimated sales and expenditures, expected profits. The business should have an account of volume of profit to know how much sales is required to earn that level of profit. Economic variables like sales, purchases, expenditures and other factors helps in determining the profit level.

The product's demand must be analyzed first to understand the project feasibility. The government is offering incentives and concessions to those projects which are being established in the backward areas. So, the firm must ensure that they examine whether they belong to this category or not.

2. Financial Analysis

The financial analysis considers finance as the primary resource for the entrepreneur to bring all the inputs such as labour, raw material, plant and machinery together in order to produce the goods. To know the financial stability of the project the following areas are analyzed diligently.

(i) Assessment of the financial requirements contains both the fixed and the working capital needs.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

(ii) All the cost relating to the acquisition of plant and machinery purchased, land and building, scale of operation, depreciation and other expenses incurred in repair, addition of building and remodelling must be given importance in the project.

(iii) The working capital means excess of current assets over current liabilities. Current assets are those assets which are easily converted into cash within a weeks time. Current liabilities are those obligations which are payable within a period of weeks time. In simple words, working capital means the amount of funds which are required to meet the day-to-day operations of the organization.

3. Market Analysis

The analysis should be made about the probable and potential customers of the product in the market. However, the production of the product has a value only when it is being sold in the market. So, an entrepreneur must anticipate about, who will be the possible customers for their products and when and where the product would be sold. Thus, understanding the expected market conditions for the product to be produced becomes an important factor in the business plan. The general methods to predict the demand for a product are as follows,

(i) Opinion Polling Method

In this method, all the opinions of the end users are collected. The opinions can be collected either by complete enumeration or by sample survey. All the customers are surveyed in complete enumeration while only few customers are surveyed in sample survey. Opinion polling method is of four types. They are,

(a) Complete enumeration survey

(b) Sample survey

(c) Sales experience method

(d) Vicarious method.

(a) Complete Enumeration Survey

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

$$\sum_{i=1}^{N} D_i$$

This method helps in acquiring first-hand and unbiased information. The major disadvantage is that, it is time-consuming and costly to conduct survey of large number of customers.

(b) Sample Survey

Unlike complete enumeration survey, sample survey method conducts survey only on few group of customers out of the total population. The expected demand of these selected customers is collected and then the aggregate is calculated.

Example

If the total number of customers is 1000 and out of these only 100 are chosen for survey using stratified method. If the expected demand of these sample customers is D_i, (where $i = 1, 2, \ldots, 100$), then the aggregate demand for the selected customers would be,

$$\sum_{i=1}^{100} n_i D_i = n_1 D_1 + n_2 D_2 + n_3 D_3 + \ldots + n_{100} D_{100}$$

Where,

n_i is the number of customers in group i

$n_1 + n_2 + n_3 + \ldots + n_{100} = 1000.$

If in case, the group customers are similar then the selection can be made randomly and the aggregate demand for the group would be,

$$(D_1 + D_2 + D_3 + D_4 + \ldots + D_2)\frac{1000}{100}$$

This method is less expensive and consumes less time when compared to complete enumeration method.

(c) Sales Experience Method

Sales experience method surveys the market of a particular place before the launch of a new product for sale. The results are then projected to the world for calculating the expected demand of the product.

This market survey is considered as the representation of the national market which is not always true.

Example

If Mumbai is chosen as sample market then it would not be the true representer of Silchar a remote place, because both are totally different places. Similarly, if Agra is being selected as a sample market then the sales in Agra are not constant and fluctuates greatly due to the entry and exit of the tourists population.

(d) Vicarious Method

Vicarious method does not approach the customers directly. But, they approach them indirectly with the help of dealers or agents. The dealers or the agents have an idea about their customers. All these dealers 'opinions about their customers' opinions are drawn out. This method is unrealistic in nature as the dealer may be partial with the customers.

Scanned By Scanner Go

(ii) Life Cycle Segmentation Analysis

Every product passes through the five stages of product life cycle. Initially, the products sales in the beginning are not high, which are then supported by the promotional strategies which results in higher sales. The sales then are at its peak but, after sometimes it begins to fall and ultimately the product dies. The five stages of a product are as follows,

(a) Introduction

(b) Growth

(c) Maturity

(d) Saturation

(e) Decline.

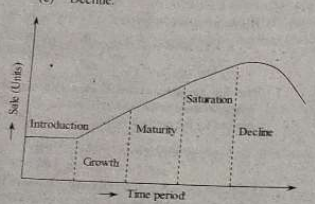


Figure: Product Life Cycle

4. Technical Feasibility

Technical feasibility is one of the important elements in the project appraisal. It refers to the ability of the proposed plant and equipment to produce the product within the specific cost. It must be assured whether the technology is available within the firm or whether it has to be purchased from outside. If the project needs any collaboration, then the terms and conditions of the collaboration must be clearly mentioned. In case of foreign collaboration all the legal provisions of the list of products must be taken care.

Apart from these the following must also be taken into account.

(i) Availability of land and site.

(ii) Availability of other inputs such as water, power, transport and communication facilities.

(iii) Availability of servicing facilities like machine shops, electric repair shops etc.

(iv) Dealing with anti-pollution law.

(v) Availability of manpower with required skills and talents.

(vi) Availability of required levels of quality and quantity of raw materials.

5. Management Competence

Management competence or ability plays a significant role in success or failure of the project. Even the good and feasible projects tends to fail when there is lack of managerial ability and in contrast the poor project may be successful due to good managerial ability. Thus, in the process of project appraisal it is necessary to take into account the managerial ability of the promoter. Several research studies have shown that many enterprises especially the SSI fails due to mismanagement or managerial competence.

Q63. How would an entrepreneur use and implement the business plan?

Answer :

Uses of Business Plan

For answer refer Unit-I, Q54, Topic: Uses/Significance of Business Plan.

The business plan is the most important tool employed by the entrepreneur for starting and efficiently running a new business enterprise throughout the first year of its establishment. The entrepreneur is required to initiate control and good management to various functional areas, such as personnel management, production, marketing, financing etc.

A common mispractice seen among many new entrepreneurs is the tendency to ignore planning after the establishment of the business enterprise. Many entrepreneurs provide the excuse that detailed business planning is required only in the case of big business houses. However, if the entrepreneur does not follow the business plan, the employees would not be aware about the organizations key goals and this would inturn negatively impact their job performance.

Many bankers which had issued loans to entrepreneurs, reported that various promising business enterprises failed not due to lack of cash, but as a result of the improper and ineffective detailed business planning by the entrepreneur.

Implementation of Business Plan

A part from good and systematic planning, the entrepreneur need to ensure that all the plans with regard to different functional areas of the enterprise are implemented in letter and spirit. Further the entrepreneur need to review the different key functional business areas on a monthly basis. These may includes, checking and auditing the profit and loss statements, tracking the sources of funds and the use of funds, inventory and production data analysis, quality control, sales and market area and so on. A brief description of few control elements is discussed below,

1. Stock and Inventory Control

Through good stock, inventory management and control, the firm can ensure that there is no shortage of the goods or services, whenever demanded by the customer. Further, if the inventory is maintained in lean format, there would be less capital blocked in the form of stock and inventory hosting the liquidity of the new enterprise.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2. Production Control

The entrepreneur need to maintain a detailed cost figure of the day to day business operations. This would ensure the optimal utilization of various production elements such as machinery, labour, process time, downtime cost and so on.

3. Sales Control

A good sales control plan would ensure that the entrepreneur gets a good idea about the actual sales of the enterprise in the market. The sales control plan would cover elements such as, specific products sold, price of different products, meeting of delivery dates, details about cash sales and credit sales, the sales collection system being employed by the organization and so on.

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

1.10 MARKETING PLAN – FINANCIAL PLAN – ORGANIZATIONAL PLAN

Q64. What do you mean by marketing plan? State its Features.

Answer :

Marketing Plan

A Marketing Plan is a written document outlining the marketer's experience about the market. It denotes the ways in which an organization plays an important role to attain its marketing objectives. A marketing plan is one of the most 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 scheme of guidelines for the firms marketing activities in a written form. Usually, a marketing plan is prepared for individual business centres or product/brand as a profit centre. The planning period differs from one product to the other. The marketing manager may not need to prepare separate marketing plans for each item of same category. For instance, 'Haldiram's'-It did not prepare separate marketing plan for each of its namkeen items such as, Tasty nuts, Moong dal, Aloo bhujia and so on, as all these come into the category of Namkeen's. Separate marketing plans may be prepared only for its sweet products.

The marketing plans 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, the short-range planning needs to be done by the middle and junior level managers and its is found to be valid for only one year. Usually, strategic planning is done for long time periods.

Features of Marketing Plan

Following are the features of marketing plan,

1. An effective marketing plan needs to communicate clearly the roles and responsibilities of each member of an organization to achieve the goals of an organization.
2. It must stimulate the commitment and dedication of both the individuals as well as the group.
3. 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 lower management.

(ii) Bottom-up Approach

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

(iii) Goals Down-plans up Approach

In this approach, setting of goals is the responsibility of the top management whereas, the business units need to set their own plans which helps in achieving the preset goals.

(a) It must have the visible resource allocation system.

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

(c) It should facilitate the free flow of communication and coordination between Strategic Business Units (SBU's) and departments and also between top-level management and bottom level employees.

(d) It must hold influence on strategic alternatives.

(e) It must provide assistance to the company and its strategic business units in managing change.

(f) It acts as a base for strategic management of the company.

(g) It stresses on the long-term perspectives of the organization.

Q65. Explain the various steps involved in preparing a marketing plan.

Answer : (Model Paper-II, Q3(a) | Nov./Dec.-19, (R15)(A), Q5(a))

The marketing manager is responsible to design and develop separate marketing plans for each level of the organization. If the marketing planning is done at the corporate level, it is applicable throughout the organization, whereas the marketing manager of an SBU designs it only for his business unit which is not applicable to the entire organization.

Scanned By Scanner Go

Steps in Designing Marketing Plan

The marketing plan can be developed by adopting the following process which consists of five steps. They are as follows.

Figure: Steps in Designing Marketing Plan

Step-1: Assessment of Marketing Situation

The first step of the marketing planning process is the assessment of marketing situation. The main objective of this step is to understand the present situation of the brand in the market. Situation analysis is the analysis of company's present future and past marketing programme. On the basis of results obtained by situation analysis, the management has to decide whether there is a need to revise the earlier plans or to establish new plans so that goals can be effectively achieved.

Both internal as well as external environmental factors are assessed in situation analysis. Assessment of competitor's strengths and weakness, needs of the customers belonging to the target market, strategies adopted to satisfy customers, SWOT (Strengths, Weakness, Opportunities and Threats) analysis etc., form the components of situation analysis. For assessing the firm's strengths and weakness, internal analysis of its own capabilities are done. Whereas, external and internal analyses are performed to identify opportunities and threats that may be either externally or internally located.

Step-2: Setting Marketing Objectives

The second step in the marketing planning process is to set the realisable and measurable objectives. Marketing plan is designed on the basis of marketing objectives, which may be expressed in terms of profits, growth, market share and diversity. The set of marketing objectives must be attainable, understandable and brief. The time taken for the achievement of these objectives indicate whether they have been achieved by a division, department or the SBU.

Step-3: Developing Marketing Strategies

Marketing strategies are developed to achieve marketing objectives. In what way the marketing objectives could be achieved is specified by the marketing strategy. In this step, both the target markets and the marketing mix are required for satisfying the needs and expectations of the target market customers are stated. Important decisions such as product positioning and differentiation can be made as a part of planning process. The outcomes of this step act as a road map for the future development of products.

Step-4: Designing Marketing Programmes and Allocating Budgets

This step involves the designing of marketing programmes and allocating the required budgets which are essential for performing the marketing tasks. This is a very important step as the annual budget is decided. Based on the requirements, the stated budget may be approved, decreased or increased.

Care has to be taken by the marketing managers for the preparation of budget as the occurrence of an error during the planning phase reduces the feasibility of a plan and the marketing manager has to bear losses due to such errors throughout the year.

Step-5: Developing Control Procedures

The process of a marketing plan gets completed once it reaches the Control Step. The control procedure is the process by which the outcomes of the plan are assessed on a continuous basis. The sales performance of the company is compared with the sales quotas and expectations.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

If a sales performance is found to be less than that of the sales quotas, corrective measures need to be taken to overcome this deviation. The measurement of sales performance against quotas must be done on an adhoc basis (weekly, daily, monthly or quarterly).

Q66. Discuss the concept of financial plan in detail.

Answer :

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 areas of marketing plan such as the promotion plan, new product development plan etc. Further the 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.

Finance function is a primary function among all other business functions. Every entrepreneur requires finance in order to develop and expand his business. Finance as a term can be explained as administration of flow of money in organizations. Finance is related to flow of money and entitlements against money. Finance or financial management is an area which is very useful for managing the business smoothly.

Finance is something different from accounting and economics but it uses information of accounting for making effective decisions. Accounting deals with recording, reporting and evaluating the business transactions, whereas finance is termed as managerial or decision-making process.

However, due to recent trends in business environment, entrepreneurs are identifying new ways through which finance function can generate great value to their enterprise. The entrepreneurs need to identify the measures 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 essential 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 assistance is required. Therefore, extreme care should be taken by the academicians and managers for financial management. The following points highlight the relevance of finance in organizational activities,

(i) Efficientive management of financial needs can increase the effectiveness of financial planning. It is also used for the promotion and the development of a business.

(ii) It raises the funds at low cost of capital.

(iii) It ensures the optimum utilization and the allocation of funds.

(iv) It contributes in making sound financial decisions.

(v) Through financial control, profitability of the firm can be improved.

(vi) Finance maximizes the wealth of business and in turn brings the economic development for the entrepreneur.

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,

(i) The income statement.

(ii) The balance sheet.

(iii) The cash flow statement.

(iv) Break even analysis.

Q67. Formulate the steps in the financial planning process.

Answer : (Model Paper-II, Q3(b) | Nov./Dec.- 17, (R15)(A), Q5)

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 achieved must be considered on the basis of overall objectives of the firm. The financial management objectives can be prepared in the areas of financing, investment and dividend.

Scanned By Scanner Go

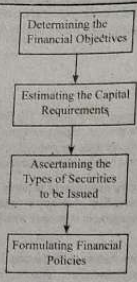


Figure: Steps involved in Financial Planning Process

Step–2: Estimating the Capital Requirements

The capital requirements of the firm are to be estimated to meet the various needs of the firm. An assessment of fixed and working capital required should be made. Working capital is needed to hold various current assets such as bills receivable, stock etc., and cash required to meet the daily expenses of the firm. Fixed capital is required to acquire fixed assets like furniture, plant and machinery, land and building etc., and it is blocked for a long period of time.

Step–3: Ascertaining the Types of Securities to be Issued

Securities are issued for raising long term funds debentures, equity shares and preference shares can be issued to raise these funds. The type of security to be issued and its appropriate proportion should be properly ascertained for effective financial planning.

Step–4: Formulating Financial Policies

Financial planning involves the formulating of policies related to cash control, lending and borrowing and various other financial activities. These policies aid in making important decisions relating to the capital administration and also helps to achieve co-ordination in various financial activities of the firm.

Q68. Explain organizational plan with reference to ownership structure.

Answer :

Organizational plan is a part of business plan which describes form of ownership i.e., proprietorship, partnership etc. Soon after the project formulation and selection stage is completed along with form of financing, the entrepreneur needs to give a serious thinking about the legal form of an enterprise, as and when the entrepreneur wishes to raise a loan, a banker, financial institution and private lender will be interested in knowing the form of ownership, i.e., the entrepreneur needs to decide which form of enterprise to start depending upon factors like capacity to take decisions, risk bearing ability, economic soundness, educational attainment. The ownership structure includes different forms of business organizations. They are,

1. Proprietorship
2. Partnership
3. Company and
4. A cooperative society.

Selection of an Appropriate Form of Ownership Structure

The selection of an enterprise is like looking for a shirt that may fit everybody in the family, as every form of ownership has its own advantages and disadvantages, the best form of ownership is the one which helps the entrepreneur to achieve the business objectives. So, while choosing the best form of ownership structure, the entrepreneur should keep the following things in his/her mind.

1. **Nature of the Business**

The selection of an enterprise suitable for the business depends upon the nature of the business. For example,

(a) Business that requires the personal attention and skill for the success are usually established as proprietary/sole proprietorship firms/concerns.

(b) Business requiring pooling of funds and skills are usually established as "*partnership firms*".

(c) Firms involved in the large scale production are the "*Company*" form of ownership.

2. **Area of Operation**

The area of operation also helps in the selection criteria of form of business ownership. If the firms business is limited or restricted to a particular locality or area then the proprietorship form of business is said to be suitable for the enterprise. If the business is large and widespread catering to the needs of national and international market then "Company" form of business is suitable for the firm.

3. **Degree of Control**

If direct control over the operations of the business is required then the proprietorship business is suitable and if direct control is not required then 'company' form of ownership is best 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 best suitable.

5. **Risk and Liability**

If the entrepreneurs can bear the risk individually then one can organise the firm in the form of sole proprietorship and if one can't handle the risk involved in business, then He/She can go for a company where risk is limited to the shareholder's liability in the company.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

6. **Period of Business**

If the business is run on a temporary basis for limited duration, proprietorship or partnership are better form of business ownership. If in case, the business is run on the permanent basis, company or cooperative form of business are best suited as they enjoy perpetual succession.

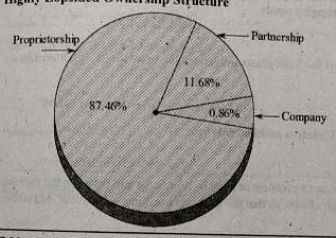
7. **Government Regulations**

If the entrepreneurs does not want any Govt. intervention in their business then, proprietorship or partnership form can be selected instead of cooperative and company based ownership where the Govt. applies more rules and regulations.

Ownership Pattern in Small-scale Enterprises in India

Ownership pattern	Percentage
Sole proprietorship	87.46
Partnership	11.68
Company	0.86
Total	**100.00**

Highly Lopsided Ownership Structure



Q69. Explain the various elements of an operational plan.

Answer : Nov./Dec.-19, (R15)(A), Q5(b)

The elements of any operational plan are as follows,

1. Clear an measurable objectives
2. Goals supporting the objectives
3. Accountability and time frames
4. Financial performance
5. Progress tracking.

1. **Clear and Measurable Objectives**

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

2. **Goals Supporting the Objectives**

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

3. **Accountability and Time Frames**

Clear responsibilities should be assigned to the people and a deadline/time frame should be set to achieve each objective and goal.

4. **Financial Performance**

It is also essential to check how the changes in each project goal or expenses related to each goal has an impact on the financial. Planning should be done in advance regarding the actions to be taken if the actual results start diverting unexpectedly.

5. **Progress Tracking**

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

1.11 LAUNCHING FORMALITIES

Q70. Explain how entrepreneurs launch the various plan of business.

Answer :

If the entrepreneur has decided to set-up a business, then he/she should formulate a business plan. A business plan gives a clear view of how to create business. At this point, feasibility study will provide essential information necessary for business plan. Though planning is an easiest part, it requires sufficient time and efforts and also commitment and dedication. In contrast to planning, implementation of plan is quite more a difficult task. Many entrepreneurs experience problems or failure due to improper execution of business plan.

Before the formal launch of the business, the entrepreneur need to formulate and implement a good business strategy.

'Steiner and Miner' have defined the strategy implementation as, "the implementation of policies and strategies is concerned with the design and management of systems to achieve the best integration of people, structures, processes and resources in reaching organizational purposes".

Process of Strategy Implementation by the Entrepreneur

Strategy implementation includes the following three steps,

(i) Operating the strategy throughout the enterprise. The entrepreneur can accomplish this through.
- ❖ Coordination of long-term objectives with current targets of the enterprise.
- ❖ Directing the functional areas about the work to be done to implement the strategies.

(ii) Institutionalizing the strategy. This includes,
- ❖ Identifying structural alternatives like simple, functional, matrix, divisional etc.
- ❖ Deciding the leadership styles.

(iii) Controlling the strategy/strategic control.

Strategic controls aim at driving the enterprise towards its long-term strategic decisions and make the entrepreneur successful.

Scanned By Scanner Go

1.12 FACTORS INFLUENCE DISCOVERY

Q71. What factors influence the discovery or creation of opportunities? Describe the stages of creative problem solving.

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 technologies influence the creation of opportunities. The more the changes, the more will be the opportunities for entrepreneurs. The entrepreneurs can come up with new opportunities to bridge the technological gaps in the form of new products, markets, new production 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 regulatory changes implemented by the authorities leads to the creation of opportunities for entrepreneurs to fulfill the changing needs of customers.

3. Changes in social and Demographic Aspects

The changes in the family patterns, population, workplace diversity, perception towards entertainment, health results in the creation of new opportunities to the entrepreneurs to meet the 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 to the entrepreneurs.

Process of Creative Problem Solving

According to Guilford, there are four stages in the process of creative problem solving,

(a) Problem Recognition

In this stage, a problem is recognized. An entrepreneur recognizes a problem or need by noticing a gap between the current state and the desired state. The recognized problem is discussed with clients so that the problem becomes more clear and come into light.

(b) Generate an Idea

In this stage, the entrepreneurs generate the idea to solve the problem or to fulfill the need. To solve problem, entrepreneur collects information related to problem and finds out the causes of problem.

Entrepreneur gets many ideas in this stage. Each idea should be analyzed for its feasibility and cost in order to solve the problem.

(c) Developing a Solution

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

(d) Implement the Solution

In this stage, the solution is implemented. To make sure that the solution remains effective and viable, the entrepreneur lets the solution to pass through a structured system of follow-up.

(e) Evaluate the Solution

The final solution is assessed in this stage. Testing is carried out continuously to find the final solution. Entrepreneur checks whether there is any mistake in the implementation of the product/service and makes reassessment. Accordingly, new solutions are implemented.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

FREQUENTLY ASKED QUESTIONS AND IMPORTANT QUESTIONS

SHORT QUESTIONS

Q1. Define the concept of Entrepreneurship. May-19, (R16)(H), Q1(a)

OR

Define Entrepreneurship. REPEATED 2 TIMES

Answer :

For answer refer Unit-I, Q2. Nov./Dec.-19, (R15)(A), Q1(a)

Q2. Mention the different types of entrepreneur.

Answer :

For answer refer Unit-I, Q6. Nov./Dec.-17, (R15)(A), Q1(a)

Q3. What are the objectives of EDPs?

Answer :

For answer refer Unit-I, Q9. Sept.-20, R16(H), Q2(b)

Q4. Define a business plan. April-17, (R13)(A), Q1(c)

OR

Write about business plan. REPEATED 2 TIMES

Answer :

For answer refer Unit-I, Q11. Nov./Dec-19, (R15)(A), Q1(c)

Q5. Write types of business plans.

Answer :

For answer refer Unit-I, Q13. Nov./Dec.-19, (R15)(A), Q1(d)

ESSAY QUESTIONS

Q6. Explain about the entrepreneur and its types. Important Question

OR

What is meant by Entrepreneur?

Answer : Sept.-20, (R16)(H), Q1(b)

For answer refer Unit-I, Q18.

Q7. Explain the role of entrepreneurship or entrepreneurs in different fields. Important Question

OR

How does an entrepreneur contribute to the economy and society?

Answer : April-17, (R13)(A), Q3(b)

For answer refer Unit-I, Q21.

Scanned By Scanner Go

Q8. What are the phases of entrepreneurship development programmes? Sept.-20, (R16)(H), Q3(

Answer :

For answer refer Unit-I, Q24.

Q9. "An entrepreneur possesses certain entrepreneurial traits". Discuss. Important Question

OR

List the characteristics of a successful entrepreneur.

Answer : April-17, (R13)(A), Q3(

For answer refer Unit-I, Q26.

Q10. Discuss the points of differentiation between an entrepreneur and a manager. Important Question

Answer :

For answer refer Unit-I, Q31.

Q11. Explain the important techniques for generating new ideas. Important Question

OR

Explain the method of generating ideas.

Answer : April-17, (R13)(A), Q2(b)

For answer refer Unit-I, Q47.

Q12. What is a business plan? Discuss the nature and scope of business plan? Important Question

OR

Elucidate the various features of a business plan.

Answer : Nov./Dec.-17, (R15)(A), Q4

For answer refer Unit-I, Q53.

Q13. What do you mean by business plan? State the purpose of preparing a business plan. Discuss the content of a business plan. Important Question

OR

What are the objectives of writing a business plan?

Answer : Sept.-20, (R16)(H), Q4(a)

For answer refer Unit-I, Q56.

Q14. Explain the various steps involved in preparing a marketing plan.

Answer :

For answer refer Unit-I, Q65. Nov./Dec.-19, (R15)(A), Q5(b)

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

UNIT 2

Financing and Managing the New Ventures

Syllabus

Financing and Managing the New Ventures: Sources of Capital, Record Keeping, Recruitment, Motivating and Leading Teams, Financial Controls, Marketing and Sales Controls, E commerce and Entrepreneurship, Internet Advertising – New Venture Expansion Strategies and Issues.

LEARNING OBJECTIVES

- ✓ Various Sources for Capital.
- ✓ Concept of Venture Capital.
- ✓ Record Keeping, Record Keeping, Motivating and Leading Teams.
- ✓ Financial Controls and Sales Controls.
- ✓ E-commerce and Entrepreneurship.
- ✓ Internet Advertising along with its Concept Advantages and Disadvantages.
- ✓ New Venture Expansion Strategies and Issues.

INTRODUCTION

According to 'Prashant Jain'—"E-commerce is an exchange of business information using electronic formats, including Electronic Mail (E-mail), Electronic Bulletin Boards (EBBs) and Electronic Fund Transfer (EFT). E-commerce technologies are designed to replace traditional paper-based work flow with faster, more efficient and reliable communication between computers".

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 comprises of both the Business-to-Business (B2B) and Business-to-Consumer (B2C) transactions.

According to the 'Jane Koloski Morris, Editor, Venture Economics', "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 funding sources".

Internet/web advertising is a form of advertising that uses internet and world wide web so as to deliver marketing information and also to gain customers attention. Banner ads, email marketing, search engine result pages are some of the examples of web advertisement. The major advantage of this kind of advertising is information is not restricted to any particular geography or time. This form of advertising is also referred to as interactive advertising that uses interactive media (interactive Tv, mobile devices, internet) to promote the customer's buying decision.

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 activities undertaken by the company are aiming at achieving marketing objectives and working in the same direction. In marketing control, actual marketing performance of the company is compared against the standard budgeted marketing performance in order to find out the variance. If actual marketing performance is less than the budgeted marketing performance, corrective measures are taken to improve the actual marketing performance.

Scanned By Scanner Go

PART-A SHORT QUESTIONS WITH SOLUTIONS

Q1. List out the sources of capital. (Model Paper-I, Q1(c) | Nov./Dec.-19, (R15)(A), Q1(h))

OR

Mention the sources of capital for small business Nov./Dec.-17, (R15)(A), Q1(h)

Answer :

Sources of finance available to small scale enterprise are divided into two types. They are,

1. Internal sources
2. External sources.

1. Internal Sources

The sources which are available or raised within the business are called as internal sources. Some of the internal sources are owner's capital (equity), deposits and loans provided by the owners, the partners, the directors. The other internal source of raising funds is to take personal loans on her/his personal assets like provident fund, life insurance policy, buildings, investments and so on.

2. External Sources

External sources can be summed up as follows,

(i) Equity capital or personal funds
(ii) Loans from relatives and friends
(iii) Mortgage loans
(iv) Term-loans
(v) Subsidiaries.

Q2. Explain about E-commerce. (Model Paper-I, Q1(d) | Nov/Dec.-19, (R15)(A), Q1(f))

Answer :

According to 'Prashant Jain'—"E-commerce is an exchange of business information using electronic formats, including Electronic Mail (E-mail), Electronic Bulletin Boards (EBBs) and Electronic Fund Transfer (EFT). E-commerce technologies are designed to replace traditional paper-based work flow with faster, more efficient and reliable communication between computers".

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 comprises 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, extranets, intranets or some other networks.

Q3. Define Venture Capital. (Model Paper-II, Q1(c) | April-17, (R13)(A), Q1(f))

Answer :

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

According to the 'Jane Koloski Morris, Editor, Venture Economics', "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 funding sources".

Q4. Write internet advertising. (Model Paper-II, Q1(d) | April-17, (R13)(A), Q1(f))

Answer :

Internet/web advertising is a form of advertising that uses internet and world wide web so as to deliver marketing information and also to gain customers attention. Banner ads, email marketing, search engine result pages are some of the examples of web advertisement. The major advantage of this kind of advertising is information is not restricted to any particular geography or time. This form of advertising is also referred to as interactive advertising that uses interactive media (interactive Tv, mobile devices, internet) to promote the customer's buying decision.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q5. How do you advertise on the internet for free? Nov./Dec.-17, (R15)(A), Q1(f)

Answer :

Advertising over internet is called internet advertising. Internet is a cheap and fast means of advertising. At present most of the companies are using internet to promote their products. Internet bridges the gap between seller and customer. Sellers are able to maintain regular contact with customers by giving updates about new products. There are some websites, by using them one can advertise their products freely. Few of them are listed below,

1. Ebay
2. Monster
3. Wikipedia
4. Google adwords
5. Indeed etc.

Q6. Define motivation. Model Paper-III, Q1(c)

Answer :

According to Dubin, "Motivation is the complex force that keeps a person at work in an organization. Motivation is something that moves the person to action and continues him in the course of action already initiated".

According to Mc Farland, "Motivation refers to the way in which urges, drives, desires, aspirations, strivings or needs direct, control or explain the behaviour of human beings".

Q7. Marketing and sales control.

Answer :

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 activities undertaken by the company are aiming at achieving marketing objectives and working in the same direction. In marketing control, actual marketing performance of the company is compared against the standard budgeted marketing performance in order to find out the variance. If actual marketing performance is less than the budgeted marketing performance, corrective measures are taken to improve the actual marketing performance. The four inter-connected dimensions of marketing management job are planning, implementing, evaluating and controlling. On-going control and timely actions are very essential for successful implementation of marketing programmes. Marketing control leads to improvement in profitability and productivity lends of each and every marketing activity.

Sales Control

The entrepreneur need to have a good sales control system in place. The main aim of sales control is to answer questions relates to the product/service sales in the market.

A good sales control system answers questions such as how, when, where things went wrong. Further it provides corrective measures to boast the sales of the enterprise and achieve the business objectives set by the entrepreneur.

Q8. What are the new venture expansion strategies? Model Paper-III, Q1(d)

Answer :

The following are the various new venture expansion strategies,

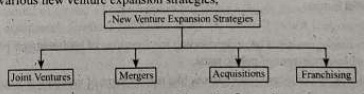


Figure: New Venture Expansion Strategies

Q9. What are the objectives of good layout? Nov./Dec.-19, (R15)(A), Q1(g)

Answer :

The objectives of good layout are as follows,

1. To minimize the handling cost by minimizing and controlling the material handling and transportation cost.
2. To eliminate the hurdles and points of overloading by making use of appropriate line balancing techniques. As this elimination, helps in transferring the raw materials and semi-finished goods easily from one work station to the other.
3. To provide adequate space and to establish proper locations for both production centres and service centres.
4. To minimize the waiting line of semi-finished goods.

Scanned By Scanner Go

Q10. Discuss the objectives of franchising. Nov./Dec.-19, (R15)(A), Q1(h)

Answer :

The objectives of franchising are as follows,

1. **To obtain Management and Technical Experience**
   The franchiser puts in a lot of handwork for the business to run before selling it. So this helps the franchisee to get an idea about local consumer's behavioural aspects and technical support provided by the franchise team, which is also a major objective of franchising.
2. **To Maintain Quality and Consistency**
   The other objective of the franchising is to maintain quality of the product and meet the demands in the market.
3. **To Increase Growth Opportunities**
   The objective of franchising a business is to develop new customer base and to grab new business opportunities.
4. **To Create Brand Recognition**
   The owner of the franchise sells his business to franchisee to spread its brand name in new markets and to minimize financial risks at the same time.

Q11. What is the difference between a joint venture and a consortium? Nov./Dec.-17, (R15)(A), Q1(g)

Answer :

he difference between joint venture and consortium are as follows,

S.No.	Basis	Joint Venture	Consortium
1.	Legal Entity	Joint venture is comprised with legal entity.	Consortium is not comprised with legal entity.
2.	Control	In this, management is controlled by itself.	In this, management is controlled by the members of consortium.
3.	Assets	It can acquire and dispose the assets on its name at the time of incorporation.	Assets are generally managed by the members of consortium.

Q12. Describe the location criteria for retail and service business. Nov./Dec.-17, (R15)(A), Q1(h)

Answer :

Location Criteria for Retail Businesses

The location criteria for retail businesses includes the following,

1. The location of the retail business must be at a close proximity to the target market.
2. It must be convenient for the customers to reach and must be safe and secure.

Location Criteria for Service Businesses

The location criteria for service businesses includes the following,

1. The location must have an image similar to the corporate image of the service company.
2. Location must be selected based on the size i.e., place should be huge which includes sitting arrangement of customers.
3. Location must provide competitive advantage to the company.

Q13. Give the role of public issue. April-17, (R13)(A), Q1(g)

Answer :

The role of public issues can be analysed by understanding the functions of lead manager of public issue. Following points may highlights the role of lead manager of public issue,

1. To structure the public issue by considering the factors like requirement of company's funds, Investor's expectation and other factors.
2. To submit the draft prospects to Security Exchange Board of India (SEBI).
3. To arrange underwriting by financial institutions, brokers and commercial banks.

Q14. What is a stock split? April-17, (R13)(A), Q1(h)

Answer :

Stock split is nothing but a giant stock dividend. A stock split is a change in the number of outstanding shares of stock achieved through a proportional reduction of increase in the par value of the stock.

The management employs this device to make a major adjustment in the market price of the firm's stock and consequently in its earnings and dividends per share. In stock split only the par value and number of outstanding shares are affected. The amounts in the common stock, premium and retained earnings remain unchanged.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

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 a small-scale enterprise to raise funds?

Answer :

Finance Model Paper-III, Q4(a)

Finance is the most important requirement for starting any business, organization or enterprise. It is always considered as 'life blood' for running any business activity. In order to fulfill the need and requirement of finance, various financial institutions are available or established in India to support enterpreurs in establishing and running enterprises. However, starting an enterprise is not an easy task to perform by a entrepreneur. He need financial support from various financial institutions along with resources and other facilities. Finance will help the entrepreneurs in acquiring land, labour, material, machine and other resources.

Need for Finance in a Business Enterprise

The need and importance of financial institutions to support entrepreneur is summarized in the following points,

1. For long-term fund to carry out business operations.
2. For acquiring resources like machines, raw material etc.
3. For expanding business in other regions.
4. For implementing latest technologies.
5. For competing and surviving in market.

Classification of Financial Needs

Financial needs are basically classified into two types as follows,

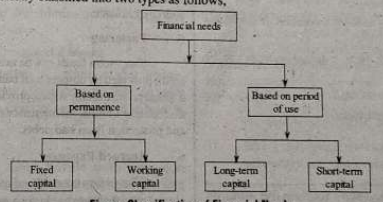


Figure: Classification of Financial Needs

1. **On the Basis of Extent of Permanence**

(a) **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, equipment, furniture etc. These assets are required for the long-term survival of a business as they remain with business throughout its life.

(b) **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 carryout day-to-day operations of a business.

2. **On the Basis of Period of Use**

(a) **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, term-loans, credit facilities from commercial banks, hire purchase and other financial institutions.

(b) **Short-term Capital**

Short-term capital is a borrowed 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 borrowings from friends and relatives.

Scanned By Scanner Go

Sources of Finance for Small Scale Enterprise

Sources of finance available to small scale enterprise are divided into two types. They are,

1. Internal sources
2. External sources.

1. Internal Sources

The sources which are available or raised within the business are called as internal sources. Some of the internal sources are owner's capital (equity), deposits and loans provided by the owners, the partners, the directors. The other internal source of raising funds is to take personal loans on her/his personal assets like provident fund, life insurance policy, buildings, investments and so on.

2. External Sources

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

(i) Deposits or borrowings from relatives, friends and others.
(ii) Bank borrowings for the working capital purpose.
(iii) Credit facilities from the commercial banks.
(iv) Term loans from financial institutions.
(v) Hire purchase or leasing facility from the NSIC (National Small Industries Corporation) and SSICs (State Small Industries Corporations).
(vi) Seed capital/margin money financial institutions government.

Broadly speaking, all these external sources can be summed up as follows,

(a) Equity capital or personal funds
(b) Loans from relatives and friends
(c) Mortgage loans
(d) Term-loans
(e) Subsidiaries.

Q16. What is short term finance? Explain the features and sources of short term finance.

Answer :

Short Term Finance

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

Features of Short Term Finance

The following are the 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. Its need arises when there is a gap between manufacturing of goods and attainment of sales.
4. It is required more by trading companies as compared to manufacturing companies.
5. It can be raised through trade credit, commercial banks etc.

Sources of Short-term Finance

A company can raise short-term working capital from the important sources of finance such as,

1. Indigenous Bankers

Indigenous bankers were private money lenders and other country bankers enjoying the monopoly power in the market. Indigenous bankers treat customers in unfairly manner and charge high 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 on credit basis and buyer makes the payment in future. It is easy and convenient way for raising funds.

3. Installment Credit

Installment credit is a short-term source of finance. In this method an asset is purchased by giving some down payment and the rest of the amount is paid on installments over a specified period of time.

4. Advances

Advances are obtained from customers and agents against orders. Companies use this advances as a short-term source of finance.

5. Factoring

Short-term funds can be raised from accounts receivable credit provided by commercial banks and factors. Factor is also a financial institution which provide different services such as discounting of bills, maintenance of sales ledger, credit control and protection from bad debts.

6. Accrued Expenses

When a firm takes advantage of the services provided but not yet paid for them are known as accrued expenses. Accrued expenses of a firm are wages, salaries, taxes and interest.

7. Deferred Incomes

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 and have goodwill in the market.

8. Commercial Paper

Commercial papers are issued for raising short term finance. Its maturity period is between 91 to 180 days. It is an unsecured promissory note issued by firm on discount and redeemable on face value in future date.

9. Bank Credit

Banks are the key sources of short term finance like commercial banks. They provide different sources of finance to the firms in order to meet their requirements such as loans, cash credits and overdrafts.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q17. What do you understand by short-term financial requirements of a business undertaking? Explain how commercial banks provide finance to meet these requirements.

Answer :

Short-term Finance for Financial Requirement

Short-term finance is essential in order to meet the daily operating expenses and to maintain stocks of raw-materials, spare parts, consumable, work in progress and finished goods and book debts (like debtors balances and bills receivable). Basically working capital is required for the following,

1. Maintaining the stock of raw materials for a specific period resulting in continuous supply of raw material for the production process.
2. Maintaining the stock of work-in-progress for the gestation period of processing.
3. Maintaining the stock of finished goods for a particular period of time in order to fulfill the demands of customers in a consistent manner and urgent demand from few customers.
4. Providing credit facility to its customers for the purpose of marketing and competitive reasons.
5. Maintaining cash balances 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 customers 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 Credits

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 entire amount of the account.

3. Overdrafts

Overdraft is an agreement between bank and current account holder. In this, a borrower is allowed to withdraw more amount than his credit balance upto a specific limit. Operations of the overdraft are free with no restrictions. The borrower is required to pay interest on daily overdrawn balances.

4. Purchasing and Discounting of Bills

Purchasing and discounting of bills are one of the most important form of short time finance, in which borrower can get funds from banks without any collateral security. Bill of exchange is drawn by the seller on buyer of goods on credit. Bank purchase this bill and discount it on demand and credit the account of customer with bill amount less discount. Bank presents the bill to acceptor on date of maturity, but if it is dishonoured then customer must pay the bill amount and expenses incurred by the bank.

5. Letter of Credit

Letter of credit is introduced by the bank to meet the obligations of its customers upto a certain amount, when he fails to pay. Letter of credit is a guarantee given by banker to the suppliers on behalf of customer to honour a specified amount of bill.

Q18. Discuss about the role of financial institutions in developing entrepreneurship in India.

Answer : (Model Paper-III, Q4(b) | April-17, (R13)(A), Q7(a))

The following are the various other institutions which have taken initiative to support the startups/enterprises.

1. Small Industries Development Bank of India (SIDBI)

The Small Industries Development Bank of India (SIDBI) was basically set up as an apex institution for providing financial and non-financial assistance to tiny and small scale industries. SIDBI aims at promoting, financing and development of industries comprising mainly of small scale sector. Apart from this, it also coordinates the work of other development financial institutions.

The objectives of SIDBI are as follows,

(i) Taking initiative in developing and updating the existing technology and improving the sick units.
(ii) Enlarging the network of channels for promoting the products of SSI unit in both domestic and international market.
(iii) Promoting the industries which provide employment opportunities mainly in semi-urban areas and also checking the strength of people migrating from those areas in search of better jobs in higher order urban centres and metropolitan cities.
(iv) Initiating and taking up new projects.
(v) Improving the infrastructure for SSI units (Small Scale Industries).
(vi) Promoting the export of products and services.

2. Export Promotion Councils (EPCs)

EPCs were established with an aim to increase the promotion of exports of specific products. Some of the commonly known export-promotion councils are Cashew exports promotion council, Engineering export promotion council, Sports goods export promotion council, Textile export promotion council etc.

Scanned By Scanner Go

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

For promoting credit facilities to agriculture, small scale industries, cotton and village industries, handicrafts and other rural craft industries, NABARD came into existence after passing a bill in the parliament in July 12, 1982.

Functions of NABARD

The main functions of NABARD include,

(i) To provide credit facilities to the rural institutions.

(ii) Acts as an agent by undertaking the numerous activities of government and reserve bank.

(iii) Provides foreign assistance by mediating FDI in agricultural and rural developmental activities.

(iv) Refinances the credit amount issued to agricultural department, SSIs, village industries, handicrafts and so on.

(v) It also provide assistance in bringing improvement and development in the production and marketing operations.

4. 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 extension 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 towns construction.

(iii) To make a subscription of debentures and bonds issued by the State Housing and Urban Development Boards, Improvement Trusts and Development Authorities for housing and urban development programmes.

(iv) To finance the establishment of new industry for building material.

(v) To develop, create, help, integrate and offer consultancy services for designing and planning the works both in India as well as abroad.

5. Technical Consultancy Organization (TCOs)

TCO stands for Technical Consultancy Organization. It was started by the all India financial institutions IDBI, IFCI and ICICI in the seventies and eighties in collaboration with state-level financial and commercial banks to serve the consultancy needs of SSIs and new entrepreneurs. IDBI was the first one to start TCO in Kerala in 1972. Currently, there are 17 TCOs all over India. Out of 17, 9 are under IDBI, 5 under IFCI and 3 under ICICI. All the 17 TCOs cater to the needs of small and medium sized enterprises.

Functions of TCOs

The main functions of TCOs are,

(i) Conducting industrial potential surveys

(ii) Provision of technical, management and administrative assistance.

(iii) Providing assistance to entrepreneurs in modernisation, technical upgradation etc.

(iv) Providing assistance to sick units from conducting diagnostic studies to the actual implementation of rehabilitation scheme.

(v) Undertaking energy audit and energy conservation assignments

(vi) Conducting EDPs, entrepreneurship awareness campus, SEEUY training programmes and special studies on entrepreneurship.

(vii) Preparation of project report and feasibility studies.

6. Industry Associations (IAs)

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

Functions of IAs

The functions of IAs are,

(i) To educate the members of the industry to enhance their productivity and profitability.

(ii) To maintain fair competition within the industry.

(iii) To promote new entrepreneurs by giving emerging opportunities.

(iv) To promote co-operation among the members.

(v) To resolve the disputes and to promote ethical behaviour.

7. Non-Government Organizations (NGOs)

Non-Government Organizations (NGOS) are established voluntarily to provide assistance to the small and medium scale units. With the enforcement of 1991 small scale industrial policy, Government of India supported the assistance of NGOs to the SSIs. NGOs offer financial support, training programmes, legal advises, marketing support to SSIs.

8. Business Incubation for Entrepreneurship (BIEs)

For providing complete full-fledged information to the entrepreneurs even at the initial stage, Government establishes BIE. BIE provides the following facilities,

(a) Infrastructural administrative facilities

(b) Technical financial assistance

(c) Management guidance and monitoring.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q19. What is commercial bank? Discuss the different type of bank loans provided by commercial bank to the entrepreneurs.

Answer :

Commercial Bank

Commercial Banks are business enterprises which are involved in finances, financial instruments and provide financial services for a price which maybe in the form of interest, commission or a discount and so on. "They accept deposits of money from the public (savings), for the purpose of lending or investment (to meet working capital requirements or corporates)"-Banking regulation act 1949.

Types of Bank Loans by commercial Banks

Commercial banks play a vital role in providing short term and mid term finance to the entrepreneurs. The different type of bank loans provided by commercial banks to the entrepreneurs include the following,

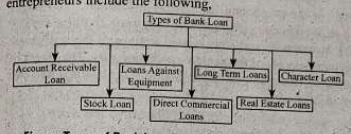


Figure: Types of Bank Loan Provided by Commercial Banks

1. Accounts Receivable Loan

Many commercial 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 extend 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 he possesses. Generally, commercial banks, finance upto 50 percentage of the value of the stocks. Banks are more inclined towards financing against finished stocks which are of liquid nature.

3. Loans Against Equipment

Entrepreneurs can avail long term and mid term loans (3 years upto 10 years) from commercial banks against heavy machinery and equipment. This is known as equipment financing wherein finances for the purchase of new equipment or against existing equipment. Generally, banks finance for heavy machinery and equipment upto 50 to 80 percentage of the value, depending on the saleability of the equipment.

4. Direct Commercial Loans

These are the simple loans provided by the commercial banks to the entrepreneurs for a period upto 90 days. Entrepreneurs avail these loans for seasonal financing, for building 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 period. The loan is repaid over a decided time period, as per a fixed interest amount and principal loan amount.

6. Real Estate Loans

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

7. Character Loan

It is also known as a personal loan. In case, the entrepreneurs business do not have any tangible assets which can be provided as a collateral security to the bank, the entrepreneur may go for a personal loan wherein his personal assets such as car, home etc is pledge as a security against the loan.

2.2 VENTURE CAPITAL

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

Model Paper-III, Q5(a)

OR

What is venture capital? Explain.

Nov./Dec.-19, (R15)(A), Q6(b)

Answer :

Definition of Venture Capital

According to National Venture Capital Association, "Venture Capital means money provided by professionals who invest alongisde management in young, rabidly growing companies that have the potential to develop into significant economic contributions".

According to the 'Jane Koloski Morris, Editor, Venture Economics', "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 funding sources".

A venture capital company is defined as, "a financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and rewards of the enterprise".

Concept of Venture Capital Financing (VCF)

The concept of venture capital financing started emerging in the post-1990 throughout the India. Venture capital financing has contributed significantly in the developed countries economy in small and medium scale industries specially in UK and USA.

It plays a dominant role in providing finance to SSIs and highly technical and riskier ventures. Venture capital is regarded as a synonym of 'risky capital'. The term venture capital can be understood in several ways. In a narrow sense, it implies, making investment in new and tried enterprises that suffers from inadequate growth.

In a broader sense, it refers to the process of undertaking capital by shareholders, for the purpose of forming and establishing SSIs specializing in new ideas or new technologies. It is not just about financing SSIs but at the same time providing the required skills to establish the business, design its marketing strategy, organise and manage it. It is considered as "the early stage financing of new and young enterprises seeking to grow rapidly". It therefore implies that the venture capitalist actively participates in the client's enterprise management.

Scanned By Scanner Go

Venture capital financing greatly emphasizes on high technology but it is not mandatory. There is a famous myth that high technology firms grab the major portion of US venture capitalist. But the reality is that the venture capitalists do not invest more in the high technology firms due to the presence of potential technical problems in the new business development process. It is undoubtedly 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 equity finance wherein the venture capitalists earns his return basically in the form of capital gains. The entrepreneur and the venture capitalist acts as partners in an enterprise. Thus, venture capital financing has proved to be a powerful mechanism in institutionalising the innovative entrepreneurship and emphasizes on growing the small industries into larger ones.

Features of Venture Capital

The features of venture capital are as follows,

1. Equity Participation

Venture capital financing is a real or potential equity participation via direct purchase of shares, options or convertible securities. The main intention is to make capital gains by selling-off the investment as soon as the organisation starts earning profits.

2. Long-term Investment

Venture capital financing is a long-term illiquid investment as it can't be easily converted into cash on demand. Venture capital firms need to wait for a lodger period of time i.e., at least 5-10 years to reap the benefits or gain from the investment.

3. Participation in Management/Hands on Approach

Venture capital financing ensures and facilitates greater role of venture capitalist in the enterprise's management. In this way the venture capitalist safeguards and increases his investment by actively participating and supporting the enterprise. Venture capitalists contributes not only finance but also his marketing, technical, planning and managing skills to the enterprise.

4. Co-promoter

Venture capitalist acts as co-promoter in the operations of an enterprise and shares the risks and rewards of an organisation.

5. Disinvestment

The venture capitalist disinvests his holdings either to the promoters or to the people in the market. The main criteria for disinvestment is not profit but capital appreciation.

6. Commercialisation of New Ideas

Venture capital firms provides finance only to those firms who are commercialising the new ideas or new technologies and not for those firms/organisations/enterprises which are involved in trading, booking, financial services, agency, liaison work or research and development.

7. Provides Assistance to Medium and Small-scale Industries

Venture capitalists not only provides financial assistance to medium and SSIs but also provides the other assistances which are required by an organisation. In other words, VC financing helps in regularly monitoring the functioning of the business.

In India, venture capital fund or financing is governed by the Securities and Exchange Board of India (SEBI). Venture capital funds framework thus can be described as a company or a trust to raise money/capital via loans, donations, issue of securities or units, and to make investments in new ventures according to the SEBI rule and regulations.

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

Answer :

Venture capital industry selects an investment on the basis of the stages and the type of investment. The stages of an investment varies and depends upon the time period, risk assumptions and other related features of the investment decision process of the venture capital industry. The stages of financing in the venture capital industry is classified into two broad categories.

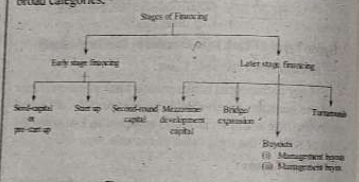


Figure: Stages of Financing

1. Early Stage Financing

The early stage financing comprises of the following.

(a) Seed-capital/Pre-start Up

Seed capital is the first stage of early stage financing wherein new ideas and concepts of the promoters form the basis of a pre-commercialisation research project which is mostly expected to result in a prototype which may or may not lead to the establishment of the business. This stage is basically an "applied research" phase and it moves towards the development stage further resulting in prototype product testing and ultimately to the commercialisation process. VCIs have to make sure while evaluating the project that the technical competencies of the entrepreneur are as per the specifications and standards required in the market.

This stage involves greater marketing risk. The promoter's commercial decisions such as making optimum utilisation of the market opportunity, knowledge about competition, product launch time etc., all these form the essential components of the appraisal. Higher levels of risk prevail at this stage. As a result, only few venture capital institutions makes the seed-capital investment in the pre-commercialisation stage of product development.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

(b) Start-up

Start-up stage of VC financing enables the commercial manufacturing to begin. Venture capitalists provides finance in this stage mainly for the product development and initial marketing. This stage holds greater significance because the product/service is commercialised for the first time in collaboration with the VCIs.

It comprises of different types of projects like,

(i) The greenfield projects which are either based on high technology or are new.

(ii) New business in which entrepreneur holds good knowledge about the work.

(iii) New projects by established companies.

(iv) A new company promoted by an existing company with scarce or meagre capital to commercialise new technology.

This stage indicates the availability of potential markets for the introduction of new product/service. The participation level of VCIs in start-up projects is usually less/minimal due to partial equity dilution syndrome which results because of two reasons firstly, promoter's resistance to the dilution of control of the business and secondly, due to the unavailability of the small amount of equity investment. The risk levels are also high.

(c) 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 attract new customers. The promoter has already invested his own funds in the business but also requires the funds from venture capital institutions. The time period is less when compared to start-up investment. The VCIs provides/makes huge investment at this stage than at any other stage. A part of financing is also done in the form of debt, in order to provide some income to them.

2. Later Stage Financing

Later stage financing includes already existing businesses which needs additional financial support but cannot make public offerings. It includes the following,

(a) 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 that enough to make public offerings and raise money from the capital market/conventional sources. Venture capital financing helps in purchasing new plant and machinery, widening the marketing and distribution facilities, refinance of an existing debt, capturing new areas, establishing new management and so on.

The development capital is usually provided for a time period of one to three years and holds medium risk level. It forms an important part of venture capital institution's activities.

(b) Bridge/Expansion

Bridge or expansion capital is financed for a period ranging from one to three years and holds lower levels of risk. Bridge capital or expansion capital is used for expanding business by growing their own productive assets or by acquiring other firm's assets. In simple words, it depicts the last round of financing before a planned exit.

(c) Buyouts

Buyouts means transfer of management control. Buyouts are basically of two types,

(i) Management Buyouts (MBOs)

In MBOs, venture capital institutions provides finance to allow smooth functioning of the business and helps the existing operating management and the investors to acquire an existing product line or business. They form an important part of VCIs activities.

(ii) Management Buyins (MBIs)

MBIs are the funds which are offered to allow an outside group or a third party usually managers to form a group and buy an ongoing company. MBIs pull in together three important elements,

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

Management buyins are not popular as management buyouts. Basically, MBIs are more riskier than MBOs because of the difficulty faced by the outside management to judge the real potential of the target company. Mostly, MBIs target the weaker or underperforming companies.

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

(d) Turnarounds

Turnarounds are a sub-set of buyouts and includes buying the authority or control of a sick company. Turnarounds need two types of inputs, 'money' and 'management'. The venture capital institutions need to recognise good management and operation leadership. Turnarounds have medium to high levels of risks and their time period ranges from three to five years. Turnarounds are becoming popular day by day and are being accepted on large scale and draws major part of VCIs attention.

Thus, it can be concluded that venture capital institutions provide finance to both early as well as later stage investments in order to maintain a trade-off between risk and probability. In case of early stage investment, specially in the start-up stage of highly technical industries, the technology is not tried commercially, market is not developed and potential competition doesn't exist as the product is new. Besides, evaluation of the technology and the market, the most essential factor to be taken in account by VCIs is the ability or competency of the promoter/entrepreneur to follow the project with a reasonable chance of success.

Scanned By Scanner Go

In later stage investments, the technology is tried commercially, market is developed, the product have been introduced in the market and the entrepreneur keeps the record of it which is critically evaluated/examined by the venture capital institutions.

Q22. Discuss about various methods of Venture Capital Finance (VCF) evaluation.

Answer :

Venture Capital Investments (VCI) are mostly idea-based and growth-based unlike the conventional investments which were asset-based investments. The conventional investments were evaluated on the basis of tangible assets/future earnings streams whereas the venture capital investments are evaluated on the basis of nature of things evaluated differently in order to decide the required venture capital percentage ownership of the VCIs in venture capital undertaking. The following are the evaluation methods.

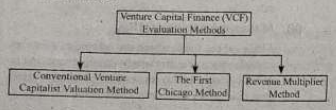


Figure: Venture Capital Finance (VCF) Evaluation Methods

1. Conventional Venture Capitalist Valuation Method

Conventional venture capitalist valuation method of Venture Capital Undertakings (VCUs) or investee companies considers two important factors in venture capital investments life-time, first one the *starting time of investment* and second one, *the exit time of investment* wherein the investment would be converted into cash via sale to third party. The following steps are followed in valuation of venture capital undertakings and determination of the percentage share ownership of the venture capital institution and investee companies,

(i) Firstly, the annual revenue at the time of liquidation is calculated. In order to calculate the annual revenue, the present annual income/revenue in the starting is compounded by an expected annual growth rate for the specific holding period say, seven years.

(ii) Secondly, the expected earnings level is computed by multiplying the future earnings level with after tax margin percentage at the time of liquidation.

(iii) Thirdly, compute the future market valuation of the venture capital undertaking by multiplying the earnings level with expected P/E ratio on the liquidation date.

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

(v) If the present value is say, for example ₹1 crore and the entrepreneur needs only ₹ 40 lakhs as the venture capital then the minimum percentage of ownership is two-fifth i.e., 40 percent.

The drawback of conventional venture capitalist valuation method is that it does not take into consideration the existence of earnings or the earnings stream during the entire period and gives more importance to the exit date.

2. The First Chicago Method

The first Chicago method is a better one and an improved one when compared to the conventional method of valuation because it allows nature and path between the starting point and the exit point and also consider the complete earning's stream.

This method includes the following steps,

(i) The three alternatives namely, 'success', 'sideways survival' and 'failure' are considered. All the three alternatives are assigned with certain probability rate.

(ii) Calculate the discounted present value of the venture capital undertaking by using a discounted rate. Usually, the discounted rate is higher than the risk rate.

(iii) Multiply the discounted present value with the respective probabilities. The resultant of the sum of the three alternatives is equal to the expected present value.

(iv) If the expected present value of the VCU is ₹ 10 crore and the fund required from the VCIs is ₹ 5 crore, then the minimum ownership required is 50 percent.

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 that factor the annual revenue of the company is calculated or assessed by the VCIs. Symbolically, it can be represented as follows,

$$M_t = \frac{V}{R} = \frac{(1+r)^n (a)(p)}{(1+d)^n}$$

Where,

V = Present value of the VCU

R = Annual revenue level

r = Expected annual rate of growth of revenue

n = Expected number of years from the starting date to the exit date (holding period)

a = Expected after-tax profit margin percentage at the time of exit

p = Expected price/earnings (P/E) ratio at exit time

d = Appropriate discount note for a venture investment at this stage, risk and other relevant factors.

The revenue multiplier method is usually used in the early stage/start-up venture capital investments when the earnings, based on after-tax profits, may be low/negative in the starting years but the income/sales revenue would exist. This method needs data which may or may not be present in India which is in its developing stage at this level of VCFs growth. In cases, where it is not possible or difficult to use revenue multiplier method, the first Chicago method yields good and better results than the conventional valuation method.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q23. Explain the structuring of venture capital financing.

Answer :

Structure of VC Financing

The structure of venture capital financing refers to the different types of financial instruments through which venture capital investment is made. The structure of venture capital financing is flexible in nature due to the presence of large number of financial instruments. The financial instruments of a venture capital investment are primary divided into two. They are,

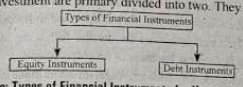


Figure: Types of Financial Instruments for Venture Capital Financing

I. Equity Instruments

Equity instruments are provided by almost all the venture capital financial institutions. Usually, they do not contribute more than 49% of the total equity capital. When the venture capitalist contributes in the form of equity, he gains the status of an owner and is responsible to bear the profits and losses equal to the amount he invested. Venture capitalists can benefit through capital gains when the venture is successful and may also suffer losses when the venture fails. Venture financing is thus a risky business.

Types of Equity Instruments

Equity instruments are of different types,

1. **Ordinary Equity Shares**
   Equity shares are entitled to dividend and capital after the payment of dividend 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 high rates of dividend but has no voting rights.
3. **Deferred Ordinary Shares**
   The ordinary share rights are delayed for a 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 Ordinary Shares**
   Along with the voting rights, preferred ordinary shares also holds modest fixed dividend rights.
5. **Equity Warrants**
   Equity warrants allows the investors to invest in debentures or bonds to get ordinary shares at a future date.
6. **Preference Shares**
   These are the shares which holds a preferential right over the equity shares with respect to the dividend. This preferential right is also applicable at the time of payment of capital, winding up or repayment of capital. The different types of preference shares are cumulative and non-cumulative, redeemable and irredeemable, participating and non-participating and convertible and non-convertible.
7. **Cumulative Convertible Preference Shares**
   These shares are converted into equity shares after a certain period of time.
8. **Participating Preference Shares**
   Participating preference shares are entitled to an extra dividend which is paid after paying off the dividend to the equity shareholders.
9. **Cumulative Convertible Participatory Preferred Ordinary Shares**
   They enjoy the benefits of both the preferred dividend and cumulative as well as participative features.
10. **Convertible Cumulative Redeemable Preference Shares**
    These shares have two basic features,
    (a) Conversion into equity at certain point of time and
    (b) Redeemability on the expiry of certain period of time.

    In the form of preference dividend a fixed coupon rate is applicable on the redeemable shares. Out of the equity instruments, the equity warrants, non-voting equity shares and cumulative convertible participating preferred ordinary shares may be used for venture capital financing.

II. Debt Instruments

Debt instruments are used by an entrepreneur to hold back his control over management. A debt instrument is one of the kind of documented financial obligation that describes a debt that is assumed by the issuer of the document. Basically, the debt instrument commits the issuer to reimburse the debt according to the agreed terms between the buyer and the seller. Few debt instruments are the conventional loans, income notes, non-convertible debentures, partially convertible debentures, fully convertible debentures, zero interest bonds, secured premium notes and deep discount bonds.

1. **Conditional Loan**
   Conditional loan is a type of loan whose repayment schedule and interest rate are not decided or fixed before. The suppliers of conditional loan recovers a certain percentage of sales towards the repayment of principal as well as revenue usually in 50-50 ratio. The charges on sales is called as royalty. The investor either gains or losses, depending upon the level of actual sales i.e., either high or low than the estimated sales. Thus, the conditional loans are, 'quasi-entity' instrument.
2. **Conventional Loans**
   Conventional loans are as per the needs of venture capital financing. In the starting years, the rate of interest charged is less but gradually increases as soon as the production activity starts. Besides interest, a small amount of royalty is also in order to cover up the interest foregone in the starting years. Even though the principal amount repayment is decided in advance, VCIs mostly does not give more importance to mortgage or other security.

Scanned By Scanner Go

3. **Income Notes**

Income notes lies between conventional and conditional loans and has a low rate of interest with some royalty on sales. The principal amount's repayment is made according to a stipulated schedule.

4. **Non-convertible Debentures (NCDs)**

NCDs have either a constant or variable rate of interest which are redeemable either at par, premium or secured and can be cumulative or non-cumulative in nature.

5. **Partly Convertible Debentures (PCDs)**

PCDs basically have two parts,

- A convertible portion and
- A non-convertible portion.

- The convertible debentures are converted into equity shares either at par or premium. The non-convertible debentures earns interest till the debentures are redeemed at par. These debentures are best suitable for second round of venture capital financing.

6. **Zero Interest/Coupon Bounds/Debentures**

Coupon bonds are either convertible or non-convertible with zero or no interest rate. The non-convertible bonds can be sold off at a discounted rate before their maturity date, while the convertible debentures are converted into equity shares at a prescribed date and time. They are highly flexible in nature and are most suitable for the later stage of venture capital financing.

7. **Secured Premium Notes**

Secured premium notes are secured, redeemable at a premium either in lumpsum or instalments with zero rate of interest and carry a warrant against which equity can be obtained. 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 discount of their maturity value. Due to long periods of maturity, this instrument is not suitable for venture capital financing.

Q24. Write about angel investors.

Answer :

An entrepreneur with a very good business idea may opt for angel investment to finance the new business.

Angel investment is a new concept in India. Angel investors are basically the business entities who have achieved success and are now willing to provide funds to those persons who have new ideas to start business 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 as "Angle 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 mentorship along with the funds.

Angel investors play an important role in supporting the new ventures. Government is also encouraging business startups towards such activities and providing tax concession. If an angel invester is investing individually, then legal registration is not required for such investor. If angel investors are coming in a group, then registration with securities and exchange board of India (SEBI) is compulsory.

As per SEBI crieterian, an investor should possess minimum threshold of ₹ 2 crores as tangible assets excluding his primary residence. These investors can make investment only in the companies that are incorporated in India.

The angel investors follow the following steps while investing in the new business of an entrepreneur,

1. Investment motivators: Angel investors make investments for various purposes such as to make money from investments, to learn new thing, to help the community, to work with private companies and to find a job etc.
2. After identifying the investments motivators, investment criteria are set.
3. Deals are determined.
4. Initial screening is carried out.
5. Due diligence.
6. Actual investment and negotiation take place.
7. Monitoring is carried out after making investment.
8. Existing and realising returns.

2.3 RECORD KEEPING

Q25. What is record keeping? Write its necessity.

Model Paper-III, Q5(b)

OR

What is the necessity of record keeping? Discuss.

(Refer only Topic: Necessity/ Importance of Record Keeping)

Answer : Nov./Dec.-19, (R15)(A), Q7(b)

Record Keeping

Record keeping refers to the process of maintaining and storing business related records. Such record keeping may be related to government mandated records such as, tax records, G.S.T files and so on, or it may be related to the financial records of the firm such as balance sheet cash flow statements, inventory management records etc.

It is advisable for the entrepreneur to use software packages available in the market, which would help him to maintain different records chronologically and in an orderly manner. In case of a quick gaining enterprise, the entrepreneur may need the services of professional financial controllers such as chartard accountants, accountants, tax consultants and so on. These financial professions, could not only facilitate the enterprise to maintain the required record keeping but also help the enterprise by training the firms employees about the usage of the most appropriate technologies to be used henceforth. The entrepreneur should take the record keeping of the customers

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

database seriously. An efficient and effective customer data base need to be maintained. Such data base would help the firms marketing department to finalize about the enterprises target audience, the type of marketing programs to be employed and so on. Further maintaining detailed records about marketing, financial and organizational information would be very helpful in times of emergencies. For example, if the marketing head of the firm suddenly expires in an accident, the enterprise marketing functions would not be drastically effected if proper and detailed records are maintained.

It may be concluded that the entrepreneur need to provide good attention towards maintaining efficient and effective record keeping of the different department of the enterprise.

Necessity/Importance of Record Keeping

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

1. It helps the marketing department of a company to finalize 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. If facilitates in identifying the frauds which occurred in the business organization. Accordingly, necessary precautions can be taken to avoid the frauds.
4. It is useful in comparing the results of business every year.
5. It helps the business firm to effectively monitor its operations with the help of financial record. Therefore, financial records are considered as "the eyes and ears 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?

Answer : Model Paper-I, Q4(a)

Definition of Recruitment

"Recruitment is the development and maintenance of adequate manpower resources. It involves the creation of a pool of available labour upon whom the organization can depend when it needs additional manpower".

– Dale S. Beach

"Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization".

– Edwin B. Flippo

Objectives of Recruitment

Objectives of recruitment can be studied as follows,

1. To provide the organization with a pool of potential and skilled human resources (Example: Job applicants).
2. To forecast the human resource requirements of the organization using various statistical and other tools.
3. To increase the number of job applicants at reduced cost.
4. To align the recruitment process with the strategic goals of an organization.
5. To use effective recruitment tools and techniques so that more number of aspirants can be recruited which helps in increasing the efficiency of selection process.
6. To recruit the people from every class/level of the society (Example: Minorities, physically challenged, women etc.) so as to have a diversified workforce.

Process of Recruitment

The process of recruitment consists of five steps. They are as follows,

Figure: Process of Recruitment

Step-1: Recruitment Planning

The first step of the recruitment process is planning. The HR department must collect the data about the number and type of vacancies available. Planning involves the setting of specific targets for a specific job, depending upon the number and types of applications to be collected and recruited. For example, a company may call 100 candidates, to fill two vacant posts by fixing the yield ratio as 50% which states that out of 50 candidates only a single competent and potential 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 (campus job fairs etc.,)

(ii) How to look for (internal and external sources)

(iii) When to look for (perfect timing).

Step-3: Searching

This is the third step of recruitment process. The search for a candidate begins only after the line manager communicates that there is a vacancy or there would be a vacancy in the future.

Scanned By Scanner Go

Searching involves selecting and screening of potential candidates. It is also important to select the right medium of advertisement as it reflects the company's image. For example, a company advertising in a reputed business magazine may be able to build a strong image in the minds of the customers than those advertising in local magazines.

Step-4: Screening for Potential Candidates

Screening is the fourth step in the recruitment process. Some researchers considered screening as the first step of selection. Whereas, others argue that the selection process begins only after the candidates are shortlisted through recruitment.

Step-5: Evaluating and Controlling

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

(a) Cost of advertising in newspapers, magazines, on-line agencies For example, naukri.com, monster.com etc.

(b) Salaries paid to the recruiters.

(c) Cost of outsourcing the job till the post is filled.

(d) Administrative and overhead expenses.

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

Answer :

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

(a) Effectively execute 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 step for the entrepreneur is to create and align the business culture with the core business strategy. He is required to recruit the right set of personnels. The team leaders and managers in the enterprise need to be individuals with a positive outlook, high morale and need to act as, role models for others in the organization. A good case in point is the U.S. based consumer software company "Babbage Inc", the founding entrepreneur, Gary Kusin travelled to the firms 200 stores and personally met more than 2500 employees, the aim was to provide the employees first hand knowledge about the company's culture, its core value and to reinforce the belief that the top management fully supports and practices the established entrepreneurial culture.

Apart from recruiting the suitable personnels, the entrepreneur need to display traits of flexibility and be ready to try new and innovative ways of doing things. A good case in point is google incorporation which started as a small enterprise. The management believed in the employees and provided them the flexibility to work how they though best and make independent decision. The former C.E.O of Apple incorporation, Steven Jobs also believed in this approach. He moved his employees, to a separate building where they were allowed to work independently for long time periods towards developing the best electronic gadgets.

Finally, the most important ingredient of a successful entrepreneur is to possess the eye to recruit the best personnels. The hiring process need to be lengthy and focus towards, hiring people with strong character and need to fit in with the job description and job specification as required 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 :

Motivation

According to Dubin, "Motivation is the complex force that keeps a person at work in an organization. Motivation is something that moves the person to action and continues him in the course of action already initiated".

According to Mc Farland, "Motivation refers to the way in which urges, drives, desires, aspirations, strivings or needs direct, control or explain the behaviour of human beings".

Theories of Motivation

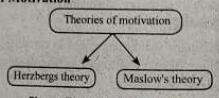


Figure: Theories of Motivation

1. Herzbergs Theory

Frederic Herzberg extended the work of Maslow and developed a specific content theory of work motivation.

A research study was conducted which consisted of an intensive analysis of the experience and feelings of 200 engineers and accountants in and around Pittsburgh, USA. He asked the people to describe in detail situations when they felt exceptionally good and bad about their jobs. From the categorized responses, Herzberg concluded that the replies people gave when they felt good about their jobs were significantly different from the replies given when they felt bad.

Tabulating these reported good and bad feelings, Herzberg concluded that "job satisfier" are related to "job content" and "job dissatisfiers" are called to "job context".

Herzberg labelled the "Satisfiers" as "Motivators" and "Dissatisfiers" as "Hygiene factors".

Taken together, the motivators and hygiene factors have become known as "Hygiene two factor theory of motivation".

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Hygiene Factor

The hygiene factors are preventive and environmental in nature and they are roughly equivalent to Maslow's lower-level needs. These are not intrinsic parts of job, but they are related to conditions under which a job is performed. They produce no growth in a workers output, they only prevent losses in workers performance due to work restrictions.

These maintenance factors are necessary to maintain a reasonable level of satisfaction to the employees, however, any cut below this level will dissatisfy them. Since any increase in these factors will not affect employees level of satisfaction, these are of no use for motivating them.

"Any increase in these hygiene factors will not make any difference but any decrease in these factors will decrease the motivational level of employees".

Hygiene factors are as follows,

(i) Company policy and administration
(ii) Technical supervision
(iii) Interpersonal relationship with supervisors
(iv) Interpersonal relationship with peers
(v) Interpersonal relationship with subordinates
(vi) Salary
(vii) Job security
(viii) Personal life
(ix) Working condition
(x) Status.

Motivational Factors

These factors are capable of having a positive effect on job satisfaction often resulting in an increase in one's total output. Most of these factors are related with job contents.

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

(i) Achievement
(ii) Recognition
(iii) Advancement
(iv) Work itself
(v) Possibility of growth
(vi) Responsibility.

The motivation seekers generally are individuals who are primarily motivated by the 'satisfiers' such as advancement, achievement and other factors associated with work itself.

Critical Analysis of Motivation

(a) Herzberg's procedure is limited by its 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 can only be made on the basis of level of person's need satisfaction and relative strength of various needs.

(d) The reliability of Herzberg's methodology is questioned. Since raters have to make inter- relationship, it is possible that they may contaminate the findings by interpreting response differently.

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

(f) The theory is inconsistent with previous research, the motivation hygiene theory ignores situational variables.

2. Maslow's Theory

Content theories are concerned with identifying the needs/drives that people have and how these needs/drives are prioritized. They are concerned with the types of incentives or goals that people strive to attain in order to be satisfied and perform well. They are referred to as "Static" because they incorporate only one or few points in time and are either past or present time oriented.

Maslow said that the behavior of an individual at a particular moment is usually determined by this strongest need. He has identified five levels in his need 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 provide him with little motivation.

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 preservation. These needs may take considerable importance in the context of the department relationship of employees to employees. Employees attitude towards security is an important consideration in choosing a job, security aspects may include pension plan, insurance plan etc.

3. Social Needs

When these above two needs are satisfied, social needs become important in this hierarchy. Since man is a social being, he has a need to belong and to be accepted by various groups. People will strive for meaningful relations with others. If this opportunity is reduced, men often take vigorous action against the obstacle, to social inter course. Workers form informal groups for support of unfulfilled social needs such as affiliation.

Scanned By Scanner Go

4. Esteem Needs

These needs are concerned with self-respect, self-confidence, feeling of personal worth, feeling of being unique and recognition, satisfaction of these needs produce feelings of self-confidence, prestige, power and control.

5. Self-actualization Needs

This is the need to maximise one's potential, whatever, it may be. It is related with the development of intrinsic capabilities which lead people to seek situations that can utilise their potential. This includes competence which implies control over environment factors, both physical and social and achievement. A man with high intensity of achievement needs unless he can find fulfillment in doing so.

Critical Analysis of Maslow's Theory

1. A man's needs order may not follow Maslow's need hierarchy.
2. Some people may be deprived of their lower order needs but may try for self-actualising 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 form part of their own need hierarchy.
5. There is often a lack of direct cause-effect relationship need and behaviour.
6. This theory may find problem in applying the theory into practice.

Q29. Is motivation compulsory? Explain in detail about Victor Vroom's theory of motivation.

Answer :

Yes, motivation is compulsory and important as it is one of the factors which helps in influencing the performance of the individuals. For effective utilization of organizational facilities 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 behaviours.

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 revealed that motivated employees make use of 80 to 90 percent of their abilities.

For an organization to become successful, it should have high performancing 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 absenteeism is also very low. It takes number of years to recruit, train and develop several new personnel into a working team. This also influences the organizational reputation adversely.

3. Accepts Organizational Changes

Organizational are established in a society and in today's rapidly changing environment for dealing with the changes in society, it is very essential for an organization to include changes. But, many employees in an organization resist change because of which change is not accepted in an organization. So, the employees should be motivated, as motivated employees accepts, initiates and executes changes for maintaining the organization on a right track.

Victor Vroom's Theory of Motivation

Victor Vroom's expectancy theory is based on motivation process. Various theories which are based on motivation process are more concerned with the cognitive antecedents that go into motivation or effort and the way they relate to each other.

Vroom's model is built around the concepts of value, expectancy and force. Its assumption is that "the choice made by a person among alternative courses of action is lawfully related to psychological events occurring contemporaneously with the behaviour.

According to Vroom, people will be motivated to do things to achieve some goals to the extent that they accept that certain actions on their part will help them to achieve the goal.

Motivation force = S Valence × Expectancy × Instrumentality

Vroom's model is built around the concepts of Valence, Instrumentality and Expectancy and is commonly known as V.I.E theory.

1. Valence

Valence means the strength of an individuals preference to a particular outcome. It may be incentive, attitude and expected utility.

- For the valence to be positive, the individual must prefer attending the outcome to not attending it.
- For the valence to be zero, the individuals are indifferent towards the outcome.
- For the valence to be negative, the individual prefers not attaining the outcome to attaining it.

2. Instrumentality

It refers to the degree to which a first - level outcome will lead to a desired second level outcome. Therefore, the strength of the motivation to perform a certain act will depend on the algebraic sum of the products of the valences for the outcomes (which include instrumentality) times of expectancy.

3. Expectancy

It is the probability that a particular action will lead to the outcome. Expectancy is the probability that a particular action will lead to a particular first level outcome. The strength of motivation to perform a certain act will depend on the sum of the products of the values for the outcomes times the expectancies.

Example

If an individual desires promotion and feels that superior performance is a very strong factor in achieving that goal. Then his 1st level outcome will be superior, average or poor performance. His 2nd level outcome will be promotion.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Implication of the Theory

1. Vroom clarifies the relationship between individuals and organizational goals.
2. Instead of assuming that satisfaction of a specific need is likely to influence organizational objectives in a certain way, we can find out how important to the employee are the various-second-level outcomes (goals), the instrumentality of various 1st - level outcomes (organizational objectives) for their attainment and the expectancies that are held with respect to the employees ability to influence 1st - level outcomes.

Thus Vroom's theory proposes that a managers job is to design an environment for performance, necessarily taking into accounts the differences in various situations.

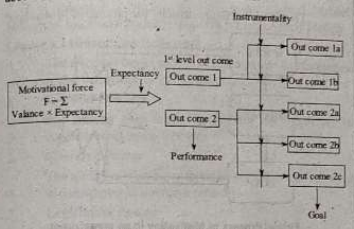


Figure: Vroom's Theory of Motivation

Q30. Define the term teams and team work. What are the characteristics of successful teams? What factors are motivating team work?

Answer :

Teams

A group of individuals having compatible skills working together for attaining a common goal is called as team. Teams plays a very important role in the success of an organization and are regarded as the building blocks of an organization. For making the teams effective, the culture, processes, systems and relationships within the teams should be managed.

Teamwork

Teamwork is an activity in which the individuals work together as a team. In the teamwork, all the members of the team work collaborately for the good of the team. Teams and teamwork are regarded as the foundations of organization development. Good team work at Motorola had helped in producing best selling cellular phones.

Thus, effective teams helps in generating results which are beyond the performance of unrelated individuals.

Characteristics of Successful Teams

The following are the characteristics given by Larson and Lafasto for successful teams,

1. The goals of the teams should be clear and preferable.
2. Teams must have a result oriented structure.
3. All the members of the team should be skillful and talented.
4. All the team members should have a unified commitment towards the set goal.s
5. Teams should have a collaborative climate.
6. All the team members should aim for the standards of excellence.
7. The team members must receive external support and recognition in the teams.
8. There should be high minded and honest leadership in the teams.

Thus, for achieving superior team performance, all the above characteristics should be present in the system. If any of the characteristic is missing in the team, then it leads to declining performance.

Important Factors that Motivates Teamwork

The following are the important factors that motivates team work,

1. Collaboration

Employees basically takes up the learning process quickly and without hestitation when they are working in a team.

2. Cordial Working Environment

It vests equal power to all the members which results in cordial working environment.

3. Resolving Issues

Inter personal and inter communication problems can be resolved and prevented to a great extent.

4. Development of Strong Bond

Teamwork helps the employees to develop a strong bond and sense of belongingness towards the organization.

5. Flexibility

Teamwork makes the firm quickly adapt and follow the changes of the changing environment.

6. Skilled Personal

It develops talented and skilled future leaders for the firm.

7. Satisfied Employees

Research has found that employees working in teams are more satisfied and contented.

8. Ideas Generation

Teams usually results in better ideas/solutions for solving the complex business problems.

9. Stress Free Environment

It helps in reducing the work stress some times work turns out to be fun in a team.

10. Enhancement in Productivity and Quality

Overall productivity and quality of the firm do gets enhanced, by working in teams.

Scanned By Scanner Go

Q31. Discuss the importance of the management team in launching a new venture.

Answer : Nov./Dec.-17, (R15)(A), Q6

The group of individuals who operates at the higher levels of an organization to carry out day-to-day activities and manage individuals is called management team.

In general, management team includes managers and other professionals like advisors, board of directors, accountant and lawyers etc, who help the organization to carryout its functions in an effective manner by giving right suggestions. The growth of a business is dependent on the management team.

Management team gained more importance in launching a new venture because it helps in various activities related to start a venture and they can be explained in detail by the following.

1. **Planning a Business**

Management team is helps in framing specific business plan before starting a venture. It also helps to secure investment capital or loan. It provides guide lines to operate the business after it is started. It takes assistance from experienced or retired executives or hire a business consultant to write a business plan.

2. **Development of Product**

Management team will have an eye on competitors and develops new strategies to produce new products at lower cost by adding new features.

3. **Managing Finance**

Management team will plan properly to allocate required amount of finance on various activities which are carried on while starting a business. It hires a qualified accountant or tax attorney to handle all the financial issues.

4. **Marketing**

Management team also includes marketing manager. He is responsible to promote their products by advertising, maintaining public relations, brand management and increases sales by introducing innovative steps for marketing.

5. **Personnel**

Managing employees is not an easy task. It begins with policy guide which describes how to hire, train and terminate employees. It passes rules on attendance, personal life off, pay, discipline, dress and annual reviews. It provides job description in a written form for each position. It also frames an organization chart to hire pro actively.

6. **Formation 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 related to it. Due to this, management team includes IT professionals in their team.

7. **Legal**

Management team looks after various legal matters related to starting a venture like registering a corporation, following employment laws or filing taxes and to obtain a business license. So that, it can be free from facing legal controversies.

Q32. Discuss the procedure involved in motivating and leading teams in an organization.

Answer : (Model Paper-I, Q4(b) | April-17, (R13)(A), Q6(b))

Procedure Involved in Motivating Teams in an Organization

Sales manager is required to possess knowledge about the motivation process and utilize this knowledge for improving the organisational performance. Process of motivation can be used to make salesperson perform effectively, build a good relationship between sales managers and salesforce, fulfill the social, economic and human needs of salesperson and to get the cooperation from salesperson in meeting sales standards/targets.

The following figure depicts "the process of Motivation".

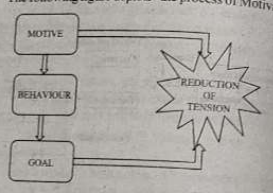


Figure: Process of Motivation in an organization

1. **Motives**

The motivation process begins when motive persuade people to take action. Motives are highly subjective. Motives shows the mental picture of the salesperson by specifying the reasons behind the human behaviour. Motives occur on a continuous basis and identify the direction of the salesperson's behaviour.

2. **Behaviour**

Motives make salesperson behaviour a particular way. Salesperson's behaviour consists of sequence of activities undertaken by salesperson who got motivated to attain the individual or organisational objectives. Motives direct salespersons towards the achievement of goals. Usually, motives create a stages of disequilibrium. The main factor causing these disequilibrium stages might be lack of balance between psychological and physiological states of the salesperson. A balance between psychological and physiological states of salesperson can be achieved positive behaviour of salesperson towards the achievement of individual or organisational goals.

3. **Goals**

A salesperson select his 'goal' by taking into account various factors such as culture, values, ability of salesperson, impact of personal experiences and learning, the type and extent of change in the physical and social environment where salesperson is working.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Each and every person in the sales organisation set some motivational drivers by taking into consideration the cultural environment where salesperson works and goal driving behaviour of salesperson. Motivational drives influence the manner in which salesforce perceive their work and how they see 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 organisational objectives through change". Influencing is the art of leadership. Influencing is considered as a process where a leader communicates his ideas to his followers, obtain their acceptance and encourages them to execute and support their ideas through change.

Leadership is a mutual influence process where a leader influences his followers and followers influence their leaders.

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 or punish his followers is considered as coercive power.

3. **Legitimate Power**

The power which a leader enjoys after taking up a particular position in an organisation is considered as legitimate power.

4. **Expert Power**

The power which a leader obtain from his specialised skills and knowledge with respect to the task carried out by the subordinates 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.

Follower's Influence on Leaders

The followers and situations influence the leaders in the following ways.

1. Leaders are influenced by the responses or the performances given by their followers.
2. The characteristic features of the followers such as young or old, personal background, educational qualification etc., influences the leaders.
3. The nature or the significance of task carried out by the followers.
4. The organisational policy, its environment and climate influences the leaders.
5. Influence of the peers or the co-employees on their leaders.
6. The superior influence on their leaders.

Thus, in this way, leaders influence their followers and followers influence their leaders.

Leadership as an Interactive Process

Leadership is the result of the interaction which takes place between a leader and his followers. It is a process which involves a leader, follower and a situation.

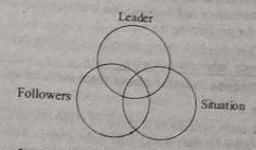


Figure: Interactional Framework of Leadership

Fred Fiedler was the first person who identified the significance of leader, follower and situation in the leadership process.

1. **The Leader**

A leader is a person who gives meaning to the position of leadership equation. It consists of personal history, interests, traits and motivation. All the leaders do not have similar characteristics. Leaders are different from their followers and there is difference between an ineffective leader and an effective leader in terms of traits, cognitive abilities, skills and values. Personality of a leader also have an effect on leadership which means the leader can be calm or lose his temper.

The other vital factor of leadership is how he/she has worked for achieving leader's position. Basically, there are two types of leaders, one is an elected leader who is selected by the superiors and other is the one who emerges from the votes of the followers. History and background of a leader also plays an equally important role in an organisation apart from the above qualities. The leaders who are selected from within the organisation are more familiar with the other people in the organisation than the leaders who are selected from outside the organisation.

2. **The Followers**

The followers are the most important element of the leadership process. The factors like follower's desires, personality traits, maturity levels, competence levels and motivation influences the process of leadership greatly.

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 rewarded for doing their job effectively will be intending to put extra effort and work for extra hours than those followers who feel that their motivation is rewarded in monetary terms. The other important variables 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 prosperity of the followers.

Scanned By Scanner Go

3. The Situation

The situation is the third component of the leadership process. Situation deals with the way in which the leader and the follower interacts in a particular situation. It is considered as the most confusing aspect of leadership system as it deals with a situation or task in which the worker from a group are engaged for performing the work.

Thus, from the above points it is clear that leadership is an influence, interaction process.

Q33. Discuss in detail about team leadership.

Answer :.

A team consists of a group of members who depend on each other for their work, share same goals and co-operate with each other in their work. A successful entrepreneur should possess to good team leadership quantities. For example, quality team project teams, inspection team etc.

In present scenario, the concept of work teams in organizations is being widely used by managers. "Generally a team consist of four to five members with a team leader. All the members of team work together for achieving a common goal or objective.

Historical Perspective of Group Research

1. Group research started in the year 1920 which focused on human relation movement.
2. The research was transferred from human relation movement to theory of social science in the year 1940.
3. The focus was shifted to train employees in the year 1950.
4. Then research was elaborated on developing team and leadership in the year 1960s and 1970s.
5. Competition from Japan and various other countries, targeted on quality team and benchmarking in the year 1980s
6. The worldwide organizational strategies were targeted for competition in the year 1990.

Research indicated that team performance is getting difficult day by day as a result it needs attention. The team behaviour, success and role of the team plays a major role in the organization. Team members should adapt to an environment where learning and trust should be cultivated in the members of the team.

Understanding the Functions of Leadership Team

Following are some of the points which helps us in understanding the functions of leadership team.

1. Zaccero, Heinen and Shuffler (Famous researchers) said that leadership interactions should be increased for better results.
2. Leadership should also be based on the qualities of the team members in the organization.
3. Each team member should understand the role for maintaining good team work in the organization.
4. Leadership work should be distributed among the team members for implementing leadership strategies in an effective manners.
5. Shared leadership requires team members getting influenced by each other. Taking a step forward when required and moving back by giving chance to others.
6. Shared leadership is very essential specially in today's era where difficult situations are solved easily with the help of shared leadership.
8. Research suggest that shared leadership should be implemented within the teams of the organization.
9. Leadership qualities and requirements of the team are given to such individuals who have desired skills in them.

Q34. Define leadership and explain the features and importance of leadership in an organisation.

Answer :.

Definition of Leadership

According to House et al, "leadership is the ability of an individual to influence, motivate and enable others to contribute towards the effectiveness and success of the organisation". It is considered as a process which influences the leaders and followers for achieving organisational objectives through change. Leaders help and motivate the employees to carry out their tasks enthusiastically and achieve the organisational objectives.

Features/Characteristics of Leadership

The following are some of the features/characteristics of leadership.

1. In the leadership process, a leader and his followers work together for attaining common goals. So, a relationship is build between a leader and his followers.
2. It is a continuous and ongoing behaviour process.
3. In the leadership process, for achieving the common goals, leader tries to influence the behaviour of the followers.
4. In the leadership process, leaders make use of different leadership styles under different situations.
5. With the help of leadership process, leaders can help their followers to know their importance in the organisation and the importance of the task carried out by them.

Importance of Leadership

A leader has a very important role to perform in an organisation. The leadership exerted by him is vital for the organisational success. The following points highlight the importance of leadership in an organisation.

1. Leaders are mainly responsible for the success or failures of the firms. The way in which leaders carry out their tasks helps in determining the success or failures of the organisation.
2. It is very important for the organisations to motivate their employees, so that they can perform well. An effective leader through his leadership process encourages and motivates the employees towards high performance.
3. An effective leader increases the confidence level of his followers by advising and guiding them. This in turn helps the organisation to obtain good results.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

4. An effective leadership helps in increasing the morale and self esteem of the employees. Increase in the morale of the employees help in increasing the productivity and stability of the organisation.
5. The way the leaders treat their employees helps in determining whether the employees will stay or leave the organisation. So, the leaders should effectively treat the employees for retaining them in the organisation.

Thus, from the above points, it is clear that leadership plays a very important role in an organisation.

Q35. "The team leadership model provides a mental road map to help the leader diagnose team problems and take appropriate action to correct these problem". Discuss.

Answer :.

The team leadership model was introduced by Hill. It states that the leader's role is to analyze the team members performance and take action when required. Leadership decisions are taken into account by monitoring the action of the team members, task related issues and internal and external environment. Leadership decisions are directly related to the performance and development of team leadership.

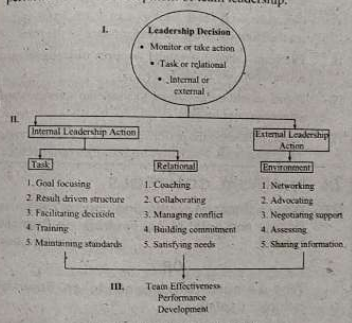


Figure: Team Leadership Model

I. Leadership Decision

The leadership decision involves observing the team and interfering in the activities of the team for assessing the decisions of the leader. After observing and monitoring, the next step is of interfering in the task of the team. The last step comprises of internal and external environment.

1. Monitoring or Taking Action

The leader decides whether to monitor the work of the team or take action as per the situation.

2. Task or Relational

The leader requires to decide whether to meet the task related issues or any relational issues. How to handle the task and maintain good relations with the team members is one of the necessary leadership decisions.

3. Internal or External Environment

Action should be taken according to the situation. Team leaders analyze the internal and external environment and determine the actions accordingly. Internal environment emphasizes on goals and external environment emphasizes on external support.

II. Leadership Actions

Leadership actions are implemented internally and externally based on the type of action in the organization. Teams which can manage the quarrels well can maintain good relationship among the team members.

1. Internal Task Leadership Actions

Hill's model for team leadership illustrates the set of skills and actions. Its internal task actions are:

(i) Focuses on goal
(ii) Result oriented structure
(iii) Decision making
(iv) Providing trainings team members in the required skills
(v) Maintaining standards

2. Internal Relational Leadership Action

A leader should perform leadership actions for improving team relationships,

(i) Providing coaching to team members in interpersonal skills
(ii) Working together
(iii) Managing quarrels and issues
(iv) Building commitment, loyalty and pride which unites the members of group
(v) Satisfaction of individual needs.

3. External Leadership Actions

The team leader should observe the environment constantly and determine actions to be taken for an effective team,

(i) Networking and increasing influence of team members according to the environment.
(ii) Supporting and representing team
(iii) Negotiating for available resources, support and appreciation
(iv) Stopping team members from environmental disturbances.

III. Team Effectiveness

Team leaders should understand the performance standards and should assess the level of achievement by determining the areas in which the team is lacking.

1. Clear, Elevating Goal

Teams goals should be clear and not deviating from the path. Goal should be easily understood and it should reach the specified target.

2. Result Driven Structure

Teams should find the best structure for accomplishing the goals. Proper structures help groups to meet their needs and also accomplish team goals and targets.

Scanned By Scanner Go

3. **Competent Team Members**

Right number of members should be involved in a group for accomplishing the task of the group. Members should be provided with information, education and training so that they can beat the competition of the team members.

4. **United Commitment**

Teams are designed and developed carefully. Excellent teams help in creating unity and uniqueness in the organization.

5. **Standards of Excellence**

Group standards are the important criteria for the functioning of the group. Performance of the team members should be regulated so that actions can be controlled accordingly. With standards of excellence, members are encouraged to perform at their highest levels.

6. **External Support and Recognition**

A supportive organizational system includes resources needed, rewards and incentives for performance and a proper educational system to develop team skills.

7. **Principled Leadership**

Teams leaders are committed to the team goals and showcase their talents whenever necessary. Continuously assessing the standards of team can provide proper feedback and helps in determining whether the past actions and improvements had met the desired results.

Q36. Explain how does the entrepreneur works as a team leader.

Answer :

The entrepreneur as a team leader has multiple responsibilities towards handling their team. Team's leader can use leadership model for making various decisions. Important aspects in relation to the working of team leader are as follows.

1. The team leader's role is to provide the team with utmost help and achieve the set goal with the collective team effort.
2. The needs of the team members are identified and suggestions are given, after which proper action is taken for achieving the set goals.
3. Leadership model provides feedback to the leader based on the research of leadership. It is considered as a practical guide.
4. Team leader decides on the necessary action to be taken for the organization.
5. Team leader observes all the functions carried out and checks if there is performance level increase.
6. Observation helps in deciding about internal and external level action. Leader would then choose the most accurate action to satisfy the team needs.
7. Many skills are required for team leadership. For example, Conflicts in the internal organization can lead to internal relationship problem.
8. When a team does not function properly, it may be a result of internal task problem.
9. When the team is not given enough autonomy and power within the organization, it may lead to external environmental problem.
10. Leader should keep observing the situation and should take appropriate action accordingly.
11. Leader should decide about the situation in order to improve or control the action.
12. The leader can interfere in three levels of the organization.
    (i) Internal level problem
    (ii) Internal task problem
    (iii) External problem.
13. Team leadership model helps in inspecting and improving the overall development of the organization.
14. For example, A sports coach would share his experience, introduces new techniques for winning the match and improves the overall performance of the team members. Past is compared with the future for the success of the team.
15. Organizational team leaders can learn from sports coaches for improving the performance of the team.
16. The team leadership model requires observation and action whenever needed.
17. Teams should be measured to meet the standards and achieve greater heights.
18. Hence, measuring the performance can help in analyzing the lacking areas which may need further improvement.

2.6 FINANCIAL CONTROLS

Q37. What is financial accounting control? Discuss its role and need to concentrate on financial control. Model Paper-I, Q5(a)

OR

Why we need to concentrate on financial control? Explain.

(Refer Only Topic: Need to Concentrate Financial Control)

Answer : Nov./Dec.-19, (R15)(A), Q7(a)

Financial/Accounting Control

Financial/Accounting control refers to the method of recording all account transactions are recorded according to the Generally Accepted Accounting practices. The main role and goal of accounting control is related with the "plan of the business and the methods and records which deals with protecting the assets and the reliability of financial records".

Role of Financial/Accounting Control

The role of financial/accounting control is to ensure the following,

1. All accounting transactions are recorded according to the Generally Accepted Accounting principles.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2. All transactions are recorded as per the instructions, of the top management.
3. Accounts related to various assets are recorded, maintained and updated on a regular basis.
4. Usage of assets are allowed only with the permission of the management.
5. In auditor's opinion accounting control includes several aspects and basically consists of good internal check and internal audit.

Thus, it may be concluded that financial/accounting control system basically aims towards maintaining and enhancing the effectiveness and efficiency of the internal check and control system, with regard to all the organizational accounts.

Need to Concentrate 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. Thereby, ensuring proper financial discipline.

2. **Reduction of Wastage**

Effective financial control leads to optimal utilization of resources which in turn reduces any wastage.

3. **Co-ordination of Activities**

Financial controls help the organization to attain its objectives by ensuring co-ordination among the activities of various departments of the organization.

4. **Increase in Income**

Effective financial control helps the organization to increase their income and returns.

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,

(a) Managing cash flow

(b) Managing fixed assets.

Answer :

The entrepreneur is required to have working knowledge about financial control, financial tools and techniques. Managing cash is an important skill to be mastered by the entrepreneur. He is required to know the basics of financial accounting and should be able to work with cash flow statements, income statements, balance sheet and so on.

Generally, the finances (cash) of the enterprise is utilized towards stock inventory, fixed assets and day to day working capital. Let us understand about the management of some important financial statements.

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 specified period of time. Such inflows and outflows are classified into operating investing and financing activities during a particular period of time.

Cash flow statement identifies the impact of different business transactions on cash and its equivalents and considers the receipts and payments of cash. A cash flow statement is used to identify all the factors which lead to changes in the cash position of a business enterprise between the opening and closing dates of a balance sheets. Usually, cash flow statement is referred to as a "postmortem exercise" or a method of historical financial analysis.

A cash budget is a method used for financial forecasting. According to Soleman, Ezra, "the cash budget is an analysis of flow of cash in a business over a future, short or long period of time. It is a forecast of expected cash intake and outlay". The main aim of preparing cash budget is to determine the estimated excess of receipts over payments or vice-versa, in order to make plans regarding the investment of excess of cash or to make arrangements for the future deficits of cash.

Objectives of cash flow statement

The following are the objectives of preparing a cash flow statement,

(i) To determine the reasons for changes in cash balance among two different time periods, by using two corresponding balance sheets.
(ii) To provide information about the liquidity and solvency of the firm and its capability to modify cash flows in the future period.
(iii) To pen down/show the factors which cause reduction in cash balance and indicate the causes even though profit is earned during the year.
(iv) To provide extra information which is useful for assessing the changes in assets, liabilities and equity.
(v) To enhance the comparability of operating performance of various firms by removing the effects of different methods.
(vi) To highlight the amount, timing and probability of future cash flows.
(vii) 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 in 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.

(i) It is useful in ascertaining the cash position of a firm as it is prepared on cash basis of accounting.
(ii) Its analysis can be done by comparing the historical cash flows with the projected cash flows to identify the variations and deficiency in the performance so that firm can take effective measures to avoid it.

Scanned By Scanner Go

(iii) It is prepared in a standard format prescribed by AS-3 (Revised) which can be effectively used for making comparisons with other firms.

(iv) It helps to identify whether the firm's liquidity position is improving or deteriorating a series of intra-firm and interfirm cash flow statements are prepared for specific period of time.

(v) It is an effective tool which helps in planning the repayment of loans, replacement fixed assets and it is also useful in capital budgeting decisions.

2. Managing Fixed Assets

The entrepreneur is required to effectively and efficiently manage the fixed assets of the enterprise.

Fixed assets refer to those assets which are held for the purpose of providing or producing goods or services and those which are not held for resale in the normal course of business. Fixed assets may be classified as under:

(i) Tangible Fixed Assets refer to those assets which can be seen and touched e.g., Land and Building, Plant and Machinery, Furniture and Fixtures, Motor Vehicles.

(ii) Intangible Fixed Assets refer to those assets which cannot be seen and touched e.g., Goodwill, Patent, Trademarks.

Depending upon the financial status of the enterprise, the entrepreneur may either purchase a fixed assets or can also go for leasing of the fixed assets.

Q39. What is inventory? Explain types of inventories.

Answer :

Inventory

The goods or commodities that are stored in an organization to ensure efficient and smooth running of business are called inventories. The goods or commodities refer to finished products, raw materials in process, packaging spares etc.

The business or an industry usually maintain a reasonable inventory of goods to ensure smooth operation. Traditionally, inventory is viewed as a necessary evil as too little of it causes costly interruptions and too much of it results in idle capital.

Types of Inventories

Following are the types of inventories,

1. Classification Based on the Stage of the Items in Production

(a) Raw Material and Spares Inventory

These items are used directly in the manufacturing or in the process industry.

(b) Work-in-Process Inventory

Normally, at different stages of manufacturing, semi-finished items are accumulated. This is known as Work-In-Process (WIP) inventory. The size of this inventory directly depends on the length of the production cycle.

(c) Finished Goods Inventory

Sometimes, the manufactured items are stocked before they are dispatched or sold. This is known as finished goods inventory.

2. Classification Based on the Purpose

(a) Transportation Inventories

Goods have to be transported from various production centers to distribution centers and customers. Due to this, the need for inventory arises. This type of inventories which are in transit are called transportation inventories or transit inventories or pipeline inventories.

(b) Buffer Inventories

These inventories have to be carried because sales and production times cannot always be predicted accurately. Since, there are fluctuations in demand and lead times required to manufacture items, quantities in excess of requirement are stocked. These are also termed as reserve stocks or safety stocks.

(c) Anticipation Inventories

These inventories are built up in advance for a great selling season, a special promotion campaign or for plant shut down period. Thus such inventories are created for future requirement. For example, Crackers, Sweaters etc.

(d) Decoupling Inventories

In continuous production, breakdown of one machine or breakdown at one stage will result in interruption of the production system. To overcome this difficulty to some extent, decoupling inventories are carried. Decoupling inventories are not only in the form of in-process inventories to 'decouple' successive production stages but also in the form of raw material which are used to decouple the producers from the suppliers, and finished goods to decouple the consumers from production.

(e) Lot Size Inventories

These are held for the purchases that are usually made in lots rather than the exact amounts which may be required at any point of time. The other name for this inventory is cycle inventory.

3. Classification Based on Role in Production

(a) Direct inventories

The items which are forming an integral part of finished goods are falling under this classification. For example, Raw materials, WIP, finished goods and spare parts.

(b) Indirect Inventories

Indirect inventories consist of items which are required in production but do not form an integral part of finished goods. For example, Consumables like grease, oil, office materials, maintenance items, tools etc.

A good case in point about inventory management is the U.S based Skolnik Industries which manufactures steel containers for the storage and disposal of hazardous material. The company invested in the latest inventory control system. It has come up with a computerised inventory control system that helps the firm to maintain inventory records of all its products. The system also allows the firm to know about the length of time to fill back orders, inventory turnover, percentage of consumer complaints on the different products shipped and so on. Effective inventory management would help the of entrepreneur to minimize wastage and increase the overall profitability of the firm.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2.7 MARKETING AND SALES CONTROLS

Q40. Give a detailed note on marketing and sales control. (Model Paper-I, Q5(b) | April-17, (R13)(A), Q7(b))

OR

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 usage of different marketing 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 activities undertaken by the company are aiming at achieving marketing objectives and working in the same direction. In marketing control, actual marketing performance of the company is compared against the standard budgeted marketing performance in order to find out the variance. If actual marketing performance is less than the budgeted marketing performance, corrective measures are taken to improve the actual marketing performance. The four inter-connected dimensions of marketing management job are planning, implementing, evaluating and controlling. On-going control and timely actions are very essential for successful implementation of marketing programmes. Marketing control leads to improvement in profitability and productivity lends of each and every marketing activity.

Sales Control

The entrepreneur need to have a good sales control system in place. The main aim of sales control is to answer questions relates to the product/service sales in the market.

A good sales control system answers questions such as how, when, where things went wrong. Further it provides corrective measures to boast the sales of the enterprise and achieve the business objectives set by the entrepreneur.

The sales force of the enterprise plays a vital role in achieving the sales objectives. Thus, the entrepreneur is required to develop a good sales force control and evaluation system.

Procedure for Evaluating and Controlling Salesforce Performance

The evaluating and controlling procedure of salesforce performance involves the following steps,

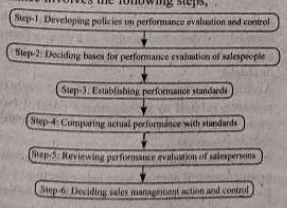


Figure: Procedure for Evaluating and Controlling Salesforce Performance

Step-1: Developing Policies on Performance Evaluation and Control

In this first step, company management must develop basic policies before evaluating the performance. Different studies have provided information on general policies which are adopted by most of the sales organizations. Some of these policies are as follows,

(a) Different sales organizations have different frequency levels of evaluation. Some firms evaluate salespeople performance half yearly or quarterly and few firms evaluate monthly or weekly.

(b) The field sales manager who supervises the salesperson evaluates the performance of salespeople. Sometimes the boss of the field, sales manager is also involved in the performance evaluation of the sales persons performance.

(c) 360 degree feedback of the salespeople is a popular assessment technique which is used by nearly 25 percent of the companies. It involves multiple raters, including sales managers, internal and external customers team members and salespeople. In this technique, an evaluative feedback is obtained from an employee, his or her peers, subordinates superiors and customers.

Step-2: Deciding Bases for Performance Evaluation of Salespeople

In this step, a sales organization must select a viewpoint before deciding the bases or criteria for performance evaluation of salespeople. There are basic viewpoints i.e.,

(a) Outcome/Results Based Viewpoint

Outcome based viewpoint focuses on the salespersons outcomes with little direction or supervision by the sales manager. The outcome bases uses quantitative criteria, so it reduces the biases and subjectivity of evaluators.

(b) Behaviour/Activity/Effort-based Viewpoint

This viewpoint emphasizes on the behaviour and characteristics of the salesperson with adequate direction and supervision of the first level sales manager. Both quantitative criteria and qualitative criteria are used for evaluating the salespersons performance.

(c) Both Outcome-based and Behaviour-based Viewpoints

This viewpoint concludes that a sales organization must use both outcome-based and behaviour based criteria for evaluating the performance of salespeople. Some companies uses hybrid approach in which both the viewpoints are used for controlling the salesforce. In hybrid approach, importance is given to quantitative results, attitudes, efforts, paperwork and supervision.

Criteria/Bases for Sales People's Performance Evaluation

The companies must use different bases for evaluating the salespeople performance. The specific bases or criteria for salespeoples performance evaluation is based on the company viewpoint and the selling situation. The bases is selected from the list of,

Scanned By Scanner Go

- Quantitative result criteria
- Quantitative behavioral criteria and
- Qualitative behavioural/activity criteria.

Step-3: Establishing Performance Standards

In this step, performance standards are established which are also known as sales quotas. Some companies refer it as sales objective, sales goals or sales targets. The salespeoples actual performance is calculated by measuring it against the performance standards. The performance standards for quantitative output or results criteria has a close relationship with objectives and goals of the company for territories, regions, branches, products and salespeople.

The sales managers must make sure that the performance standards are fair and reasonable. If these guidelines are not followed then there will be demotivation of salespeople and will also have harmful effect on sales performance. After establishing the performance standards, it must be communicated the salespeople.

Step-4: Compairing Actual Performance with Standards

In this step, the actual performance of individual salesperson is evaluated and compared with the predetermined performance standards. The sales managers can make use of different methods to evaluate the performance of salespeople.

Step-5: Reviewing Performance Evaluation of salespersons

After evaluating the salesperson's performance, the sales manager must conduct performance review or appraisal session with the salesperson. This is a challenging task for sales manager as it is a very sensitive situation. The sales manager must contact the salesperson for deciding the time and place for the performance review meeting. Before conducting the meeting, the salesperson must review his job description and past performance by using the evaluation forms of the company. The salesperson as well as the sales manager must consider performance review as a positive method which facilitates the salesperson to solve the current problems and perform effectively in future.

The following are the guidelines which are useful for reviewing the performance.

(a) First, the performance criteria must be discussed.

(b) The salesperson must review his or her own performance.

(c) The sales manager must present his view on the performance review of salesperson.

(d) A mutual agreement should be built.

(e) If disagreement occurs, then the sales manager must explain the reasons to the salesperson.

The sales manager must firstly review, the evaluation then both the sales manager and the salesperson must develop mutually agreed objectives and action plan for future.

Step-6: Deciding Sales Management Actions and Control

The procedure of performance evaluation which is followed in organization provide significant information relating to the performance of salespeople. The sales management is responsible for utilizing this information for enhancing the performance of individual salespeople, sales teams and the operations of the sales organization. The performance information also assists in determining problem areas, identifying causes of the problem and deciding sales management actions to solve the problems.

Q41. What do you understand by controlling? Write a note about 'Global Controlling Mechanisms'.

Answer :

Controlling

Controlling consists of making the results tally with targets or achieving close 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 includes,

(a) Establishment of standard works
(b) Assessment of actual work
(c) Determination of deviation
(d) Corrective action.

The controlling of global marketing 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 Mechanisms

Following are the various global control mechanisms.

1. Management control and coordination in the operations are considered to be much important in marketing.
2. 'Behavioural' criteria to 'Sales results' is one of the main approaches of controlling.
3. Traditional approaches in controlling are mostly outcome - oriented whereas non-traditional approaches are behaviour-oriented.
4. Effective control process provides the data that can be used to inform the planning process. The similar process occurs when the data is collected via marketing audit. In case, if the behavioural and transactional control mechanisms are implemented then hard and soft elements must be included.
5. According to Czinkota and Ronkainen, the western organizations described 'control' as formal or bureaucratic and Japanese organizations described control as cultural or shared.
6. According to Austrian and UK-based organizations research related to management control based on behavioural control perspective is compared with sales results viewpoint.
7. Based on the research, it is concluded that the traditional-oriented control approach are less-effective.
8. Eventhough many of the controls are behavioural approach-oriented but some of them still depend on the traditional measurement tools like on budget and on manuals.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

9. Organizations are providing training to the employees so that to have an experience of adopting behaviour which helps in achieving organizational goal.
10. The transactional 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 as follows,

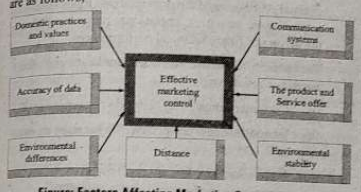


Figure: Factors Affecting Marketing Control System

1. **Domestic Practices and Values**

The organizations that have recently entered into the exporting business may use customs and practices of the home market. The organizations can follow the home market practices only if the practices being implemented are centralized and standardized. However, it does not work out when the organization is operating in economies.

2. **Accuracy of Data**

The accuracy of consumer, economic and Business-to-Business (B2B) data greatly affects the performance and reporting. The organizations need to ensure the reliability of data. Also, the units of measurement must be same while comparing the data.

3. **Communication Systems**

Control mechanisms are highly implemented by communication system. Specially, the companies that operate in many countries need appropriate and sustainable communication.

The developing countries faces many problems that are associated with the communication system. Many times, the companies experienced shutdown due to power failures, connectivity problems and the problems concerning funds for maintenance.

4. **The Product and Service Offer**

Manufacturers find it easy to use a uniform standard of control for the products that are advanced and complex. Global standards of quality control are much easier to be implemented in airlines, computers, insurance, shipping, cars etc. Because these products and services have global currency. Also, the regulatory and voluntary bodies enforces the manufacturing of these products.

5. **Environmental Differences**

The more the environmental differences exist, the more the chances of delegation of control and the control process restrictions. For instance, it is easier to enforce uniform standards of reporting in the country like Germany. But the same becomes difficult in case of Russia, as this country have different customs, culture and climate.

6. **Environmental Stability**

Environmentally unstable countries are less significant in terms of standardized measure of performance.

7. **Distance**

The organizations having number of operators across the world, generally faces physical and psychological barriers. However, video-conferencing and email services are significant in removing such organizational barriers.

Q43. Discuss the traditional and modern marketing control methods.

Answer :

There are many marketing control methods available. They are either traditional (outcome) type or non-traditional (behavioural) type. Some of the important methods are illustrated in the figure below,

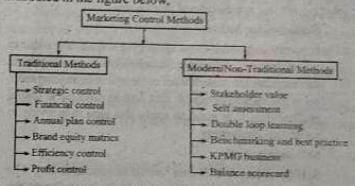


Figure: Traditional and Modern/Non-Traditional Methods of Marketing Control

I. **Traditional Methods**

Various traditional methods of international 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 accomplished its objectives in terms of qualitative and quantitative aspects. Using marketing audit the control gets activated.

2. **Financial Control**

Financial control is considered as one of the important type of controls. It comes in different forms such as return on sales, earning per share, return on investment, profitability and cash flow etc.

3. **Annual Plan Control**

Annual plan control is implemented to check if the specified annual operating plans are achieved or not. Marketing managers or functional managers stand responsible to carry out this process.

Scanned By Scanner Go

4. **Brand Equity Metrics**

The objective of brand equity metrics is to assess if the equity is increasing or decreasing. It also ascertains the 'equity' that is represented in the brand. The equity can also be assessed through many other techniques including consumer value, end user, trade/retail matrices and innovation.

5. **Efficiency Control**

Efficiency control is useful in ascertaining market efficiency. It assesses whether the marketing can be carried out more efficiently. The primary responsibility lies with the line and staff management.

6. **Profit Control**

The profit control can be assessed by making a comparison of budget with that of the performance. Also, it is useful to desegregate data down to the channel, product and area. Pereto analysis (80/20) rule is a technique that assesses customer, individual market and area performance. Marketing manager holds responsibility to perform this process.

II. Modern/Non-Traditional Methods

The modern/non-traditional methods of international marketing control are discussed as follows,

1. **Stakeholder Value**

It is very important to maximize the stakeholder value in the marketing profession. 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.

2. **Self-assessment**

Self-assessment is almost similar to benchmarking. The industries can set up their standards as similar to the retailers who may tick off their performance on a scale.

3. **Double-Loop Learning**

This control checks if the feedback from performance is observed and applied at the same time.

4. **Benchmarking and Best Practice**

These techniques are basically applied to check/measure the organization on the basis of likeliness/similarness of a business. Using the industry 'average' the organizations may assess their level i.e., below or above the norm. For example, Several international airlines measures their customer service performance through the process of benchmarking. Benchmarking must be carried out by high level executives either internal or external.

5. **KPMG Business**

There are five principles that forms a basis to this approach.

(a) Business risk
(b) Business process analysis
(c) Business performance management
(d) A strategic analysis of the client's operation and
(e) Continuous improvement.

6. **Balanced Scorecard**

Balanced score is among the newer techniques used to measure the performance of an organization card. It measures financial indices and tries to build a holistic system of measurement.

Balanced scorecard is considered as "asset of measures that gives top managers a fast but comprehensive view of the business". It includes financial measures that tell the results of actions already taken and it complements the financial measures on customer satisfaction, internal processes and the organizations innovation and improvement activities, operational measures that are the drivers of future financial performances.

The balanced scorecard identifies four key performance measures as follows,

(i) Customer perspective, "How do customer see us"?
(ii) Internal business perspective, "What must we excel at"?
(iii) Innovation and learning perspective, "Can we continue to improve and create value"?
(iv) Financial perspective, "How do we look at shareholders"?

Each of these perspective could be used individually but using them in combination provides deeper insights and a balanced approach to strategy formulation.

2.8 E-COMMERCE AND ENTREPRENEURSHIP

Q44. Define is E-commerce. What are its advantages and disadvantages?

Answer :

Definition of E-commerce

According to 'Prashant Jain'—"E-commerce is an exchange of business information using electronic formats, including Electronic Mail (E-mail), Electronic Bulletin Boards (EBBs) and Electronic Fund Transfer (EFT). 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, 'Prashant Jain' says that "E-commerce is a process of two or more people carrying out business transactions through computer and some kind of network like Internet or direct connection".

In simple words, E-commerce/Electronic commerce is the process of buying and selling 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.

1. **No Operating Costs**

The operating costs are not involved in E-commerce as human efforts have no role to play in order processing.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2. **High Level of Customization**

High level of customization can be achieved in the business through E-commerce. Traditionally, business entity used to design product by keeping mass market as their target. Today, with the use of world wide web, business possesses information and processing power and with the permission of customers, suppliers can acquire information about their customers. This acquired information can be used by suppliers to supply products and services as per the requirements of customers which is known as customization.

3. **Easy Shopping**

E-commerce facilitates 'easy shopping'. Previously, before the introduction of Internet customers used to visit shops personally to purchase things. If they do not like the things available in one shop, they visit another shop. This process will go on till the customer gets his/her intended products. This process consumes lots of time and it becomes very difficult to customer to spare that much amount of time on shopping. Now through Internet, people can do online shopping by sitting at home. Customers can have access to the various shops and can place orders online without wasting their time and energy.

4. **Round-the-clock**

One more advantage of E-commerce is the round-the-clock benefit to customers. i.e., 24×7. Through E-commerce, companies can react to the market opportunities immediately. World Wide Web (WWW) allows the company to invent new products, get quick response from customers work on those responses and take action without making much investment. Use of web ensures success of the business.

5. **Saves Money**

E-commerce/Electronic commerce/EC saves lots of money. For instance, Chrysler corporation saved 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/Limitations

The technical limitations of e-commerce are given below. However, they can be reduced by appropriate planning and implementation

1. Lack of communication protocols, system security, standards and reliability is the first limitation of ecommerce.
2. The telecommunication bandwidth is not sufficient as their is an increase in number of consumers.
3. Evolution and changes in software development tools is very rapid.
4. Integration of e-commerce and internet software with few existing applications and databases is very difficult.
5. In addition to the network servers, vendors need some special infrastructure and web servers.
6. Few e-commerce software are not compatible with few operating systems and hardware.

Non-technical Disadvantages/Limitations

In 1998 a survey was conducted by internet week to know the non-technical limitations of e-commerce. The survey helped in gathering the major ones.

1. **Privacy and Security**

Security and privacy issues are very important in B2C type of e-commerce. Security issues are a big concern even after using good encryption. Privacy measures are improving at a constant rate. However, convincing customers about secure on-line transactions and privacy in shopping is a long way that e-commerce have to go. As per the survey, 17.2% voted for security and privacy as major concern.

2. **Justification and Cost**

In order to justify the system, intangible benefits like good customer service and advertisement should be dealt carefully and appropriately. The cost incurred in inhouse e-commerce development may be high. The reason being, lack of experience, which results in delays. The percentage given to justification and cost was 34.8.

3. **Lack of Trust and User Resistance**

Terms like "paperless transactions", "e-money", "unknown/faceless sellers" are difficult to catch-up in market as customers can't easily trust on faceless sellers, they don't trust even the sellers they know. Switching from physical stores to virtual stores is a very slow process. 4.4% people voted for lack of trust and user resistance as one of the major limitations of e-commerce.

Q45. Define E-commerce from different perspectives along with its importance. Model Paper-II, Q4(a)

OR

Describe E-commerce with examples.

Answer : Nov./Dec.-17, (R15)(A), Q7

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 comprises 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, extranets, intranets or some other networks.

Electronic-commerce can be defined in several ways through different perspectives.

1. **Communication Perspective**

E-commerce can be defined as the process of delivering products, services, information or payments through computer networks or any other electronic medium.

2. **Commercial Perspective**

E-commerce can be defined as the process of buying and selling products, services and information through Internet or any other online service.

Scanned By Scanner Go

3. **Service Perspective**

E-commerce is defined as a tool for dealing with the desires of government 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 networks.

5. **Collaborative Perspective**

E-commerce is defined as a framework that collaborates both the inter and intra organizations.

6. **Community Perspective**

E-commerce is defined as a place where all the community members can gather, learn, transact and collaborate.

Importance of E-commerce

Widespread adoption of computerization in society are making businesses to become electronic. The following are the significances 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 re-entry work. This results in the improvement of overall productivity.

(ii) **Reduction in Cost**

From the earlier experience of E-commerce adopters, 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 closer access to markets and customers.

(iii) **Automation of Business Processes**

Computerizing and streamlining business processes involves further reduction in costs. If inventories are automated, then business can use internet to share information like point-of-sale 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 known quickly and respective changes in the product can be made. Moreover, E-commerce allows customers to shop for 24 × 7 from any part of the world.

(v) **Business Expansion Opportunity**

Since E-business is done over internet, it has access to a broad range of customers from several parts of the world. Therefore, there is a greater chance of business expansion.

In addition to the above benefits, E-commerce also improves profit margins by automating supply chain managements. We can efficiently forecast the needs of customers. Labour costs can be drastically reduced. Therefore, it can said that E-commerce in the current business world has a greatest significance.

Examples of E-Commerce

If we want to purchase some commodities then, we need to directly approach a departmental store, order our goods, make payment and take the goods to home whereas in the pure e-commerce systems, if a customer wishing to purchase a game offered by some software company then instead of making a direct approach to the company, he/she can browse the company's website to locate desired game and download it by paying via electronic means such as credit cards, debit cards, e-checks, e-cash etc. With the existence of multiple online shopping stores, the customer can purchase his/her daily commodities by sitting comfortably at his/her residence with just a click on their mouse and the products are delivered to their doorsteps. In such a case, the payment is made electronically while the products are delivered physically.

The other examples of E-Commerce are as follows,

1. **Shopping e-stores**

The customer can do shopping using e-stores such as Amazon.com, Flipkart.com, Myntra, Nykaa etc.

2. **Mobile e-stores**

The online sites such as samsung, Oppo, Mi, Apple, Vivo etc are used by the customer to purchase mobiles.

3. **Transport**

Uber, Ola Rapido etc are the transport facilities where a person book online to move form one place to another.

4. **Electronics**

Through the advent of E-Commerce, customer can purchase the electronics such as refrigerator, washing machines, computer parts etc by using online sites for particular brand such as Bajaj, LG, samsung etc.

Q46. Highlight the role of e-commerce in entrepreneurship.

Answer :

E-commerce provides the entrepreneur the opportunity to be innovative and creative. It acts as a quick and easy interface 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 $ 11.176 billion dollars in 2001. It increased to $ 14.9 billion dollars (83% increase) within one year. The major players in the e-commerce arena are entrepreneurial firms such as Amazon.com, eBags, Overstock.Com, Flipkart.Com 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 for e-commerce include the following,

1. It provides the entrepreneur a quick, easy and effective vehicle to reach his target customers.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2. It provides a large customer base for the entrepreneur.
3. The entrepreneur would incur lower cost of interacting, marketing and transacting by using e-commerce as medium to communicate the mode of business.
4. The cheap and wide availability of the internet to the masses acts as an incentive for the entrepreneurs to opt for e-commerce business.

E-commerce is being increasingly used by mid sized and small sized entrepreneurial firms for sales and marketing purpose because it minimizes the marketing and selling costs. Further, the entrepreneur need to keep in mind two key components of internet commerce,

(i) Front end operations

(ii) Back end operations.

(i) **Front End Operations**

It refers to all the functions encompassed with the organizations web page such as, search capabilities, shopping cart, creating and maintaining a secure mode of payment for the customers and so on.

(ii) **Back End Operations**

These includes elements such as smooth integration of the customers orders, creating and maintaining a well structured distribution and warehousing 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 efficiently.

Q47. Briefly explain evolution of sources and methods of idea planning and development e-business ventures. Nov./Dec.-19, (R15)(A), Q5(a)

OR

Discuss the conceptual framework of E-business and its significance.

(Refer Only Topic: e-business Ventures/Architectural Framework of E-Commerce)

Answer : Model Paper-II, Q4(b)

Sources of Idea Planning and Development

For answer refer Unit-I, Q45, Topic: Sources of Innovative Ideas.

Methods of Idea Planning and Development

For answer refer Unit-I, Q47.

e-business Ventures/Architectural Framework of E-Commerce

Architectural framework of E-commerce is a combination of different available resources such as DBMS, data repository, communication protocols and computer languages. These resources allow the unification of data and software, for generation of superior applications.

The framework has six functionalities or service layers. They are,

1. Application services.
2. Brokerage services and data management.
3. Interface and support layers.
4. Secure messaging and structured document interchange services.
5. Middleware services.
6. Network infrastructure of basic communication services.

1. **Application Services**

This layer of framework determines the type of E-commerce application which is to be implemented. The different types of e-commerce applications available are as follows,

1. Business-to-business e-commerce
2. Business-to-consumer e-commerce
3. Consumer-to-business e-commerce
4. Consumer-to-consumer e-commerce
5. Business-to-employee e-commerce
6. Non-business e-commerce
7. Intra-organizational e-commerce.

2. **Brokerage Services and Data Management**

It is an information handling layer of the framework that governs and manages huge amounts of data on the network. It acts as a broker, or mediator that offers service integration between customers and information providers when provided with some constraints like, low price, fast service, or profit maximization for a client. For instance, a customer looking to purchase a specific book from the web goes through the sites of different publications. But, for this he/she will have to be aware of the URL's of these sites. In addition, the customer has to feed the details of the book repeatedly on different sites to search the services at best prices. However, if the customer finds an information brokerage site which can provide the book as per the need, then huge amount of time and effort is saved.

Some other characteristics of this layer are,

(i) It supports the data management and usual transaction services.

(ii) It offers tools to achieve much better, updates for future-compensating transactions.

3. **Interface and Support Layers**

The functions of this layer is to provide interface for e-commerce applications which include,

(i) **Interactive Catalogs**

These are the customized interfaces for applications such as web based shopping. They are an extension to the paper-based catalogs which possess additional characteristics like graphics and video for making the advertisement much attractive.

(ii) **Directory Support Services**

Directory services help the user in searching and accessing the information by making data from any server to appear as local file. They usually work in the background and try to manage the huge amount of information and transactions that are generated to ease electronic commerce.

The basic difference among interactive catalogs and directory services is that the former handles the people, whereas the latter interacts directly with software applications.

Scanned By Scanner Go

4. Secure Messaging and Structured Document Interchange Services

This layer of the framework deals with the secure transmission of messages by using an appropriate messaging system. The messaging systems usually used in transmission of messages are fax, post, courier and phone. However, none of these is totally dependable and expectedly fast. This is because, anything can go wrong in their transmission and these mechanisms consume time, depending on the distance between the source and destination. Therefore, enhanced electronic messaging systems like e-mail, enhanced fax and Electronic Data Interchange (EDI) are adopted in this layer to overcome this problem. The primary advantages of 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 structural documents which consist of the automated interchange of standardized and approved messages between computer applications.

5. Middle Ware Services

This layer of the framework is very important as it brings together the different components of the architecture such as, networks systems, software programs and acts as a mediator among them to make them communicate with each other. Also, these services shift the computing from application centric to data centric. The advantage with this shift is that the application can be controlled by the remote data in the network instead of applications controlling the data.

6. Network Infrastructure of Basic Communication Services

This layer of the framework is responsible for providing a network infrastructure that creates an effective and efficient linkage between the customer and the supplier. Initially, telephone companies were the medium of creating the computer networks. But, advancements in computer connections led to the development of centrally-controlled single connection model known as circuit-switching.

But, this was not suitable in case of large networks, hence another technique was introduced in the Internet which could send data efficiently across large networks and was known as 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 so as to deliver marketing information and also to gain customers attention. Banner ads, email marketing, search engine result pages are some of the examples of web advertisement. The major advantage of this kind of advertising is information is not restricted to any particular geography or time. This form of advertising is also referred to as interactive advertising that uses interactive media (interactive Tv, mobile devices, internet) to promote the customer's buying decision.

Method of Internet Advertising

Internet advertising or online advertising can be classified into mainly two types,

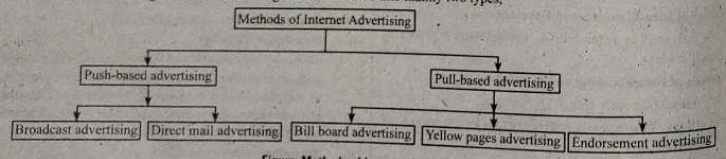


Figure: Methods of Internet Advertising

1. Push-based Advertising

Push-based advertising is the most inefficient type of advertising. This is because its does not convey relevant information to customers. In short we can say that information sent through this advertising is meaningless. It is also known as active advertising.

There are two types of push-based advertising,

(a) Broadcast Advertising

This is the first type of push-based advertising. Through broadcast advertising, different companies can advertise their products to unlimited number of customers. One of the ways by which broadcast advertising can be done is by using television. Doing broadcast advertising with television has both benefits and drawbacks.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Advantages of Broadcast Advertising

(i) Companies through television can visually explain the importance of their products.

(ii) It helps in reaching wide targeted audience.

Disadvantages Broadcast Advertising

(i) It is expensive to advertise through television.

(ii) It suffers due to time limitations.

(b) Direct Mail Advertising

This is the second type of push-based advertising. Direct mail advertising is the process in which companies advertise their products by sending mails to different customers.

Advantages of Direct mail Advertising

(i) Through direct mail advertising, companies can target only those customers who seems interested in buying their products.

(ii) Companies can send the product information in their own way. In other words, companies have full control over presentation of the message.

Disadvantages of Direct Mail Advertising

(i) There is a possibility that some messages received by customers will be of less importance.

(ii) 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 can have 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 is established thereby providing meaningful information to the customers.

Pull-based advertising can be classified into three types or forms,

(a) Bill Board Advertising

This is the first type of pull-based advertising. It is also known as world wide web advertising. In this type of advertising, one company has to take the help of other company for promotion of its products online. In other words, one company promotes its products through other company's online services.

Advantages of Bill Board Advertising

(i) Inexpensive to implement.

(ii) Companies through this advertising, can make their products reachable to different customers.

Disadvantages of Bill Board Advertising

(i) It provides limited information to users.

(ii) It constantly switches form one site to another due to which customer faces problem.

(b) 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

(i) Information can be kept for long time.

(ii) Using yellow pages for advertising is cheap.

Disadvantages of Yellow Pages

(i) Product information cannot be frequently updated.

(ii) Limited creativity in the ads.

(c) Endorsement Advertising

In this type of pull-based advertising. Companies ask different celebrities, sparts personalities etc to promote their products. But in case of online endorsement advertising, a company asks the customers to give feedback for its products. In order words company ask the customers to endorse its products.

Advantages of Endorsement Advertising

(i) It opens up new market for product.

(ii) It helps in building credibility by advertising through celebrities.

Disadvantages of Endorsement Advertising

(i) It is an expensive method of advertising.

(ii) It shows negative publicity, if celebrity indulge in any crime.

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 organizations.

1. Global Shopping Environment

With the evolution of internet, the customers can conveniently log on to any online shopping website, view all the available advertisements related to his/her desired product, place order for that product, pay bill via electronic payment systems 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 on products or services are available 24 hours a day and 365 days a year.

3. Detailed Information About the Products

The internet advertising also provides some automated tools to the advertisers that helps them in developing web-based detailed advertisements. So that the advertisers 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 supports the use of multi-media contents like audio, video, images, graphics, etc. Thus, with the help of multimedia contents, the advertisers can provide visibility to their products or services. This feature of internet advertisement facilitates the customers by giving a clear picture of their desired products. For an instance, consider an online air ticket booking counter, with the help of this internet advertisement the customer can view the aircraft in which he/she wish to travel, can virtually sit on the allotted seat to know the comfort level provided and then make the purchase.

Scanned By Scanner Go

5. **Comparative Shopping**

With so many shopping malls going online every year, the competition in the internet market has significantly grown, this leads to a rapid increase in the number of web advertisements. The online shopping sites are trying hard to attract the potential customers by introducing several productive offers, thus, the customers can have a glance on all the offers provided by different sites and choose the one which offers maximum benefits at the lowest cost and then a purchase it.

6. **Global Exposure**

With the evolution of online advertisements, the organizations are no longer bounded to their local boundaries, they can attract the customers via online websites i.e., by placing their advertisements on websites available or by creating their own websites. Thus, the people can be convinced to become customers irrespective of their geographical location by communicating via e-mail. Online educational institutions, e-businesses, e-suppliers are some of the examples of organization that get benefited through online advertisement.

7. **Affordability**

Internet advertisements are inexpensive compared to traditional forms of advertisements. A typical site with around four web pages consisting of about 3 images each, comes in a meagre 600 US dollars budget which also includes the web hosting subscription for one year. Moreover, there are no incremental costs, whether 100 or more people access it. After the completion of one year the subscription can be renewed with an annual renewal cost of 200 dollars.

8. **Attractive and Influential**

The advertisers can make use of multimedia contents like graphics, pictures, audio, video, animations, etc., in order to develop an attractive and influential advertisement. This advertisement is developed within an affordable budget because the cost associated with ad materials (such as color, brush, stool, ladder, cloth, etc.) printing cost employees needed etc., are nonexistent for online advertisements.

9. **Supports Printability**

The internet users i.e. potential customers can also obtain a hard copy of the advertisement by taking the prints with an ordinary printer from any computer connected to the internet. Thus, they can carry and share the hard copies with their friends or colleagues. Moreover, they can also forward the web advertisements to their colleagues via email messages which inturn leads to more publicity for web advertisers.

10. **Business Card and Online Brochure**

Internet advertisement also supports the use of hyper lines so, an organization can place the hyperlink of its home page on several sites and search engines. This hyperlink will usually be in the form of animated image which attracts the users to click on them. Once the user has clicked the image and entered the organizations home page, he/she will be subjected to various attractive packages offered by an organizations.

Disadvantages of Internet Advertising

Although internet advertising offers significant advantages, they have certain limitations. They are,

1. **Low Speed**

If the potential customers are connected to internet via a low speed connection, then, they may face significant delays while downloading the information from complicated websites (the one which have lots of animation in it).

2. **Lack of Contact**

The customers are not directly subjected to the product so, they cannot touch, smell, taste or 'try-on' the products before making the purchase.

3. **Lack of Trust**

Lack of trust among customers because they are not familiar with the permanent address of the advertisers.

4. **Lack of Security Issues**

Customers are unlikely to purchase from an online website because of security issues associated with electronic payment systems.

5. **Advertising**

Business cannot completely rely on online advertising because online advertising space is becoming crowded day-by-day and search engines keep on changing their algorithms at regular intervals.

2.10 NEW VENTURE EXPANSION STRATEGIES AND ISSUE

Q50. Explain in detail the new venture expansion strategies and issues.

Answer : (Model Paper-II, Q5(a) | Nov./Dec.-19, (R15)(A), Q8)

New Venture Expansion Strategies

The new venture expansion strategies are,

1. **Joint Ventures**

For answer refer Unit-II, Q51.

2. **Mergers**

For answer refer Unit-II, Q56, Topics: Merger, Types of Merger.

3. **Acquisitions**

For answer refer Unit-II, Q53, Topics: Acquisition/Takeover, Features of Acquisitions, Example of Acquisitions.

4. **Franchising**

For answer refer Unit-II, Q60, Topics: Franchising, Working of a Franchise.

Types of Issue

The various types of issues are,

1. **Public Issue**

For answer refer Unit-II, Q63, Topic: Public Issue.

2. **Right Issue**

For answer refer Unit-II, Q64, Topic: Rights Issue.

3. **Bonus Issue**

For answer refer Unit-II, Q66, Topic: Bonus Shares.

4. **Stock Split**

For answer refer Unit-II, Q67, Topic: Stock Split.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2.10.1 Joint Venture

Q51. What you mean by Joint Venture? What are its features, advantages and disadvantages?

Answer :

Joint Venture

Joint venture is an agreement between two or more parties joining together for some business purpose on a temporary basis. They together share the profits and losses of the business. The types of business undertaken by parties in the joint venture are trading activities, speculation, voyage, underwriting of shares and debentures of a new undertaking, construction activities and so on. Joint venture is an undertaking which intends to invest capital and business efforts in profit generating activities.

Features of Joint Venture

The features of joint venture are as follows,

1. Joint venture is a temporary association of two or more parties.
2. The parties in the joint venture share the profits and losses of the venture in agreed proportions. In the absence of agreement, profits and losses are shared equally.
3. The joint venture business comes to an end on the termination of the venture.
4. Determining the profits is easy in joint venture.
5. Majority of the accounting concepts are not applicable to joint venture for instance the going concern concept.
6. Joint venture is not a permanent partnership.

Advantages of Joint Ventures

Following are the advantages of joint venture,

(i) By bringing in a partner, the company can share the risk for a new venture.

(ii) JV's partner may also have important skills or contracts of value to the international firm.

(iii) Sometimes, the partner may be an important customer who is willing to contract for a portion of the new units output in return for an equity participation.

(iv) The partner may also represent important local business interests with excellent contracts to the government.

(v) A firm with advanced product technology may also gain market access through the joint venture route by teaming up with companies that are prepared to distribute its products.

Disadvantages of Joint Ventures

Following are the disadvantages of joint ventures,

(i) JV's result in disputes between or among parties due to varied interests.

(ii) The partners delay the decision-making once the dispute arises. Then the operation becomes unresponsive and inefficient.

(iii) Decision-making is normally slowed down in JV due to the involvement of a number of parties.

(iv) Scope for collapse of a JV is more due to entry of competitors, changes in the business environment in the two countries, changes in the partners strength etc.

Q52. 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.

OR

Examine the succession planning in joint ventures.

(Refer Only Topic: Factors that Contribute to the Success of Joint Venture)

Answer : April-17, (R13)(A), Q9(a)

Types of Joint Venture

There are five different types of joint ventures which are being formulated on the basis of the following,

(a) Same industry, same country.

(b) Different industry, same country.

(c) Different countries, domestic market.

(d) Different countries, international market.

(e) Different countries, new market.

Type 1: Joint Venture

1. Two firms from the same industry forms the joint venture.
2. They function together in the same country of their origin.
3. They enjoy the additional resources.
4. They also gain the benefit of extended shared markets.

Type 2: Joint Venture

1. Two firms from different industries enters into a partnership.
2. They belong to same country (origin is same) but from the different industry.
3. They make use of their diverse competencies and share mutual skills.

Type 3: Joint Venture

Two companies from different nations enter into a partnership for establishing the business in the domestic country's market.

Type 4: Joint Venture

Two companies of different nations enters into a joint venture to establish business in the foreign markets and competencies.

Type 5: Joint Venture

Two firms of different nations, enters into a joint venture to fully utilize their competencies in the new third country.

Reasons for Forming Joint Ventures

Joint ventures are formed for the following reasons,

1. In order to enter into the foreign market, to carry out business joint venture needs to be formed with local partners.
2. In order to carry out the large scale projects, which cannot be completed by a single firm.

Scanned By Scanner Go

3. In order to effectively utilize the multidimensional technologies resulted out by forming a joint venture of different firms.
4. In order to gain the advantage of technological competence from different firms.
5. Technically sound foreign firms usually collaborates with domestic firms in order to utilize and share the domestic firm's market share and marketing capabilities.

Strategic Issues Involved in Joint Ventures

The strategic issues involved in joint ventures are as follows,

1. Joint ventures are formed with an aim of taking/making use of the benefits from partnering firms and taking measures to overcome the weakness of both the firms.
2. Reducing or abolishing the competition by forming joint venture with their own competitors.
3. Joint ventures results in increasing the market share of the firms.
4. Diversification becomes an issue when both the parties in a joint venture are from different technological, marketing and management background.
5. Undesired environmental factors and forces would act as a hurdle in the effective partnerships.
6. Opportunities might act as an attractive feature in formulating various new types of joint ventures, resulting in dissolution of previous ones.
7. Threats of existing industry may act as the strategic issue in forming a successful joint venture.

Factors that Contributes to the Success of Joint Venture

The following factor are considered as the succession planning factors in joint venture. These factors efficient contribute to the success of joint venture.

1. The management of both the organizations need to have open communication about how to manage the joint venture.
2. The motives, expectations, roles and responsibilities of both parties need to be clearly understood by the other venture partners.
3. The managers of both the partner firms need to adhere to the stated objectives of the joint venture and also cultivate good professional relationship with the other managers.
4. The expectations of the outcome from the joint venture need to be reasonable and mutually agreed upon.
5. The timing of the joint venture need to be perfect. Both parties need to study the global micro and macro environmental factors before entering into the joint venture.

2.10.2 Acquisitions

Q53. What is acquisition or takeover? Explain its features and what are guidelines for effective takeovers?

Answer :

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 acquisitions, business is purchased through cash, stock or combination of both.

Acquisitions are something different from mergers. In mergers, CEOs of both the companies agree for combining their firms resource 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,

1. It is responsible for documents of the company.
2. It is becoming owner of the assets like plant, division or entire company by purchasing.
3. It is taking the authority/power of company by purchasing voting shares in large quantity i.e., 51 percent or more.

Example of Acquisition

The Walt Disney Company in 1996 made a major acquisition. It purchased Capital Cities/ABC Inc., so that it can expand its control in entertainment industry.

Tips/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,

1. The management should clearly set and mention the key objectives for initiating the process of the acquisition. One important objective is to make profits.
2. It must follow a sequential process wherein every thing must be stated in a stepwise procedure as to how these objectives must be achieved during a particular period of time.
3. It is important to ascertain the organizations, managerial qualities and the compatibility of business styles.
4. In the dynamic business environment it is quite essential to predict problems and be ready with list of possible solutions.
5. The acquiring company must greatly focus upon the gain of the shareholders, generated from acquisition. Further, it should also take the management of the acquired firm into confidence.
6. Conduct a SWOT analysis of both the firms, in order to determine the key areas of strengths and weakness of both the firms.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

7. The chief executive officer must play an active role in the process of merger/takeover.
8. It must be made sure that the present management of both the firms do not face any kind of threat of layoff.
9. Employees must be considered as the important factor while planning and structuring the organization.
10. Finally, organizational members of both the firms must be given equal dignity and respect every time.

Q54. What are the advantages and disadvantages of takeovers or acquisitions?

Answer :

Advantages of Takeovers

The advantages of takeovers are as follows,

1. It helps the firm in utilizing economies of scale in different business operations, such as production, marketing information systems, financing, etc.
2. It helps in replacing an inefficient management team with an effective team, efficient workers of both the companies are combined to form a new management team.
3. It is assumed that takeovers are effective measures to protect the interest of shareholders.
4. It help in generating economies of operations, which ultimately leads to synergistic benefits by combining two different businesses which are efficient in specific operation.
5. It saves the companies which were managed inadequately by the incompetent managers.

Disadvantages of Takeovers

Following are the disadvantages of takeovers

1. It regarded by some economists and authors as a destructor of jobs and local communities.
2. Usually, the commitments in takeovers are not fulfilled.
3. It involve many costs in it, such as remuneration to lawyers, management officials and all other people who support in preparing and carrying out a bid.
4. Peter Drucker believes, that takeovers destroy the confidence of employees.
5. It may lead to redistribution of wealth which causes a reduction in efficiency.
6. It involve agency costs which are related to agency conflicts that arise in the process of takeover.
7. As the size of the firm increases in takeover, the remuneration of executives increase rapidly, even though their efficiency does not improve.
8. If diseconomies of scale or scope related to takeover are not identified then it may have a great impact on value of the firm.

Q55. What are the reasons behind acquisitions?

Answer :

Acquisition, a business strategy is highly in demand and quite popular in the present era. A rapid growth in the rate of mergers 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

Greater/Good 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 most qualitative products would be offered to the consumers at lower competitive prices. Market power is usually influenced by the size, resources and capabilities of a firm. Therefore, in order to maximise these factors, firms acquire competitor firm, supplier, distributor or a related business.

2. Overcoming Entry Barriers

Entering 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. These firms make use of various distinctive competitive strategies and enjoy large share of customer loyalty. Thus it becomes very difficult for the firms to adjust in 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 be easier to study and analyse the markets within short period.

3. Less Risk Compared to New Product Development

New Product Development (NPD) requires huge capital and a number of resources as one may not be sure whether the new product would be successful in the markets or not. Therefore, there are greater risk levels of involved in NPD. But in case of acquisition, products are not new to the customers. They are the existing products with good demand in the market. Therefore, acquiring business of such products would involve lower levels of risk when compared to the risk levels involved in the NPD.

4. Increased Diversification

Basically when a firm aims to diversify its operations into unrelated products, then it needs good capacity to produce them. Acquiring a readymade business of unrelated products would be more beneficial rather than increasing the existing capacity levels.

5. Minimising Dependency

Carrying out the business by marketing only single product would make a firm depend for its success on that particular product. The firm would enjoy good returns in the favourable market conditions. Incase of high competition, low demand or any other unfavourable market conditions then the returns would be very low of that particular product. As a result the complete operations of the firm would get disturbed.

Scanned By Scanner Go

2.10.3 Mergers

Q56. What is a merger? What are the types of mergers? Write the reasons/motives for mergers.

Answer :

Merger

A merger refers to integration or combination of two or more companies but, only one company continues its business. The other company which discontinues its business transfer its assets, debts, etc., to the company which is in existence.

Types of Mergers

A company can merge with another company in four different types. They are as follows,

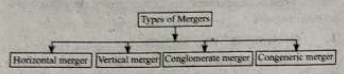


Figure: Types of Mergers

1. Horizontal Merger

When companies engaged in same type of production, 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 competitors.

2. Vertical Merger

When companies involved in different stages of production or distribution of a product amalgamate, it is known as vertical merger. Companies mainly merged vertically in order to reduce cost of searching for prices, contracting and also to eliminate the cost of communicating.

Example

Combining a automobile manufacturing company and automobile marketing company or combining eatables 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 it suppliers, it is backward merger and if a company merges with its customers, it is a forward merger.

3. Conglomerate Merger

When companies engaged in different fields of business activity is known as conglomerate merger.

Example

Combination of cement manufacturing, electronic products, insurance investment and advertising agencies.

Conglomerate firms must have knowledge about research, production, marketing, etc., then only a conglomerate merger becomes successful.

4. Congeneric Merger

When companies engaged in same industry but neither in same business line nor a customer or supplier of each other.

Example

A pharmaceutical company producing antiulcer drugs merging with company producing anticancer drugs.

Congeneric merger is useful for these companies who are in sales and distribution channels, to benefit customers of both the businesses.

Reasons/Motives for Mergers

There are many reasons or motives behind mergers but some of them do not contribute for economic development of the firm. Some reasons which do not create value are,

1. Strategic Benefit

Strategic benefit mainly aims at achieving long term plans and implementing them. When a firm desires to enter or expand in a particular industry, acquisition provides more advantages than internal expansion. Some of them are,

(i) It prevents competitors and avoids competition.

(ii) It can pass over several stages of expansion in a short span of time.

(iii) It ensure less risk and less cost.

(iv) Merging in a saturated market helps in expansion and replacement which is more suitable than developing a new firm through internal expansion.

2. Economies of Scope

A company can broaden its scope by a particular set of skills or assets which it possesses.

3. Economies of Vertical Integration

Economies of vertical integration can be accomplished when companies engaged in different stages of production merge together. However, vertical integration is not suitable in all situations. If a company performs all functions on its own, then benefit of outsourcing is lost.

4. Complementary Resources

Each firm specializes in certain activities. When firms with complementary resources merge together, they can effectively utilize the resources and produce innovative products.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

5. Managerial Effectiveness

In the event of merger, managerial effectiveness also increases. When inefficient managerial team is replaced by an effective managerial team, it leads to the progress of the firm. Another advantage would be in the form of compatibility between the interests of the managers and the shareholders. With the help of merger an effective discipline of management can be maintained.

If poor performance leads to the risk of acquisition of a firm, the managers will struggle and improve their performance.

6. Diversification

The main reason for merger is to reduce risk through diversification. Diversification implies dividing or spreading the business in different product lines. Reduction of risk in the merging concept 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 it implies low risk and positive correlation implies high risk.

Q57. What are the advantages and disadvantages of mergers? Write the reasons for failure of mergers. Outline the guidelines for effective merger.

Answer :

Advantages of Merger

The following are the advantages of mergers and acquisitions,

1. A firm can get an easy access to the market and technology through mergers and acquisitions.
2. It become easy to gain access to patent rights and technology through mergers and acquisitions.
3. With the help of mergers and acquisitions, the firm can get the firms ownership and control immediately on the factories, technology, employees and distribution networks, of the acquired firm.
4. In mergers and acquisitions, when the industry had attained the optimum capacity level in the host nation, then this strategy will assist the economy of the host country.
5. The firms can attain more profits with the formulation of international strategy.

Disadvantages of Mergers

The following are the disadvantages of mergers and acquisitions,

1. Many companies have landed themselves into financial and other problems due to indiscriminate acquisitions.
2. If the evaluations are not done properly, then the decision of acquisition can be wrong or ineffective.
3. If an enterprise in taken over, its problems are also usually taken over by the firms.
4. Certain units which have been acquired may have problems like obsolete technology, old plant, surplus labour etc.
5. In some situations, restrictions are levied by the host countries on the acquisition of domestic firms by the foreign firms.
6. It is very difficult to acquire a firm in a foreign country as it involves lawyers, bankers, mergers and acquisition specialists, from both the countries.
7. This strategy does not add any capacity to the industry.

Reasons for Failures of Mergers

The reasons for failures of mergers are as follows,

1. Many companies usually tends to pay too much to acquire a firm, that is more than its estimated value. This may result in failure of mergers.
2. Holding greater expectations from the mergers, usually leads to the downfall.
3. Ignoring to take into consideration the pros and cons of a mergers consequence usually results its failure.
4. Not having appropriate knowledge and going for diversification would result in the failure of the merger.
5. Incurring debts and loans, while acquiring a firm by moving beyond one's own purchasing capacity.
6. Making efforts to merge various cultures ranging from high to level corporates.
7. Completely depending upon the key personnel for functioning of the merged firm, results in failures.

Guidelines for Effective Mergers

The following are the guidelines which the firms must follow for making the mergers successful and effective,

1. Mergers needs accurate and systematic planning.
2. Human resources should be given adequate attention as that of financial resources.
3. The assessment of a candidate of a merger is a significant process in mergers.
4. The legal factors should be evaluated carefully and systematically.
5. Successful mergers are the mergers which creates synergy.
6. The employees of both the merging firms should be equally credited with the benefits of the merger.
7. The firm should lay emphasis on the preparation of a detailed and separate merger plan.
8. Effective guidelines should be prepared for the execution of authority and responsibilities of the merging firms.
9. Techniques like "feed-forward" and 'MIS' should be devised and implemented for effective execution of mergers.

Scanned By Scanner Go

Q58. List out the difference between merger and acquisition.

Answer :

S.No.	Basis	Mergers	Acquisition
1.	Meaning	Merger is an integration of two or more companies but only one company continues its business.	Acquisition is an activity in which one company controls the other company.
2.	Agreement	In mergers, the CEO's of both the companies agrees for combining their business.	In acquisitions, the company which is acquired may not be willing to combine.
3.	Financing	Mergers are financed by stock swap.	Acquisitions are financed by cash and debt combination.
4.	Types	Horizontal, vertical, conglomerate and congeneric mergers are the different types of mergers.	Horizontal, vertical, related and cross-border acquisitions are the different types of acquisitions.
5.	Nature	Merger is a narrow, technical term of specific legal procedure which may or may not follow acquisition.	Acquisition is a generic term used to explain a transfer of ownership.
6.	Ownership	In mergers, one company purchases the stock of other company and second company closes down its business.	In acquisitions, one company controls the other company by purchasing voting shares in large quantity i.e., 51 percent.
7.	Example	ITC Kakatiya and Sherton merged into a single entity.	Walt Disney company acquired capital cities/ ABC Inc.
8.	Advantages	Mergers helps in preventing competitors. ❖ It helps in combining the resources and efforts of two companies. ❖ It minimizes companies operating costs and increases their growth level.	Acquisitions reduce competition by acquiring the competing firm.
10.	Disadvantages	A company faces cultural and managerial problem 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 : Nov./Dec.-19, (R15)(A), Q9(b)

Issues in Acquisition

Acquisitions besides playing a significant role in gaining competitive advantage also includes some serious challenges in being successful. According to a research, majority of acquisitions i.e., around 60% gives unwanted or disappointing results to their owners. 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.

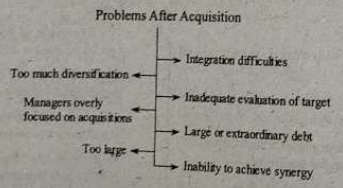


Figure: Problems Faced by Firm in Achieving Acquisition Success

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. **Integration Difficulties**

Integrating the operations of two different firms is not at all an easy task. It is very difficult to integrate financial, managerial, manufacturing, logistics and other key functions of two firms. Integrating operations plays an important role in the acquisition concept. Lack of effective integration would give negative results to the management. It would basically result in conflicts and would greatly effect the working conditions if the employees, managers and other entrepreneurs (suppliers, dealers etc). The acquiring firm should duly take into consideration all the aspects such as, linking two different corporate cultures, resolving the problems and clarifying the doubts of executives, building healthy relationships and so on.

2. **Too Much Diversification**

Diversification increases the competitive advantage and the normal profits of the firm, thus firms are usually greatly interested in diversifying their operations in the continuous manner. But continuous acquisitions and mergers would often result in overdiversification. As a result it would become difficult for the firms to control and co-ordinate the activities. Too much diversification would directly affect the performance of firms, because of which it may happen that the firm would loose its competitive advantage.

3. **Inadequate Evaluation of Target**

Effective evaluation of target company for merger or acquisition is very crucial. Many firms face serious issues due to inadequate evaluation of acquired company in their pre-acquisition period. Firms usually follow the process of "due deligence" for evaluating the firms which are to be acquired. Firms would assign the due deligence process to specialists such as lawyers, accountants, management consultants, investment bankers and inhouse due deligence team. This process basically includes the examination of various related and unrelated activities including financial management, cultural differences of firms, activities required and so on.

4. **Managers Overly Focused on Acquisitions**

Acquisitions require considerable levels of managerial activities. Managers need to perform key tasks like identifying highly beneficial firms which are to be a acquired, practising due deligence process, making successful negotiations, integrating operational activities and so on. Therefore, managers might get deviated from their actual performance leading to poor monitoring and controlling on the existing operations.

5. **Large or Extraordinary Debt**

For the purpose of mergers and acquisitions, researchers have observed that the firms are significantly increasing their levels of debt. Bidding by the firms is increasing the amount of acquisition to really surprising prices. In order to pay this price, the acquiring firms are usually approaching the financial institutions and other bankers for taking loans/debts. Junk bonds gained popularity mostly because of acquisitions and mergers. Due to large or extraordinary debt, the share price is being seriously affected in the markets.

6. **Too Large**

Acquisition would usually transform the small or medium scale firm into a large scale firm. Large scale firms enjoy many benefits such as bulk purchases, low manufacturing costs, less advertising and marketing expenses and so on. But after a certain point managing and controlling large scale operations becomes difficult and results in increased expenses. In such circumstances, the benefits of large scale operations would be dominated by its increased expenses.

7. **Inability to Achieve Synergy**

Basically the word synergy means working together. When two different firms work together and achieve those results, which were 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 extraordinary efforts to analyse the present, past and estimate the future operations of both the firms.

Issues in Mergers

There are many issues of importance that have to be dealt with in mergers. These are, strategic, financial, managerial and legal issues.

1. **Strategic Issues**

It relates to the commonality of strategic interests between the buyer and seller firms. It is important to consider the extent to which a merger may lead to positive for this, the strategic advantages and distinctive competencies of merging firms have to be analyse. Besides these, there has to be a match between the objectives of the firms.

A merger should ideally lead to the generation of strengths that would help the post-manager organization to achieve its objectives in a better manner.

2. **Financial Issues**

It relate to the valuation of the seller firm and the sources of financing for mergers to take place. Valuation involves assessing the value of the seller firm. Though difficult, value may be assessed keeping in view the assets, market standing and opportunity, earnings potential or stock value. A common procedure is to use the Discounted Cash Flow (DCF) method. Other popular methods are, net tangible asset value , profit-earning capacity value, or a combination of these three methods.

3. **Managerial Issues**

It relates 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 process of the merger itself. Usually, mergers are followed by changes in staff, specially chief executive and top managers. If there is an assurance from the management about the continuation of the existing employees then the merger will go smoothly and if they perceive danger, the result will be opposition and the process of merger will be difficult. Quite the often merger attempts are foiled because of managerial issues.

Scanned By Scanner Go

4. **Legal issues**

It relates to the provisions made in law for the purpose of mergers. In India, the provisions relating to mergers and amalgamation and other schemes are contained in Chapter V of the Companies Act. 1956.

2.10.4 Franchising

Q60. 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 "to free". The word franchise signifies a special privilege or right, free from specific limitations, provided to an individual or group. It is a hybrid form of starting a business for oneself.

In the recent scenario, the term franchise represents a right provided by a principle, which permits its one or more agents to sell or offer its products or services under its name, trademark and sales promotional facilities. In other words, franchise is an agreement involving the principal and its agents or agents aiming to attain 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 franchiser, the smaller is franchisee. Franchisee operates a retail outlet using the format and brand name of franchiser. Franchiser provides training aids, advertising support and location to franchisee for successful operation of business. The franchisee pays a huge amount on all sales for the right to operate the retail store and this is done in accordance with prescribed procedures by the franchiser.

Working of a Franchise

Almost all the business franchise systems for goods and services work in a similar manner. The individual franchise sign contracts for a complete business package.

The following points helps in understanding "how franchising works",

1. Invest money in the franchising activities.
2. Procure and maintain standardized equipments and/or inventory (generally purchased from the franchisor).
3. Maintain a particular level of quality in the 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 enjoys a major chunk of success than other ways of starting a business.
2. If a franchiser has experience, the franchisee can be at minimum risk.
3. Franchisee need not invest huge amounts on technology as it is readily available to him by the franchiser.
4. Franchiser's reputation is enough to provide support both financially and technically to the franchisee.
5. Franchisee is at an advantage as the clientele possesses good image which plays an important role in product sales.
6. Maintaining a centralized purchasing system ensures economies of scale and helps in saving cost for the franchiser and franchisee also.
7. Franchiser provides assistance to increase sales by advising franchisee.
8. Franchiser assures the franchisee that no other outlet of the same company would be opened in the area of franchisee.
9. It is a form of entrepreneurship as the franchisee becomes sole owner for that period of time.
10. Advertising for the franchisees is to be done in a cost effective manner.

Disadvantages of Franchising

The disadvantages of franchising are as follows,

1. The franchisee is responsible for huge investment and has to pay royalty on a monthly basis to the franchiser.
2. Franchisee does not have much freedom to operate as he is bound by the procedures laid down by the franchiser.
3. Franchisee must employ the same culture as adopted by the franchiser. The ambience of the outlet need to match with that of the franchiser.
4. Franchisee is left with small portion of profits.
5. The franchisee cannot cancel the agreement as and when required, he needs to abide by the clauses mentioned in the agreement.
6. Any conflict arising between the parties may be affecting the franchisee than the franchiser.

Q61. Explain detail the characteristics of joint ventures and franchising with suitable illustration.

Answer : April-17, (R13)(A), Q8

Characteristics of Joint Ventures

For answer refer Unit-II, Q51, Topic: Features of Joint Venture.

Illustration

Order and Toyota agreed for a joint venture in 2011 in order to develop hybrid trucks.

Characteristics of Franchising

The following are the features of franchising,

1. An agreement is made between the franchisee and franchisor along with the agreed terms and conditions of running a franchise business.
2. Franchisee use the patent and trademark of the franchisor under a licence.
3. Franchisor will receive a regular fee from the franchisee for the licence.
4. The franchisee will obey the rules/policies framed by the franchisor with respect to business operations.
5. Franchisor may organize training programmes for the employees of franchisee.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Illustration

Best example of franchising is McDonalds. Provision of quality products and services is the main feature of its franchising agreement. Through operational assistance raw material, training, accounting systems and some commercial and ethical practices are provided the by the franchiser.

Q62. Discuss the opportunities for diversity in franchising and the challenges of global franchising.

Answer : Nov./Dec.-17, (R15)(A), Q8

Evaluation of Opportunities for Diversity in Franchising

There are no particular methods or techniques on models through which an average entrepreneur can evaluate the franchise operations and decide whether to buy a franchise operation or not. Because of this reason decision to purchase a franchise business considered to be a risky job.

One research study stated 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 in franchising involves 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 franchise opportunities. The basic sources of information could be – News papers, Internet, Business publications, Journals etc., other sources can be,

(i) Entrepreneur magazine having ads on franchise opportunities.

(ii) Exhibitions and trade shows conducted by franchisors.

(iii) A website called entrepreneur.com that lists the leading and growing franchises every year.

Step 2: Careful Study About Franchisor

The information regarding franchisor has to be obtained before investing in franchise operations. An investment in franchising business without carrying out clear investigation about franchisor may result in losses. While investigating about franchisor, the prospective investor must observe the following things,

(i) If the franchisor shows very eagerness in selling the units, it is an indication of some fault with seller's business.

(ii) If the franchisor shows less interest in selling, then it indicates that seller is more interested in royalty rather than business. He is interested in fees only.

An investor should remember that none of the franchisor will be ready to sell his/her franchise business to an ineffective person.

Example

McDonald chooses best application for franchising and this is the reason for its successful businesses spread.

Step 3: Take Professional Advice

Once the franchisee conducts a clear study about the franchisor then the next step is to approach a professional for advice before signing the franchisee agreement. The professional analyses the franchise contract and explain the following issues to the franchisee (an investor).

(i) Explains the penalties and restrictive clauses associated with the contract.

(ii) **Cancellation and Renewal of Franchise**

This includes the issues such as–franchisor taking back the franchise for some reason, furnishes fees refundable in situation of cancellation, agreement cancellation in case if the franchisor wants to repurchase the franchise.

(iii) **Other Issues**

This include franchise fee, percentage of earnings to be paid to the franchisor, training considerations, scope and limits of the franchise and sources of material supply. Apart from this, the lawyer examine the degree of franchisor involvement in the operations such as performance standards, price regulations etc.

(iv) Lastly, the franchisee approaches a CPA (Certified Public Accountant) to perform the operations of data review and preparation of income statements for some years. He also seeks advice regarding the nature of the investment and actions to be taken.

Setp 4: Final Decision

After the successful completion of all the previous steps, the final decision whether to purchase a franchise or not is left to franchisee.

Challenges of Global Franchising

The challenges of global franchising are as follows,

1. The franchisee is responsible for huge investment and has to pay royalty on a monthly basis to the franchiser.
2. Franchisee has no much freedom to operate as he is bound by the procedures laid down by the franchiser.
3. Franchisee must employ the same culture as adopted by the franchiser. The ambience of the outlet need to match with that of the franchisee.
4. Franchisee is left with small portion of profits.
5. The franchisee cannot cancel the agreement as and when required, he needs to abide by the clauses mentioned in the agreement.
6. Any conflict arising between the parties may be affecting the franchisee than the franchiser.

Scanned By Scanner Go

2.10.5 Public Issues, Rights Issues

Q63. Write a brief note on public issue and its role.

Answer :

Public Issue

Public issue 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 acts as underwriters. Investment bankers acts as intermediaries between issuers and investors. For instance, issuer sell securities to the investment bankers who further resell them to the investors. Thus, investment bankers underwrite the new issues by purchasing the securities from the issuer and assuming the risk of reselling the securities to the investors.

Role of Public Issue

The role of public issues can be analysed by understanding the functions of lead manager of public issue. Following points may highlights the role of lead manager of public issue.

1. To structure the public issue by considering the factors like requirement of company's funds, investor's expectation and other factors.
2. To submit the draft prospects to Security Exchange Board of India (SEBI).
3. To arrange underwriting by financial institutions, brokers and commercial banks.
4. To analyses and finalize the prospectus of public issue with the consultation of solicitors, stock exchange authorities etc.
5. To coordinate the efforts of brokers, bankers, registrars, advertising agencies etc.
6. To design an effective marketing strategy for public issue.
7. To control and monitor the public issue during the period of subscription.
8. To help in finalizing the basis of allotment.
9. To assist in securing listing of stock exchange.

Q64. What is rights issue? What are the guidelines issued by SEBI for rights issue? State its merits.

Answer :

Rights Issue

Rights issue is an official invitation given by the company to its shareholders regarding the subscription for the purchase of further shares issued by a company. A 'right' represents an option or a choice that has to be made by a shareholder for the purchase of securities at a predetermined price. A limited company after obtaining the approval from its articles of association can issue new shares (either equity or preference) such terms ensure the equitable distribution of shares without altering the existing shareholdings in the company. Section 81 of the Companies Act, 1956 has laid down a procedure for a public limited company who want to increase their share allotments, after the expiry of two years from the incorporation and the formation of the company. It includes the following steps,

1. Issue of shares in proportion of their contributions made for the paid-up capital.
2. Issue of notice as an offer specifying the number of offered shares.
3. Accepting the offer for the purchase of alloted offered number of shares within the stipulated time period, which should not exceed beyond 15 days of the issue of notice.
4. Shareholders can use their rights for renouncing the offered shares to their nominees. The further subscription of shares offered to the existing shareholders are called "right shares" However, such shares become privileged subscription or right issue if they are offered to the equity shareholders.

Guidelines Issued by SEBI for Rights Issue

Only after complying with the legal requirements terms and conditions set down by SEBI (Securities and Exchange Board of India), a company can issue the right shares. SEBI has proposed several guidelines for the issue of rights share which are as follows,

1. All those companies who want to subscribe further share are required to issue an advertisement stating the last date of filling a subscription form, opening and closing date of subscription lists and so on. Such advertisement needs to be published in atleast two recognized Indian newspapers furnishing all the details.
2. Such advertisements need to be issued prior to one week of declaring the opening date of the subscription list.
3. If the shareholders are not in a position to receive either original or a duplicate subscription form, he can file his subscribed shares on a plain paper.
4. Rights issue should not be made valid for more than 60 days instead a specified time period need to be alloted for its issue.

Advantages/Merits of Rights Issue

The following are the advantages of rights issue made to the existing shareholders,

1. It avoids the expense which has to be increased by a firm during the issue of shares to the public.
2. It is associated with certainty factors as they have to be sold to the existing shareholders.
3. It improves the image of the firm which inturn stimulates alternative responses from the shareholders and the investment market.
4. It plays a vital role in maintaining the equitable distribution of shares so as to ensure the attainment of equilibrium and control of the company is preserved in the hands of the existing shareholders.
5. Through renouncing the nominee, directors do not take undue advantage of the opportunity of issuing the new shares to their relatives and friends, even they can built the strong relationship with the company.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q65. What are the factors determining the success of a rights issue?

Answer :

The success of the rights issue of any firm is mainly dependent on its ability to attract the existing shareholders to make investment.

Following factors are responsible for influencing the success of the rights issue,

1. **Conditions of the Investment Market**

As the investment market is highly volatile it undergoes fluctuations even in a second. Hence, a firm must consider those markets that are less volatile and which undergoes change only due to the occurrence of certain events as the favourable market conditions ensure the success of the rights issue whereas, the unfavourable market conditions adversely affects 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, so is the case with the rights issue. During this time period, earning get scattered over the large number of shares. Such distribution helps in reducing the EPS which is followed by the decline in the market prices of share. Even, there are situations in which the market price goes down far below the price of the offered shares. Under such situations, not even a single investor would invest in the rights issue causing the failure of the entire process of the rights issue. Hence, management need to take decisions regarding the further subscription of shares by considering its impact even on 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 thumb rule that has to be followed by a firm while deciding the size of the rights issue. The smaller the issue, the more likely it is to succeed. Hence, there is no rule about what size it must 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 comes down below the prices of the rights issues. This decline causes reductions in the Earnings Per Share (EPS) value of a firm. Thus, it is advisable to the firms to offer shares in small size in comparison to its equity capital. However, if the firm has plans for future expansions, then the entire 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 is to be offered to shareholders the management should be very cautious and careful. It needs to be fixed by considering the trends of the market condition, conditions of investment market, size of the issue and its effects on earnings per share etc. It has been observed that the rights issue are offered at low price than the market price of the share due to two reasons,

(i) To enable the shareholders to avail the benefits of the new issue.

(ii) To ensure that investor that even in case of decline of 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

Q66. What is bonus shares? What are its advantages and disadvantages?

Answer :

Bonus Shares

Bonus shares are those shares which are given by the company to its shareholders as a bonus. Bonus can be in any form either cash or shares. When company is not in a position to give bonus in cash it issue bonus shares.

The meaning of bonus shares in dictionary is "an extra dividend paid to shareholders in a joint stock company from surplus profit". Bonus shares are referred as shares allotted by capitalization of the reserves or surplus of a corporate enterprise.

Profits of the company are converted into share capital with issue of bonus shares. Capital structure of the company is not influenced by issuing of shares as it is capitalization of shareholders equity.

Bonus shares are useful to both shareholders as well as company in many ways.

Advantages of Bonus Shares

Advantages of Bonus Shares to Company

Some of the advantages of bonus shares to the company are,

1. **Conservation of Cash**

While issuing bonus shares companies does not require cash. They can utilize the same cash for the purpose of investment in profitable projects. Hence company can retain its liquidity position.

2. **In Financial Crisis and Contractual Restrictions**

When there is shortage of cash, or company is not in a good condition to distribute dividend then with issue of bonus shares alone, company can satisfy and maintain the confidence of shareholders.

3. **Solution for Under-capitalization**

Under-capitalization is a situation in which dividend rate is very high. Rather than paying dividend in cash, company will issue bonus shares to decrease the dividend rate.

4. **Expanding the Share Market**

Usually, small investors do not get attracted towards the shares 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 invest their funds.

5. **Economical Issue of Securities**

The expenses incurred while issuing bonus shares is less as it excludes underwriting commission, brokerage, etc. Bonus shares are allotted to prevailing 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 stock dividend (bonus shares) unlike cash dividend where they have to pay tax same as ordinary income.

Scanned By Scanner Go

2. **Marketability of Shares**

Shareholders who are in severe need of money dispose off their bonus shares. In this way, by issuing bonus shares, many people can be attracted and its marketability position can be increased.

3. **Increase in Future Profits of the Company**

When company anticipates that profits will increase in future then it issues bonus shares. Usually payment of stock dividend is considered as an indicator of increase in earnings.

4. **Increased Future Dividend**

When a company is ensuring to pay constant rate of dividend and maintains it after issuing bonus shares, then it is beneficial for shareholders as they get huge amount of cash dividend in future. It may have a position impact on the value of shares.

5. **Psychological Value**

Issue of bonus shares have a positive psychological impact on shareholders. It helps in increasing the value of shares leading to success of the company.

Disadvantages Limitations of Bonus Shares

Some of the disadvantages limitations of bonus shares to the company are,

1. Shareholders who prefer cash dividend instead of stock dividend may feel dissatisfied.
2. Capitalization of company is result of issue of bonus shares. It is valid only when there are huge profits in the company.
3. Shareholders assume that prevailing rate of dividend will continue even after issue of bonus shares but it is very difficult for company to maintain same rate of dividend per share.
4. When bonus shares are issued, it leads to restriction 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 giant stock dividend. A stock split is a change in the number of outstanding shares of stock achieved through a proportional reduction of increase in the par value of the stock.

The management employs this device to make a major adjustment in the market price of the firm's stock and consequently in its earnings and dividends per share. In stock split only the par value and number of outstanding shares are affected. The amounts in the common stock, premium and retained earnings remain unchanged.

Reasons for Stock Splits

A number of reasons may be offered for splitting of the firm's common stock. These are,

1. **Broader Marketability of the Stock**

The basic reason of stock split is to provide broader and more stable market for the stock. It is agreed that when stock prices of a company tend to rise sharply due to economic prosperity of the company and its improved profit- ability and it is believed that the price of the stock has moved out of the price range of any investors narrowing the market of stock, the management may, in a bid to promote wider distribution of shares, resort to stock split. Stock split will result in lowering price of stocks will be within easy reach of common investors.

2. **Need for Garnering External Resources**

A company contemplating to garner funds from the market may use stock split prepare ground for new issues. In times of rising stock prices, market price of shares of profitable and prosperous companies rises beyond the research of a large number of investors. In view of limited saleability of shares, companies may experience a great problem in acquiring desired amount of capital. Thus, to increase the marketability of new issues, stock split is very often used.

3. **Merger of Acquisition of Companies**

A firm contemplating merger or acquisition through exchange of stock will often split its stock to make the transactions more attractive to stockholders of the firm it is taking over.

Differences between Bonus Shares and Stock Splits

Bonus shares are different from stock split in following points,

S.No.	Basis	Bonus Shares	Stock Split
1.	Share value	The average value of the share is fixed.	The average value of the share is reduced.
2.	Reserves	A portion of reserves is capitalized.	Reserves are not capitalized.
3.	Ownership	The consistent ownership of shareholder is permanent.	The consistent ownership of shareholder is permanent.
4.	Impact upon profits	Bonus issue reduce the profits and reserves.	There is no impact of stock split on accumulated profits.
5.	Book Value	The book 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: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2.10.7 Choosing Location and Layout

Q68. What is Plant Location? Discuss the need for plant location. What are the factors influencing plant location?

Answer :

Facility/Plant Location

Plant location refers to the choice of optimal place 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 any of the following conditions,

1. When an entrepreneur starts a new business.
2. When the current business unit does not have any scope for expansion and it had outgrown its original facilities.
3. When a lease expires and the landlord is not willing to extend its leasing contract.
4. When expansion of the business volume or the degree of market took 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 improper 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 which is establishing a new plant should consider the following specific and general factors,

1. **Specific Factors**

The specific factor are as follows,

(i) The country's economic stability and its concern towards outside economic investment.

(ii) Language and culture should be considered as they may create operating, control and policy problems.

(iii) Wage rate, duties and policy should be analyzed carefully.

(iv) It is good for a company to establish joint ventures to solve several operational problems.

2. **General Factors**

The General Factors are as follows,

(i) Availability of land for present and future requirements.

(ii) Cost of land, land development and building.

(iii) Accessibility to the market, disposable of waste and demand stability.

(iv) Availability of inputs like raw materials, labour etc and availability of infrastructure facilities such as financial institutions, power, water, banks etc.

(v) Easy access to transportation facilities such as water ways, airport, rail and road.

(vi) Recreational facilities, housing facilities and communication facilities.

(vii) Demographic factors such as academic institutions, population, living standards, trained manpower, income level etc.

(viii) Societal culture and security including government support, subsidy, grant and tax structure.

Q69. Describe the principles of a good plant layout and its objectives.

Answer :

Principles 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, operations manager must design layout in such a way that the distance between operations is minimum which in turn helps in avoiding the labour and time wastages thereby, reducing the cost of material handling.

2. **The Principle of Sequence**

The machines and operations must be arranged sequentially. This principle is effectively attained in product layout but plant engineer must try to adopt it even in the process layout.

3. **The Principle of Usage**

According to this principle, the available space needs to be optimally utilized. This principle has wide acceptance in towns and cities where a piece of land is very much expensive.

4. **The Principle of Compactness**

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 Satisfaction**

The layout must have provisions for the safety of workers. It must be planned, based on the comfort and convenience of the workers for making them feel satisfied.

6. **The Principle of Flexibility**

The layout must allow improvements with less difficulty and at minimum cost.

7. **The Principle of Minimum Investment**

The ideal 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 (economics of scale).

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 it facilitates low production cost and increasing returns to scale. For attaining this objective, the plant engineer should consider other secondary objectives while developing a layout. The following are the objectives of a good layout,

1. To minimize the handling cost by minimizing and controlling the material handling and transportation cost.

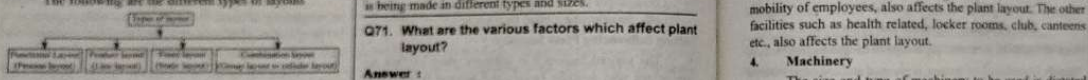
Scanned By Scanner Go

2. To eliminate the hurdles and points of overloading by making use of appropriate line balancing techniques. As this elimination, helps in transferring the raw materials and semi-finished goods easily from one work station to the other.
3. To provide adequate space and to establish proper locations for both production centres and service centres.
4. To minimize the waiting line of semi-finished goods.
5. To provide safe and adequate working conditions thereby minimizing accidents.
6. To make provisions for adequate flexibility in the designed layouts so that the minute changes in product design or changes in material specification can be accommodated easily.
7. To ensure that the space available is utilised optimally.
8. To make the plant maintenance simple and easy.
9. To design and locate the workstations adequately as this helps in uninterrupted flow of material and movement of men.
10. To encourage the effective utilization of labours.
11. To maintain high turnover of work in progress.
12. To effectively design the plant layout for improving the productivity and quality of product.

Q70. Mention the different types of layout. Briefly describe each. (Model Paper-II, Q5(b))

Answer : Nov./Dec.-19, (R15)(A), Q9(a) | Nov./Dec.-17, (R15)(A), Q9)

The following are the different types of layouts



1. Functional Layout (Process Layout)

This type of layout involves grouping together of similar machines in one department. For example, machines performing drilling operations are grouped at one place and similarly Lathe machines, Milling machines, Grinding 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-repetitive kind of manufacturing activities.

2. Product Layout (Line Layout)

A Product layout is generally resorted 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 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 (finish) end. This type of layout is recommended where continuous production of goods is required.

3. Fixed Layout (Static Layout)

In this type of layout, all manufacturing facilities are brought and arranged at the work site. The required input resources (such as machineries, equipments, men, materials) are shifted from their respective positions to one fixed position, where production operations are required. In other types of layouts, the product moves through stationary production facilities. Whereas, in this case the reverse applies. Machines, equipments, men and other facilities are moved to the work site or at product structure (which remains at one place) and the product is completed at that place.

Layout by fixed position of the product is inherent in ship building, aircraft manufacturing, flyover constructions and big pressure vessels fabrication.

4. Combination Layout (Group Layout) or Cellular Layout

Combination layout is a layout formed by taking into consideration the advantages of functional layout and product layout. In this layout machines are grouped into cells similar to that of process layout and these cells function on the lines of product layout within a large shop floor. Each cell produces a single part of a family. The machines are arranged according to the similarity of operations. Example casting, milling, welding etc., and these parts of the family are assembled taking into consideration the advantages of product layout.

Combination layout is useful where an item or product is being made in different types and sizes.

Q71. What are the various factors which affect plant layout?

Answer :

The plant layout refers to the systematic arrangement of machinery, equipment and other industrial 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 arrangement must be done for the purpose of storing and moving the raw material into the plant until they get converted into finished products. It is advisable for the factories to purchase raw materials economically at the time of its availability which needs to be stored and processed at the production centre either mechanically or chemically. The storage and materials movement needs appropriate storage rooms and equipment handling mechanisms through which materials are not only stored but can be efficiently handled at various work centres for their processing. The type and storage size depends upon,

(a) The nature, type and form of raw material which means whether the raw material is liquid or solid, simple or complex and seasonal variations and market conditions making them either available or non-available.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings

(b) Product and material specification also influences the location of a facility. Specifications such as the form, physical and chemical attributes of materials and weight needs to be considered before selecting a layout. Even, the nature of products plays a vital role in this context. For example, production of radioactive bombs needs to be separately located instead of integration on a line basis.

2. Product

The objective of designing a layout is to produce quality products or services. The nature of product is highly influential whether a product is heavy or light, liquid or solid is usually related to plant location and affects the layout of plant. Mostly, a product passes through the various workstations. However, in some situations such as production of ship-building, the product is fixed whereas the productional resources such as men and machinery needs to be brought towards the product. Thus, the size of products, its position and other factors of production have to be given due importance before deciding about the layout and its location.

The demand and sales also affects the plant layout as it analyses the quantity of production and also the size of the equipment, storage space etc.

3. Worker

While selecting a layout, the position and requirement of employees needs to be considered. The layout of an organization, with only male employees is different from that of an organization where both men and women are employed. Such variations emerge due to differential requirements. The mobility of employees, also affects the plant layout. The other facilities such as health related, locker rooms, club, canteens 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 its production and also by management policies. As the production process is a combination of materials, men and machines it is very much important to identify both the mobile and immobile resources. Mobility and immobility of resources are based on nature, size and type of products to be produced. In this context three alternatives are available.

(a) To move both products and workers
(b) To move only products by keeping the machines fixed and
(c) To move the worker and machines to the product.

5. Type of Industry

The plant layout decision is also influenced by the type of industry. The different types of industries are,

(a) Synthetic

In these industries, several elements undergo production process to form finished products. For example, Chemical and paper industry.

(b) Analytical

It involves conversion of raw material into different elements. For example, Sugar mill produces sugar bagasse, molasses, laggery apart from sugar crystals.

(c) Conditioning

Such industries produce product, with variable physical properties. For Example, Metal working industries.

(d) Extractive

Such industries extract one element from the group of elements such as extraction of a metal from the ore.

6. Location

The location of plant also affects the plant layout in different ways. Firstly, the type of building is decided by the terrain and size of the site, and secondly, location decides the transportation mode for some situations, rail roads or trucks.

Location influences the plant layout decisions in the following ways.

(a) The size and topography decides the type of building to be constructed.
(b) Selection of modes of transportation.
(c) Fuel requirements of the firm can also be determined.
(d) Helps in the future expansion of the firm.

For example, if village site is selected, the expansion of the concern may be influenced by the addition of one or more wings to the present construction. However, when the urban site is selected, expansion is influenced by addition of several storeys to the present construction. Based on the number of storey, the materials handling requirements can be determined which affects/influences the plant layout.

7. Managerial Policies

The plant layout is also influenced by the managerial policies. The different managerial policies include,

(a) The production volume and the scope for expansion.
(b) The level of automation required.
(c) Production or a purchase of equipment.
(d) Desire for the rapid delivery of goods to customers policy of purchasing.
(e) Personnel policies.

2.10.8 Issues Related to Selection of Layout

Q72. List out the critical issues involved in the selection of a layout. April-17, (R13)(A), Q9(b)

OR

What problems an organization faces if the layout is not appropriate?

Answer :

The problems or issues that an organization faces while selecting a layout are as follows.

1. Excess acquisition of materials at economical times may lead to storage problems, if designed storage capacity is inefficient.
2. When the selected size of machinery is insufficient to complete the work at required rate, it results in low rate of production.
3. The position of machinery or products should be appropriate, which otherwise causes increased handling time, inefficiency to meet demands, etc.

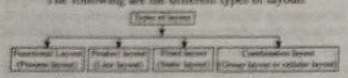
Scanned By Scanner Go

2. To eliminate the hurdles and points of overloading by making use of appropriate line balancing techniques. As this elimination, helps in transferring the raw materials and semi-finished goods easily from one work station to the other.
3. To provide adequate space and to establish proper locations for both production centres and service centres.
4. To minimize the waiting line of semi-finished goods.
5. To provide safe and adequate working conditions thereby minimizing accidents.
6. To make provisions for adequate flexibility in the designed layouts so that the minute changes in product design or changes in material specification can be accommodated easily.
7. To ensure that the space available is utilised optimally.
8. To make the plant maintenance simple and easy.
9. To design and locate the workstations adequately as this helps in uninterrupted flow of material and movement of men.
10. To encourage the effective utilization of labours.
11. To maintain high turnover of work in progress.
12. To effectively design the plant layout for improving the productivity and quality of product.

Q70. Mention the different types of layout. Briefly describe each. (Model Paper-II, Q5(b))

Answer : Nov./Dec.-19, (R15)(A), Q5(a) | Nov./Dec.-17, (R15)(A), Q9

The following are the different types of layouts



1. **Functional Layout (Process Layout)**

This type of layout involves grouping together of similar machines in one department. For example, machines performing drilling operations are grouped at one place and similarly Lathe machines, Milling machines, Grinding 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-repetitive kind of manufacturing activities.

2. **Product Layout (Line Layout)**

A Product layout is generally resorted 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 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 (finish) end. This type of layout is recommended where continuous production of goods is required.

3. **Fixed Layout (Static Layout)**

In this type of layout, all manufacturing facilities are brought and arranged at the work site. The required input resources (such as machineries, equipments, men, materials) are shifted from their respective positions to one fixed position, where production operations are required. In other types of layouts, the product moves through stationary production facilities. Whereas, in this case the reverse applies. Machines, equipments, men and other facilities are moved to the work site or at product structure (which remains at one place) and the product is completed at that place.

Layout by fixed position of the product is inherent in ship building, aircraft manufacturing, flyover constructions and big pressure vessels fabrication.

4. **Combination Layout (Group Layout) or Cellular Layout**

Combination layout is a layout formed by taking into consideration the advantages of functional layout and product layout. In this layout machines are grouped into cells similar to that of process layout and these cells function on the lines of product layout within a large shop floor. Each cell produces a single part of a family. The machines are arranged according to the similarity of operations. Example casting, milling, welding etc., and these parts of the family are assembled taking into consideration the advantages of product layout.

Combination layout is useful where an item or product is being made in different types and sizes.

Q71. What are the various factors which affect plant layout?

Answer :

The plant layout refers to the systematic arrangement of machinery, equipment and other industrial 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 arrangement must be done for the purpose of storing and moving the raw material into the plant until they get converted into finished products. It is advisable for the factories to purchase raw materials economically at the time of its availability which needs to be stored and processed at the production centre either mechanically or chemically. The storage and materials movement needs appropriate storage rooms and equipment handling mechanisms through which materials are not only stored but can be efficiently handled at various work centres for their processing. The type and storage size depends upon,

(a) The nature, type and form of raw material which means whether the raw material is liquid or solid, simple or complex and seasonal variations and market conditions making them either available or non-available.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings

(b) Product and material specification also influences the location of a facility. Specifications such as the form, physical and chemical attributes of materials and weight needs to be considered before selecting a layout. Even, the nature of products plays a vital role in this context. For example, production of radioactive bombs needs to be separately located instead of integration on a line basis.

2. **Product**

The objective of designing a layout is to produce quality products or services. The nature of product is highly influential whether a product is heavy or light, liquid or solid is usually related to plant location and affects the layout of plant. Mostly, a product passes through the various workstations. However, in some situations such as production of ship-building, the product is fixed whereas the productional resources such as men and machinery needs to be brought towards the product. Thus, the size of products, its position and other factors of production have to be given due importance before deciding about the layout and its location.

The demand and sales also affects the plant layout as it analyses the quantity of production and also the size of the equipment, storage space etc.

3. **Worker**

While selecting a layout, the position and requirement of employees needs to be considered. The layout of an organization, with only male employees is different from that of an organization where both men and women are employed. Such variations emerge due to differential requirements. The mobility of employees, also affects the plant layout. The other facilities such as health related, locker rooms, club, canteens 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 its production and also by management policies. As the production process is a combination of materials, men and machines it is very much important to identify both the mobile and immobile resources. Mobility and immobility of resources are based on nature, size and type of products to be produced. In this context three alternatives are available.

(a) To move both products and workers
(b) To move only products by keeping the machines fixed and
(c) To move the worker and machines to the product.

5. **Type of Industry**

The plant layout decision is also influenced by the type of industry. The different types of industries are,

(a) **Synthetic**

In these industries, several elements undergo production process to form finished products. For example, Chemical and paper industry.

(b) **Analytical**

It involves conversion of raw material into different elements. For example, Sugar mill produces sugar bagasse, molasses, Jaggery apart from sugar crystals.

(c) **Conditioning**

Such industries produce product, with variable physical properties. For Example, Metal working industries.

(d) **Extractive**

Such industries extract one element from the group of elements such as extraction of a metal from the ore.

6. **Location**

The location of plant also affects the plant layout in different ways. Firstly, the type of building is decided by the terrain and size of the site, and secondly, location decides the transportation mode for some situations, rail roads or trucks.

Location influences the plant layout decisions in the following ways.

(a) The size and topography decides the type of building to be constructed.
(b) Selection of modes of transportation.
(c) Fuel requirements of the firm can also be determined.
(d) Helps in the future expansion of the firm.

For example, if village site is selected, the expansion of the concern may be influenced by the addition of one or more wings to the present construction. However, when the urban site is selected, expansion is influenced by addition of several storeys to the present construction. Based on the number of storey, the materials handling requirements can be determined which affects influences the plant layout.

7. **Managerial Policies**

The plant layout is also influenced by the managerial policies. The different managerial policies include,

(a) The production volume and the scope for expansion.
(b) The level of automation required.
(c) Production or a purchase of equipment.
(d) Desire for the rapid delivery of goods to customers policy of purchasing.
(e) Personnel policies.

2.10.8 Issues Related to Selection of Layout

Q72. List out the critical issues involved in the selection of a layout. April-17, (R13)(A), Q9(b)

OR

What problems an organization faces if the layout is not appropriate?

Answer :

The problems or issues that an organization faces while selecting a layout are as follows,

1. Excess acquisition of materials at economical times may lead to storage problems, if designed storage capacity is inefficient.
2. When the selected size of machinery is insufficient to complete the work at required rate, it results in low rate of production.
3. The position of machinery or products should be appropriate, which otherwise causes increased handling time, inefficiency to meet demands, etc.

Scanned By Scanner Go

4. If location of the plant is not suitable according to the type of industry, it leads to high transportation costs.
5. Absence of alternative systems, in case of breakdown interrupts the complete productive line.
6. Improper selection of layout type may result in an expensive process.
7. Fixed capacity layout restricts the scope for expansion.
8. Inappropriate size of labour results in different problems, such as increase in labour and indirect costs, decrease in efficiency of production, reduced mobility of workers etc.

Q73. What is layout planning? Explain tools and techniques of layout planning and steps for designing layout.

Answer :

Layout Planning

The engineering or planning department is responsible for designing and installing 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 improved. A set of tools and techniques can be provided by the layout planning which helps the operations manager to locate resources and also for assessment of alternatives for locating the resources.

Tools and Techniques of Layout

There are different techniques that are available and useful for layout planning. The application of the two-dimensional technique called as the "Templates" acts as the most commonly used technique. Whereas, the other techniques are used depending upon the method of layout. For example, for designing the operations of process layout, sequence analysis is used whereas, the line balancing technique is found to be suitable for designing the product layout.

The tools and techniques of layout are as follow.

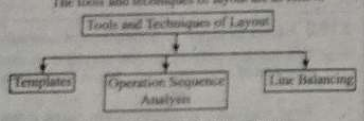


Figure: Tools and Techniques of Layout

1. **Templates**

Templates are the design patterns which consist of thin plate, made up of wood or metal and which serve as a gateway for performing mechanical activities. It constitutes the scaled representation of the physical object of the layout.

The templates are fixed for preparing plans, for drawing and are laid around the drawing so that several layout options can be explored which help in eliminating the unnecessary handling and backtracking of materials.

It is usually employed for designing the existing department/building or for designing the building whose configuration has already been decided by the other layout techniques.

2. **Operations Sequence Analysis**

As operations sequence analysis was an early approach to process layout, it develops a good plan for arranging the departments graphically so that the layout problems get an optimal solution. Through the operations sequence analysis, the relative locations of operating departments with respect to one another can be predicted.

3. **Line Balancing**

Line balancing is an important activity of an assembly line operation, which is mainly used for the equitable distribution of work among the employees so that total number of employees can be greatly reduced. Line balancing is not an easy task because there are different alternative methods that can be far more easily applied than the line balancing for the decision of work. Some of the methods used by operation researchers to study line balancing problems include linear programming, dynamic programming and other optimal methods.

Steps for Designing Layout

Layout design procedure of a plant involves some special activities which need to be performed in a systematic manner. The procedure of layout design involves the following steps.

Step-1: Statement showing the objectives, scope and factors that need to be considered.

Step-2: The next step is to gather the primary data on sales forecasts, production volumes, production schedules, part lists, operations and their sequences.

Step-3: Development of flow process charts, flow diagram, string diagram, templates and so on.

Step-4: Establishment and the design of the production process.

Step-5: Materials flow pattern is planned and complete material handling plan is developed.

Step-6: Computation of the requirements of work centres and equipments.

Step-7: Planning is done for individual work centres.

Step-8: Selection of the proper material handling equipments.

Step-9: Identifying the storage requirements.

Step-10: Planning for the auxiliary and the service facilities.

Step-11: Identification of routing, service department, employee facilities and requirement of space for each work station.

Step-12: Outlining the specifications of building so that the requirements of the layout can be fixed.

Step-13: Development of a floor plan for representing the location of doors, windows, stair case, lifts and other infrastructural facilities.

Step-14: Preparation of tentative or drafts layout plans.

Step-15: Preparation of a comprehensive layout drawing which can be even accepted by top management.

Step-16: Preparation and design of work schedules for layout installations.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

FREQUENTLY ASKED QUESTIONS AND IMPORTANT QUESTIONS

SHORT QUESTIONS

Q1. List out the sources of capital. Nov./Dec.-19, (R15)(A), Q1(e) — REPEATED 2 TIMES

OR

Mention the sources of capital for small business

Answer :

For answer refer Unit-II, Q1. Nov./Dec.-17, (R15)(A), Q1(e)

Q2. Explain about E-commerce. Nov/Dec.-19, (R15)(A), Q1(f)

Answer :

For answer refer Unit-II, Q2.

Q3. Define Venture Capital. April-17, (R13)(A), Q1(e)

Answer :

For answer refer Unit-II, Q3.

Q4. Write internet advertising. April-17, (R13)(A), Q1(f)

Answer :

For answer refer Unit-II, Q4.

Q5. How do you advertise on the internet for free? Nov./Dec.-17, (R15)(A), Q1(f)

Answer :

For answer refer Unit-II, Q5.

Q6. Define motivation Important Question

Answer :

For answer refer Unit-II, Q6.

Q7. Marketing and sales control. Important Question

Answer :

For answer refer Unit-II, Q7.

Q8. What is the difference between a joint venture and a consortium? Nov./Dec.-17, (R15)(A), Q1(g)

Answer :

For answer refer Unit-II, Q11.

Q9. Give the role of public issue. April-17, (R13)(A), Q1(g)

Answer :

For answer refer Unit-II, Q13.

ESSAY QUESTIONS

Q10. What is finance? Explain the need for finance in a business enterprise. Classify financial needs in brief. What are the various sources available to a small-scale enterprise to raise funds? Important Question

Answer :

For answer refer Unit-II, Q15.

Q11. Define venture capital? Explain the concept and features of ventures capital financing. Important Question

OR

What is venture capital? Explain. Nov./Dec.-19, (R15)(A), Q6(b)

Answer :

For answer refer Unit-II, Q20. Important Question

Q12. What is record keeping? Write its necessity.

OR

What is the necessity of record keeping? Discuss. Nov./Dec.-19, (R15)(A), Q7(b)

Answer :

For answer refer Unit-II, Q25.

Scanned By Scanner Go

Q13. Define Recruitment. What are the objectives of recruitment and explain the recruitment process? Important Question

Answer :

For answer refer Unit-II, Q26.

Q14. Discuss the procedure involved in motivating and leading teams in an organization. April-17, (R13)(A), Q6(b)

Answer :

For answer refer Unit-II, Q32.

Q15. What is financial accounting control? Discuss its role and need to concentrate on financial control. Important Question

OR

Why we need to concentrate on financial control? Explain. Nov./Dec.-19, (R15)(A), Q7(a)

Answer :

For answer refer Unit-II, Q37.

Q16. Define E-commerce from different perspectives along with its and importance. Important Question

OR

Describe E-commerce with examples. Nov./Dec.-17, (R15)(A), Q7

Answer :

For answer refer Unit-II, Q45.

Q17. Briefly explain evolution of sources and methods of idea planning and development e-business ventures. Nov./Dec.-19, (R15)(A), Q6(a)

OR

Discuss the conceptual framework of E-business and its significance. Important Question

Answer :

For answer refer Unit-II, Q47.

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. Important Question

OR

Examine the succession planning in joint ventures. April-17, (R13)(A), Q9(a)

Answer :

For answer refer Unit-II, Q52.

Q19. Explain key issues in Acquisition Mergers. Nov./Dec.-19, (R15)(A), Q9(b)

Answer :

For answer refer Unit-II, Q59.

Q20. Explain detail the characteristics of joint ventures and franchising with suitable illustration. April-17, (R13)(A), Q8

Answer :

For answer refer Unit-II, Q61.

Q21. Discuss the opportunities for diversity in franchising and the challenges of global franchising. Nov./Dec.-17, (R15)(A), Q8

Answer :

For answer refer Unit-II, Q62.

Q22. What is Plant Location? Discuss the need for plant location. What are the factors influencing plant location? Important Question

Answer :

For answer refer Unit-II, Q68.

Q23. List out the critical issues involved in the selection of a layout. April-17, (R13)(A), Q9(b)

OR

What problems an organization faces if the layout is not appropriate?

Answer :

For answer refer Unit-II, Q72. Important Question

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

UNIT 3

Industrial Financial Support

Syllabus

Industrial Financial Support: Schemes and Functions of Directorate of Industries, District Industries Centre (DICs), Industrial Development Corporation (IDC), State Financial Corporation (SFCs), Small Scale Industries Development Corporation (SSIDCs), Khadhi and Village Industries Commission (KVIC), Technical Consultancy Organisation (TCO), Small Industries Service Institute (SISI), National Small Industries Corporation (NSIC), Small Industries Development Bank of India (SIDBI).

Learning Objectives

- ✓ The Concept of Directorate of Industries and District Industries Centre (DICs).
- ✓ The Concept of Industrial Development Corporations (IDC) and State Financial Corporations (SFCs).
- ✓ The Concept of Small Scale Industries Development Corporation (SSIDCs) and Small Industries Service Institute (SISI).
- ✓ The Concept of Khadhi and Village Industries Commission (KVTC) 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, develop and control the various policies and programmes of small scale, medium scale, large scale and cottage industries. The constitution of India state that, the issues related to the small scale industries has to be dealt within the state because the expansion and promotion of small scale industries is a state matter.

DICs stands for District Industries Centres. It is one of the programme which was setup in the rural areas for development of small scale undertakings at the district level. DICs extends service and support to the small entrepreneurs under the Scheme for Self Employment for Educated Unemployed Youth (SEEUY) and Prime Minister's Rozgar Yojana (PMRY) scheme. It provides employment opportunities to many people at the district level.

The State Financial Corporation (SFCs) of India was setup in order to provide financial assistance only to small and medium sized industries. SFCs engage in assisting small units for modernisation and technological upgradation through rehabilitation schemes followed by the equity type participation under SIDBIs seed 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 tiny and small scale industries. It aims at promoting, financing and development of industries comprising mainly of small scale sector. Apart from this, it also coordinates the work of other development financial institutions.

Scanned By Scanner Go

PART-A SHORT QUESTIONS WITH SOLUTIONS

Q1. Explain about DICs. Model Paper-II, Q1(e)

Answer :

DICs stands for District Industries Centres. It is one of the programme which was setup in the rural areas for development of small scale undertakings at the district level. It was established on May 8, 1978 to assist and administer the framework of Small Scale Industries (SSI) for its development. DICs extends service and support to the small entrepreneurs under the Scheme for Self Employment for Educated Unemployed Youth (SEEUY) and Prime Minister's Rozgar Yojana (PMRY) scheme. It provides employment opportunities to many people at the district level.

DICs are mainly handled by the state government. The organisational structure of DICs comprises of one general manager, four functional managers and three project managers for the purpose of providing technical training to the industries situated at the district level.

Q2. What are the objectives of Industrial Development Corporations (IDCs)?

Answer :

The objectives of IDCs are as follows,

1. To promote infrastructure facilities to entrepreneurs of the state.
2. To generate network of industries all over the state as IDCs commenced industralization in eceonomically backward regions by promoting open space and buildings to entrepreneurs.
3. To hurry eye industrial development of the state.
4. To develop economic equality and decentralization of economic growth in particular regions.
5. To attain above objectives, it supply roads, power, water, street lighting, drainage and sewage disposal, post and communication, police station, security, fire trigade and other general facilities in the IDC areas.

It is not difficult for the entrepreneurs to acquire loan from the financial institutions for the procurement of land, shed or gala, if the industrial units are located near IDC.

Q3. Explain briefly about State Financial Corporations(SFCs).

Answer : Model Paper-I, Q1(e)

The State Financial Corporation (SFCs) of India was setup in order to provide financial assistance only to small and medium sized industries. It was initiated through the SFC Act which was passed by the parliament on September 28, 1951. The first financial corporation was setup in Punjab in the year 1953. 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 modernisation and technological upgradation through rehabilitation schemes followed by the equity type participation under SIDBIs seed capital scheme.

SFCs established at the state level have the objective of financing and promoting 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 includes the following,

1. Share capital and reserves
2. Loans from state government
3. Loans from RBI
4. Loans from IDBI
5. Refinance from RBI and IDBI
6. Fixed deposits from State Govts., Local Authorities, Public
7. Foreign currency line of credit from IDBI.

The bonds and debentures of SFCs are mostly subscribed by commercial banks, LIC and other financial institutions and they presently account for 30% of the total capital of SFC. Today the refinance from IDBI is one of the major sources of finance for SFCs.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q5. Write briefly about KVIC. Model Paper-III, Q1(e)

Answer :

The Khadi and Village Industries Commission (KVIC) is considered as a statutory body. It was constituted by an Act No. 61 of a parliament, 1956. However, later it was amended by Act No. 12 of 1987 and Act No. 10 of 2006. During April 1957, KVIC completely has undertaken the work of farmer All India Khadi and Village Industrial Board.

The main objectives of KVIC are as follows,

1. To create the employment opportunities for the KVIC employees.
2. To manufacture the reasonable and saleable goods.
3. To develop independence among the poor individuals with an intention of creating a rural community.

Q6. What do you mean by TCOs?

Answer : Model Paper-I, Q1(f)

TCO stands for Technical Consultancy Organization. It was started by the all India financial institutions IDBI, IFCI and ICICI in the seventies and eighties in collaboration with state-level financial and commercial banks to serve the consultancy needs of SSIs and new entrepreneurs. IDBI was the first one to start TCO in Kerala in the year 1972. Currently, there are 17 TCOs all over India. Out of 17, 9 are under IDBI, 5 under IFCI and 3 under ICICI. All the 17 TCOs cater to the needs of small and medium sized enterprises.

Q7. What are the Functions of SSIDCs?

Answer : Model Paper-III, Q1(f)

The various functions of SSIDCs are as follows,

1. It acquires and distributes the scarce raw material.
2. It supply machinery on hire purchase agreement.
3. It helps in marketing of goods manufactured by small industries.
4. It provides seed capital to the entrepreneurs.
5. It provides management assistance to manufacturing and production units.
6. It helps in increasing the market share of the tiny and small scale units.

Q8. Explain about NSIC.

Answer :

NSIC stands for National Small Industries Corporation Ltd. The NSIC was established by Government of India (GOI) in 1955 with the main objective of promoting and developing SSIs in the country. NSIC undertakes several activities like supplying of original and imported machines on hire-purchase and leasing system, marketing of small industries products on consortia basis, export marketing of small industries product, developing export worthiness of SSIs, enlistment of small scale units for taking part in government stores purchase programme, development and modernisation of machine's prototypes, equipment and tools, supply and distributing of indigenous and imported raw materials, providing training in several technical trades and cooperation with other third world countries in establishing small-scale projects on turn-key basis.

Q9. What do you understand by SIDBI?

Answer : Model Paper-II, Q1(f)

The Small Industries Development Bank of India (SIDBI) was basically set up as an 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 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 (1988-89) to start up SIDBI as a subsidiary unit of IDBI. Hence, the SIDBI Act was passed by the parliament in October 1989, then the functions of the bank commenced from April 2, 1990.

Scanned By Scanner Go

PART-B ESSAY QUESTIONS WITH SOLUTIONS

3.1 SCHEMES AND FUNCTIONS OF DIRECTORATE OF INDUSTRIES - DISTRICT INDUSTRIES CENTRE (DICs)

Q10/ What is Directorate of Industries? Explain the objectives and Functions of Directorate of Industries. Model Paper-II, Q6

Answer :

Directorate 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 constitution of India stated that, the issues related to the small scale industries has to be dealt within the state because the expansion and promotion of small scale industries is a state matter.

DOI carry out its functions under the guidance of small Industries Development Organization (SIDO) and other central institutions. It provides regulatory and development functions. It is connected with the district industries offices, extension offices located in districts, sub-regional offices and block level. The power or authority to implement and develop the policies are decentralised to the maximum extent level and are vested in the Hands of District Industries Centres (DICs).

Objectives of Directorate of Industries

The following are the objectives of Directorate of Industries,

1. To improve 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 various Department.
3. To provide a complete framework which helps in enabling the employment opportunities in the state, producing a significant increase in the state domestic products and utilizing the resources to the maximum extent.
4. To help the state government in formulating various industry related policies and programmes such as SEZ policies, Industrial policies, IT policies, packages, scheme of incentives etc.

Functions of Directorate of Industries

The following are the function of Directorate of Industries,

1. It helps in registering and maintain the Small Scale Industries (SSIs).
2. It provides financial assistance to the Small Scale Industries (SSIs).
3. It provides scarce as well as domestic raw materials to the industries.
4. It provides important certificates which are useful for importing and exporting the raw materials.
5. It helps to set up the industrial cooperatives and industrial estates.
6. It helps in developing and improving the infrastructure of the industries.
7. It conducts various surveys and collects information regarding the industries.
8. It deals with the incentives and concessions for the various industries.
9. It manages and controls all the villages and Small Scale Industries (SSIs).
10. It maintains communication with other agencies or firms for the development of industries.

Q11. Explain about District Industries Centre (DICs) and objectives of DICs.

Answer :

District Industries Centre (DICs)

DICs stands for District Industries Centres. It is one of the programme which was setup in the rural areas for development of small scale undertakings at the district level. It was established on May 8, 1978 to assist and administer the framework of Small Scale Industries (SSI) for its development. DICs extends service and support to the small entrepreneurs under the Scheme for Self Employment for Educated Unemployed Youth (SEEUY) and Prime Minister's Rozgar Yojana (PMRY) scheme. It provides employment opportunities to many people at the district level.

DICs are mainly handled by the state government. The organisational structure of DICs comprises of one general manager, four functional managers and three project managers for the purpose of providing technical training to the industries situated at the district level.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Objectives of DICs

The objectives of DICs are as follows,

1. To promote and develop small units at the district.
2. To perform an industrial and techno-economic survey in order to check the availability of resources such as material, labour, and infrastructure. This survey helps in searching for new product lines and guides the entrepreneurs where to invest their money.
3. To plan the schemes effectively and implement it into an action.
4. To help the entrepreneurs in the acquisition of appropriate and suitable machinery, also providing guidance in import of such machinery with fulfilling the requirements of scarce resource of raw material.
5. To forward the proposal of project developed by the entrepreneurs.
6. To undertake the work of product development to the small scale industries.
7. To provide training to the artisans.

Q12. Explain the Functions and schemes of District Industries Centre (DIC).

Answer : Model Paper-I, Q6(a)

Functions of District Industries Centre (DIC)

The following are the functions of District Industries Centre (DIC),

1. It helps in preparing and maintaining the industrial profile of the entrepreneurs who are located in the district for the reference purpose.
2. It prepares action plan to implement and follow the policies and programmes which are already initiated and identified.
3. It advises the entrepreneurs regarding various issues like selection of appropriate machinery and equipment, supply of raw material, supply of machinery, process of importing machinery etc.
4. It guides the entrepreneur to take appropriate credit facilities such as loan amount and documentation.
5. It helps the entrepreneurs to use the proper land, equipments and tools, furniture and fixtures etc.
6. It helps the entrepreneur in acquiring the licenses and permissions.
7. It helps the entrepreneurs to clarify their doubts or confusion regrading the bank account, submission of monthly, quarterly and annually returns to government departments etc.
8. It acts as the nodal agency to implement Pradhan Mantri Rojzar Yojana (PMRY) in the district.
9. It helps the training organizations to carry out entrepreneur development programmes.
10. It helps the entrepreneurs in marketing their products.

Schemes of District Industries Centre (DIC)

The following are the schemes, incentives and other services provided by District Industries Centre (DIC).

1. Pardhan Mantri Rozgar Yojana (PMRY)

It is a scheme provided for the self-employment youth who are educated but are unemployed. To apply for this scheme, the individual should posses the following qualities,

(i) He/She must be a class VIII passed student.

(ii) His/Her age should be in between 18-35 years exempting upto 45 years if the individual is women, physically handicapped or belong to SC/ST.

(iii) He/She is eligible to receive ₹ 2 lakhs for industries/service and ₹ 1 lakh for business.

(iv) His/Her annual family income should not exceed more than ₹ 40,000.

2. Normal Bank Finance Scheme

It is the another scheme provided by DIC for establishing the Small Scale Industries (SSIs) in the district. He should have sufficient equity participation while applying for this scheme.

3. Loan Under Bengal State Aid To Industries (BSAI) Act

This scheme is basically provided for Handicraft Industries. In this scheme, the limit of the loan is upto ₹ 10,000 and the rate of interest is 8% with a rebate of 2.5% on regular payment.

4. State Incentive Scheme 2000

The industries which established after 01. 0.1. 2000 is eligible for this scheme. The following features of state Incentive Scheme 2000 are as follows.

(i) 25% subsidy on fixed capital investment (Land, Building, Plant and Machinery)

(ii) 50% (60% incase of agro and food processing units, IT, electronics industry) subsidy on paid interest on Bank/FI loan for consecutive 7 years and 9 years.

(iii) Registration fee on purchase of land or buildings and remission of stamp duty.

5. Other Services

The other services provided by DIC are as follows,

(i) SSI Registration

(a) Provisional/Temporary Registration

Before commencing the small scale industries, the registration has to be done. The industries will come into existence only after registering.

(b) Permanent/Final Registration

It is registered after commencing the productions of Small Scale Industries (SSIs)

(ii) Preference for Power Connection

The preference is provided for State Electricity Board, electric power connection to be registered under Small Scale Industry.

Scanned By Scanner Go

(iii) Marketing Help to Handicraft Products

It is a marketing service provided for the handicraft products through the participation in State Handicrafts Expo.

(iv) National Project of Bio-Gas Development (NPBD)

It helps in construction of a Bio-gas plant which is useful for the following,

(a) It helps in domestic cooking and lighting.

(b) It produces the organic manure enriched with Nitrogen, Phosphorus and Potassium (NPK) for better yield in agricultural, horticultural and piscicultural sectors.

(V) Training Programmes

Training programmes are provided for entrepreneurs and handicraft artisans such as,

(a) Entrepreneurship Development Programme.

(b) Special Training Programmes for Women/ Physically Handicapped and Backward Classes like plumbing, pump-set repair, umbrella repair etc.

(c) Transfer of Skill and Service Centres

3.2 INDUSTRIAL DEVELOPMENT CORPORATION (IDC)

Q13. Explain about the Industrial Development Corporation (IDC) and its objectives.

Answer :

Industrial Development Corporation (IDC)

The government has established IDCs to help the entrepreneurs in the procurement of land for their industrial units. This is because land is a significant factor of production and its rates are so high that a common man cannot 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 in all states. For example, in Maharastra it is referred as MIDC, in Gujarat it is referred as GIDC, etc. The IDCs obtained land near the outskirts of the cities. It distributed open plots of land, created galas and sheds as per the need of entrepreneurs.

Objectives of Industrial Development Corporations (IDCs)

The objectives of IDCs are as follows,

1. To promote infrastructure facilities to entrepreneurs of the state.
2. To generate network of industries all over the state as IDCs commenced industralization in eceonomically backward regions by promoting open space and buildings to entrepreneurs.
3. To hurry eye industrial development of the state.
4. To develop economic equality and decentralization of economic growth in particular regions.
5. To attain above objectives, it supply roads, power, water, street lighting, drainage and sewage disposal, post and communication, police station, security, fire trigade and other general facilities in the IDC areas.

It is not difficult for the entrepreneurs to acquire loan from the financial institutions for the procurement of land, shed or gala, if the industrial units are located near IDC.

3.3 STATE FINANCIAL CORPORATION (SFCs)

Q14. What do you mean by State Financial Corporations (SFCs)? Write about its objectives and Scope.

Answer : Model Paper-III, Q6

State Financial Corporations (SFCs)

The State Financial Corporation (SFCs) of India was setup in order to provide financial assistance only to small and medium sized industries. It was initiated through the SFC Act which was passed by the parliament on September 28, 1951. The first financial corporation was setup in Punjab in the year 1953. 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 modernisation and technological upgradation through rehabilitation schemes followed by the equity type participation under SIDBIs seed capital scheme.

SFCs established at the state level have 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 SFC's

1. To help in rehabilitation of sick units which are already being financed by the Delhi financial corporation.
2. To help in the development and expansion of industry by the rural and urban artisans.
3. To initiate the promotional activities and establishment of entrepreneurship development programmes and seminars.
4. To promote those industries which accelerate the process of socio-economic growth.
5. To provide soft term loans.
6. To underwrite the issue of shares, bonds and debentures of the industrial units.
7. To introduce and implement schemes of incentives to motivate and promote entrepreneurs.
8. To develop small scale sectors.

Scope of SFCs

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 modernization, renovation,

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

diversification and expansion programmes. According to the SFCs Act, 1951 the definition of industrial concerns may include all the public limited companies, partnership and proprietary concerns. 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 goods, hotel industry, mining development of mines, fishing or providing facility for fishing, providing weigh bridge facilities and so on.

Addition to this, SFCs also empowered to provide financial assistance by granting guaranteed loans, allowing to directly subscribe securities and discounting bills of exchange. SFCs are authorised to lead loans for period of 8 years and can underwrite shares and debentures depending upon their disposal in the market within 7 years.

SFCs mainly support and assist Small Scale Industries (SSIs) which are usually organized as proprietary or partnership concerns. But the scope of SFCs assistance is not applicable for Joint Hindu Family concerns. Morever, SFCs emphasis more on agro-based industrial concerns and chemicals making concerns.

Q15. Write briefly about the management and financial resources of State Financial Corporations (SFCs).

Answer : Model Paper-I, Q7(b)

Management of SFCs

The management of State Financial Corporations (SFCs) consist of twelve (12) Board of Directors. The appointed of all these directors are listed below,

1. Three directors will be nominated by state government.
2. One director will be nominated by IFCI.
3. One director will be nominated by IDBI.
4. Three directors will be nominated by Financial Institutions.
5. One director will be nominated by non-institutional shareholders.
6. Remaining three directors will be selected on the basis of one each from Schedule Banks, Cooperative Banks and other Financial Institutions.

Addition to the above, the state Government appoints the chairman and managing director of SFCs.

Financial Resources of SFCs

The financial resources of SFCs includes the following,

1. Share capital and reserves
2. Loans from state government
3. Loans from RBI
4. Loans from IDBI
5. Refinance from RBI and IDBI
6. Fixed deposits from State Govts., Local Authorities, Public
7. Foreign currency line of credit from IDBI.

The bonds and debentures of SFCs are mostly subscribed by commercial banks, LIC and other financial institutions and they presently account for 30% of the total capital of SFC. Today, the refinance from IDBI is one of the major sources of finance for SFCs.

The SFCs have formulated a scheme of concessional financial assistance to industrial undertakings mainly located in backward and underdeveloped areas.

Q16. Explain the type of financing under SFC and eligibility for assistance.

Answer :

Types of Financing Under SFC

Following are the types of financing under SFC,

1. National Small Industries Corporation (NSIC) Bill Financing

Bill drawn by small scale units for supply of raw material are discounted and financed by NSIC for a maximum period of 90 days.

2. Work Capital Financing

This type of finance is provided to the emerging/ upcoming entrepreneurs to meet their operational requirements such as purchase of consumable stores, spares and production, payment of electricity bill, statutory dues etc.

3. Export Development Finance

Finance is provided to the export oriented industries along with pre and post shipment finance under the terms and conditions of SFCs.

4. Equipment Leasing Scheme

The main objective of equipment leasing scheme is to acquire the industrial equipment and machinery for modernisation, expansion and diversification of their industries. All these facilities are extended to SSI units which also includes 100% financing at liberal terms and conditions.

5. 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, 1951,

1. Manufacture of goods.
2. Preservation of goods.
3. Mining or development of mines.
4. Processing of goods.
5. Generation and distribution of power or any other form of power.
6. Hotel industry.
7. Transport of passenger or goods by road, water or air.
8. Maintenance, testing and repairing of vehicles or vessels or boats, trawlers or tractors.

Scanned By Scanner Go

9. Assembling, repairing or packing any article with the help of machinery or power.
10. Fishing or providing shore facilities.
11. Providing special or technical knowledge or other services for the promotion of industrial growth.
12. Development of any contiguous area of land as an industrial estate.

Q17. Explain the functions and operations of state Financial Corporations (SFCs).

Answer :

Functions of SFCs

Following are the functions of SFCs,

1. It offers long term finance to small and medium scale industries in both public and private sector companies, cooperatives, partnerships and proprietary businesses.
2. It extends term loans for the purchase of land, building, plant and machinery, prerequisites and other assets.
3. It grants loans and advances to industries for a period of 20 years.
4. It inculcate and promotes self-employment.
5. It provides subscription to debentures repayable within a period of 20 years.
6. It encourag the new and professionally qualified women entrepreneurs to start the new projects and help them in carrying out those industrial projects.
7. It acts as agent of all the central and state governments like, IDBI, IFCI for grant of loans, bonds subscription.
8. It extends seed capital assistance under the IDBI scheme.
9. It underwrites new stocks, debentures, shares etc. of industrial concerns.
10. It provide guarantee for loans raised in the capital market by schedule banks, co-operative banks which are to be repayable with in 20 years.

Operations of SFCs

The operations of State Financial Corporations (SFCs) are always in the control of State Financial Corporation 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 authorised capital of SFCs is fixed by the State Government which may ranges to minimum and maximum limit i.e., ₹50 lakhs to ₹5 crores. However, this capital can be divided into shares of equal value which would be taken by the respective State Governments, RBI, Co-operating Banks, Scheduled Banks and other financial institutions which may includes, insurance companies private parties and investment trusts. Such 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 exceeds five times of the capital and reserves at ₹ 10 lakhs.

Currently there are 18 SFCs working or operating in India which are listed below,

1. Andhra Pradesh State Financial Corporation
2. Assam Financial Corporation
3. Bihar State Financial Corporation
4. Delhi Financial Corporation
5. Haryana Financial Corporation
6. Gujarat State Financial Services Ltd.
7. Himachal Pradesh Financial Corporation
8. Jammu and Kashmir State Financial Corporation
9. Jammu and Kashmir State Financial Corporation
10. Kerala Financial Corporation
11. Madhya Pradesh Financial
12. Maharashtra State Financial
13. Orissa State Financial
14. Punjab Financial Corporation
15. Rajasthan Financial Corporation
16. Tamil Nadu Industrial
17. Uttar Pradesh Financial Corporation
18. 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 operations and achievements. The SFCs play a crucial role in satisfying the financial needs of small and medium industries of different states of India. The SFCs has formulated and implemented special schemes for assisting entrepreneurs during recent years. However, the performance of SFCs has been criticized by various analyst based on its achievement and targets. Currently, the working and performance of SFCs is un-satisfactory because of different reasons. It has been observed that SFCs are not working in accordance with the financial needs of the small and medium sized industries. Some of the major arguments raised against the performance of SFCs are as follows,

1. Inadequate Assistance.
2. Low level of speed in progress.
3. Financial and technical experts are absent.
4. Shortage of requisite capital.
5. Difficult and complex procedures of working.
6. Un-necessary and unwanted formalities.
7. Indifferent attitude towards new businesses.

Thus, the performance of SFCs is critically evaluated and appraised on different grounds.

Problems of SFCs

As the performance of SFCs is criticized on various ground, they faces humorous problems. Some of the major problems faced by SFCs are as follows,

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. **Lack of Independency**

They are dependent upon the decisions and rules of State Government, thus, they suffers from the problem of independency. All the SFCs of India dependent on the political environment 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 needed enterprises for longer period they may not able of payback loans on time. Due to which bad debts arised and SFCs facing 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 maintain 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 effecting the proper functioning of SFCs.

5. **Limited Resources**

They face problems due to limited financial and technical resources. Thus, they may not able to compete and survive in the market as they are not satisfying the financial needs of upcoming or new industries.

6. **Improper Submission of Documents**

While granting the loans SFCs face problem of collecting propers documents and securities based on which loan or advance can be provided to the applicant. Therefore the loans getting rejected or the loans are not repaid on time.

7. **Failed to Bring Regional Balanced Development**

They are failed to bring regional balance development in the industrial sector of every state. It has bee, observed that there is un-even development of industries with SFCs assistance in different state. Some states are developed and some states are facing so many problems.

3.4 SMALL SCALE INDUSTRIES DEVELOPMENT CORPORATION (SSIDCs)-SMALL INDUSTRIES SERVICE INSTITUTE (SISI)

Q19. Explain about SSIDCs and SISI.

Answer : Model Paper-III, Q7

Small Scale Industries Development Corporations (SSIDC)

This bank was setup under the companies Act 1956. Its main objective is to take care of the needs of the small, tiny and cottage industries. SSIDCs is operating through 18 of its branches.

Functions of SSIDCs

The various functions of SSIDCs are as follows,

1. It acquires and distributes the scarce raw material.
2. It supply machinery on hire purchase agreement.
3. It helps in marketing of goods manufactured by small industries.
4. It provides seed capital to the entrepreneurs.
5. It provides management assistance to manufacturing and production units.
6. It helps in increasing the market share of the tiny and small scale units.

SSIDCs are located in Andhra Pradesh, Assam, Bihar, Goa, Gujarat and Jammu and Kashmir, Himachal Pradesh, Kerala, Punjab, Rajasthan and Tamil Nadu.

Small Industries Service Institute (SISI)

The small industries service institute is one of the extensive training service provider which is subsidiary of Small Industrial Development Organisation (SIDO). It has extension and production centres in many parts of the country and functions through many branches or institutes. There are about 26 SISI's, 32 branches, 40 extension centers 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 initiate the EDP programmes which transforms the skilled and prospective individuals into entrepreneurs.
3. To help the entrepreneurs in setting up their own small scale unit.
4. To provide and fulfill effective training needs of the workers.
5. To provide technical training and service to small scale entrepreneurs in specialised fields.

Types of Training Programmes Conducted by SISI

The following are the types of training programmes conducted by SISI,

1. **Industrial Management**

Training in industrial management consists of courses for small entrepreneurs and supervisors. SISI provides training programmes at their office in the evening without charging any fee for the course. These courses are conducted at Bombay, Kolkata, New Delhi, Madras, Ahmedabad, Hyderabad etc. Below are some of the management courses offered by SISI.

(i) Industrial management course
(ii) Specialised courses in management
(iii) Techno-managerial courses
(iv) Adhoc courses in management subjects.

Scanned By Scanner Go

2. Technical Training

SISI units conduct training in various technical areas at their extension and production centres in order to develop the competency and skills of both skilled and semi-skilled workers so that, they can fulfill their job requirements.

The workers/trainees are also paid a stipend of ₹ 100 per month. Some of the technical courses are as follows,

(a) Shop practice course (6 months - full time)

(b) Trade oriented course (6 month - full time)

(c) Product and process oriented courses (3-6 months - full time).

(d) Adhoc courses (short duration 1-3 months).

3. All India Courses

The course for benefit of the country are conducted at the centers as regular full time courses. Training is given in how to manufacture the thermometer, glass blowing and scientific apparatus at the Solan and Bangalore institutes.

4. Mobile Workshops

Mobile workshops visit the areas where artisans work and they provide training to them by explaining and demonstrating subjects like blacksmithy, carpentry, sheet metal, potter, leather, glass blowing etc. The personnel or trainers visit the work units usually in mobile vans.

3.5 KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)

Q20. Explain about Khadi and Village Industries Commission (KVIC) in detail.

Answer : Model Paper-I, Q7(a)

Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC) is considered as a statutory body. It was constituted by an Act No. 61 of a parliament,1956. However, later it was amended by Act No. 12 of 1987 and Act No. 10 of 2006. During April 1957, KVIC completely has undertaken the work of farmer All India Khadi and Village Industrial Board.

Objectives of KVIC

The main objectives of KVIC are as follows,

1. To create the employment opportunities for the KVIC employees.
2. To manufacture the reasonable and saleable goods.
3. To develop independence among the poor individuals with an intention of creating a rural community.

Functions of KVIC

The important functions of KVIC are as follows,

1. KVIC in the rural areas facilitates planning, promotion, organization and implementation of programs that are striving hard with a purpose of development of khadi and other village industries. Such industries are engaged in the development of rural areas whereas, they have less growth and development.
2. It helps in building reserve of essential raw material so as to make proper supply to the producers on time. Infact it develops service facilities for the processing of raw materials as semi-finished goods and provides assistance in marketing of KVI product. Such processing is mediated with the artisans engaged in the activities of KVI.
3. Promotion and improvement of the sales and marketing of khadi or the products of village industries or handicrafts are promoted, further in few feasible and important cases.
4. It also include the encouragement and promotion of research in the production methodology and equipment engaged in such industries so as to enable the entrepreneurs to analyse and study the problems related with them.
5. It increases productivity by optimally exploiting the non-conventional source of energy and electric power, thereby reducing drudgery.
6. The KVIC offers financial aid to those institutions and individuals which are engaged in the development of these industries and provides guidelines through supply of designs, prototypes and other technical information.
7. It is also making efforts for setting the quality standards for the products of khadi and village industries so as to confirm and to give assurance that the products are of high and superior quality.
8. It may either directly or through other agencies conduct studies relating to the problem of khadi and or village industries as well as research for developing simulated projects for khadi and village industries development.
9. The KVIC is entitled to develop and to establish completely separate organization for performing the above said functions along with the additional activities.

3.6 TECHNICAL CONSULTANCY ORGANIZATION (TCO)

Q21. What do you understand by Technical Consultancy Organizations (TCOs)?

Answer :

Technical Consultancy Organizations (TCOs)

TCO stands for Technical Consultancy Organization. It was started by the all India financial institutions IDBI, IFCI and ICICI in the seventies and eighties in collaboration with state-level financial and commercial banks to serve the consultancy needs of SSIs and new entrepreneurs. IDBI was the first one to start TCO in Kerala in 1972. Currently, there are 17 TCOs all over India. Out of 17, 9 are under IDBI, 5 under IFCI and 3 under ICICI. All the 17 TCOs cater to the needs of small and medium sized enterprises.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

The following are the various TCOs in accordance with sponsored institution

TCOs in Accordance to Sponsored Institutions

S.No	IDBI [I]	S.No	IFCI [II]	S.No	ICICI [III]
1.	KITCO, 1972	1.	HIMCON, 1997	1.	GITCO, 1978
2.	NEITCO, 1973	2.	RAJCON, 1978	2.	ITCOT, 1979
3.	BITCO, 1974	3.	MPCON, 1979	3.	MITCON, 1982
4.	UPICO, 1974	4.	NITCON, 1984		
5.	APITCO, 1976	5.	HARDICON, 1985		
6.	ORITCO, 1976				
7.	J &KITCO, 1977				
8.	WEBCON, 1979				
9.	NECON, 1987				

Objectives of TCOs

The following are the objectives of TCOs,

1. To provide and use complete consultancy services of covering all stages of project cycle.
2. To provide consultancy to state governments of various states.
3. To provide consultancy to state level development.
4. To provide consultancy to various financial institutions and banks.
5. To focus on project reports preparation.
6. To focus on feasibility studies.
7. To be diversified into different aspects such as recognising entrepreneur's 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 total services to small scale and medium scale industries under a single roof. Besides this, TCOs also provide consultancy services to different state-level development institutions. The main activities of TCOs are as follows,

1. Conducting industrial potential surveys
2. Identifying project ideas
3. Formulation of a project
4. Evaluation of a project
5. Preparation of project report and feasibility studies
6. Project implementation.
7. Conducting area development and marketing surveys
8. Providing assistance to entrepreneurs in modernisation, technical upgradation etc.
9. Providing assistance to sick units from conducting diagnostic studies to the actual implementation of rehabilitation scheme.
10. Provision of technical, management and administrative assistance.
11. Conducting EDPs entrepreneurship awareness campus, SEEUY training programmes and special studies on entrepreneurship.
12. Recognising the potential entrepreneurs and training them.
13. Providing merchant banking services
14. Conducting market research and surveys
15. Undertaking energy audit and energy conservation assignments
16. Project supervision
17. Undertaking export consultancy
18. Undertaking export oriented projects.

Scanned By Scanner Go

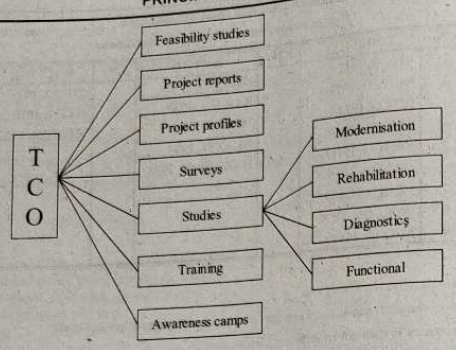


Figure: Functions of TCOs

S. No.	Name of TCO	Year Establishment	Area Operations	Paid up Share Capital (Rs. in lakh)	Lead Sponsoring Financial Institution
1.	Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd. (APITCO).	1976	Andhra Pradesh	10	IDBI
2.	Bihar Industrial and Technical Consultancy Organisation Ltd. (BITCO)	1974	Bihar	15	IDBI
3.	Gujarat Industrial and Technical Consultancy Organisation Ltd. (GITCO)	1978	Gujarat	15	ICIC
4.	Haryana-Delhi Industrial Consultants Ltd. (HARDICON)	1985	Haryana and Delhi	10	IFCI
5.	Himachal Consultancy Organisation Ltd. (HIMCON)	1977	Himachal Pradesh	15	IFCI
6.	Industrial and Technical Consultancy organisation of Tamil Nadu Ltd. (ITCOT)	1979	Tamil Nadu	10	ICICI
7.	Jammu and Kashmir Industrial and Technical Consultancy Organisation Ltd. (J & KITCO)	1977	Jammu and Kashmir	15	IDBI
8.	Kerala Industrial and Technical Consultancy Organisation Ltd. (KITCO)	1972	Kerala	15	IDBI

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

9.	Madhya Pradesh Consultancy Organisation Ltd. (MPCON)	1979	Madhya Pradesh	15	IFCI
10.	Maharashtra Industrial and Technical Organisation Ltd. (MITCON)	1982	Maharashtra, Goa, Daman and Diu	10	ICIC
11.	North-Eastern Industrial and Technical Consultancy Organisation Ltd. (NEITCO)	1973	North-Eastern Region	15	IDBI
12.	North-Eastern Industrial Consultans Ltd. (NITCON)	1987	Nagaland, Manipur, Tripura and Mizoram	15	IDBI
13.	North India Technical Consultancy Organisation Ltd. (NITCON)	1984	Punjab and Chandigarh	10	IFCI
14.	Orissa Industrial and Technical Consultancy Organisation Ltd. (ORITCO)	1976	Orissa	15	IDBI
15.	Rajasthan Consultancy Organisation Ltd. (RAJCON)	1978	Rajasthan	10	IFCI
16.	Uttar Pradesh Industrial Consultants Ltd. (UPICO)	1974	Uttar Pradesh	15	IDBI
17.	West Bengal Consultancy Organisation Ltd. (WEBCON)	1979	West Bengal, Sikkim, Andaman and Nicobar Islands	15	IDBI
18.	Technical Consultancy Organisation of Karnataka (TECSOK)	1977	Karnataka	25	Sponsored by Govt. of Karnataka

Table: List of Technical Consultancy Organizations (TCOs)

3.7 NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)

Q22. Write about National Small Industries Corporation (NSIC) and its Functions.

Answer : Model Paper-I, Q6(b)

National Small Industries Corporation (NSIC)

NSIC stands for National Small Industries Corporation Ltd. The NSIC was established by Government of India (GOI) in 1955 with the main objective of promoting and developing SSIs in the country. NSIC undertakes several activities like supplying of original and imported machines on hire-purchase and leasing system, marketing of small industries products on consortia basis, export marketing of small industries product, developing export worthiness of SSIs, enlistment of small scale units for taking part in government stores purchase programme, development and modernisation of machine's prototypes, equipment and tools, supply and distributing of indigenous and imported raw materials, providing training in several technical trades and cooperation with other third world countries in establishing small-scale projects on turn-key basis.

Initially, NSIC had four branch offices at Delhi, Mumbai, Kolkatta and Chennai. But in the year 1961, 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.

Scanned By Scanner Go

Functions of NSIC

The NSIC provides the following functions to the SSIs.

1. It provides equipment on hire-purchase and leasing system to SSIs.
2. It enables marketing of SSI's products.
3. It makes a provision for special concessions to the women entrepreneurs, weak entrepreneurs, ex-servicemen and SSIs located in down trodden areas.
4. It encourages export of SSIs products and develops export worthiness of SSIs.
5. It enlists competent units and encourages their participation in government stores purchase programme.
6. It improves the prototypes of machines, equipments, tools and helps in making it available to SSIs for commercial production.
7. It provides technical training in various industries in order to create and develop technical culture in the young entrepreneurs.
8. It promotes and update latest technology and follows modernisation programmes.
9. It supplies and distributes indigenous and enhanced raw materials.
10. It encourages diversification and modernisation of SSIs by providing indigenous and imported machinery on leasing.
11. It supplies general facilities with the help of prototype development and training centres.
12. It establishes SSIs in third world countries on turnkey basis.

NSIC has set-up its offices in few states in order to boost up the development and activities of State Small Industries Corporations and District Industries Service Institutes.

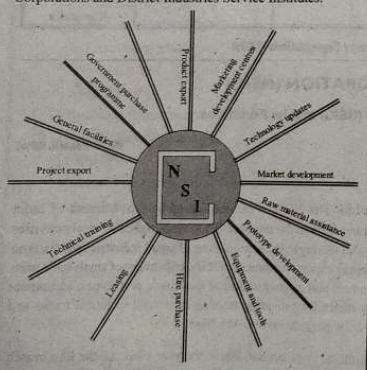


Figure: Functions Provided by NSIC

The NSIC follows an "integrated approach" in order to promote and develop small industries from the scratch to achieve the socio-economic development in the country. NSIC provides its support to the SSIs as they lack the availability of proper resources. It supplies machinery, equipment and other inputs for manufacturing and modernisation of small industries. It also provides jobs for the unemployed and skilled individuals. Thus, it has been an important source in developing entrepreneurs, organising a powerful industrial base, updating the technology, promoting balanced regional development in rural and down trodden areas.

3.8 SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

Q23. Discuss the role of SIDBI in financing enterprises in India.

Answer : Model Paper-II, Q7

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 IDBI subsidiary.

The Small Industries Development Bank of India (SIDBI) was basically set up as an 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 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 (1988-89) to start up SIDBI as a subsidiary unit of IDBI. Hence, the SIDBI Act was passed by the parliament in October 1989, then the functions of the bank commenced from April 2, 1990.

The objectives of SIDBI are as follows,

1. To take initiative in developing and updating the existing technology and improving the sick units.
2. To enlarge the network of channels for promoting the products of SSI unit in both domestic and international market.
3. To promote the industries which provide employment opportunities mainly in semi-urban areas and also checking the strength of people migrating from those areas in search of better jobs in higher order urban centres and metropolitan cities.
4. To initiate and take up new projects.
5. To improve the infrastructure for Small Scale Industries (SSI) units.
6. To promote the export of products and services.

Capital of SIDBI

The authorized capital of SIDBI is about 250 crores with an objective it to increase it upto 1000 crores as mentioned in the act of SIDBI. The institution has also to take over the outstanding portfolio of assets which has a value of 4000 crores. This should be undertaken as on 31st March 1990.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Resources and Assistance Provided by SIDBI

The bank provides the direct and indirect assistance to the small scale units. SIDBI extended the total amount of assistance in the year 1994-95 of ₹ 4699 crores of which only ₹ 3385 crores was disbursed.

(i) Direct Assistance

SIDBI provides direct assistance to SSI units under project finance scheme, equipment finance scheme, marketing scheme, venture capital scheme, providing leasing finance to NBFCs, SFCs, SIDCs and the resource assistance to institutions involved in the promotion and development of small scale sector.

(ii) Indirect Assistance

As the bank provides finance under direct schemes, it also extends indirect assistance to small scale sector by primary lending institutions through SFCs, SIDCs and other banks. It is implementing all its schemes that is both direct and indirect through 39 regional offices of SIDBI.

Promotion and Developmental Activities of SIDBI

SIDBI is indulged in promoting tiny and small scale industries with the help of the various promotional and developmental activities like,

1. Agencies to organise Entrepreneurship Development Programmes (EDP).
2. Technology upgradation and modernisation programmes.
3. Micro credit scheme and Mahila Vikas Nidhi to bring economic development of women focusing mainly on rural poor by providing training and employment opportunities.

Economic 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 Rs. 34,380 crores and new employment opportunities of 86 lakh persons. There has been an overall impact on clusters of SSIs such as lock, leather, glass, readymade garments, moderate development in the overall productivity, quality of product levels and process standards. It aims at more achievements and development in the upcoming future.

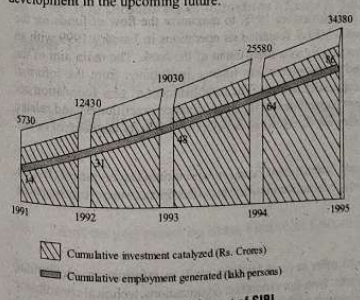


Figure: Economic Impact of SIBI

Q24. Explain briefly about the banks that support Small Scale Industries (SSIs). Write the role/ functions of SIDBI.

Answer :

Banks that Support Small Scale Industries (SSIs)

The following are the banks that support SSIs,

I. SIDBI

SIDBI was started by Government of India (GOI) under the Parliament's Act in October 1989 as a wholly owned IDBI subsidiary.

The Small Industries Development Bank of India (SIDBI) was basically set up as an 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 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 (1988-89) to start up SIDBI as a subsidiary unit of IDBI. Hence, the SIDBI Act was passed by the parliament in October 1989, then the functions of the bank commenced from April 2, 1990.

(ii) APSFC

APSFC stands for Andhra Pradesh Financial Corporation. It was set up in the year 1956 to promote various small scale industries in Andhra Pradesh state under the state financial corporation act, 1951. APSFC came into existence after merging of Hyderabad state financial corporation and Andhra state financial corporation on 1st November, 1956. It has launched various entrepreneur-oriented schemes to offer working capital term loans, seed and special capital assistance which meets the requirements of entrepreneurs of various categories.

APSFC helps in industrialization of the state by promoting uniform regional dispersal and development of industries. It extends need based credit to various small scale industries and service sector units. It offers support to entrepreneurs and helps in generating employment.

In addition to SIDBI and APSFC, various banks that support SSI's are State Financial Corporation (SFCs), State Small Industries Development Corporations (SSIDs), National Small Industries Copoerations (NSIC) and National Bank for Agriculture and Rural Development (NABARD). The SFCs provide financial aid to SSIs in the form of term loans. The SSIDCs and NSICs help in supply of provision of consultancy services and technical services. They also help in the purchase of machinery on hire. NABARD provides refinance services for rural artisans cottage and village industries.

Role/Functions of Small Industries Development Bank of India (SIDBI)

The following are the role of functions of small Industries Development Bank of India (SIDBI)

Scanned By Scanner Go

1. It extends financial support to state small industries for scarce raw materials for marketing.
2. It provides financial assistance to integrate infrastructure development centres scheme of union ministry of small scale industries.
3. It discounts and rediscounts bills arising from sale of machinery that are manufactured by SSI units.
4. It upgrades small scale industries in semi-urban regions for generating more employment opportunities.
5. It tackles technical improvement and updates prevailing small scale industries.
6. It permits direct support and refund for exports of small scale sectors.
7. It provides extension source capital and reinforcement of loan by National Equity fund scheme, Mahil Udyam Nidhi Scheme.
8. The major significant characteristic of SIDBI is the special importance and the new schemes to facilitate marketing assistance to the small scale sector.
9. It yields factoring and leasing services.
10. It supplies financial support to SFCs, SIDCs, commercial banks through prevailing credit distribution system.

Q25. Briefly explain the growth of SIDBI.

Answer :

SIDBI provides development and support services such as loans and grants to various agencies which are working for the promotion and development of SSIs and small industries. The following are the extended activities undertaken by SIDBI in the promotional and developmental area,

1. Enterprise promotion stressing on rural industrialization.
2. Human resource development that matches with the needs of the SSI sector.
3. Technology upgradation.
4. Quality and environment management
5. Marketing promotion and
6. Transmission of information.

The following schemes supports the enterprise promotion,

(i) Micro Credit Scheme

SIDBI established a SIDBI foundation for micro credit on 27th November 1998, to maximize the flow 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 ₹1 billion. Before starting its operations, it was functioning as a department of the bank. The main aim of the foundation is to develop a national network of strong, feasible and sustainable micro finance institutions from the informal and formal sectors for offering micro finance services to the poor, especially women. The establishment of new foundation not only provided financial assistance but also increased the management capabilities of the micro finance practitioners and related institutions. SIDBI foundation is given a unique position in the country for its efforts of developing 'capacity assessment rating' of NGOs/MFIs.

An agreement has been made between the SIDBI foundation and International Fund for Agricultural Development (IFAD), Rome for developing its operations significantly. The foundation has made an action plan that provides finance support and capacity building support to the micro finance institutions.

(ii) Rural Industries Programme

Rural Industries Programme (RIP) was developed in order to offer several facilities such as information, motivation, training and credit supported by relevant technology and market networks. Non-governmental organizations, technical consultancy organizations and development professionals facilitates the implementation of this programme.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

FREQUENTLY ASKED QUESTIONS AND IMPORTANT QUESTIONS

SHORT QUESTIONS

Q1. Explain about DICs.

Answer : Important Question

For answer refer Unit-III, Q1.

Q2. Explain briefly about State Financial Corporations(SFCs).

Answer : Important Question

For answer refer Unit-III, Q3.

Q3. Write briefly about KVIC.

Answer : Important Question

For answer refer Unit-III, Q5.

Q4. What are the Functions of SSIDCs?

Answer : Important Question

For answer refer Unit-III, Q7.

Q5. What do you understand by SIDBI?

Answer : Important Question

For answer refer Unit-III, Q9.

ESSAY QUESTIONS

Q6. What is Directorate of Industries? Explain the objectives and Functions of Directorate of Industries.

Answer : Important Question

For answer refer Unit-III, Q10.

Q7. Explain the Functions and schemes of District Industries Centre (DIC).

Answer : Important Question

For answer refer Unit-III, Q12.

Q8. What do you mean by State Financial Corporations (SFCs)? Write about its objectives and Scope.

Answer : Important Question

For answer refer Unit-III, Q14.

Scanned By Scanner Go

Q9. Explain about SSIDCs and SISI.

Important Question

Answer :

For answer refer Unit-III, Q19.

Q10. What do you understand by Technical Consultancy Organizations (TCOs)?

Important Question

Answer :

For answer refer Unit-III, Q21.

Q11. Write about National Small Industries Corporation (NSIC) and its Functions.

Important Question

Answer :

For answer refer Unit-III, Q22.

Q12. Discuss the role of SIDBI in financing enterprises in India.

Important Question

Answer :

For answer refer Unit-III, Q23.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

UNIT 4 Production and Marketing Management

Syllabus

Production and Marketing Management: Thrust Areas of Production Management, Selection of Production Techniques, Plant Utilisation 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.
- ✓ Concept 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 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.

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 adopted 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 directing and organising the resources in an orderly manner for administering the availability and performance of industrial 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 decisions and 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 determination.

Scanned By Scanner Go

PART-A SHORT QUESTIONS WITH SOLUTIONS

Q1. Define the term production. (Model Paper-I, Q1(g) | Nov./Dec.-19,(R15)(A), Q1(i))

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 Bates and J.R. Parkinson*

"Any activity whether physical or mental which is directed to the satisfaction of other people's wants through exchange".

– *J.R. Hicks*

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 adopted 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.

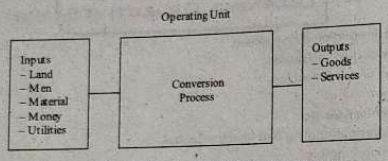


Figure: Production Function in a Manufacturing Concern

Q2. Write any three marketing functions. April-17 (R13)(A), Q1(i)

Answer :

The three marketing functions are as follows,

1. **Merchandising Functions**

   The various activities which come into the category of merchandising functions are,

   (i) Purchasing Activity

   (ii) Assembling Activity

   (iii) 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 so on come under supporting functions of marketing.

Q3. What are the different production techniques? Model Paper-II, Q1(h)

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 terms 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.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2. **Batch Production**

   In this type of production, two or more types of products are manufactured in lots (i.e., batches) at regular intervals. Different products are manufactured and stocked and then sold on receipt of orders. This is generally adopted in pharmaceutical companies.

3. **Mass Production**

   In this type of production, items or products are produced in continuous stages from process to process. There is a continuous and steady flow of materials. Output of one operation becomes the input for the subsequent operation. This type of production is preferred where bulk production is required.

Q4. What do you mean by maintenance management?

Answer : Model Paper-I, Q1(h)

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 machines, buildings and services required by other organisational parts for performing their functions are available.

Maintenance management deals with directing and organising the resources in an orderly manner for administering the availability and performance of industrial 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.

Q5. Designing the work place.

Answer : Model Paper-II, Q1(g)

Work place design organizational design is the process wherein the managers select and manage different elements and parts of the organizational structure and culture for achieving the goals.

There may be several contingencies, so it is not possible to design a specific design for each and every situation. Three most important factors must be considered for designing the organizational structure,

1. Nature of an organization
2. Technology advances
3. Features of human resources in an organization.

Q6. Distinguish between inspection and quality control.

Answer : Nov./Dec.-17, (R15)(A), Q1(i)

The differences between inspection and quality contro are as follows,

S.No	Basis	Inspection	Quality Control
1	Meaning	Inspection is defined as the process of checking the presence of defective items at each stage of production and differentiate the defective pieces from good ones.	It is defined as a process of integrating the three aspects, of quality such as quality development, maintenance and improvement in order to facilitate economical production and high levels of customer satisfaction.
2.	Responsibility	The inspection manager is the only 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 past production i.e., it determines whether the produced products achieved the predetermined specification or not.	Quality control is an effective system that is associated with the future production i.e., it determines the reasons for the production of defectives and recommends is proper action to avoid them in future production.
4.	Tools	The tools that are used for inspection include precision tools such as flow detector.	The tools used for quality control are statistical tools, such as control charts.

Scanned By Scanner Go

Q7. What are the advantages of inventory?

Answer : Nov./Dec.-19, (R15)(A), Q1(j)

Holding of inventory in an organization has number of advantages which are as follows,

1. It helps the organization to have a smooth and efficient running of enterprise.
2. It helps in reducing the operating costs in other activities of the organization and brings more income than carrying cost.
3. It is very much important for the organization to maintain sufficient amount of inventory, as it helps in meeting the irregular changes in demand and supply.
4. It provides advantages of price fluctuations, saving in reordering costs, quantity discounts etc.
5. It provides protection to the firm from all unexpected events and also help in avoiding stock outs 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.

Q8. What is Material Handling?

Answer : Model Paper-III, Q1(g)

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 movements of the material between various work stations in a plant, either individually 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.

Q9. Define Quality Control.

Answer :

According to ISO (8402), "Quality control is defined as, the operational techniques and activities that are used to fulfill quality requirements".

It defines quality assurance as planned 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 inspections and tests are carried out, in order to assess, whether the predetermined quality is met/achieved or not. Quality control will select a random sample of units to make sure that their performance in the required areas is within the acceptable limits.

Q10/ Write a note on market segmentation.

Answer : Nov./Dec.-17, (R15)(A), Q1(j)

According to Philip Kotler, "Market segmentation, is the process of dividing a market into distinct subgroups of consumers with distinct needs, characteristics or behaviors, who might require separate products or marketing mixes". The marketing personnel recognize various alternatives to segment the market and create 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. Through segmentation, different markets are classified into smaller and similar submarkets. The main purpose of identifying groups of customers with similar requirements was to serve them effectively. It acts as the basis through which the marketers identify their markets and develop strategies to serve their customers better than the competitors.

Q11/ Briefly write a note on "market research".

Answer : April.-17, (R13)(A), Q1(j)

"Marketing research is a process which has to do with the gathering, processing, analysis, storage and dissemination of information to facilitate and improve decision-making".

– Seibert Joseph

"Marketing research is a branch of marketing intelligence, that conducts specific enquiries into problems, in order to guide decisions".

– David Luck and J. Wales

Q12. Define Sales Promotion.

Answer : Model Paper-III, Q1(h)

"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 expositions, demonstrations and other non-recurrent selling efforts, not in the ordinary routine".

– American Marketing Association

"Sales promotion comprises that range of techniques used to attain sales/marketing objectives in a cost effective manner by adding value to a product or service either to intermediaries or end users normally but not exclusively within a defined time period".

– Institute of Sales Promotion, U/C

"Sales promotion, a key ingredient in marketing campaigns, consists of a diverse collection of incentive tools, mostly short-term designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade".

– Philip Kotler

Q13. What do you mean by Product Pricing?

Answer :

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 retailer. While determining the price of the product various factors such as demand and supply of the product, nature of competition, pricing objectives, channel of distribution and profitability are taken into consideration by retailer. Pricing if done appropriately, gains customer satisfaction and achieve market acceptability. A clear market analysis and utmost care 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 retailer and customers.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

PART-B ESSAY QUESTIONS WITH SOLUTIONS

4.1 THRUST AREAS OF PRODUCTION MANAGEMENT

Q14. Define Production Management. Explain the process of evolution of production management as operations management.

Answer :

Definition of Production Management Model Paper-I, Q8(a)

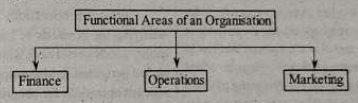
According to the U.S Department of Education, "production management is the field concerned with managing and directing the physical and/or technical functions of a firm or organization particularly those relating to development, production and manufacturing".

From the above definitions one can understand that:

1. Organization management studies the process, planning, designing, organising and operations of production system to create the desired goods.
2. It is a wider term and includes all sub-processes and subsystems which assist in production of goods and services.
3. It is not necessary to get the title of operations manager. Even material manager, quality analyst, store manager too are 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 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 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 use, for example, books, pens, mobiles, clothes, or any service rendered – service of doctor, lawyer, teacher and the like, all these goods and services must be produced. Its the responsibility of operations management to produce all these goods or services.



Evolution of Production and Operations Management

The history of production management is not very much old but has passed through the various stages to reach its 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 studied under the following headings.

Changes that took place over time,

Time	Till 1700	1700 to 1970	1970 till today
Name	Manufacturing management	Production management	Operations management or POM

1. Before Industrial Revolution

Prior to the occurrence of industrial revolution, goods were produced by highly skilled labours who were producing goods as per customer specifications. This were entailed with the following limitations.

(a) The production process was slow as it was dependent on the skills of labours.

(b) Replacement of failed parts was costly.

(c) Lack of economies of scale.

Scanned By Scanner Go

2. Industrial Revolution

The emergence of industrial revolution has brought a drastic change in the field of production, thereby replacing the human workers with machine power. The most noticeable development took place when steam engine was developed by James Watt, to supply power to operate various machines in factories/industries. From then till 1700 years, all production took place in cottage industries. Due to industrial revolution, industrial outputs have undergone rapid growth because of many inventions of these periods. For instance, in England traditional wooden handlooms were replaced by strong iron machines. This led to the cloth production to grow rapidly, because of which, England have started importing raw cotton from India and was exporting manufactured garments to India.

Inspite of all these major changes, that were taking place during such periods, management theory and practice were not undergoing much progressions which laid the foundation for the establishment 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 noticeable or revolutionary changes in the field of production by making use of scientific tools and techniques.

In the early 1900s, Fredrick 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 scientific theory of management states that it is a duty of every worker to improve productivity and the best method of doing so is by specifying the manner in which the work has to be done and also the amount that has to be performed routinely by a single worker. Further, he added up that management should responsible for designing pay rate system for employees, providing training and infrastructural facilities to efficiently achieve their tasks and also for designing different jobs based on their skills.

In addition to F.W Taylor, there were different pioneers who have provided their own contribution towards this movement. Some of them includes,

(a) Frank Gilbert, who had laid the foundation of motion study, had proposed a principle of motion economy whose application to small portion of task incredibly causes productivity improvement.

(b) Henry Gnatt developed "Gnatt Charts", used for production scheduling. He had also recognised various non-monetary rewards that could be used to motivate workers.

) Harrengton Emerson applied principles of scientific management, proposed by F.W Taylor, to organisation structure for improving their efficiency.

) Henry Ford, employed Taylor's principles in his organisation (factories).

4. The Human Relations Movement

Experiments by Elton Mayo revealed that social norms, has greatly influenced workers productivity. Motivational theories, were developed by Maslow, Herzberg and others followed by the famous theory X and theory Y. From then onwards, even the social and emotional aspects of the workers were attained significant importance.

5. Computer Age (1970)

After World War-II organisation structure were becoming complex and with the advent of industrial revolution where manpower gets replaced by machines, organisations realised the importance of computational capabilities. This further led to the development of digital computers. Today, many 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 1980's based on their three principles,

(a) Quality comes first.

(b) Continuously improve the product and process.

(c) Eliminate wasteful expenditure.

They also invented many creative management techniques like, "Just-in-time", "Quality revolution" and others.

Q15. Explain the nature and scope of Production and Operations Management (POM).

Answer :

Nature of Production and operation Management (POM)

Effective operations management is necessary for satisfying the demands of customers and for producing best 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 greater return on investment. The major activities which are involved in the discipline of operations management are as follows,

1. Evaluating customer's satisfaction by understanding their wants and expectations and utilizing this data in developing or improving the products and services, which in turn supports the long-term strategy of the company.
2. In order to make effective decisions, the information about the customers, products and services, operations, suppliers, employees, costs and finances are utilized.
3. For responding promptly, quickly and easily to the changing customer needs and expectations advance technology is used for designing goods, services, manufacturing and service delivery processes, which in turn results in high productivity and profitably.
4. Enhancing the quality in goods, services and processes continuously for minimizing the defects, errors and wastages for better responsiveness and business performance.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

5. Building good work environment by improving the skills of employees and motivating them by providing education, training, rewards, recognition, teamwork, empowerment and other HR practices.
6. Continuously gaining knowledge from co-workers, competitors, customers and transforming the firm as per the global as well as environmental changes.
7. Making sure that the flow of materials and the related operational activities are coordinated across hierarchical, organizational and functional margins i.e., from suppliers to customers.

Thus, the main purpose of operation management is to provide quality products to the customers by continuously improving the performance and capabilities of an organization.

Scope of Production and Operation Management (POM)

'Scope' means the field or area of impact. The scope of POM is very wide in nature. This is clear from the following any organization i.e., either big or small, product based or service based, its survival totally depends on the saleability of its product (good/service). The challenges faced by the operations manager are almost same in every organization. For example, operational functions in an airline company would include forecasting weather, 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 duty 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.

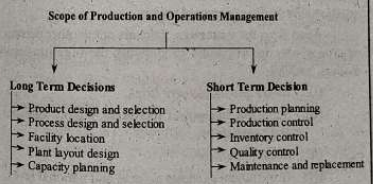


Figure: Scope of production and Operation Management

I Long-term Decisions

The scope of operation management involves the long term decisions which are as follows,

1. 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 exist a wide variety of laptops in the market, each with a different aesthetic design. The design of the product either makes us competitive or noncompetitive.

2. 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, many successful organizations are implementing the robotic and computer technology in their plants in order to maximize the production.

3. Facility Location

Facilities location is a very critical decision as it involves huge investments and a wrong decision about the location would be very dangerous and will directly effect the production and distribution cost. For example, the Nano Car facility was shifted from West Bengal to Gujarat after conducting the feasibility study.

4. Plant Layout Design

This deals with setting up of machines, storage facilities etc., in such a manner that the raw material move smoothly from one process to another, without any duplication or wastage of time. Many computer aided plant design, softwares are available in the market. For example, Craft, Core Lap.

5. Capacity Planning

Capacity planning involves the important decision about how to make the optimum utilization of the resources. Planning must be conducted effectively so that no resources viz machine, labour, raw material are under utilized. A machine with a working capacity of 10 hours per day must be used for 10 hours per day. It must neither be used for 8 hours or 11 hours. Tools like linear programming, break even analysis and decision tree helps the operations manager in making the capacity planning.

II 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 factors of production. It also helps the operations manager to foresee and eliminate problems before they materialize. For instance, the manager may order for new spare parts, keeping in mind that the machine is very old and may break-down.

2. Production Control

Control is a tool that helps the managers 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 processed, 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.

Scanned By Scanner Go

4. Quality control

A good quality control system checks and maintains the quality of the final product. Many organizations have separate quality control analyst who conducts the inspection of goods for any defects. Only after their clearance, goods are sent for distribution.

5. Maintenance and Replacement

Maintenance of the plant and machinery is very crucial in an organization. The operation managers takes care of the machines, tools and equipments, on regular basis check and repairs it in order to avoid the break-down. Once the machine's life time is over, it is usually sold and replaced.

All the short-term decisions of the operations management aims at controlling the measures and collect feedbacks.

Q16. What are the different elements of production management?

Answer :

The key elements of production management are as follows,

1. Customer demand
2. Operating system/process
3. Process capacity.

An interrelationship exists between these three elements of Operation Management (OM), which is depicted in the figure given below,

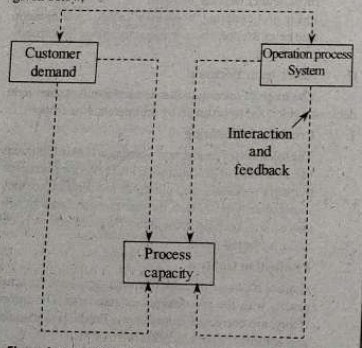


Figure: Interrelationship between the Elements of production Management

1. Customer Demand

The organizations in general have two kinds of customers i.e., external customers and internal customers. The organizations fulfill 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 market on the other hand is the market that operates outside the country. The customers of these markets are mainly dealt with the finished products of the company. Operations management should plan and structure its operations in an efficient manner for satisfying the customer's demand.

Internal customers on the other side is concerned with the different departments which operate different functions within the organization. Such as administration, finance, marketing, quality control, materials management, production, maintenance and so on. These functions coordinate with each other and the operations of some departments rely on the other departments under certain aspects. For example, maintenance department depends on the materials management department for the delivery of materials and the materials management department depends on the maintenance department for receiving purchase requisitions for quick procurement or processing of materials. Thus, in the former case maintenance department becomes the customer to the materials management department and in the later case it is vice versa. In the same manner, marketing department receives the goods from the production department and becomes its customer by providing the demand to the production department. Thus, the production department becomes the customer to the marketing department. This represents the chain of customers within the organization.

After a product reaches to its ultimate consumers, it is possible to evaluate the pros and cons of the operating systems with respect to the plant and machinery, policies and procedures, manpower, materials and equipments and the functioning of various departments such as finance, marketing, sales, materials and maintenance management, security management and so on. This type of information can be gathered by receiving feedback from the customers as well as from the market. Feedback can be obtained with the help of formal feedback system i.e., through questionnaire or direct personal review.

Apart from the customers, there are some other persons or groups who are interested in knowing the organizational matters, such as,

(i) Banks and investment firms.
(ii) Suppliers, manpower recruiting, supply agencies and contractors.
(iii) Local population.
(iv) Government agencies at local and national level.

2. Operation System/Process

Operation system or process refers to the sequential activities, which are interlinked and utilized for converting the inputs into outputs. It mainly deals with the production activities of products and services, which the organization sells to the ultimate consumers. Besides the production activities, the other related activities are also performed in an organization. For instance, when the purchase department purchases materials from their suppliers, the finance department makes the payment to the suppliers and the human resource department appoints the employees for performing different organizational activities. Finally, the operations management deals with developing and structuring of all the operation systems and sub-systems which has the potential to fulfill the demands of its customers.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

The operation managers should design the structure of operations system as per the requirements of the customers. If the customer wants prompt and quick response, then the operation system should be designed for responding quickly by using the faster processing system.

3. Process Capacity

Process capacity refers to the ability of manufacturing the goods and services effectively and efficiently per unit time. It is impossible to measure the total output from the total capacity of the business. For example, two cement plants are installed at same capacity i.e., 4000 tpd. The first cement plant delivers the cement in traditional bags of 50 kg capacity and the second cement plant delivers cement in different modes of packaging. Thus, the second cement plant is considered to have higher capacity in reality when compared to the capabilities of the first cement plant as it attains the requirements through different modes of packaging. Therefore, customers would like to elect the second cement plant for fulfilling their requirements as it is facilitated to deliver cement through different modes such as, in bulk as well as in 50 kg bags.

The different types of facilities resulted from the integration of plant and machinery, work flows and employee skill level shows the firm's capacity with which a firm can operate efficiently, effectively and consistently. Thus, the capacity 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 wherein the production and operations management combines the activities of all the functions for attaining 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 this aspect. 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 phase to determine the requirement of resources. Planning helps in determining what quantity of each resource is required, when it is required and how the process of conversion utilizes the resources. Thus, the conversion process is developed in a suitable manner for providing the resources availability on time and making optimum utilization of these resources for reducing the losses.

Strategic and systematic planning helps in the effective management of resources by taking strategic decisions under any 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 final product. For example, production of cement requires different raw-materials such as bauxite, iron-ore, gypsum, sand, clay and limestone. The proportion of these raw materials changes with the usage of alternatives, such as by-products of other industries. Slag, a by-product of steel-plant is useful for making slag cement. A by-product of power houses using coal as fuel (i.e., fly-ash) is useful for producing fly-ash cement.

The functions of design and engineering plays an important role in planning different activities from the initial phase of proposal for a product or process to the final stage of production [passing through different stages]. For example, a car producer designs different production operations in the assembly line, stabilizes all the operations, formulates prototype, 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 formulated and developed by design and engineering department. Production function organizes all the resources in the right quantity, at the right time and of the best quality. Monitoring and controlling are the main elements of production function. Production function tries to attain customer satisfaction 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 disturbances/interruptions. If the disturbance 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 productive hours, affects the quality of product adversely and increase product rejections. Various types of maintenance are adopted in organizations such as breakdown maintenance, preventive maintenance, predictive maintenance etc. Breakdown maintenance must be prevented and must be kept at the minimum level. A balance should be maintained between the predictive maintenance and preventive maintenance for achieving effective results.

5. Procurement of Raw Materials

Procurement of 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 source of supply, purchasing exact quantity, appropriate quality at appropriate time and at reasonable prices are the main components of procurement functions, the source of supply must be stable and reliable and must be suitable for a long-term

Scanned By Scanner Go

association. Purchase and operations management are inter connected with each other. Thus, purchasing department plays vital role in procurement of materials by providing the materials at proper time, acquiring the technical knowledge and skills from the supplier and minimizing the total manufacturing cost.

6. 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 and the customer is called as supply chain as one supplier sells the materials to other [manufacturing unit], which in turn sells the product to another [its customers]. All these elements deal with the transportation of materials from suppliers to business concerns, storage of those 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, this 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.

7. Human Resource Management

Human resource management is the main function in any organization. Adapting advance technology, utilizing the best plant and machinery, spare parts, oils and lubricants, consumables and raw materials will be of no use without having efficient manpower resources. The organizations face different problems regarding human resource such as unskilled employees, excessive employees, shortage of qualified and skilled personnel under different levels of operations. The operations manager should decide the number of employees to be engaged in each and every activity and should select the employee depending upon the organizational requirements. Providing training and development programmes to the employees for performing effectively results in the organizational efficiency and productivity.

8. Finance

Financial resources of an organization is derived from the sale of products and loans from financial institutions like banks, investment firms, individual and corporate stock holders. The utilization of these resources upto maximum extent is the main criteria for the top management. Finance managers play a crucial role in saving the appropriate funds for enabling the firm to attain its commitments to the suppliers and contractors for the supply of raw materials. The delay in the payments reduces the credit worthiness of the firm and the suppliers may not agree to the terms of credit payments. In the same manner, the organization must decide on how the available funds can be invested? Which bank to invest? At what interest rate to invest? When to invest? And how much to invest? Finance manager assists in the identification and distribution of the resources for different activities as per the requirements of the organization.

9. Accounting

Accounting is termed 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, payments to suppliers and contractors, salary computations and disbursements, inventory value, value of fixed and moveable assets of the company and so on. It also keeps the records of costing details of each cost center and gives information to other departments in making purchase decisions, cost measurement and performance of different cost centres for controlling and monitoring the financial resources. The information produced by accounting concept serves as a basis in report preparations and decision making at different levels in the firms. It also assists in comparing the actual costs of employees, departments and firm with the standard cost of employees, departments and firm. Decision-making is impossible in the absence of accounting facts and figures.

10. Marketing

Marketing department/function helps in connecting the company and its consumers. 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 change the policies, procedures, practices for producing a product at reasonable/affordable price and improving the quality of a product.

The important functions of marketing are advertising and developing market strategies for attracting the customers for introducing new products and making trials for new products. The main aim of marketing function is to gather exact data about the market trends/situation and the present and future demands for the products. Every activity of operations management depends on the marketing projections and predictions such as plant capacity, production plans, procurement plans and financial planning. Thus, marketing enables the operations management to determine the requirements of present and future consumers 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 techniques/method with their respective characteristics.

Answer : Model Paper-I, Q8(b)

Definition of Production

"An organized activity of transforming physical inputs (resources) into outputs (finished products) which will satisfy the product's needs of the society".

– James Bates and J.R. Parkinson

"Any activity whether physical or mental which is directed to the satisfaction of other people's wants through exchange".

– J.R. Hicks

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

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 adopted 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.

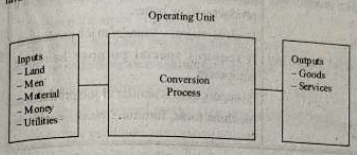


Figure: Production Function in a Manufacturing Concern

Techniques/Methods of Production

The techniques methods of production are as follows,

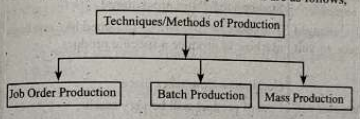


Figure: Techniques/Methods of production

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 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.

Characteristics of Job Order Production

Following are the characteristics of job or order production,

(i) It produces a variety of jobs in small batches.

(ii) It utilizes general purpose equipment which can be outfitted with special tools, fixtures and thus different jobs can be made with the same basic machinery.

(iii) The material in-process follows different processing patterns in batches through the shop facilities.

(iv) The work does not flow in serial fashion i.e., not serially utilized facility (Not in 1 – 2 – 3 – 4 – 5 ... route).

(v) It is concerned with making order. Normally, job shops operate within a field and not for orders from any source.

(vi) It requires highly skilled workers.

(vii) It normally employs overtime.

(viii) 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) at regular intervals. Different products are manufactured and stocked and then sold on receipt of orders. This is generally adopted in pharmaceutical companies.

Characteristics of Batch Production

Following are the characteristics of batch production,

(i) Articles are manufactured in batches as per the specific order procured.

(ii) Division of labour is possible.

(iii) Flow of materials is intermittent.

(iv) Plant layout is of process type.

(v) Automation of processes and mechanization of material handling can be adopted.

(vi) Proper maintenance of machinery and equipment is essential.

(vii) Process and product planning is done for each batch.

(viii) Expediting and corrective action are very necessary.

(ix) A good production control system must be developed.

3. Mass Production

In this type of production, items or products are produced in continuous stages from process to process. There is a continuous and steady flow of materials. Output of one operation becomes the input for the subsequent operation. This type of production is preferred where bulk production is required.

Characteristics of mass Production

Following are the characteristics of mass production,

(i) There is a scope for considerable division of labour.

(ii) Machinery is laid as per the sequence of production.

(iii) Material handling is, thus, reduced to minimum.

(iv) The flow of work is balanced.

(v) Very little time is spent on resetting of machines.

(vi) WIP (Work-In-Progress) is small as compared to intermittent production.

(vii) Procedures (methods), tools and material handling need proper attention.

(viii) Plant layout and facilities are designed to suit production requirements.

Q19. Differentiate between,

(a) Job order production and batch production system.

(b) Mass production and flow production.

Answer :

(a) Job Order Production and Batch Production System

The differences between job order production and batch production system are as follows,

Scanned By Scanner Go

S.No	Basis	Job Order Production	Batch Production
1.	Installation of Machines	Standard machineries are installed depending on whether the factory is engaged in light, medium or heavy engineering.	Special purpose machineries were installed.
2.	Types of Machines	Similar machines will be arranged.	Different machines may be grouped.
3.	Cost and Time	Cost and time required to make product will be high.	Operation time and total time to make product will be better.
4.	Work in Progress	Work in progress will be high.	Work in progress is similar to job production.
5.	Handling Equipment	It requires standard material handling equipment.	It requires special purpose handling equipment.
6.	Supervision	It requires special supervision.	Its supervision is similar to job production.
7.	Examples	Ship building, civil engineering etc.	Machine tools, furniture, pharmaceuticals etc.

(b) Mass Production and Flow Production

The differences between mass production and flow production are as follows,

S.No.	Basis	Mass Production	Flow Production
1.	Type of Machine	Special purpose machines are required.	Standard machines are required.
2.	Design	All machines and processes will be arranged designed in operation sequence to suit product.	The entire factory will be designed like one huge machine to produce a specific product.
3.	Time	Continuous flow takes place.	Continuous flow takes place.
4.	Cost of Production	Cost of product in relation to turnover will be small.	Cost of product will be very small.
5.	Work in Progress	Work in progress is less.	Theoretically, there will be no work in progress between operation stages.
6.	Handling Equipment	Expensive specialised handling equipments are required.	Materials handling and processing will be completely integrated.
7.	Examples	Food, cigarettes, 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 machines, buildings and services required by other organisational parts for performing their functions are available.

Maintenance management deals with directing and organising the resources in an orderly manner for administering the availability and performance of industrial 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.

Scope of Plant Utilization or Maintenance Management

It is very essential for all the manufacturing organisations to manage maintenance as machines breakdown, parts wear out and buildings deteriorate after a particular period of time. Proper care and attention must be given to all the factory segments such as buildings, machinery, equipments, tools, cranes, jigs and fixtures, waste disposal systems, air conditioning equipments etc.

The scope of maintenance management includes two types of functions are as follows,

1. Primary Functions

The primary functions of maintenance are,

(a) To maintain existing plant and equipments.

(b) To install new equipments and buildings.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

(c) To maintain existing plant buildings and grounds.

(d) To modify existing equipments and buildings.

(e) To inspect equipment and lubrication.

(f) To generate and distribute utilities.

2. Secondary Functions

The secondary functions of maintenance are,

(a) To keep the stock of spare parts.

(b) To protect the plant (including fire protection).

(c) To provide insurance against fire, theft etc.

(d) To maintain property accounting.

(e) To provide janitorial services (or caretaking services).

(f) To reduce pollution and control noise.

(g) To dispose off the waste.

(h) To provide any other service related to maintenance by plant management.

(i) To save the items from being lost or destroyed.

Objectives of Plant Utilization or Maintenance Management

Maintenance management has the following objectives,

1. To reduce the loss of productive time due to equipment failure.
2. To reduce the repair time and repair cost.
3. To optimally utilise 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 a 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 :

Management is one of the key function of production and operations management in all the production systems. It includes all those activities which are needed for maintaining physical facilities and equipments in good operating conditions.

Significance of Maintenance Management

The following points help us to know the significance of maintenance management in production and operations management.

1. The performance of the company depends mainly on the services provided by the company. A firm can provide good customer service and can attain competitive advantage over its rivals if it has efficient equipments which responds to the demands of the customers on time. To remain effective and competitive, all the equipments should be kept in good conditions without any stoppage of work and downtime.
2. Maintenance plays a very important role in quality assurance. It acts as a basis for attaining a competitive advantage over its rivals. The incompatibility in equipments results in variability in product features which in turn leads to the production of defective parts that does not meets the established specifications. Apart from avoiding the breakdowns, it is also very essential to maintain equipments which operates within the specifications so that a high quality product is produced.
3. The manufacturing organizations which conduct just-in-time programs make very less use of inventories and do not provides protection at the time of lengthy equipment failure. In addition to the cost of idle equipment, idle labour and lost sales caused due to breakdown, organisations also faces the danger of losing their market shares permanently to the other trustworthy organizations. Such types of problems can be avoided with the help of maintenance function.
4. Effective maintenance management plays a very important role in controlling the cost of the company. With increase in competition, the companies want to use automatic equipments instead of manual labour. For this purpose, they have to depend on the equipments which produce a greater percentage of their output. The equipments must operate consistently within the specifications. With equipment becoming costly and hightech, the cost of idle time will be high.
5. The companies such as airlines and oil refineries have to invest very high amount of money in equipment. In such type of companies, the failure of equipment causes great damage to the firm. So, it is very essential for these firms to have adequate maintenance for maintaining equipment in good condition.

Impact of Poor Maintenance

Maintenance operations consist 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 not operating due to breakdowns will not be able to produce products and reduces the capacity of production system.

2. Production Costs

Labour costs per unit increases if the labour does not work due to machine breakdowns. The machine malfunctions leading to scrap increases, the unit labour and material costs. Apart from this, the maintenance cost (consisting of costs of providing repair facilities, repair crews, preventive maintenance inspections, spare parts and standby machines) also increases due to frequent breakdown of machines.

Scanned By Scanner Go

3. Product and Service Quality

In 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 can fail at any time and can harm the workers who are working on those equipments. The products like two wheelers and automobiles have to be serviced regularly as it can breakdown anytime and can harm the users.

5. Satisfying the Customers

If the equipments used in production breakdown then it is not possible to produce the products as per the master production schedule because of stoppage of work. This in turn results in providing late delivery of products to customers.

Q22. Explain different types of maintenance systems.

Answer :

Maintenance management mainly deals with the updation and safeguard of machinery, building and other fixed assets of a firm which undergoes deterioration because of their excessive usage and exposure to environmental conditions over a specified period of time. The following are the various types of maintenance,

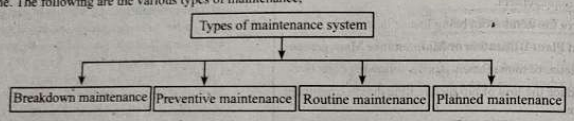


Figure: Types of Maintenance Systems

1. Breakdown Maintenance

Corrective breakdown maintenance is made when the equipments or machines fail to perform their operations. They need to be repaired for overcoming its consequences. Breakdown maintenance mainly deals with the equipment or machines repairs. When they become malfunction, under such circumstances, the firms need the assistance of maintenance department which examines the problem and makes the necessary repairs.

Breakdown maintenance is usually seen in the small factories because they remains passive towards the scheduling benefits and have temporary or permanent demand pattern 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, oiling and retightening of component parts, which helps in restoring the efficiency of equipments. However, it would be a costlier affair as for regular inspection and checking, firms need to pay huge amount to the inspection audits.

3. Routine Maintenance

Routine maintenance deals involve inspection, cleaning, lubrication and repair of production equipments as soon as they have completed their service period. Routine maintenance is divided into two types which are as follows,

(i) Running Maintenance

In this type of maintenance, the equipment machines undergoes maintenance when they are performing their operations. For example, applying grease or lubricating the bearings when the machine is functional.

(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 boiler tubes of a boiler.

4. Planned Maintenance

Planned maintenance mainly deals with the performance maintenance activities as per the predetermined time and date (schedule). It is also called as scheduled maintenance or productive maintenance. The activities involved in planned maintenance are inspection of plants and equipments, machinery and building so that they can be repaired, lubricated and rebuild before the occurrence of actual breakdown.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

The main objective of planned maintenance is to reduce the sudden breakdown of machines which will results into the stoppage of whole production system. The planned approach of maintenance plays an important role in decreasing the down-time of machine or equipment, maintenance costs and helps in improving the productivity of a process.

Q23. What is preventive maintenance? What are its features, objectives and elements?

Answer :

Preventive Maintenance

Preventive maintenance is usually done for reducing the frequency of plant/equipment breakdowns. They can be prevented by cleaning, inspecting, oiling and retightening of component parts, which helps in restoring the efficiency of equipments. However, it would be a costlier affair as for regular inspection and checking, firms need to pay huge amount to the inspection audits.

The main objective of preventive maintenance is to reduce the chances of unanticipated or major breakdown. Preventive maintenance involves the following activities,

1. Effective designing and installing of equipments.
2. Periodic inspection of plant and equipments to overcome the danger of breakdowns.
3. Providing repetitive service and analyzation of equipments.
4. Adequate lubricating, cleaning and painting of building and equipment.

Features of Preventive Maintenance

An effective preventive maintenance program is characterized by the following features,

1. It uses repair budgets for the major equipment items.
2. Its checklists are used by the inspectors.
3. It maintains precised and proper records about the volume work, cost and scheduled date and time.
4. Its administrative procedures are used for providing the basic requirements and feedback as a follow-up of programmes.
5. It inspects on inspections are done on definite schedule with the help of standing orders and by using specific assignments.
6. It consists of well qualified inspectors who are capable of identifying the problems and making simple repairs when they are required.

Objectives of Preventive Maintenance

The following are the objectives of preventive maintenance,

1. To attain maximum production at less repair cost.
2. To provide security to the workmen.
3. To decrease the work content of maintenance jobs.
4. To make the plant equipment and machinery always available so that they can be readily used.
5. To carryout inspections, repairs servicing etc., regularly for maintaining the value of equipment and machinery.
6. To preserve the operational accuracy of the plant equipment.
7. To retain the optimum productive efficiency of plant equipment and machinery.
8. To reduce the chances of unanticipated production interruption by identifying its causes.

Elements of Preventive Maintenance

Preventive maintenance consists of the following elements,

1. An effectively designed inspection system.
2. Plans and planning framework for the maintenance of work.
3. Levels of inventory for all plant and equipment.
4. Well-designed and functional lubrication system involving the regular cleaning of equipment and machines, application of grease or lubricating oil by following the suggestions of instruction manuals.
5. Historical maintenance records.
6. Categorization of equipment and machines based on relative importance and priority.
7. Special inspectors and maintenance crew for preventive maintenance programme.
8. Controlling maintenance stores and spare parts inventory.
9. Establishment of separate provisions of standby machines for the most critical components.
10. Replacing the worn-out or obsolete parts that are functioning inefficiently to overcome the problem of breakdowns.

Q24. State 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 pre-requisites for an effective preventive maintenance program,

1. The maintenance department needs to be effectively supervised and administered.
2. Development of an effective lubrication schedule.
3. The priority scheduler for maintaining work must be fixed by consulting the staff of the production department.
4. The maintenance team should be given clear, correct and detailed instruction for the maintenance of work.
5. Must maintain adequate records, service manuals and instruction manual maintenance.
6. The maintenance team must be adequately trained.
7. A systematic approach must be used for maintenance.
8. The stock of space parts must be maintained adequately by equipment manufacturers.

Scanned By Scanner Go

9. Sufficient space should be left around the machine so that the maintenance work can be carried out easily.
10. The historical data regarding the failure of machines and corrective maintenance work must be made available.

Steps Involved in Preventive Maintenance

The procedure for preventive maintenance depends on the nature, type of equipments to be maintained, maintenance methods, historical record and inspection records.

The following are the steps involved in a preventive maintenance programmes,

Step 1: Identification of Job/Development of a Facility Register

A facility register provides information about the items, machines or equipments that need to be maintained. Through facility register, firms initiate the preventive maintenance because it gives all the details required to carryout this type of maintenance.

Step 2: Envelopment of a Preventive Maintenance Schedule

With the help of maintenance schedule, method, time and place for performing maintenance work can be known. It provides information about the availability of maintenance team and the time phasing of maintenance loading on maintenance team.

Step 3: Establishment of a History Card

A machine history card maintains the record of all repairs, replacement and engineering changes made on equipment or machinery during its service period. It also provides information about the frequency of occurrence of breakdown rate at which various components break, total downtime required for failure and repair of machine or equipment.

Step 4: Development of Job Specification

Job specification is a document providing entire information about the maintenance work which needs to be done. Separate job specifications need to be developed for the maintenance of different jobs which acts as a guide for the maintenance team.

Step 5: Preparation of a Preventive Maintenance Program

A preventive maintenance program represents the allocation of specific maintenance work that has to be performed within a stipulated 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 activities,

(i) Inspecting all the electrical connections of the machine or equipment.
(ii) Examining the performance of all the parts of machines or equipment.
(iii) Replacing the obsolete parts or tools.
(iv) Cleaning the interior parts like gear box, radiator etc., of transport and material, handling equipments.
(v) Examining the control systems.
(vi) Repairing the obsolete parts or tools.
(vii) Servicing.

Step 7: Development of an Inspection Report

The inspection personnel inspects and observes the functioning of machines and equipments given by the inspection schedule. Their findings must be reported to the maintenance foreman for taking necessary actions.

Step 8: Preparation of a Maintenance Report

Maintenance report is a document showing the different suggestions that were proposed by the inspectors in their inspection reports. In such reports, feedback is received from operators about the condition of the equipments or machines.

Step 9: Feedback Mechanism

This is the final step in which actions are taken to correct and control the operations based on the feedback information. This corrective action serves as the basis for bringing improvements in future programmes.

4.4 DESIGNING THE WORKPLACE

Q25. Discuss in detail the following,

(a) Plant utilization and maintenance

(b) Designing the work place.

(Model Paper-I, Q9(a) | April-17, (R13)(A), Q11)

OR

Enumerate various aspects considered in designing the "work place"

(Refer Only Topic: Designing the Work Place)

Answer : Nov./Dec.-19, (R15)(A),Q11(a)

(a) Plant Utilization and Maintenance

For answer refer Unit-IV, Q20.

(b) Designing the Work Place

Work place design organizational design is the process wherein the managers select and manage different elements and parts of the organizational structure and culture for achieving the goals.

The contingency theory states that an organization's structure must be designed in such as manner that it fits the set of contingencies i.e., factors or conditions which influence and result in greater uncertainty.

There may be several contingencies, so it is not possible to design a specific design for each and every situation. Three most important factors must be considered for designing the organizational structure,

1. Nature of an organization
2. Technology advances
3. Features of human resources in an organization.

1. Nature of an Organization

The nature of an organization refers to the organizational environment which includes social, cultural and global environment. The more the changes take place in an organizational environment, the uncertainty level would be greater, when uncertainty is greater it would lead to greater problems.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

When the organization faces greater problems, it must perform well and must try and have extra capital, plants and equipment. The organization besides this, must be flexible in nature in order to speed up the decision making process and the communication process.

As change is frequently taking place in the present environment, it is necessary to design organization structure in such a way that it delegates authority to the employees for making important decisions.

If in case the environment does not change and is stable, wherein all the resources are available easily, and where uncertainty is less, then in such a case coordination and communication among the employees need not be that strong.

2. Technology Advances

Technology is the integration of skills, knowledge, tools, machines, computers and equipment which are being used in the design, production and distribution of the goods of services.

It is found out that the more sophisticated technology the organization uses it becomes that difficult to monitor and regulate it. Therefore, according to contingency theory, the more sophisticated technology is being used, then the organizational structure needs to be more flexible in nature, so that it provides the employees more authority to accomplish the task.

If in case the technology does not change frequently then the formal structure is designed simply i.e., simple in nature and the steps to manufacture goods and services is outlined in advance only.

3. Human Resources in an Organization

Nature of the employment relationship and features of human resources are the most significant contingency factors 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 i.e., it needs to be flexible and decentralized in nature. Highly skilled and talented people wishes more freedom and power and dislikes close supervision.

Q26. What are the traditional organizational designs or workplace designs.

Answer :

Organization design is the process by which managers choose and manage elements of organizational structure, so that an organization can control the activities which are essential for achieving the set goals.

In other words, it is process of designing the organizational structure, which contributes to the effective management and helps in achieving the goals. An organizational design is a pattern which is based on the set goals.

The following are the few traditional organizational designs,

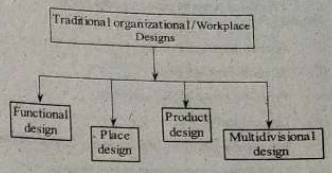


Figure: Traditional Organizational/Workplace Designs

1. Functional Design

Functional structure is the most widely used one in medium and large organizations. For creating a functional organisation, the basis of departmentation is the various functions to be performed by the organisation. Organizations create positions and departments on the basis of specialized and segregated activities and functions such as production, sales, engineering, marketing and so on.

This grouping of activities is based on common skills, knowledge and expertise that each function calls for. When departments are formed on this basis, the organisation has a functional structure. Functional authority is the legitimate right to act with respect to specific activities, processes, practices and polices in the organisation.

The need for such delegation arises from the extreme division of labour. If the principle of unity of command is to be followed rigidly, authority over these activities would be exercised by line managers, but because of several factors, such as lack of special knowledge, lack of ability to supervise processes and short circuiting communication channel, they are not allowed to exercise this authority.

Thus, delegation of functional authority results in certain 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, more often the latter two because they usually comprise functional specialists.

Functional authority arises because of,

(i) A superior delegates authority to the staff man to transmit information, proposal and advice directly to his subordinates. The basic purpose of such delegation is to save time and expedite the spread of information.

(ii) Another form of functional authority arises, where a staff man not only advices or transmit information, but also shows the line managers how the information should be put in effect.

(iii) Sometimes, staff personnel are given authority to prescribe processes, procedures, methods or even policy to be followed in various departments, either line of staff.

Scanned By Scanner Go

Functional authority can be regarded as a part of the authority of line superior. Functional structure is characterized by the following,

(i) Specialisation by functions

(ii) Emphasizes on sub goals

(iii) Pyramidal growth of the oganisation

(iv) Line and staff division

(v) Functional authority relationship among various departments

(vi) Limited span of management and tall structure.

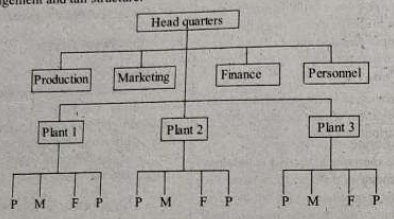


Figure: Functional Design

2. Product Design

Grouping activities on the basis of product or product lines is known as product organisation. 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 that firm, production managers, sales and service managers and engineering and the span of management, limited their ability to increase the number of immediate subordinate managers. At this point, reorganization on a product division basis become necessary.

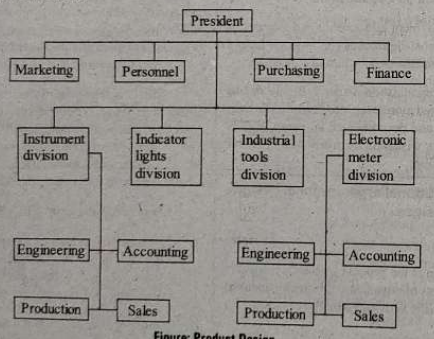


Figure: Product Design

3. Place Design

Place design deals with creating an organization's basic units area wise i.e., geographically while holding down the important components of functional design. Place design is also called as geographic area design, which allows location/placing several essential tasks to serve as a geographic territory under one manager, instead of grouping functions under different managers or all functions under one cultural office.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

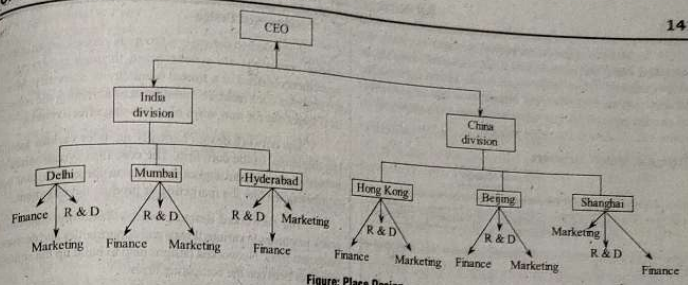


Figure: Place Design

The place design is mostly used by MNCs. For instance, the US people prefer less sugar than South Americans, therefore the manufacturing process of these two places would be different.

Place design is greatly used by those organizations whose products cannot be transferred from one region to another and which follow polycentric corporate philosophy. Example, Nestle and Cadbury. Even Ranbaxy follows the place design. It has classified the world into four areas-India and the Middle East, Europe, CIS and Africa, the Asia Pacific and America.

4. Multidivisional Design

A change in the product design is the multidivisional design which is also called as M-form. In this design, work is organized by creating divisions on the basis of the product or geographical markets where the goods and services are sold.

These divisional heads are basically made responsible for the day-to-day operations of the business. The product divisions are entrusted with the authority to develop their own strategic plans.

The multidivisional designs mostly decrease the problems of the teams, departments or the divisions. An organization following multidivisional design can easily cope up with complex environments by adding the horizontal mechanisms like the associating 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 structure, so that an organization can control the essential activities to achieve the set goals. In short, it is the process of designing the organizational structure, which results in effective management.

The contemporary organizations have been established in order to cover up the deficiencies of the traditional organizational structure and also to use the latest technology. The following are the contemporary organizations,

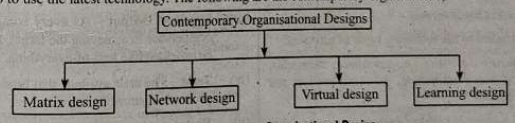


Figure: Contemporary Organizational Design

1. Matrix Design

Matrix structure is the realization of two-dimensional structures, which emanantes directly from two dimensions of authority.

Two complementary structures are,

- Pure project structure
- Functional structure

The two complementary structures are merged together to create matrix structure. Thus, this structure not only employs a multiple command but also related support mechanism and associated organisational culture and behaviour. It shows many organisational overlaps not only in terms of command system but also in terms of whole organisational process and behaviour.

Matrix Organisation = Matrix Structure + Matrix Systems + Matrix Culture + Matrix Behaviour.

Scanned By Scanner Go

In Matrix Organisation, project manager is usually not assigned complete responsibility for resources. Instead, he share them with others in the organisation. Matrix organisation structure, is applied when the organisation has large number of smaller projects so that when one project is completed, its resources are directed to other projects.

Design of Matrix Structure

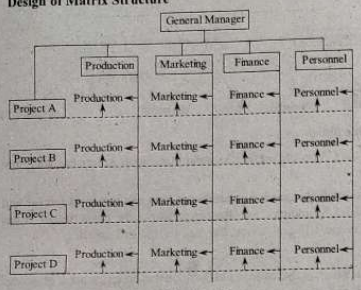


Figure: Matrix Design

A project manager is appointed to coordinate the activities of the project. Personnel are drawn from their respective functional departments. On completion of the project, these people may return to their original departments for further assignments. Thus, each functional staff has two bosses, his administrative head and his project manager. During his assignment to a project, he works under the coordinative command of the project manager and he may be called upon by his permanent superior to perform certain services needed in the project. Thus, a subordinate in matrix structure may receive instructions from two bosses. Similarly, matrix superior has to share the facilities with others. He reports in a direct line to the up, but does not have a complete line of command below.

Suitability of Matrix Structure

It can be applied to the following types of activities.

(i) *Manufacturing Activities* i.e., aerospace, chemicals, electronics, heavy equipment, industrial product and pharmaceuticals.

(ii) *In-service Sectors* as banking, brokerage, construction, insurance and retailing.

(iii) *Professional Activities* as accounting, advertising, consulting and law.

(iv) *Non-profit Organizations* as government agencies, hospital, united nations and universities.

Matrix structure has been evolved to overcome the limitations of traditional organisational structure.

(v) This is being applied to various fields of activities because of pressure for dual focus, pressure for high information, processing and pressure for shared resources.

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. Mostly the organizations make an initiative in establishing the network as it looks out for new ways of increasing effectiveness.

The network design basically includes various satellite organizations of the core firm. The core firm synchronises the network process and makes a provision for one or two core competencies like the marketing or product development.

The networked design provides flexibility, innovation, quick responses to various threats and opportunities and decreases costs and risks. Networked designs 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 organisation, otherwise called as virtual corporation is defined by recent business week survey as, "the virtual corporation is a temporary network of independent companies-suppliers, customers, even erstwhile rivals linked by information technology to share skills, costs, and access to one another's markets. It will have neither central office nor organization chart. It will have no hierarchy, no vertical integration".

Elements of Vitual Organization

The following are the elements of virtual organization.

(i) **Technology** – Partnerships, contracts, transfer of information are done through the usage of technology. It's usage reduces the legal issues and speeds up the activities.

(ii) **Opportunism** – The work of virtual organisation is based mostly on opportunities. The companies unite together to seek an opportunity and then go apart. Hence, there are temporary partnerships that mostly informal.

(iii) **Excellent Output** – As every company puts its core competence in achieving the target, the output tends to be excellent like best-of-everything.

(iv) **Trust** – The main attribute that binds the companies in a virtual organization is trust.

(v) **Boundaryless** – With an aim of producing an excellent output, companies work beyond their boundaries.

4. Learning Organization

A learning organisation is generally defined as an organisation that practises organisational learning. Here, organisational learning is the distinctive organisational behaviour that is practised in a learning organisation. The two terms 'learning organisation' and 'organisational learning' are synonymously used. Organisational Learning is something that the organisations do, a learning organisation is something that the organisation itself is.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

According to *Peter Senge*, a learning organisation is a continuous testing of experience, and the transformation of those experiences into knowledge, accessible to the entire organisation and relevant to its core purpose.

The following are the main characteristics of a learning organisation,

1. Every individual in a learning organisation constantly learns, expands and enhances his/her capacities to create.
2. It uses the approach of systematic problem solving.
3. It believes that people are more intelligent in a group rather than alone.
4. It enables the people to feel their importance to it.
5. It provides transparency where people can understand how their actions influence the organisational activities.
6. It mostly learn from the past experience.
7. It helps in free learning from others, assess results and involve in experiments.
8. It transfers knowledge promptly and efficiently throughout the organisation.
9. It resolves the conflicts through collaborative learning and by assimilating different views.
10. It uses empowerment and charismatic leadership to build a shared vision, empower people, generate commitment and stimulate effective decision-making throughout the organisation.

4.5 INVENTORY CONTROL

Q28. Explain the term inventory control and inventory management and control and List out its objectives.

Answer : Model Paper-I, Q9(b)

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 assets that can be sold by the firm in the future causes of business operations.

Thus, inventory represents the least liquid current asset of a 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 dispersed, and periodic checking against a physical count is done so as to maintain the inventory balance.

Inventory Management and Control

Inventory management and control focuses on the development and administration of policies, systems and procedures which will in turn reduce total inventory costs decisions and functions like customer service requirements, production scheduling, purchasing and traffic. 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 product, type of manufacture, volume of output.

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 to have uninterrupted production and sales.
2. To avoid overstocking and under stocking of inventory.
3. To avoid the losses due to deterioration, pilferage, wastages and damages.
4. To provide informations for planning and controlling inventory for short-term as well as long-term.
5. To control the material cost so that overall cost of production can be reduced.
6. To avoid the error of ordering the stock twice.
7. To ensure good quality of goods at reasonable prices.

Q29. Explain the procedure of inventory management and control.

Answer :

Procedure of Inventory Management and Control

Inventory management and control deals with planning optimum quantities of materials at all the stages of production cycle and developing of techniques which make sure that the planned inventories are available. The process of inventory management and control involves four steps which are as follows,

Step 1: Assessing the optimum Inventory Levels

Assessing the amount of inventory which a firm must hold is the most important and difficult step of inventory management and control process. In order to determine the level of inventory which a firm should hold all the below factors must be considered. The level of inventory is not always same, it keeps on changing. So, stock must be reviewed frequently.

(i) The sales trend should be closely monitored and the inventories must be adjusted beforehand due to changes in the production rate as determined by its actual sale.

(ii) A close analysis of the manufacturing process helps in enhancing the actual level of inventory.

(iii) The elimination of irrelevant details helps in decreasing the work in progress inventory significantly.

Step 2 : Ascertaining the Degree of Control

The second step of inventory management and control process is to ascertain the degree of control required for attaining the objective of inventory management. This problem can be overcome by classifying the inventory based on their value, i.e., by using ABC classification. ABC classification helps in determining the degree of inventory control.

Scanned By Scanner Go

The items which are 'high' in value but 'low' in quantity comes under 'A' class. The inventories which are more or less equal in quantity and value comes under 'B' class. The items which are 'high' in quantity and 'low' in value comes under 'C' class.

A very high control is required for 'A' category items. 'B' class items do not require high control but cannot be ignored. 'C' category items are ordered in large quantities and no records are maintained on their issue to manufacturing.

Step 3 : Planning and Designing the Inventory Control System

In this step, Inventory system provides a framework and operating policies for maintaining and controlling the inventories. This system is held responsible for the order it makes, its receipts, the timing at which the order is placed and monitor the items which has been ordered, in what quantity and from whom it has been ordered.

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 attains the reordering level.

(ii) Fixed Order Period System

The fixed order period system is also known as 'P' 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 'P' system is larger than the 'Q' system. The order of quantity is different each time, the order is placed.

Step 4 : Ascertaining the Organizational Arrangement Structure

The final step of inventory management and control process is to ascertain the organizational arrangement structure for handling and managing the inventory materials. Production planning and control departments perform the function of inventory control.

If a firm assigns the inventory control function to production 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 issue timely orders for replenishments of stocks used in production operation.

The inventory control system is not fixed. It needs to changed frequently as the lead time and type of consumptions keeps on changing from time to time.

Q30. List out the benefits and factors influencing inventory management and control.

Answer :

Benefits of Inventory Management and Control

The following are the benefits of inventory management and control,

1. It makes sure that materials are supplied adequately, stockouts and shortages are reduced and avoids costly interruptions or disruptions in operations.
2. It helps in reducing the investment in inventories, inventory carrying costs and obsolescence loses.
3. It helps in utilizing the stock effectively by allowing inter department transfers within the firm.
4. It helps in examining the loss of materials caused due to negligence or pilferage.
5. It acts as a means for assessing the cost of materials to the products, departments or other operating accounts.
6. The values of perpetual inventory acts as a consistent and reliable basis for developing financial statements.
7. It helps in identifying and disposing irrelevant and obsolete items of stores.

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 system. Whereas, the firms employing intermittent production system do not require continuous control of inventory items.

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. In case, if the materials used in the production of a product are of high unit value, then the products need to be monitored and controlled closely, and if the materials used in the product is in short supply then this affects its purchase and its stock.

3. Quantity of Production

The extent of control of inventory items also 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 its level of sales activity of the same company. When the sales of a company increases, the amount of inventory will also increase.

5. Length of Production

The companies which take much time to produce a unit, maintain relatively large amount of inventory. So that, any order during production process can be met immediately without any delays.

6. Access to Raw Materials

The amount of inventory of raw material is also necessary 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, risk of obsolescence, physical life of raw materials etc.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

7. Life of Finished Goods

In many companies, finished products have some specific time period of life, after the expiry of that period they are of no value. 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 determines the adequate amount of inventory to be maintained by the company.

Q31. Discuss briefly about various techniques available for inventory control.

Answer : Model Paper-II, Q8(a)

In order to have an effective inventory management, firms require an effective control system for inventories. An appropriate inventory control technique is useful in finding a solution to the serious problem of liquidity, increases profits and reduce 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 raw material to be purchased for production. It is an important decision of inventory management in which economic order quantity must be adequate as it involves ordering and carrying cost also. Economic order quantity is the amount of quantity of material which can be acquired at minimum costs. The ordering cost and carrying costs are considered, while evaluating the economic order quantity.

(a) Ordering Costs

Ordering costs are incurred by the firm at the time of placing an order or purchasing the materials. It depends on the number of orders placed. If orders are more, then cost also increases.

(b) Carrying Costs

Carrying costs are incurred by the firm, only when stock is maintained. It involves cost of storage, interest on investment, obsolescence, insurance etc.

There exists an inverse relationship between ordering costs and carrying costs. When there is an increase in number of orders, the cost of ordering increases whereas, carrying cost reduces per unit.

Economic order quantity is calculated by using the following formula,

$$EOQ = \sqrt{\frac{2AO}{C}}$$

Where,

A = Annual requirement

O = Ordering cost

C = Carrying cost.

2. ABC Analysis

In ABC analysis, a selective approach is adopted and materials are divided into three categories i.e., A, B and C. Items which are of 70% of value of total consumption but contribute to 10% of total quantity come under 'A' category. Similarly, items which are of 20% of value and contributes 20% of quantity are 'B' category and last category of 'C' items contribute to 70% of total quantity but they are of 10% of total value. Items in 'A' category require special attention as they yield more profits and incur huge loss in case of damage. In case of 'B' category items routine control can be exercised. Normal control can be exercised on 'C' category items.

3. VED Analysis

Usually, VED analysis is used in case of inventory of spare parts. These spare parts are classified based on their requirements. They are,

(a) Vital Spares

These are very important for production, so they must be stored adequately.

(b) Essential Spares

These are also necessary, but only minimum stock is to be maintained.

(c) Desirable Spares

It is not necessary to maintain stock of these spares everytime, it can be avoided when lead time is less.

Technical staff must be held responsible for classifying the spare parts and stock of each category of spare parts.

4. Just-in-Time (JIT) Inventory Control System

Just-in-time was first introduced by Toyota Company in Japan. It mainly focuses on reducing wastage and increasing productivity. In this technique, raw materials are purchased just before producing the product. JIT control system implies that firm must maintain only minimum level of inventory and depend on suppliers to provide material at the time of need. It reduces storage cost and investment in inventory.

5. Lead Time

Firm must identify the lead time in order to maintain adequate 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 lead time is more, then firm must maintain large amount of inventory, so that any order during lead time can be met easily. Firm must try to reduce the lead time as it ultimately reduces the level of inventory. Lead time involves administrative lead time and producers lead time.

6. HML Analysis

In order to maintain an effective control over inventory, it is classified as HML. It indicates High(H), Medium(M) or Low(L) valued items depending on their price and consumption.

7. SDE Analysis

In this analysis, materials are classified as Scarce(S), Difficult (D) and Easy (E). S-Scarce which are stocked adequately irrespective of its cost. D-Difficult which are also stocked in optimum quantity and E-Easily available materials are not stocked.

Scanned By Scanner Go

8. SOS Analysis

In this analysis, materials are classified as seasonal and off-seasonal. The items which are seasonal are stored for rest of the year and off-seasonal items are not stored as they are available in all seasons.

9. Inventory Turnover Ratio

In order to minimize investments in inventory and to verify the usage of inventory is effective or not, firms use inventory turnover ratio. It is also known as stock velocity. The inventory turnover ratio is calculated with the help of the following formula,

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory at cost}}$$

4.6 MATERIAL HANDLING

Q32. What is material handling? State its functions and importance.

Answer : Model Paper-II, Q8(b)

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 movements of the material between various work stations in a plant, either individually or in batches with the help of various Material Handling Devices (MHDs).

Movement of materials in an industry can be vertical, horizontal or both. Such movement initiates from the procurement of raw materials to the ultimate delivery of final products. For example, raw materials are manually loaded into a hopper which is then transferred into a mixer by pneumatic means. Granules from the mixer are initially transferred into a mill by pneumatic means and then into a blender.

Various MHDs collectively form a material handling system, which transfers materials between machines, workstations and support services. Materials handling can be carried out efficiently when the raw materials that are to be moved are grouped to form a single unit called a unit-load, which enables the handling equipment to easily carry and transfer the material to the desired workstations.

Functions of Material Handling

Various functions of material handling system are listed as follows,

1. Unit-Load Handling

Material handling systems can achieve optimum transport of material to their destination by following the principles of unit-load, containerisation and palletisation. Design of the containers, packages and drums used for transporting the material should avoid material damage and reduce handling expenses.

2. Proper Placement of Equipment

In an industry sequencing of production operations, proper placement of equipment and an apt plant layout is essential to minimize the distance travelled by the material, production time, wastage and delay in production. If it is really necessary to move the materials, then movement over short distance is preferred.

3. Proper Selection of Material Handling Devices

Manual handling systems should be replaced with mechanical systems in order to enhance and speed up the movement of the material, without disturbing the production line. An efficient method of moving the materials from top to bottom is by applying the principle of gravity wherever possible. Periodic checks, repairs and maintenance of the equipment is essential. Installation of standard handling equipments which are safe, flexible and of appropriate size should be used.

Importance of Materials Handling

The importance of materials handling can be studied under four different aspects. They are,

1. Movement

It is associated with the transfer of goods into and out of storage facilities or within these facilities. Efficiency of materials handling can be achieved by efficient transfer of goods to, 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 encounter problems of work stoppage, higher inventories and increased space of storage.

Similarly, from the customers point of view, it refers to the time required by the firm for the fulfillment of their orders. Even, reduced shipment times/cycle times is said to be efficient.

3. Quantity

Quantity refers to the amount of raw materials/finished goods transferred from/to an organization. Its accurate estimation results 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 by the materials handling equipment. Such space will be fixed. However, efficiency of operations 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 individuals of an organization. Hence, while designing a materials handling system, every firm must consider both its long-term plans and its available resources.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q33. What is the scope of material handling? Explain in detail how handling consideration become an integral part of storage space decisions.

Answer :

Scope of Material Handling

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. The following are some of the scope and activities of material handling department.

1. It designs and analyze new material handling systems or modifying the existing system.
2. It determines the most efficient and economical methods to transfer the raw materials, semi processed and finished goods to their respective locations.
3. It establishes certain procedures and plans for receipt, storage and movement of materials as per the requirement, such as raw materials to production department, finished products to the shipment, etc.
4. It deals with the packing and crating of finished product and supplies to shipping.
5. It is responsible for handling and maintenance of material equipments.
6. It provides interplant movement of semi processed products and assemblies.
7. It undertakes installation and commissioning of material handling equipment.
8. It facilitates verification and testing of new or modified installations.
9. It 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 Become an Integral Part of Storage Space Decision

Materials handling is found to be an important constituent of storage space decisions, as it mainly focuses on reducing cost by optimally utilizing the warehousing space. Efficiency of material handling can be improved by considering the following essential aspects,

1. Load Unitization

In load unitization, material handling must consider a fundamental principle which states that the economy (earnings) of material handling is directly influenced by the size of load handled. But simply, it is directly proportional to the number of trips i.e., as the number of trips increases, more number of labour is required to unload it which in turn increases the cost of operations. Hence, an entire process can be made economical by reducing the number of traps for materials handling one of the best method is by consolidating the small packages to form a single load which is termed as load unitization. Pelletization and containerization are used for the accomplishment of a unit load.

2. Pelletization

A pallet or a skid is a wooden platform usually used for stacking goods during transportation and storage. It is highly economical to keep the manufactured goods in the form of stocks until the order fulfillment requires bulk breaking. Pelletization is also useful in optimal utilization of space optimal utilization space and load unitization.

3. Containerization

Basically, containers are used for consistent handling of materials and load unitization. Containers are secured and waterproofed large boxes, in which goods are safely placed for transportations and storage. This ability of containers facilitates the firms to store goods even in open yard without making use of ordinary warehouse. As every firm requires containers their standardized size needs to be proposed so that it can be used by all the firms.

4. Space Layout

As, the cost of warehouse is mainly influenced by the location of stocks in warehouses, firm need to maintain a proper balanced between the two, while designing the internal arrangement of warehouses.

5. Layout for Storage

While designing a warehouse 'configuration' plays a vital role. If goods are available in large amount for storage, extensive care needs to be taken for their arrangement which is a time consuming step. In a warehouse, where turnover is low, wide and deep storage bays are suitable, where stocking may be as high as ceiling height with narrow aisles. However, this layout may not be suitable in case of increased turnover which requires wide aisles and decreased attitude of stocks.

6. Layout for Order Picking

Order picking means retrieving the stock from the warehouse as per the needs of customers. Order picking is more difficult and consumes much more time than in receiving and storing of the stock. If the turnover is low, then it can simply follow an existing storage areas. But, on the other hand, if the turn over is more, firm has adopt a modified systematic procedure for breaking the bulk quantity. Basic problem faced by the firms during order picking is that is consumes a lot of time to fill the order which can be reduced to a great extent by either specialized order picking equipment by operational design.

Q34. Discuss the role of safety in material handling system and explain safety principles of material handling.

Answer :

Role of Safety in Material Handling System

Safety in handling material became important due to the advancement in technology in the field of industrial engineering such as, automation, robotics, computerized quality control, etc. Safety has also gained equal importance in field of engineering. However, the safety is essentially required in material handling operations due to the following reasons,

Scanned By Scanner Go

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 industries, 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) Struck by a load
(b) Exceeding the capacity of equipment
(c) Improper packing or setup
(d) Losing control of a load
(e) Physical overexempting the operator
(f) Improper stacked material.

The accidents related to material handling equipment are mainly caused due to the faults of operators. Therefore, the operators must be well trained and motivated about the safety principles. In case of manual material handling, the workers must follow basics of proper work practice, equipment and control. They should be aware of all kinds of accidents that can occur during handling. The workers must be capable of eliminating the causes of accidents (or atleast 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 hazards either to materials or employees. The handling operation 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 (or) 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 operator of the equipment must be welll trained.
3. Mechanical handling should be preferred for handling hazardous materials.
4. Overloading of the equipment should be avoided.
5. The premises of material handling must be kept in good condition.
6. The materials should be stacked or unstacked safely.
7. The floor lighting should be sufficient enough to carry out the operation.
8. Never use any defective equipments.
9. During material handling, the employees must use personal protective equipment.

In order to obtain zero accidental zone, the firm has to strictly follow the safety policies in the work place. Though, it consumes more time for its operation, it increases the productivity by zero damage of the materials. This safety policy deals with rules and regulations for manual handling as well as equipment handling. This policy also provide guidelines for various parameters like fire fighting, illumination, maximum load on vehicles, labels, house keeping, etc. The safety also specifies about the responsibility towards different personal and departmental issues of the company.

Q35. List and explain material handling techniques.

Answer : Nov./Dec.-19, (R15)(A), Q10(b)

Material handling techniques methods are of two types. They areas follows,

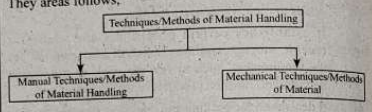


Figure: Techniques/Methods of Material Handling

1. Manual Techniques/Method of Material Handling

In industries, manual handling of materials is the major part of unskilled labour. In this method, the worker has to lift and move the heavy loads by activities such as lowering, pushing, pulling etc. This method includes stacking/unstacking loads on pallets, stacking shelves, lifting and lowering loads, moving trolleys 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 worker(s). Therefore, safety measures have to be taken into consideration during manual material handling.

2. Mechanical Techniques/Method of Material Handling

This technique/method of material handling arises when the materials are to handled, beyond the physical capacity of the workers. In this method, different equipments are used to move, store, motion control and protect the materials. The different equipments that are most commonly used are,

(i) Cranes

Cranes are material handling equipments. In this type of equipment, the load is lifted and moved in air to an exact location within the limits (range) of equipment. The motion in this type of equipment is intermittent (discontinuous).

(ii) Elevators

These equipments help in handling material by moving it in vertically up or down directions. Power driven mechanism is used for raising and lowering materials.

(iii) Conveyors

The conveying equipment uses gravity or mechanisms to move the material in a straight or curved path. The materials can flow in horizontal and inclined paths with either continuous or reciprocating motion. Apart from these equipments, the various other equipments used for handling material include trucks, electric hoists etc.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

4.7 QUALITY CONTROL

Q36. Define quality and quality control. What are the functions quality control?

Answer : Model Paper-II, Q9(a)

Definition of Quality

According to Juran, Quality is defined as, "fitness for purpose".

But this fitness differs from person to person and is very important to analyze the product/service quality.

"Quality of a product or service is nothing but, the extent to which the customers' needs are satisfied".

"Quality is the sum of all the characteristics features of the product or service which meet the needs of the customers".

When the both internal and external customers are been provided with the products and services, that satisfies their implied needs then it can be concluded that the product/service is a qualitative in nature.

Definition of Quality Control

"Quality control is defined as, the operational techniques and activities that are used to fulfill quality requirements".

– ISO 8402

It defines quality assurance as planned 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 inspections and tests are carried out, in order to assess, whether the predetermined quality is met/achieved or not.

Quality control will select a random sample of units to make sure that their performance in the required areas is within the acceptable limits.

Quality of the product is accepted, when the above sample of units meets the predetermined standards, in case, if only a part of sample is able to meet the predetermined standards, then the quality of that product is not accepted. Hence, proper remedies are planned in order to improve the quality.

Functions of Quality Control

Following are the functions of quality control,

1. To maintain the consistency of quality in all the products manufactured.
2. To decrease the re-work cost while manufacturing the products and services.
3. To increase the life time of the products and services.
4. To reduce the number of dissatisfied customers, by improving maintenance and reducing the operating costs of products and services.
5. To produce the products and services of only high quality.
6. To prevent the damaged products to reach the final customer.
7. To identify the producers 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 wastage and improve quality. To achieve cost reduction.
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. It reduces the cost of labour and minimize the defects is material.
2. It maintains consistent quality.
3. It reduces the customer's complaints.
4. Increases the level of customer satisfaction and employee satisfaction.
5. It 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 faster production, resulting in producing the quality products at a very high speed.
9. It will help in attracting the new customers and retain the existing customers.
10. It increases the sales which improves the market share.

Scanned By Scanner Go

Q38. What do you mean by quality control? Discuss the need for controlling quality of goods and services.

Answer :

Quality Control

Quality control is the process of assessing the actual quality performance of the product/service, comparing actual quality performance with the specified quality standards and taking up corrective measures 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 systematically like labour, materials, machines utilized at the time of production and which influences the quality of finished product. It combines the quality maintenance, quality development and quality improvement activities of different departments in the organization for achieving highest production and service levels 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 makes the customers dissatisfied with the products/services offered by the organization.
2. **No Standard for Quality Measurement**
   The absence of quality control signifies that there is no standard to measure or compare the quality of goods/services.
3. **Rework Cost**
   Rework cost increases while producing the products/offering services in the absence of quality control.
4. **Less Flexibility**
   Lack of quality control leads to less flexibility with regard to the use of standard spare parts.
5. **Problem Relating to 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 :

Problem Solving is one of the primary method of Total Quality Management (TQM). It must be done, by following a standard approach for becoming successful. One of the most important aspect of problem solving, is to remove the causes of problem for avoiding recurrence of the problem. Often the users who implement TQM approach, consider problems as, "opportunities for improvement".

Process Improvement is a systematic approach, developed mainly for the purpose of enhancing a process. Process improvement performs documentation, evaluation and analysis for enhancing the functioning of a process. Some of the objectives of process improvement are enhancing customer satisfaction, string for better quality, eliminating waste and unnecessary costs, improving productivity and reducing processing time.

For the purpose of problem solving and process improvement, organization can make use of various tools that 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. **Flow charts**

A Flowchart is a pictorial representation of a process, which is useful for investigators in determining the points wherein the problems can take place. In a flowchart, the diamond shape denotes the decision points in the process and the rectangular shape, denotes the procedures. The arrows in flow chart denotes the direction of "flow" of the steps in the process.

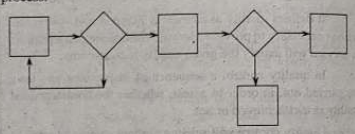


Figure: Flow Chart

2. **Check Sheets**

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 so that, 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 type of defect and the location of defects.

	Day			
Defect	1	2	3	4
X	III		IIII	I
Y	III	I	II	III
Z	IIII		II	IIII

Figure: Check Sheet

3. **Histogram**

A Histogram, is an empirical frequency distribution chart, which helps in identifying the distribution of observed values. If histogram has a symmetrical distribution, then it helps in identifying range of values and quantity of unusual values if

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

any. If a histogram have two peaks, then this shows that, there is a chance of having two distributions with different centers, which may be due to two workers or two suppliers with different quality.

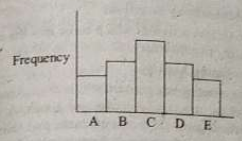


Figure: Histogram

4. **Pareto Analysis**

Pareto Analysis is one of the quality tool, which is used for emphasizing on the most important problem areas. This technique helps in classifying the problem areas based on their degree of importance and solving the most important leaving behind the less important. Usually, Pareto analysis is termed as, 80-20 rule which implies that, 80 percent of problems are caused due to 20 percent of items.

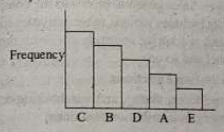


Figure: Pareto Analysis

5. **Scatter Diagrams**

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 exists any relationship between two variables, then points will be completely scattered.

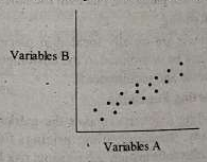


Figure: Scatter Diagrams

6. **Control Charts**

A Control Chart is a statistical chart of time-ordered values of a sample statistic, which helps in controlling the process and identifying, whether the process output is random or not. It is also useful in determining the occurrence of correctable causes of variation. Control charts show the time at which, the problems took place and the causes of the problem.

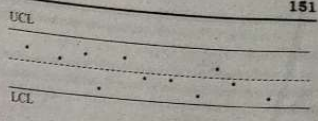


Figure: Control Chart

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 termed as Fishbone Diagram and Ishikawa diagram. This technique is used, for arranging the efforts of problem solving, by determining categories of factors which may lead to problems. This tool is used after brainstorming sessions for grouping the various ideas generated.

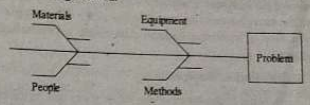


Figure: Cause and Effect Diagram

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 fluctuations that takes place. The most important benefits of run charts is that, it can be easily constructed and easily interpreted.

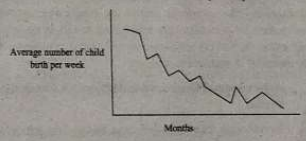


Figure: Run Chart

4.8 MARKETING FUNCTIONS

Q40. Define marketing concept and describe its features.

Answer : Model Paper-II, Q9(b)

Definition of Marketing Concept

According to Arther P. Felton, "The marketing concept is a philosophy applied to the operation of a business as which customer and consumer needs will be uppermost in importance. These needs will govern the separate planning of each function of the business, as well as overall plan aimed at achieving its predetermined 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".

Scanned By Scanner Go

According to 'Pyle' – "Marketing comprises both buying and selling activities".

According to American marketing Association, "Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer".

Features of Marketing

The four main distinguishing features of marketing concept are,

1. Customer Orientation

Marketing concept focuses on customer marketing concept states that business process begins with identifying the needs and wants of the customers and ends with satisfying them. Business is seen from the customers perspective in marketing concept. All business activities are designed as per the needs and wants of the customer. Customers are placed at the center point and the entire business is constructed around it. The customer-orientation of marketing concept differentiate it from selling concept.

2. Integrated Management

In order to ensure customer orientations and customer satisfaction, every activity of the business should be integrated with one another and should be linked with marketing activities.

3. Satisfaction of Customer

Integrated management helps the company in satisfying the needs of the customers. 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-orientation results in customer satisfaction. Achieving customer satisfaction is considered as very essential in marketing concept.

4. Achievement of Organizational Objectives, Comprising Profits

Eventhough, marketing concept focuses on achieving customer satisfaction, it never ignores the significance of generating profits. Actually, customers satisfaction will automatically increase the profit levels of the organization. Thus, the above are the four distinguishing features of marketing concept.

Q41. Discuss the Functions of Marketing and Marketing Management.

OR

What are the functions of marketing management?

Nov./Dec-19, (R15)(A), Q10(a)

(Refer Only Topic: Functions of Marketing Management)

Answer :

Functions of Marketing

The various activities involved in marketing are known as marketing functions. The functions of marketing can be broadly classified into,

1. Merchandising functions
2. Distribution functions and
3. Supporting functions.

1. Merchandising Functions

The various activities which come into the category of merchandising functions are,

(i) Purchasing Activity

The marketing process starts with activity. A manufacturer purchase inputs to manufacture goods. A wholesaler purchase goods from manufacturer and sell to retailer. A retailer purchase goods from wholeseller and sell to final consumer.

(ii) Assembling Activity

Assembling is nothing but gathering goods and maintaining stock of goods. Usually, marketing intermediaries buy goods from two or more sellers and in this situations they need to gather and stock all the bought good at one particular place.

(iii) Selling Activity

Selling involves transfer of title of goods from seller to buyer. Sales generate profits to the company. Selling activity includes various other activities like – creating demand, marketing research, choosing the distribution channel and so on.

2. Distribution Functions

Transportation, storage and warehousing activities come into the category of distribution functions.

(i) Transportation

Transportation facilities add value to the product and create place utility. Introduction of new markets, extension of existing markets, on-going supply of products at reasonable prices, providing enhanced services to customers are only possible through good transportation and communication facilities.

(ii) Storage

The raw materials purchased by the manufacturer are stored in one particular place till the time of production.

(iii) Warehousing

Warehouse are usually located at places from where goods can be distributed to the customers easily as per their needs and requirements.

3. Supporting Functions

Supporting functions support the marketing activities of the company. Standardization, pricing, financing, sales promotion, market information, advertising, risk bearing and so on come under supporting functions of marketing.

Funcitons of Marketing Managenment

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

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

develop and define objectives and then derive strategies and design programmes that enable the firms to achieve these preset aims/goals. In case of planning, marketer needs to define the ways, timings, location and persons through/at which different marketing activities can be performed.

2. Organizing of Marketing Activities

Organizing is a function of classifying similar activities into the same group. Different marketing activities include purchased, sold, stored, packaged, priced, advertised and explained the rights and duties of the managers (e.g., sales manager) and subordinates working under him. The basic element of organizing in marketing management is to carry out the function of each personnel effectively.

3. Staffing for Marketing Activities

Staffing function deals with the appointment of different personnel for marketing department. Nowadays, a separate personnel department has been introduced in organizations with an intention of recruiting, selecting and placing qualified personnel for filling its vacant posts.

4. Directing the Marketing Staff

Marketing is essentially process of getting things done by others. 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 so that subordinates function efficiently for the attainment of marketing goals.

5. Controlling the Marketing Activities

Controlling is an important function of marketing management. The extent of its effectiveness determines the success of any programme or any policy of business unit. Even the best efforts cannot produce any result if it is not controlled properly.

Q42. Explain the core concepts of marketing.

Answer :

The core marketing concepts involve, needs, wants and demands, marketing offers (products, services and experiences), value, satisfaction, exchanges, transactions, relationships and markets. There is a close link between all the core marketing concepts, which can be clearly explained with the help of the following figure,

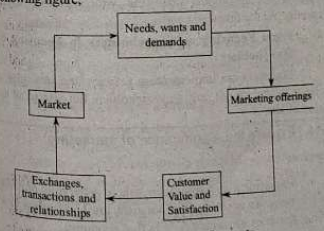


Figure: Core Marketing Concepts

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, clothing and shelter. The needs are not created by a marketer as they are the inseparable part of human biology. During the course of time, a person may develop need for recreation, education etc. Wants constitute the specific forms of human needs. They are designed based on cultural and individual personality characteristics. Wants are mainly influenced by the society in which an individual survives. The only difference which is found between needs and wants is that human needs are limited while wants are unlimited. Demands are wants for any product or a service that are supported by an ability and willingness to purchase it. While estimating the demand for a product, firm (or a marketer) needs to consider both the preferences as well as the willingness/ability of a buyer to purchase it.

2. Market Offerings

Market offerings refer to the collection of products, services, information or experiences that can be offered to a market to satisfy a need, or a want. A core set of benefits that can be offered to customers for satisfying their needs which a marketer has promised is usually referred to as "value proposition".

The major part of market offerings involve physical products which consists of non-durable goods and consumer durables. Some examples of non-durables are cosmetics like lipstick, toothpaste, shampoo, tea, coffee, chocolates, etc. Some examples of durables are automobiles electronics furniture etc.,

Marketing offers not only include physical products but also the intangible products like services, activities or benefits. Example of services are hotel, banking, tourism and travel etc.

3. Customer Value and Satisfaction

Every customer selects products and services based on his/her perceptions and satisfaction about the firm's offerings. Basically customer satisfaction depends on the firm's ability to effectively fulfill the expectations of customers.

Customer value is denoted as,

Customer value = Benefits of customers obtained from his purchases – Cost of products.

4. Exchanges, Transactions and Relationships

Exchange is one of the important concepts of marketing which is a process of obtaining an object by offering another in return. An exchange process involves two or more people, who possess the products/services who carry a certain value to the other. The process wherein somebody offers something and discusses the mutual benefits and acceptable terms for both the parties is usually referred to as "exchange". A transaction takes place when two or more parties agree upon certain terms and conditions. A transaction includes the value exchange among two or more parties and

Scanned By Scanner Go

even the shifting of ownership from the seller to the buyer. Marketing does not restrict itself to a single transaction which occurs between the marketer and the customer, but try to maintain a long term relationship with their customers by optimally satisfying their needs. The objective of marketers is not only to attract new customers and create transactions but also to maintain customers and improve 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, marketers, competitors, buyers, regulator etc., are part of a market Ex: Mobile market

Q43. Discuss the major shifts in marketing management.

Answer :

There are fourteen (14) major shifts in marketing management which is usually followed by the smart companies in 21st century. They are,

1. Marketing for Everyone

Marketing is a system of interrelated activities designed to develop price, promotes and distribute good and services to a group of customers. Marketing is not only emphasizes customer value but also focuses mainly on core processes like new-product realization, customer acquisition and retention, and order fulfillment.

2. From Organizing by Product Units to Organizing by Customer Segments

Companies are now shifting from product centered to customer centered. To maintain competitive position in the market, organizations are giving more importance to customer satisfaction and valuing customers preference.

3. From Making Everything to Buying more Goods and Services from Outside

The companies are following the strategy like retaining own brands and core activities whereas outsourcing those activities which can be performed at a less cost by a third party.

4. From Using Many Suppliers to Working with Fewer Suppliers in a "Partnership"

The relationship between suppliers and distributors are becoming stronger. Some of the companies consider customers as "partners" in delivering value to the ultimate customers.

5. From Relying on Old Market Positions to Uncovering New Ones

The trend have been shifted, now the companies are focusing on fulfilling customer needs, formulating new marketing strategies, innovative ideas etc., rather than following old market trend.

6. From Emphasizing Tangible Assets to Emphasizing Intangible Assets

Intangible assets are the sources through which the companies can maximize their market share specially their brands, employees, customer base, intellectual capital etc.

7. From Building Brands through Advertizing to Building Brands through Performance and Integrated Communications

Companies are forcing marketers to use a blend of several tools for building and delivering consistent brand image instead of using a single communication tool.

8. From Attracting Customers through Stores and Salespeople to Making Products Available Online

Customer can do online shopping so that they can save a lot of their time. Nowadays, companies are displaying their offerings or products along with their price specifications, services and order processing time on their official websites which can be easily accessed by customers. Electronic personal selling is a process wherein both buyer and seller interacts with each other through their computers. Business to-business (B2B) purchasing is the most common 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 cost effectiveness and to sustain competitive position by considering customer's taste and preference, profitability 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 margins 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 Being Global

Nowadays, firms are adopting centralized and decentralized approaches for maintaining proper equilibrium between local and global standardizations. The marketer tries to improve at local level by following the standards set at global level.

13. From Focusing on the Financial Scorecard to Focusing on the Marketing Scorecard

Management is focusing on improving marketing scorecard by analyzing market share, customer satisfaction, customer loss rate product quality etc., which in turn is helpful in predicting the financial results.

14. From Focusing on Shareholders to Focusing on Stakeholders

Managers are implementing policies and strategies to balance the return not only to shareholders but also to all the stakeholders.

Q44. Explain the significance of marketing.

Answer :

Marketing play a significant role in generating profits to the company. An economy will not grow until and unless some selling activities are undertaken in that economy.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

The significance of marketing can be studied under two headings,

1. Significance of marketing to society and
2. Significance of marketing to the company.

1. Significance of Marketing to Society

Marketing activities are considered as significant in society due to the following reasons,

(a) Generate Employment Opportunities

In developed countries like U.S.A, Germany, Japan and many more, nearly 40% of the population are employed in marketing activities like Retailing, wholesale activities, transportation, warehousing, promotion activities, market research activities etc. Even developing countries can minimize the unemployment rate by developing marketing activities in their countries.

(b) Increases the Country's National Income

An effective marketing system will succeed in increasing the product/service in the market. The production levels of the country have to be increased to match with the increasing demand. Higher the productivity levels, higher will be the national income of the country.

(c) Increases Standard of Living of the 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.

(d) Reduction in Distribution Cost

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 cannot purchase products offered at high prices can now purchase the products, as price is reduced due to reduction in distribution cost.

(e) Protect Society from Unfavourable Effects of Business Cycle

A business has to face boom and depression stage in its business life cycle. In the depression stage, the production level goes down, due to which unemployment level increases. An effectively designed marketing system protect the society in the depression stage by introducing new markets, expanding the existing markets, minimizing the distribution cost, enhancing the product quality level, ensuring customer orientation etc.

2. Significance of Marketing to the Company

An effectively designed marketing system offers the following benefits to the company.

(a) Enhances Company's Profits

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.

(b) Assist in Planning and Decision Making

The marketing system assist the company in planning business activities and in taking various decisions pertaining to business. How much quantity of products have to be produced by the company is decided on the basis on customers demand for the product and sales forecasts. Sales forecasting is a marketing activity. Marketing decisions are surrounded by decisions of other functional areas such as production, finance, purchasing etc.

(c) Ensures Free Flow of Communication

Marketing ensures free flow of communication between company and the society. The information related to consumers tastes, preferences, their behaviour, attitude and changes in them can be gathered through marketing. Apart from this information, information about competitors can also be gather through marketing. Marketing is also used to create awareness in the customers regarding the introduction of new products.

4.9 MARKET SEGMENTATION

Q45. Define market segmentation? State the purpose and need of market segmentation.

Answer : Model Paper-III, Q8(a)

Definition of Market Segmentation

According to Philip Kotler, "Market segmentation, is the process of dividing a market into distinct subgroups of consumers with distinct needs, characteristics or behaviors, who might require separate products or marketing mixes". The marketing personnel recognize various alternatives to segment the market and create profiles for market segments that have emerged.

Purpose of Market Segmentation

Segmentation is the process in which groups of individuals or organizations that play an important role in determining the marketing strategy are identified. Through segmentation, different markets are classified into smaller and similar submarkets. The main purpose of identifying groups of customers with similar requirements was to serve them effectively. It acts as the basis through which the marketers identify their markets and develop strategies to serve their customers better than the competitors.

1. Target Market Selection

On the basis of segmentation, target markets are selected. Target market is the selected market segment, which a company is planning to serve. In a target market, the customers possess same characteristics and a single marketing mix is used for serving them. Creative segmentation helps in identifying new segments, which were not served previously and forms attractive targets.

Scanned By Scanner Go

2. Tailored Marketing Mix

Segmentation helps in grouping the customers, on the basis of the similarities. Marketers are capable of identifying the detailed requirements of segments and create a marketing mix, which fulfill their needs. Segmentation enhances customer satisfaction, by considering markets as different set of needs, which must be identified and fulfilled by the suppliers.

3. Differentiation

A company divides its market into constituent segments so that, it can differentiate its products or offerings between segments and in each segment, it can differentiate its offerings or products from competition. A company develops a differential advantage over the competition so that, the customers get attracted and purchases their products.

4. Opportunities and Threats

Markets are very flexible with the customers becoming wealthy. They try to adopt new experiences and develop new values which result in the emergence of new segments. A company can identify those segments which are not served and fulfill their needs better than the competitors. In the same way, if a firm ignores an essential market segment, then it may create threat to the company as the competitors can use it for entering into the market.

Need for Market Segmentation

In all the successful organizations, market segmentation plays a very important role in the marketing strategy and acts 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 outline the needs and wants of the customers 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 effectively.
3. The use of market segmentation, helps the marketers to make appropriate selection of target market.
4. As segmentation helps in developing precise marketing objectives, the performance can be assessed effectively.
5. Market segmentation helps the marketer to attain specialization needed in product, distribution, promotion and pricing for matching up with the customer groups.

Q46. 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 are a small group of customers trying to obtain different types of benefits. Marketers recognize niche's by classifying a segment into subsegments. Niche markets are small and attract only one or two competitors. The marketers of these markets have complete knowledge about the needs of their customers.

2. Local Marketing

Local marketing is a type of target marketing in which the marketing programs are created according to the needs and wants of local customer groups. It is also called as grass root marketing, in which the products or services are promoted by communicating its features and advantages and connecting it with distinct and interesting experiences.

3. Customization

In this level of market segmentation, operationally driven mass customization is integrated with customized 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,

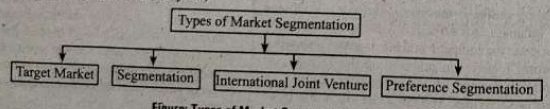


Figure: Types of Market Segmentation

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. Target Market Segmentation

Target market segmentation is concerned with the development of an effective products strategy. In part, this task involves defining and describing target markets so that they represent segments with common needs and behavioral characteristics. In turn, product and marketing activities are designed to exploit this knowledge in the interest of both the firm and its customers. The value of target market segmentation to planners can be made somewhat more concrete by considering the problems of a manufacturer of consumer durables, say clothes washers and dryers.

2. Product Segmentation

When the product offering is thoughtfully assembled and maintained 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 to the point where production and sales operation become inefficient. In the plant, production runs as shortened and machine-setup time increased. The inventories of materials parts and finished stock become excessive. And the sales force may be forced to deal with a confusing complex of products that do not differ greatly one from the other. These tendencies have lead some observers to ask for a turn to "counter segmentation". The matrix shown in figure as a guide to thinking about product segmentation opportunities.

In inflationary periods, particularly ones with marked shortages of materials, there will be an increased tendency to simplify product lines. One useful way of doing so is concentrating the firm's sales effort on a smaller group of important customers and giving up small customers with specialized needs.

Customer's propensity to choose low price over product features	Production and marketing economies obtained by eliminating product forms or simplifying market segments	
	High	Low
High	Good prospects for counter segmentation	Seek cost-reducing methods in production and marketing
Low	Seek opportunities to induce greater willingness to accept low-priced, simpler product offering	Good prospects for product/market 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 sub-groups of customers, where any group can concienably be selected as a target market to be met with distinct marketing mix".

Preference segmentation includes individuals who have common relative preference for all the products in the product class. For example: Those individuals who say Hero Honda model is satisfactory but shows little interest 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 segmentation is done on basis of perceptions and preferences of the customer about the different products and their features.

Q47. What are the steps involved in the process of market segmentation?

Answer :

There are eight steps involved in market segmentation, which are discussed below,

Step I: Define a Problem

Market segmentation may facilitate in answering different queries with respect to the market segments response to the firm's marketing strategies like price or product changes, new product offerings, advertising themes etc. This activity further helps in choosing the target market segments for the firms offerings.

Step 2: Choose the Segmentation Basis

Usually the segmentation studies are being conducted by the marketing practitioners with the help of any two alternatives i.e.,

(i) Priori methods

(ii) Clustering method for selecting the segmentation basis.

The segmentation bases which are followed by marketers is being classified into two major groupings i.e.,

(i) General consumer characteristics and

(ii) Situation specific consumer characteristics.

Scanned By Scanner Go

Step 3: Select a set of Descriptors which Defines, Characterizes or Relates to the Segmentation Basis

The next step is to select a set of descriptors which consists of any variable like age, income, gender etc. The presence of several variables would make the selecting process a difficult one for the marketers. For instance, the extent or quantity of a product purchased basically 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 on the low cost basis.

Instead of collecting the data from the complete population, it is collected merely from a sample of population, and then it is ascertained as to 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 or 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: Establish/Create Segments on the Basis of Selected Consumer Descriptors

The marketer should form the segments by defining and then drawing a dividing 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 differentiating features.

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 groups, and formulates suitable marketing mixs for the selected segments on the basis of their findings related to segments expected sizes and profiles.

Hence, the segmentation study can be successful if the marketer has the capability to understand and use them as guidelines for the design, implementation and analysis of suitable marketing strategy.

Q48. Discuss the bases for segmenting consumer markets.

Answer :

The bases/variables which are used for segmenting consumer markets are as follows,

1. Geographic Segmentation

The geographic segmentation markets are classified into various geographical units like regions, cities, countries and towns. The geographic segmentation is considered as very important in India because different consumers have different preferences and purchase habits in different regions and states of the country. The geographical features of a market is also measurable 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 science 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 bases for segmenting consumer markets.

4. Behavioural Segmentation

Behavioural 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 status, buyer readiness stage and attitude.

5. Occasion 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 benefits 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 variables for segmenting business markets.

The following are the bases for segmenting business markets,

1. Location of the customer
2. Type of customer and
3. Transaction conditions.

1. Location of the Customer

Marketers usually segment business markets geographically and concentrates on the geographical location

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

of the industries. For example, the organizations which process natural resources are located near the source for reducing the shipping costs.

Other firms focuse on geographical location for locating their industries near the industry pioneers. International markets are also segmented geographically.

2. Type of Customer

Business markets are segmented based on types of customers such as,

(i) Industry

The firms which are selling their products to business customers in different industries will segment their markets depending on the industry.

(ii) 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 sales offices. Most of the sellers classifies 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 amounts they make use of middle/men or depends on internet or telemarketing.

(iii) Organisational Structure

Organisations 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 made to these firms need a strong personal selling effort by purchasing executives. It also requires excellent supporting materials when product exceeds the technical expertise of purchasing managers.

The other buyers selects involvement of the individuals who are directly influenced by the purchase in the purchase process. Such type of buyers involve number of individuals in their decisions, conducts meetings for a long period of time and carry out internal communication.

(iv) 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 market.

3. 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, order size, purchasing methods or service requirements.

There are three transaction conditions,

(i) Buying Situation

On the basis of the buying situation, the marketers segments their business markets.

(ii) Usage Rate

For some products, marketers divide their markets between heavy users, light users, and nonusers. Heavy users are very important for the firms as they purchase large volume of their products. For chasing heavy users most of the firms have focussed on light users and avoided competition.

(iii) Purchase Method

Consumers buy the products in different ways such as by leasing, financing or by purchasing wholly. The prices of the products are either stated, negotiated or are kept in a sealed bid. The governmental agencies buys their products depending on the sealed bids.

For competing or surviving in a sealed bid market, it is very important for the sellers to have low costs for which it is very essential to have knowledge about the industry and what the other firms would bid.

Thus, segmentation helps in determining the opportunities which occur in a market.

Q50. Briefly explain the process of segmentation for international 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 on business markets or consumer markets. Firstly, marketers are required to segment either by country or by region focussing on the demographic, behavioral and cultural characteristic which leads the marketers to find their submarkets. After segmenting into submarkets the firm may aim at business markets or consumer markets and similar approaches are applied.

Segmenting countries is done based on socio-economic, political and cultural factors. According to marketers the country segmentation is done on limited basis.

The following process is applied for country segmentation,

1. Criteria Development

The criteria of segmentation is defined using features and characteristics of firms and products.

2. Preliminary Screening

The countries that meet the company's criteria are taken into consideration and others are retained.

3. Micro Segmentation

Segmentation done in country based on distinctive needs of customers makes micro segments. Micro segmentation can be done domestically first and then consolidating these segments with other micro segments across countries or directly can come up with cross-border segments. When segmenting international markets, companies consider factors like speed of adoption by countries, time of sales peak and also speed to adoption by customers.

Scanned By Scanner Go

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. In market segmentation, the needs and wants of the customers in a sub-market are firstly determined and then accordingly a marketing mix is designed for satisfying those wants.

2. **Optimum Utilization of Resources**

Making the use of marketing programs to individual market segments helps the firm to carry out the marketing job effectively and make optimum utilization of its marketing resources.

3. **Growth of Medium Sized Organizations**

Development of strong positions in specialized market segments helps the medium sized organizations to grow rapidly. For example, Oshkosh Truck Company in Wisconsin had developed strong positions in specialized market segments and has now become the largest producer of fire and rescuer trucks for the airports in the world.

4. **Reduce Wastage of Resources**

Large organizations having sufficient resources to deal in mass marketing and having expensive national advertising campaigns. These organizations adopt market segmentation and consider it as an effective strategy for reducing the waste.

5. **Competition**

Market segmentation helps the small firms with limited resources to effectively compete in one or two small market segments.

6. **Segmentation of Market**

If the markets are not segmented, then the customers become frustrated as they have to make complex decisions for a simple purchase when number of same products are available.

Costs of Market Segmentation

Inspite of providing various benefits to the firm, market segmentation incurs certain costs as follows,

1. Manufacturing costs would be higher due to the shorter production cycle.
2. Research costs would be higher due to the urge to explore new market segments.
3. Promotion costs would be higher when quantity media discounts are being lost.
4. Overlapping market coverage may result into "cannibalization", because one product may drag the market share of some other company's product.

4.10 MARKET RESEARCH

Q51. Define marketing research. State its characteristics and objectives.

OR

What is market research? Explain in detail.

Nov./Dec.-19, (R15)(A), Q11(b)

Answer :

Marketing Research

"Marketing research is a process which has to do with the gathering, processing, analysis, storage and dissemination of information to facilitate and improve decision-making".

– Seibert Joseph

"Marketing research is a branch of marketing intelligence, that conducts specific enquiries into problems, in order to guide decisions".

– David Luck and J. Wales

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 solutions of marketing research problems are not taken into account in objective marketing research.

2. **Relevancy**

Relevancy is one of the characteristic features of a good marketing research. Relevancy makes sure that, irrelevant information is not collected along with its related cost. The information gathered is compared with the decision makers criteria for action to assess the relevancy.

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 steps 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 attain the similar outcomes from the research process. In order to develop a such 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 create problems in the marketing research process must be controlled. The control feature 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.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Objectives of Marketing Research

The main objectives of marketing research are as follows,

1. To gain knowledge about the concept, or to identify new concepts from it. These objectives of Marketing Research helps in acquiring the knowledge and act as a guiding force to obtain a good quality of research work which is independent of any material incentive.
2. The main purpose of Marketing Research, is to gain knowledge about the marketing culture, marketing environment and marketing decision process so that, the firm can have greater marketing control.
3. To ascertain the frequency with which a specific thing takes place or with which, it is related to something else.
4. To identify the cause and effect impacts by testing a hypothesis or a casual 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.

Q52. Explain the marketing research process.

Answer :

In general, for larger enterprises, the process of marketing research comprises the following six steps,

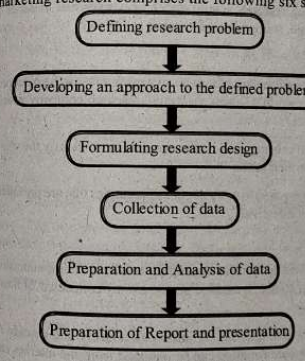


Figure: Marketing Research Process

Step 1: Defining Research Problem

In the beginning, researchers must define the research problems keeping in mind the objectives of research. Defining research problems 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 tackle the research problems researchers should first understand the need for research. Accordingly, they are required to plan out a theoretical framework for research. Further, 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 outlines the procedures to be carried out for the success of a research project in solving a research problem. It also suggests hypothesis 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 organized, trained and supervised. The data collection team follows the guidelines of research design and uses data collection methods that are regularly evaluated to reduce errors in data collection.

Step 5: Preparation and Analysis of Data

The compiled crude data has to be edited and corrected. Data preparation involves coding and transcription. Data is also analyzed and verified following the guidelines of the research design. Finally, information is generated that aids managers in understanding the research problem and its possible alternative solutions.

Step 6: Preparation of Report and Presentation

Finally, when the research is complete, researchers document the actual process carried out for the research. Research results are formatted for easy understanding of the decision makers. Presentations are made about the research problems and the findings are discovered. It involves drawing tables, charts, graphs, ratios and other tools that simplify the information to support decision-making.

Q53. Explain the scope, need and importance of marketing research under changing business environment.

Answer :

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 accurate information that is needed.

2. **Satisfying the Customers**

Marketing research helps in identifying 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 meaningful data to the research manager.

4. **Identify Market Opportunities**

It helps to identify the marketing opportunities by conducting market surveys, and estimating the market demand. It helps the firms to make strategic market planning and implement them for increasing and evaluating its effectiveness.

Scanned By Scanner Go

5. Principles for Generating Information

Marketing research consists of principles which are important and useful in determining the objectives, which are required to support the decisions.

Need of Marketing Research

The following points highlights the need of marketing research in following situations,

1. When a firm introducing a new product in the market.
2. When the sales of a product is decreasing and reasons for the decrease in sales are unknown.
3. When information relating to demand of product like facts and figures is not known.
4. When to gather information relating to habits and preferences of the consumers, so that an effective advertisement programme can be designed.
5. When firm wants to identify the area of improvements in existing product.
6. When there are rapid changes in income, habits, fashion and preferences of consumers.
7. When to find out the policies and strategies of the competitors so that, a company can make necessary alterations in its policies.
8. 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 effected 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) With globalization, market research gained significantly. Most of the companies use the extensive market research operations. One example is A.C 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 wants and needs 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 as per the strategies that are prevailing in that particular market, so that business operations are carried out effectively.

2. Influence of Internet

(a) The introduction of internet has gained popularity and is being used widely. It has broken all the barriers of communication, as the people can communicate with other people from any country. Hence, it enabled people to stay connected 24 hours, a day.

(b) Internet also helps in collecting information . It helps the researchers to find out the information easily and quickly. As the searching manually for books in library consumes time, the same information can be obtained from the internet very easily and quickly, within few seconds.

(c) 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?

Answer :

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 provide the basis for making strategic decisions. Therefore, coordination is needed between management and research department for the success of the marketing research.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2. Marketing Research in Marketing Decision Making

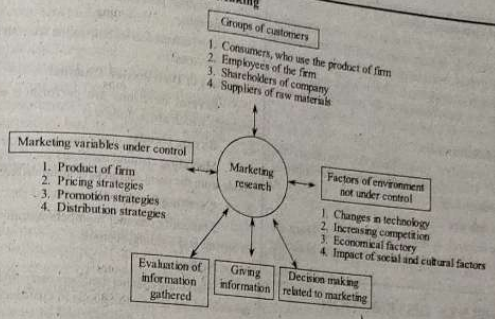


Figure: Marketing Research Role

In marketing research, importance is laid down on determining the needs and wants of the customers and thus, the marketing strategies are designed accordingly. This helps in satisfying the customers, as the products are produced as per their requirements.

The competition in the market can be assessed easily with the help of marketing research. It provides the relevant information to the top management on the basis of which sound marketing decisions are taken. Thus, market research helps in making marketing decisions.

3. Marketing Research in Competitive Intelligence

(i) Marketing research plays an important role in the process of collection, analysis and dissemination of the information required by the competitive intelligence.

(ii) The competitive intelligence enables the firm to determine the competitive environment and competitors by providing a better understanding of the marketplace competitiveness.

(iii) The competitive intelligence provides information to senior managers about various departments of the organisation like marketing, research and development. This information is helpful in the formulation of business strategies.

4. Marketing Research in Marketing Information System (MIS) and Decision Support System (DSS)

The information gathered with the help of marketing research and various other sources like records and competitive marketing intelligence forms an important part of Marketing Information System (MIS) of an organisation. The marketing information system can be described as a process consisting of procedures used for creating, examining, recording and disseminating the information to the decision makers continuously. MIS provides more 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) was developed in order to solve the limitations of MIS. The decision support system is the system which includes hardware, software and the use of decision support system for gathering and interpreting 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,

1. Difficulty in Studying

Marketing research becomes disintegrated, in its approach. As a result, it becomes difficult to have an overall perspective in which a marketing problem is to be viewed and studied.

2. Misused by Untrained Employee

The principles of marketing research are good and based on scientific lines in industry, but usually these are (mis-used)by those people who have no formal training in the subject.

Scanned By Scanner Go

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 departed from the main stream of marketing. This refuses 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 to 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) for a product is the route taken by the title to the goods as they move from the producer to the ultimate customer or industrial users".

– William J.Stanton

"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 trade channel or channel of distribution".

– Philip Kotler

The marketing intermediany used to transfer the goods from one place to another is called channel of distribution. When the goods reaches the ultimate consumers the process is called as distribution. Adistribution channel is also called marketing channel.

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 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 in the market based on consumers requirement.
2. They act as a link between the manufacturer and the customers.
3. The distribution channel or intermediaries enable the exchange process of the product or service at a specific margin.
4. The Intermediaries help in the smooth flow of goods and 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 carryout the activities which are needed for selling the goods to customers or other channel members.

4. Transporting

Marketing channel members help in arranging the transportation facility for delivering the goods at the desired location.

5. Financing

Marketing channel members provide the funds needed for meeting the expenses of the channel activities.

6. Promoting

Marketing channel members promote the product either by advertising at national and local level or by selling the product personally.

7. Negotiating

Marketing channel members determine the ultimate price of the products and payment and delivery terms.

8. Marketing Research

Marketing channel members supply the information with respect to the demand of the customers.

9. Servicing

Marketing channel members provide various services like credit, delivery, and returns.

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.

1. Discrepancy of Assortment

The producer specialize by product which often leads to other discrepancy known as discrepancy of assortment. An assortment refers to keeping of products together to offer

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

benefits. A consumer develops and holds an assortment (a set of products) and a producer manufactures a set of products i.e., producer's assortment and provide it to customers. Many customers 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 customer desire for a broad assortment, but an individual manufacturer manufactures a narrow assortment.

2. 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 regrouping activities which rectify the quantities or assortments of products managed at every level in a distribution channel. The four regrouping activities are,

1. Accumulating
2. Bulk-breaking
3. Sorting and
4. Assorting.

1. Accumulating

Accumulating refers to collection of products from several small producers and converting it into larger quantities. It is a method through which transporting rate can be reduced and companies can purchase and manage the products easily. In less developed countries and agricultural markets, 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 consist 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. As transportation costs is less for bulk quantities, products can pass through marketing channels less expensively. Accumulation provides a constant supply of products in large volumes to buyers. It allows the producers to continuously use stocks and replenish them, hence reducing losses from delay in the material supply. It even resolves issues related to price fluctuations for seller and buyer.

2. Bulk Breaking

Allocation or bulk-breaking refers to division of larger quantities into smaller quantities when products move towards the final market. Bulk-breaking starts at the producer's level and it consists of many middlemen. Wholesalers sell small quantity to other wholesalers or to the retailers directly. Bulk breaking is continued by retailers when they sell individual items to their customers.

3. Sorting

Sorting implies seggregation of products into qualities and grades required by various target markets. Sorting out is the initial step in developing an assortment which includes seggregating pairs of heterogeneous products into comparatively same, homogeneous groups on the basis of product characteristics like shape, size, colour or weight.

4. Assorting

Assorting is keeping together a variety of products to offer to the target market what it requires. It is carried out by people who are very near to the user-retailers or wholesalers or final consumer who strive to offer a broad assortment of product for their customers convenience.

Q57. Develop the channels of distribution in marketing.

Answer : (Model Paper-III, Q9(a) | Nov./Dec.-17, (R15)(A), Q10)

Distribution channels can be classified depending on the number of channel levels included in the distribution function. Every layer of marketing intermediaries which carry out some task to bring the product and its ownership 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. No intermediaries exist in this channel. In this distribution system, the goods are sold directly by the producer to its customer. The firms perform all the channel functions and utilize own sales personnel for reaching the consumers.

Example

Direct marketing firm, Eureka Forbes which produces vacuum cleaners.

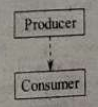


Figure: Direct Marketing Channel

Scanned By Scanner Go

2. Indirect Marketing Channel

It refers to a marketing channel consisting '*n*' 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 categorized 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.

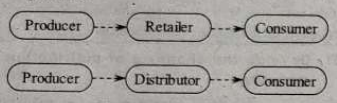


Figure: One Level Channel

(ii) Two Level Channel

In the two level channel, two intermediaries exist i.e., either wholesaler/distributor and retailer between the producer and the consumer.

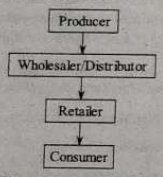


Figure: Two Level Channel

(iii) Three Level Channel

In this channel, three middlemen exist i.e., distributor, wholesaler and the retailer between the producer and consumer.

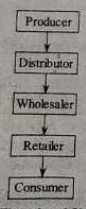


Figure: Three Level Channel

(iv) Four Level Channel

In the fourth level channel four middlemen exist i.e., the agent, the distributor, the wholesaler and the retailer between the producer and consumer. This channel is mostly utilised for consumer durable goods.

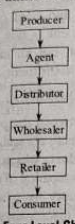


Figure: Four Level Channel

Apart from the above channels, many different combinations of channels exist. Based on the kind of product, different channels are selected. Short channel is selected 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.

Q58. Discuss the services rendered by the wholesalers.

Answer :

The wholesalers services are categorized into two types which are as follows:

(i) Services to manufacturers

(ii) Services to retailers.

1. Services to Manufacturers

The following are the services provided by wholesalers to manufactures,

(a) Assists in Focussing on Production

The wholesaler by performing the marketing functions help the manufacturer to focus on the production problems.

(b) Provides Assistance in Large Scale Production

The wholesalers assemble orders from retailers and transfers them to the manufacturers or makes bulk purchases from the manufacturers for resale.

(c) Distribution Facilities

The wholesaler is responsible for collecting small orders and distributing goods to number of retailers and relieves the manufacturer from this task.

(d) Ascertaining Demand and Forecasting

With the placement of orders by the wholesalers, the manufacturers are able to control their rate of production and evaluate their demand or sales as per the changes in the demand pattern and direction.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

(e) Financing

The wholesalers usually deposit some cash as a security with the manufacturers and make bulk purchases in cash from them. This helps in providing financial assistance to the manufacturers.

(f) Assists in Production

The wholesalers place advance orders for the periods having low demand to help the manufacturers to maintain consistent production.

(g) Warehousing

The wholesaler makes bulk purchases from the manufacturers and stores them in the warehouses till the time they are sold to the retailers. This relieves the manufacturer from the burden of maintaining warehouses.

(h) Assists in Sales Organization

The sales organizations are readily available with wholesalers which helps the manufacturer in making quick sales.

2. Services of Wholesalers to Retailers

The following are the services provided by wholesalers to retailers,

(a) Facilities of Purchasing

The wholesalers maintain the stock of goods from the various producers and serve the retailers 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. Wholesalers make his job convenient by stocking goods from different manufacturers.

(b) 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 stocks the goods and supplies it to the retailers in smaller quantities to meet their requirements of low inventory.

(c) Risk Taking

The wholesalers by maintaining the stock of goods, bears the risk of fluctuations in market prices or deterioration of the goods because of natural calamities, pesticides etc., and saves the retailers from these risks.

(d) Financial Help

The wholesalers provide credit facility to the retailers by supplying them goods on credit. The retailers can make the payment for the goods after selling the product to the customers and collecting money from them.

(e) Information about new Product

The wholesalers make the retailers aware of the new product, that are being produced, with the help of the salesmen who are employed specifically to spread the product awareness.

(f) Specialization Benefits

The wholesalers are usually specialized in some product lines and purchases from those producers who manufacture the best quality products at a reasonable price. This specialization advantage is also provided to the retailers as they purchase goods from them.

(g) Advertisement Advantage

The wholesalers establish the demand for their goods through effective advertisements. This demand is duly met by the retailers. Hence, the retailers do not have to spend on advertisements.

(h) Consultancy Services

The retailers receive advice from the wholesalers on different activities of marketing like display of goods on the outlet etc. The retailers also become aware about the product quality with the help of advertisement material supplied by the wholesalers.

(i) Transport Facilities

Wholesalers supply the goods to the retailers, through their own transportation, which enables the retailers to save their transport expenses that are incurred for bringing the goods to his outlet.

(j) Price Stability

By maintaining the stock of goods, the wholesalers are able to supply the goods when it is required and warehouse them when it is not in demand. This helps in saving the retailers from bearing the risk of price fluctuations.

Q59. What is retailing? Discuss the functions and services rendered by retailers.

Answer :

Retailing

Retailing is a process involving set of activities resulted in the creation of value added products and services that must 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 Varieties of Products

The retailers provide a wide varieties of brand designs, colors, sizes and prices at one place, which helps the customers to make the best selection. Usually, the manufacturers produce specific types of products and if these manufacturers had their own stores which sell their own goods, then it would become inconvenient for the customers to visit each shop for purchasing various products. The retailers provide convenience to the customers by making the products of various brands and varieties available at one location.

2. Sorting

The manufacturers who produce single line or multiple line of products sell their outputs to some buyers as it helps in minimizing their costs. The ultimate consumers would like to

Scanned By Scanner Go

purchase from a wide variety of goods and services. So, the retailers must to maintain a balance between the demands of producers and consumers by gathering goods from different producers, purchasing them in large quantities and selling them in small quantities to the consumers individually. This process is known as sorting. In this process, the retailers perform the activities and functions which adds value to the product.

3. Breaking Bulk

The retailer provides the products in small quantities to the customers as per their needs and the consumption patterns of household. This helps in minimizing the costs of warehousing, transportation, and inventory.

4. Rendering Services

The retailers 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 retailers attract the customers by displaying unique products. The services of the retailers help in transferring the ownership from manufacturer to the consumer, providing guarantee of product by the owner, providing after sales service, and handling the complaints of the customers if any. The filing processing and delivering and installation of the orders are done by the retailers of the product at the place of the customers.

5. Risk Bearing

The retailers bear a different type of risk to manufacturers and wholesalers as there is a possibility of a customer coming back and returning the product. In such type of situations, the retailer has to bear the risk of product ownership. But, many firms have buy back scheme and the return schemes through which the retailers can return the unsold item.

6. Maintaining Inventory

The most important function of the retailers, is to maintain the inventory so that the products can be made available to the customers when needed. This will enable the customers to have an easy access to the products and services.

7. Communication Channel

The retailers act as a two way communication channel between the producers and the consumers. The retailers provide the information about the preferences of the customers and the present and new products to the producers. The retailers 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 outlet.

8. Transport and Advertising Function

Retailers help in performing the functions of advertising and transport. Wide varieties of products are transported from the wholesalers place to the retailers place, and all these arrangements for transfer of goods are done by the retailers. In some situations, the retailers also deliver the product at the place of customers. Hence, the retailers help in the process of storing, transporting and advertising the product.

Services Rendered by the Retailer

The following are the services provided by the retailer.

1. Storing or Warehousing

By maintaining the stock of different kinds of goods, a retailer can make the goods available to the customer whenever they are needed. As the average number of customers may not be able to stock goods which are used regularly, the retailer relieves them by holding the stocks of these goods.

2. Variety of Choices

The retailer maintains an appropriate mix of product varieties produced by various companies that gives a variety of choices to the customers.

3. Demand Creation

The retailers perform various activities for creating a demand for the wholesalers and producers. The activities undertaken by them include displaying products, offering various services such as providing the required information to the customers.

4. Distribution

The retailer is very efficient in distributing the products to the customers. Due to his experience, he possess abundant 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 retailers to the customers lead that to a huge volume of sales.

6. Personal Services

Several personal services are provided by the retailers to the customers like repair service, after sales service and so on.

7. Information

The retailers gather the information about the marketing trends, changes in fashions, preferences etc., for the manufactures to whom the customer meets through retailer.

8. Other Services

The retailer makes the products available to the customers as per the season, advises the customers, offers the goods return facility and improves the knowledge of customers about the product.

Q60. Explain distribution channel strategy.

Answer :

The marketing strategy of a firm constitutes the important aspect of the corporate strategy wherein the distribution acts as an important function of the marketing strategy. The significance of the distribution function lies in its inability or reluctance to change a distribution network as it is associated with the maintenance of sound and realty relationships. A firms mission and vision are included in the corporate strategy. The accomplishment of the firms strategy is highlighted by the marketing strategy. This is done with the help of products and distribution network of the firm.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Various factors hold their impact on the distribution strategy of the firm some of them are,

Customer Service Levels

1. The nature of customer service which is being promised by the firm mainly depends on the nature of industries, its products and services, its share in the market and also on the type of competition commonly observed in the markets. Even under certain situations, the service levels are only dictated by the affordability of the firms. The customers may be categorized into A, B and C using Pareto's Law, so as to take decisions regarding various service levels.

Category A

The customers belonging to this category provides or offers maximum contribution towards the growth and the generation of profits of the firm. As, they are very much important for the firm, they are specially treated by offering several benefits.

For Instance, the automobile firm focuses mostly on the defence services as they contribute heavily for improving the sales of trucks.

Category B

These customers provides the contribution on regular basis but on an average levels. Because of which they occupies 2nd position as far as the priority is considered.

Category C

The customers which provides low contributions and are not regular, usually comes under this category.

Even the intensity of competition also influences the service levels because firm may improve the service levels, if it has to enhance its market share. Service levels could be measured by considering the number of distributors servicing the market, frequency of customers with which he/she visits company's sales personnel and channel partners. As soon as the service levels are fixed, the distribution objectives could be set.

2. Setting Distribution Objectives

Apart from providing the required service levels, company is also needed to fulfill certain expectations of customers, which they have from the company and its channel partners.

For instance, the retailers who are dealing with the HUL products, may expect the firm and its channel partners to maintain minimum stock of goods with them so that they can never run out of stock of those goods. Thus, the HUL firm should frame the distribution objectives by emphasizing more on the customer requirements. These expectations of the customers may be in terms of place, time and possession utilities etc.

3. Set of Activities

This element of distribution strategy determines the way in which the firm and its distributors have to perform their activities for the attainment of predetermined service objectives set for the customers. The sales persons and the distributors of the firm usually performs the following tasks:

(a) Conducting sales forecasts on geographic, such forecast is conducted monthly, weekly or on periodical basis.

(b) Makes adequate arrangement for the delivering the products from the plants or CFAs to the nearest point to the market.

(c) Maintains adequate inventory level at various points in the network.

(d) Formulates different beat plans with an intention of getting access to the maximum customers belonging to the markets.

(e) Creation of journey plans as well as the beat plans for service engineers.

(f) Gather reports and survey information to get insight about the sales.

A company is required to define these tasks and should also represent the individuals who are required to carry out these tasks.

4. The Distribution Organization

This component of the distribution strategy involves the implementation of strategic decisions, formulation of objectives, setting of targets for the channel members and so on. This step forms the basis of the entire strategy for defining the organization structure. Following decisions are made under this component.

(a) The level of internal support that has to be provided by the company to its sales force and outsourcing which includes the utilization of channel partners. There are various activities which are undertaken by the company personnel which includes planning of inventory, credit management, organizing for dispatches etc. Most of the activities are performed by the sales people and the logisticians.

(b) The cost factor plays a significant role in deciding whether to maintain own sales team or outsource network. Because in-case of own sales team firm has to increase fixed costs whereas its variable cost increases with an increase in the outsourcing networks. In order to avoid this problem, the firms are adopting the mark-up method of compensating channel partners rather than margin payment.

(c) Making the selection of channel partners such as distributors, stockist, agents etc., it also determines the rules and guidelines for the purpose of selecting and appointing the partners.

(d) Determining the objectives for every distributor and maintaining effective systems for monitoring the activities and assessing the performance of the distributors.

(e) Setting standard limits for the financial investments of the channel partners thereby ensuring their efficient functioning.

Scanned By Scanner Go

5. Policy and Procedure

When the network is vast, consisting of huge 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 incompliance 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 maintained 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,

(a) System for the dispute settlement

(b) System for addressing the channel partner's complaints

(c) Extra payments to the distributors

(d) The extent to which the institutional business 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 promised to the customers. When the service levels are attained consistently, then it represents the efficiency of the strategy and the implementation plans. There are some of the significant KPJ's which includes,

(a) The continuous achievement of targets by the territories, product groups and the like.

(b) Attaining the desired level of profits.

(c) Attaining pre set targeted market shares.

(d) Maintaining zero stock returns.

(e) Capability to manage the emergencies and the sudden increase in the demand levels.

(f) Effective management of accounts receivables.

(g) Ensuring reduced damages to the products.

7. Critical Success Factors

The success of the distribution strategy increases, when it is supported by the top management of the firm. Some of the significant critical success factors include,

(a) Well-defined transparent and accurate policy and procedures,

(b) Commitment of the channel members,

(c) Impartial dealings of the firm with its channel members,

(d) Well-defined service policy for customers, offering prompt compensation to those channel members who are capable of performing special promotional activities.

4.12 SALES PROMOTION

Q61. Define sales promotion. What are its objectives, characteristics and significance?

Model Paper-III, Q8(b)

Answer :

Definition of Sales Promotion

"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 expositions, demonstrations and other non-recurrent selling efforts, not in the ordinary routine".

– American Marketing Association

"Sales promotion comprises that range of techniques used to attain sales/marketing objectives in a cost effective manner by adding value to a product or service either to intermediaries or end users normally but not exclusively within a defined time period".

– Institute of Sales Promotion, U/C

"Sales promotion, a key ingredient in marketing campaigns, consists of a diverse collection of incentive tools, mostly short-term designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade".

– Philip Kotler

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 detect and take measurable actions against the sales fluctuations, so that consistent sales could be achieved.
4. To attract new customers and to expand the market share.
5. To increase the repeat purchase behavior of the existing customers.
6. To cut down the operating cost of the company by removing the excessive 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 hurdles in the competitive moves of the rivals.
10. To motivate sales force towards the attainment of their sales targets.
11. To divert customer's attention from the price of the 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 a successful sales promotion.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

1. Maximum Effect at Minimum Cost

The nature of promotion objective involves achievement of objective by way of sales promotion instead of advertising, then the promotion objective is achieved through minimum cost.

2. Motivates Consumers to Buy

Successful sales promotions strive towards purchasing now rather than postponing to future. The role of consumers in this case is to take instant decision to process the transaction further.

3. Offers What the Consumers Want

Sales promotion should never use that strategy which is not desirable by target consumers. They can attract consumers only if the offers are interesting, exciting and valuable to them.

4. The Promotion should be Clear and Uncomplicated

The successful sales promotions have powerful incentive to carry-out the process. There is a direct relationship between subsidiary offer and main offer. The promotion should be clear so that the consumers can understand the promotional offer better. If the promotion is not clear, then the target consumers will not get attracted to the offer made.

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 it results in high visibility and creative qualities.

Significance of Sales Promotion

The sales promotion is gaining high significance because of the following reasons,

1. Rise of consumerism in India and due to expansion of Indian market
2. Existence of increased interfirm rivalry in industry as well as in all sectors of the economy.
3. Because of trades resistance which restricts the firms to invest in designing the promotion mix of different companies which have been emerging.
4. Fragmentation of viewers and readers as a result 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 technologies and product, reduction in differentiation between firms and price wars became common in case of consumer goods.

Q62. What are the major steps in designing a sales promotion program?

Answer :

The designing of sales promotion program deals with three steps which includes, – planning, implementation, monitoring and evaluation. Implementation is considered as 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. In this step, the objectives of the sales promotion are determined by considering the marketing environment and brand requirement. A careful analysis is done for all the aspects of the communications mix and the role which the sales promotion has to play in attaining those objectives.

Step 2: Advertising the Sales Promotion

Consumer promotion is a type of sales promotion which needs mass media advertising support. Sometimes, this advertising support is provided as an addition to the normal advertising which the brand would undertake or sometimes it is substituted by the normal brand advertising. Any type of media can be used like print, television or even outdoor.

Step 3: Organizational Issues in Operating a Sales Promotion Campaign

Usually, all the decisions relating to the operations of sales promotion campaign are taken up by the marketing chief. The sales promotion campaign is designed by brand management team or a sales promotion agency maintained by the company or both. They have the responsibility to ascertain the type, budget and implementation issues relating to sales promotion. Several big companies have enhanced their abilities to operate their sales promotion campaigns by themselves. The nature of sales promotion helps in ascertaining whether campaign must be operated internally or must be performed by an outside agency.

Step 4: Evaluating the Sales Promotion Campaign

While operating any sales promotion campaign, it is very essential to evaluate it. Sales promotion campaign is evaluated at three main stages i.e., before the commencement of the campaign, during the campaign and after the campaign. Generally, its measurement relies on the type of objectives which have been set for the campaign. The objectives can be effectively assessed if they are SMART (i.e., Specific, Measurable, Achievable, Realistic and Time Bound). A pretest, concurrent test and post test is done for a sales promotion campaign on the basis of the objectives formulated.

Q63. Discuss the various types of sales promotion?

Answer :

There are various types of sales promotions used by manufacturers which directs the consumers, the trade, the business customers and the salesforce. The various types of sales promotions includes the following,

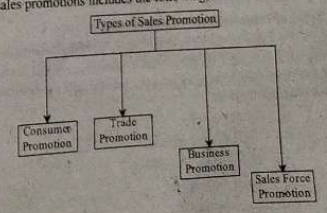


Figure: Types of Sales Promotion

Scanned By Scanner Go

1. **Consumer Promotions**

Consumer-oriented sales promotion focuses on the ultimate consumers of goods services. Consumer-oriented sales promotions are customer focused sales promotions. They are especially designed to motivate customers to buy the company's product or service. Consumer-oriented sales promotions is one of the elements of promotional pull strategy. They work in coordination with advertising to induce customers to buy a particular product or service and thereby increase the demand for the product or service. The various consumer-oriented sales promotion techniques are coupons, premiums, refunds, samples, bonus packs, loyalty programs, price-offs and event marketing.

2. **Trade Promotions**

Trade oriented sales promotion is used to motivate the resellers or dealers, retailers, producers to carry the products and promote them in an effective manner.

Trade oriented sales promotion basically depends upon the well-defined objectives, measurable goals, and marketer's consideration to achieve the goals.

(i) Obtain distribution for new products
(ii) Maintain trade support for established brands
(iii) Encourage retailers to display established brands
(iv) Build retail inventories.

Trade-oriented Sales Promotion

Sales promotions can be categorized into two types, consumer-oriented sales promotions and Trade-oriented sales promotions. Unlike, consumer-oriented sales promotion where focus is on ultimate consumers, in Trade-oriented sales promotions, focus is on resellers like wholesalers, distributors, retailers and dealers. Trade-oriented promotions form a part of 'push strategy' of the company. Many researches conducted revealed that manufacturing companies invest huge amount of money on trade-oriented promotions when compared to consumer–oriented promotions.Most of the manufacturing companies wants to minimize their investment on trade-oriented sales promotions but they have failed in doing so due to,

- Disapproval from resellers for reducing the investment of trade-oriented promotions.
- Force from competitors and sales managers to make investment on trade promotions.
- Lastly, the impact of trade promotions on sales and profits of the company.

Types of Trade-oriented Sales Promotions

In order to induce resellers, manufacturing compa-nies use various types of trade-oriented sales promotional tools. Some of the significant types of trade–oriented sales promotional tools are listed below,

(i) Trade contests
(ii) Training programmes
(iii) Cooperative advertising
(iv) Trade allowances
(v) Trade shows
(vi) Trade incentives.

3. **Business Promotion**

The major objectives of using sales or business promotion tools in business marketing or business-to-business marketing are,

(i) To collect sales (or business leads)
(ii) Rewarding business customers
(iii) Impressing customers
(iv) Establishing contacts with prospective customers
(v) Building long-term relationships with key customers and
(vi) Introduction of new products.

The widely used promotional tools (or methods) are as follows,

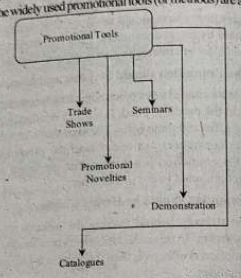


Figure: Tools or Methods of Promotioral Fools

4. **Sales Force Promotions**

If the sales promotional activities are directed towards sales people, then it is termed as 'Sales Force Sales Promotions' or 'Sales Force Promotions'. The major purpose of sales force promotions is to enhance the performance related to sales force. The other objectives of sales force promotions are,

(i) To raise the volume of sales
(ii) To minimize the selling cost
(iii) To promote new products
(iv) To book more orders
(v) To strengthen morale and enthusiasm and
(vi) To build prospective customers etc.

The major tools or methods of sales force promo-tions are as follows:

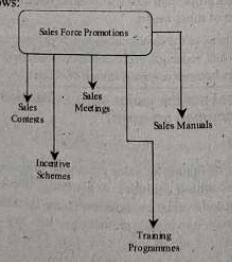


Figure: Tools or Methods of Sales Force Promotion

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q64. How sales promotion and product pricing are interrelated?

April-17, (R13)(A), Q10(a)

Answer :

"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 expositions, demonstrations and other non-recurrent selling efforts, not in the ordinary routine".

– American Marketing Association

Business researchers Muthern and Padgett (1995) conducted a study to determine the relationship between product pricing and sales promotion. The researchers found that their exists a direct relationship between promotion and pricing. Product pricing has become a key component of sales promotion. A reduction in the product price would be a key component of sales promotion which inturn would increase the sale of the product or service of the firm.

During their study, researcher Muthern and David Padgett found that 80 percent of the respondend shoppers stated that reduced product price as a sales promotion tool was the key factor, they initiated the purchase. Thus, the researchers found a positive relationship between sales promotion and product pricing.

According to a similar research study carried out by Fearne (1999) found that price induced sales promotion have become an important tool for retail stores to boast their sales. Many consumers had been attracted towards such products which provide reduced price sales promotions. Retail stores can implement retail price promotion in many creative ways. For example, the retail store can provide price reduction in cash term or percentage term or may opt for a combination of both.

Researchers Madan and Suri (2001) conducted a research about reduced product price as a tool for sales promotion. Their research study concluded that many retail stores use short term price discounts to boast the sale of merchandise. This form of sales promotion had been found to be very popular among most consumers. Thus, organizations are adviced to use reduced product pricing as a regular method of sales promotion to enhance the sales.

Q65. What are the advantages and disadvantages of sales promotion?

Answer :

Advantages of Sales Promotion

The following are the advantages of sales promotion,

1. **Price Discrimination**

Sales promotion technique helps the producers in establishing price discrimination. Producers can charge different prices to different customers. Trade segments differ in price sensitivity. Some of the examples for this c... includes coupons, special sales events, clearance sales and discounts. Those customers availing the advantage of buying the products at discounted prices are those who strive for collecting coupons, search for stores or visit places of special sales event. Price discrimination helps in adjusting changes in demand and supply pattern with no changes in the list price.

2. **Effect on Consumer Behaviour**

Sales promotion is usually for shorter duration and helps the consumers in taking immediate decision in buying the product instead of purchasing at future or comparing the alternatives. Promotions help marketers in enhancing brand switching and to reach the deal-prone customers.

3. **Effect on Trade Behaviour**

Short-term promotions act as a source for dealers to forward-buy. Forward-buying facilitates retailers in maintaining the stocks. This buying also helps in speeding up the consumer purchasing from the outlet. Point-of-Purchase (PoP) enhances customers attraction, serves as reminders and results in impulse or unplanned purchases. Few customers prefer new brands and if they are satisfied with that, become the repeat purchasers and loyal users of the product.

4. **Produces Immediate Results**

As sales promotion takes a definite span of time when compared to advertising or public relation, it tends to produce immediate results.

5. **Prevent Competitor Entry**

Sales promotion helps in preventing competitor entry or offsets competitor promotions and in turn maintains brands current market share.

6. **Gain Channel Support**

Sales promotion helps in gaining channel support and enhancing "push" the product. Sales promotions are widely used as it maintains shelf-space and merchandising benefits at the retail level, finishing excess inventory, motivating sales people for better contracts etc.

Disadvantages of Sales Promotion

The following are the disadvantages of sales promotion,

1. **Decrease in Brand Loyalty**

The main purpose of sales promotions is to enhance brand-switching, which is possible if low-involvement category products or differentiation existing with brands and unit value is low. Most managers view that promotion expenditures have low effect on brand-image and in turn reduces brand loyalty.

2. **Increased Price Sensitivity**

Promoting brands in a product category depending upon the level of price results in making consumers and traders more price-sensitive for both promoted brands and other brands falling in the same product category.

3. **Quality Image may become Tarnished**

Promotions can have negative impact on its quality image if the product consists of high-involvement category. Consumers have negative notion that product is low in quality when compared to competitor's product, it is outdated or it is net selling well etc. All these lead to affects quality image of the product.

4. **Dealers Forward-buy and Divert Stocks**

While trading many dealers forward-buy more than the requirements of inventory especially the product is in demand or product is low in bulk or holding costs or low. Forward buying of excessive stocks on deals or quantity discounts results in diversification of these stocks in non-deal areas.

Scanned By Scanner Go

5. **Merchandising Support from Dealers is Doubtful**

In most of the cases dealers do not support merchandising or fail to provide benefit to customers even though they need to provide. This aspect of dealers become doubtful.

6. **Short-term Orientation**

As sales promotion are for a short-period it gives boost to sales for a shorter period. This short-term duration 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 retailer. While determining the price of the product various factors such as demand and supply of the product, nature of competition, pricing objectives, channel of distribution and profitability are taken into consideration by retailer. Pricing if done appropriately, gains customer satisfaction and achieve market acceptability. A clear market analysis and utmost care 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 retailer and customers.

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'.

I **Internal Factors**

The following are the internal factors which affects the pricing decision,

1. **Marketing Goals**

Marketing experts considers price as an important element while achieving the marketing goals. Firms 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, a firm can create demand, attain financial independence and survives in the competitive market. Therefore, marketing goals are found to be one of the key factors which affects the pricing decisions.

2. **Costs**

Cost is an essential component of product's price. Production and cost of the firm are directly proportional to each other. There are various types of costs involved in an organization. They are,

(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 overheads.

(ii) **Fixed Cost**

Fixed cost remains constant over a long period of time and is found to be independent of production or 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 per unit of a product is called 'marginal cost'.

3. **Other Decisions/Objectives taken by the Organization**

A firm may have various objectives wherein pricing decisions helps in their achievement. Firms have various objectives such as maximizing sales revenue, maximizing market share, satisfying customers, maintaining particular 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.

II **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 decision. Nature and behaviour for the purchase of a particular product, brand or service etc., affects pricing when there exists large number of buyers in a market.

3. **Competition**

Competitive factors contributes significantly while taking pricing decisions. Even, the competitive environment within which a firm operates plays a vital role in fixing price of a new product. Competition may be pure competition, monopolistic competition, oligopoly competition, monopoly competition etc.

While planning the pricing strategies each seller must consider the possible reactions of his competitors.

4. **Suppliers**

Each supplier needs to play a significant role in setting prices in order to generate sales volume, obtain profit margin, develop image and to meet specific goals.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

'Chain reaction' takes place when the fluctuations in price of a single commodity brings a simultaneous change in the prices of wide range of commodities. The manufacturer needs to consider such impacts of price fluctuations.

5. **Authorities and Government**

Government rules and policies also holds a major control on price of products/services. The prices cannot be fixed at a high rate as government and other authorities keep a close watch on pricing the products.

6. **Economic Conditions**

The economic conditions which affects pricing decisions are inflation/deflation in demand, competition, buyer's resistance, speculation and government policies.

Q67. Explain about pricing of a new product.

Answer :

Pricing Strategy for New Products

Firm produces new products to expand their market coverage and to maximize their profits. New products can be divided into two classes. They are,

(a) Intrinsically new products due to technological innovations.

(b) New products emerging due to marketing-oriented modifications.

Difficulties which are Faced by the Firms in Pricing of New Product

Basically, there are two methods of pricing which are not appropriate for new products as a result firms face difficulty in pricing their new products. Two methods of pricing are,

1. Demand based pricing and
2. Competition based pricing.

1. **Demand Based Pricing**

In this method, as historical data for determining the demand of new products is not available it cannot be used for fixing their prices.

2. **Competition Based Pricing**

This method is also not suitable for new products because it focuses more on competition rather than on product.

The pricing for new products should emerge on account of,

(a) The requirement of the firm to go for a new product.

(b) The nature of the product/the extent of newness of the product.

Firms Requirement in Pursuing the New Product

The firms requirement in pursuing new product is possible through one of the following factors such as,

(a) To be an innovator and in turn get reward for innovativeness.

(b) To optimally realize the market needs prevailing in the existing markets.

(c) To steadily expand product mix over a period of time.

In the first category, firm focuses mainly on bringing innovative products in the market so as to enjoy the rewards of it. These type of firms are ready to borne risk which they incur on account of product innovation.

In the second category, firm introduces a new product only if it has been felt that the market is devoid of such products.

In the third category, the company has a desire to expand its product mix rather than product lines. These companies focuses on expanding their segment and is found to have been associated with 'limited risk' involved in it.

Extent of Newness of Product

As there is no availability of a standardized pricing method, firms usually introduce new products in the market by following the two strategies such as,

1. Skimming pricing and
2. Penetration pricing.

1. **Skimming Pricing**

In case of skimming price, initially products are priced at a higher rate which eventually reduces over a period of time. Such strategy is suitable for new and distinctive products.

2. **Penetration Pricing**

Some firms want to maximize their market share. They believe that a higher sales volume will lead to reduced per unit cost and higher long-run profit. They set the prices at low rate assuming the market to be price sensitive. This is called 'penetration pricing'.

Thus, it can be concluded that firms have to adopt various strategies for fixing the prices of goods 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 tactic designed to meet the objectives of pricing. It is very helpful for the marketers in solving the problems related to setting prices.

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 standardized pricing method, firms usually introduce new products in the market by following the two strategies such as,

(i) **Skimming Pricing**

In case of skimming price, initially products are priced at a higher rate which eventually reduces over a period of time. Such strategy is suitable for new and distinctive products.

Scanned By Scanner Go

(ii) Penetration Pricing

Some firms want to maximize their market share. They believe that a higher sales volume will lead to reduced cost per unit and higher long-run profit. They set the prices at low rates, assuming the market to be price sensitive. This is called 'penetration pricing'.

Thus, it can be concluded that firms have to adopt various strategies for fixing the prices of goods and services depending on the nature of products.

2. Differentiated Pricing Strategy

In differential pricing strategy, different marketers selects different pricing strategies for similar products. This differentiation in 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 mostly true when the consumer is incapable of judging the quality of a product, so they correlate the high price with high quality. Playing on the consumer psychology, companies can sell the same product in different packaging to two distinct market segments at two different prices.

4. Product Line Pricing Strategy

Most manufacturing firms go in for the manufacture of product lines rather than one product. Television companies offer several models in different sizes and models. They offer black and white as well as colour TVs. They have normal screens, flat screens and new plasma and LCD screens. These products prices will vary, according to size and the attributes and values they offer. What the firm needs to do is to decide the prices of each product as it steps up in the product line. The prices must be arrived at by considering the actual cost of production, the perceived evaluation of its attributes and values by consumers and the price of competitive products. If the price of a product in a given product line isn't much higher than the one a step lower, consumers will opt for the higher priced product. This will result in more profits, especially when the production cost difference between the products is less than the difference in prices.

5. Promotional Pricing Strategy

Promotional literally means to push a product. This is done by offering low prices, which at times, could be even below production costs. Large retailers resort to this by offering a few products at the least possible price to increase traffic in the store. They expect that customers who rush to buy the low priced items will also buy others at normal prices. Companies must bear in mind that over doing the promotional sales could be responsible for marking customers wait for these promotions and only buy at that time. It could reduce the product's value in the consumer's mind.

Q69. Explain different pricing methods.

Answer :

There are three types of pricing method. They are as follows,

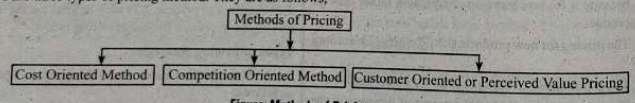


Figure: Methods of Pricing

I. Cost Oriented Method

This method consists of full cost of mark up pricing and marginal cost,

1. Full Cost of Mark Up Pricing

This method is cost oriented wherein the market determines the complete cost associated with manufacturing or producing and then adds a mark up or the margin as per the firm's wish/desire. This is considered as an elements any pricing method and most of the time services and products are priced based on this method.

$$\text{Mark up price} = \frac{\alpha}{(1-r)}$$

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Where,

α – Unit cost (fixed cost + variable cost)

r – Expected return on sales expressed as a percent.

2. Marginal Cost or Contribution Pricing

This method is based on the principle of recovering marginal cost and getting the contribution spent on the overheads (indirect expenses). This method is best suited for the giant firms characterized by intense competition, in the market.

II. Competition Oriented Method

This method consists of going rate or follow the crowd and sealed bid pricing,

1. Going Rate or Follow the Crowd

This is competition oriented method. This method is commonly found in oligopolistic market. Under this method the product's prices are similar to that of the competitors price in the market.

2. 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. Submitted tender helps in knowing the firm's cost and in 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 profits at different price levels.

III. Customer-oriented or perceived Value Pricing

In this type of pricing method, the product is priced depending upon value which the customers perceives about the product in their minds. There are two important constituents of perceived value of a product. They are acquisition value and transactions value.

The acquisition value refers to perceive the advantages and sacrifices made by the customer to get the products is determined.

In transaction value both the prices of seller and buyer are compared to arrive at a common price at which it should be sold.

For measuring perceived value, a marketer must consider the following methods.

(i) Direct price rating method
(ii) Direct perceived value rating
(iii) Diagnostic method
(iv) Economic value to the customer.

4.14 GLOBAL ASPECTS OF ENTREPRENEURSHIP

Q70. Discuss the various global aspects of entrepreneurship with suitable examples.

(Model Paper-III, Q9(b) | April-17, (R13)(A), Q10(b))

OR

Write a brief note on global aspects of entrepreneurship.

Answer :

Nov./Dec.-17, (R15) (A),Q11

The current business world is the most dynamic and full of international business opportunities for any potential global entrepreneur. The world has become a global village and countries around the world are aligning themselves into global trading blocks such as EU (European Union), NAFTA, SAARC, ASEAN, WTO and so on. The primary aim of every organization is to redefine and reinvent itself and become a true global organization.

There are substantial benefits of becoming a global entrepreneur to the enterprise and to the global community as a whole. Global entrepreneurship creates wealth and employment for the entrepreneurs and also for the nations involved in global trade.

However, unlike domestic market, the entrepreneur would find the global market to be unique, dynamic, diversified and highly competitive. The various global aspects of entrepreneurs are discussed as follows,

1. Economic Aspects

A global entrepreneur would find the global economic scenario quite different from the economic system in his home country (domestic country). For example, the economic system in the domestic market would be uniform and organized in one specific manner, where in entrepreneurial activities are carried out in the same currency. In a global set up, the entrepreneur would find drastic changes in the economic systems. For example, an Indian entrepreneur would find the economic system in U.S.A to be highly capitalistic and very liberal whereas the same entrepreneur would find the economic system in a communist country such as, China to be very rigid and overtly controlled 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 infrastructural differences of different countries. For example, the U.S.A. is an industrially developed country with world class roads, rails and other transport facilities which would facilitate the movement of men, material etc, as per the business requirement. However, if the global entrepreneur aspires to carry on business in an underdeveloped country such as Myanmar, he need to be prepared for lack of basic infrastructure such as roads, electricity, communication systems, banking facilities.

Scanned By Scanner Go

3. 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 rate of a country would impact the profitability of the global entrepreneur. The decreasing value of a currency would help that country to export more goods and services to other countries at competitive price and viceverse. The global entrepreneur need to be calculative of the fluctuating BOP of the countries where he is carrying on the business.

4. Political Aspect

The global entrepreneur need to adjust the business strategy and business model according to the complex and diverse political and global environment. The nature of government, the changing legal rules of different countries, etc, would have a direct impact upon the business activities of the enterprise. For example, a global entrepreneur had been exporting cars manufactured in his home country to a neighbouring country. Due to changing political environment, if both these countries go to war, the business activities of this entrepreneur would be adversely impacted as there may be a total or partial ban on trade and business between these countries. Thus, the entrepreneur need to factor in the changing legal and political environment before initiating global entrepreneurial activity.

In conclusion, it may be stated that the global enterprenuer need to align his business activities with the different global aspects of global entrepreneurship.

Q71. Explain the different stages in International Business for prospective global entrepreneurship.

Answer :

There are five stages involved in internationalizing an entreprises. 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 suppliers, domestic market opportunities, domestic customers etc.

The domestic firms examine the country's national environment and develop strategies for utilising the opportunities provided by the environment.

These firms do not aim to go beyond the national boundaries and incase if these firms grow beyond its capacity then they adopt the diversification strategies of entering into new technology, new domestic markets etc.

Stage 2: International Company

Few domestic firms which expand their production capacities or domestic marketing usually decide to penetrate into the international markets. The firm deciding to internationalize their operations comes under this stage. These firm feel 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 boundaries, they spread branches to foreign nations.

The firm make use of strategies for developing the branches in the international markets and expand their operations in foreign markets. They try to expand their domestic product, price etc., in foreign markets.

Many firms opt this strategy because of limited amount of resources and for gaining knowledge about the international markets before going globally. The international firm expands the marketing mix of domestic company, its business models and practices to foreign countries.

Stage 3: Multinational Company

If the international firms feel that the expansion strategy is not providing the expected results then they decide to become a multinational firm. This means that the multinational company decides to work like a domestic company in the country where it operates.

For instance, the Toyota exported the Toyopet cars (which were manufactured for Japan) to the United States of America. It was unsuccessful in U.S.A. as they were expensive, underpowered and were established like tanks. Hence it was not suitable to the U.S. markets.

On the basis of this experience, Toyota manufactured new models of cars as per the requirements of the U.S. markets. When the international firms respond to the requirements of other country markets with respect to product, price and promotion, then it becomes a multinational firm.

This stage of multinational company is also known as multidomestic. Multidomestic firms develop different strategies for various types of markets.

Stage 4: Global Company

A firm having global marketing strategy is known as the global firm. These firms either manufacture in home country or in a single country and emphasize on global marketing of these products, or manufactures the products globally and concentrate on domestic marketing of these products.

Stage 5: Transnational Company

Transnational company manufactures, markets and carries out its operations on global basis. These are the unified global firms which connect the global resources with global markets for earning profits. A pure transnational company does not exist, but there are many transnational firms which fulfill several features of the global firm. For example: Thumps-up, Sprite etc.

Stage 6: Extensions

Products which are well established in one country and they are marketed in other countries need no change. Their marketing is considered as extensions. For example: Casio calculators of Japan, butane lighters and razors.

Stage 7: Creation through Extensions

Transnational companies can produce global brands by way of creating the same products and by extension in order to introduce in the new market.

Stage 8: Human Resource Management Policy

The transnational HRM policy is wider as it selects the best possible HR and develop them irrespective of any nationality and ethnic group.

Stage 9: Purchasing

Transnational companies purchase raw-materials from the best possible source across the world, to have its impact on the operations when compared to other firms.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

FREQUENTLY ASKED QUESTIONS AND IMPORTANT QUESTIONS

SHORT QUESTIONS

Q1. Define the term production.

Answer :

For answer refer Unit-IV, Q1. Nov./Dec.-19,(R15)(A), Q1(i)

Q2. Write any three marketing functions.

Answer :

For answer refer Unit-IV, Q2. April-17 (R13)(A), Q1(i)

Q3. Distinguish between inspection and quality control.

Answer :

For answer refer Unit-IV, Q6. Nov./Dec.-17, (R15)(A), Q1(i)

Q4. What are the advantages of inventory?

Answer :

For answer refer Unit-IV, Q7. Nov./Dec.-19, (R15)(A), Q1(j)

Q5. Write a note on market segmentation.

Answer :

For answer refer Unit-IV, Q10. Nov./Dec.-17, (R15)(A), Q1(j)

Q6. Briefly write a note on "market research".

Answer :

For answer refer Unit-IV, Q11. April.-17, (R13)(A), Q1(j)

ESSAY QUESTIONS

Q7. Define Production Management. Explain the process of evolution of production management as operations management.

Answer : Important Question

For answer refer Unit-IV, Q14.

Q8. Define production. What are the different techniques/methods of production? Explain each technique/method with their respective characteristics.

Answer : Important Question

For answer refer Unit-IV, Q18.

Q9. Discuss in detail the following, REPEATED 2 TIMES

(a) Plant utilization and maintenance

(b) Designing the work place. April-17, (R13)(A), Q11

OR

Enumerate various aspects considered in designing the "work place" Nov./Dec.-19, (R15)(A),Q11(a)

Answer :

For answer refer Unit-IV, Q25.

Scanned By Scanner Go

Q10. Define quality and quality control. What are the functions quality control? Important Question

Answer :

For answer refer Unit-IV, Q36.

Q11. Discuss the Functions of Marketing and Marketing Management. Important Question

OR

What are the functions of marketing management? Nov./Dec-19, (R15)(A), Q10(a)

Answer :

For answer refer Unit-IV, Q41.

Q12. Define marketing research. State its characteristics and objectives. Important Question

OR

What is Market research? Explain in detail. Nov./Dec.-19, (R15)(A), Q11(b)

Answer :

For answer refer Unit-IV, Q51.

Q13. Develop the channels of distribution in marketing. Nov./Dec.-17, (R15)(A), Q10

Answer :

For answer refer Unit-IV, Q57.

Q14. How sales promotion and product pricing are interrelated? April-17, (R13)(A), Q10(a)

Answer :

For answer refer Unit-IV, Q64.

Q15. Discuss the various global aspects of entrepreneurship with suitable examples. April-17, (R13)(A), Q10(b)

REPEATED 2 TIMES

OR

Write a brief note on global aspects of entrepreneurship. Nov./Dec.-17, (R15) (A),Q11

Answer :

For answer refer Unit-IV, Q70.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

UNIT 5 Labour Legislation

Syllabus

Labour Legislation: Salient 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.
- ✓ Salient Provisions of Indian Factories Act, 1948.
- ✓ Industrial Dispute Act, 1947 with its Features and Objectives.
- ✓ Concept of Employee State Insurance (ESI) Act, 1948.
- ✓ Concept of Workmen's Compensation Act, 1923.
- ✓ Payment of Bonus Act, 1965.

Introduction

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 regine, etc. In India, labour legislation deals with central and state legislations.

R.K Das in 1937 defined four principles of labour legislation which includes, social justice, national economy, international solidarity and social welfare. The scholar of Britain, Frank Tillyward featured it into 'regulative' and 'protective' legislations.

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 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.

A Worker is eligible for annual leave with wage when he/she worked for two hundred and forty days during a calender 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.

Bonus is regarded as one of the most controversial issue in the field of wage legislations. Right from its inception i.e., early 1920s, bonus has not been able to satisfy the employee and employer. Initially it was introduced as an ex-gratia payment, but later on, it took the form of mandatory payment with the help of enactment of legislation (payment of bonus act, 1965).

Scanned By Scanner Go

PART-A SHORT QUESTIONS WITH SOLUTIONS

Q1. What is labour legislation?

Answer : Model Paper-I, Q1(i)

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 regine, etc. In India, labour legislation deals with central and state legislations. Depending on the object of the study, various labour legislations are classified into different acts.

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/kept apart from global forces.

Q2. Write a note on Factories Act, 1948.

Answer : Model Paper-I, Q1(j)

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 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 : Model Paper-III, Q1(i)

The provisions of Health under Factories Act,1948 are follows,

1. Cleanliness (Section 11)
2. Disposal of Wastes and Effluents (Section 12)
3. Ventilation and Temperature (Section 13)
4. Dust and Fumes (Section 14)
5. Artificial Humidification (Section 15)
6. Over Crowding (Section 16)
7. Lighting (Section 17)
8. Drinking Water (Section 18)
9. Conservancy Arrangements (Section 19)
10. Spittoons (Section 20)

Q4. Industrial Dispute Act, 1947.

Answer :

The Industrial Disputes 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 Patna High court, the basis of the Act is "amelioration of the conditions of workmen 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 attempts to achieve the objective of socio-economic justice specified in the directive principles of state policy under Part IV of the constitution in the articles 41, 42 and 43.

Objectives of ESI Act, 1948

The ESI Act, 1948 was enacted with the following objectives,

1. To introduce health insurance scheme for the industrial workers.
2. To provide medical benefits in the situations of sickness, maternity and on-the-job injury to the factory employees.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q6. Write a note on Workmen's Compensation Act, 1923.

Answer : Model Paper-II, Q1(i)

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 the compensation to a workman. The most important benefit of this legislation is that, by maximising the significance of suitable safety devices, it decreases the number of accidents to the workmen. With the help of this Act, the benefit of workmen and the liability has been improved.

Q7. What are the principles of Industrial Dispute Act, 1947?

Answer : Model Paper-II, Q1(j)

The Industrial Disputes Act is based on the following principles,

1. A permanent machinery (Conciliation) has been set up for the speedy and amicable settlement of industrial disputes.
2. Compulsory arbitration in public utility services, including the enforcement of arbitration awards, has been recognised.
3. Strikes and lockouts during pendency of conciliation and arbitration proceedings and the arbitration awards, enforced by the government order are prohibited.
4. Specific time limits for various stages of conciliation and arbitration for eliminating delays.
5. An obligation on employers to recognise and deal with representative trade union has been imposed.
6. Works committees to provide machinery for mutual consultation between employers and employees have been set up.
7. Industrial disputes may be referred to an industrial tribunal where both the parties to any industrial dispute, apply for such reference where the appropriate government considers it expedient to do so.

Q8. Define Bonus.

Answer :

According to Meriam-Webster dictionary defined bonus as "something in addition to what is expected or strictly due" or money or an equivalent given in addition to an employees usual compensation of 'bonus'.

Q9. What are the provisions of payment of Bonus Act,1945?

Answer : Model Paper-III, Q1(j)

The provisions of payment of Bonus Act,1945 are as follows,

1. Employee
2. Salary or Wage
3. Proportionate Reduction in Bonus in Some Cases
4. Calculation of Number of Working Days
5. Adjustment of Customary or Interim Bonus Against Bonus Payable Under the Act
6. Deduction of Certain Amounts from Bonus Payable under the Act
7. Separate Establishment
8. Disqualification and Deduction of Bonus.

Scanned By Scanner Go

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. Model Paper-I, Q10(a)

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 regine, etc. In India, labour legislation deals with central and state legislations. Depending on the object of the study, 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 was previously separated/kept apart from global forces.

For analaysing the labour law, it is very essential to,

(a) Define a logical structure for classifying the key areas of legislations which are significant to the industry.

(b) Outline a scheme for displaying the major provisions of these legislations in a structured way.

(c) 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 outcomes of industrial revolution which are developed for taking into account the actions / events created by industrial revolution, such legislations are distinct from common legislations as they have been developed to remove special disorders developed under certain\ conditions. Hence, there are not general in orientation philosophy, concept and also in practice, but are specific.
2. It considers individuals as workers, while the general legislation considers them as citizens. The principles, regulating labour legislations are affected by the figure of social justice instead of general justice. The workers constitutes the weaker section of industrial society who are suffering by the actions of employers. So, all these legislations are developed to protect the workers and ensure justice to them.
3. It helps in solving the issues emerging from the occupational status of the individual. 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) employers. The person who is not an employer (or) worker is not directly affected by it.
4. As different individuals performs different roles, different laws are framed for controlling different roles. The role relation decides which legislation comes under the category of labour legislation, social legislation (or) general legislation. These legislations seeks to achieve the specific objectives of their target groups such as,
   (a) To offer assistance and support
   (b) To aim at large / abundance
   (c) To promote equality
   (d) To provide and maintain security.
5. It is necessary to change the labour legislations according to the industrial 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 are contractual obligations, which develops new rights and obligations. They function along with the general law and does not needs any jurisdiction of civil courts.

Objectives of the Labour Legislation

The different objectives of labour legislation in India are as follows,

1. To create justice relating to social, political and economic.
2. To provide opportunities to all the workers regardless of caste, creed, religion and beliefs for their personality development.
3. To protect the weaker sections of the community.
4. To maintain industrial peace.
5. To develop economic growth conditions.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

6. To protect and improve the standards of labour.
7. To safeguard the workers from any form of exploitation.
8. To ensure the right of workmen to integrate and constitute association (or) unions.
9. To assume the right of workmen to bargain jointly for improving their service conditions.
10. To make the state a protector of the social well being instead of remaining a spectator or observer.
11. To assure human rights and human dignity.
12. Thus, the labour legislation objectives are the developing concept which needs continuous attempts for accomplishing them.

Q11/ Explain the modern principles of labour legislation. Model Paper-II, Q10(a)

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, national economy, international solidarity and social welfare. The scholar of Britain, Frank Tillyward featured it into 'regulative' and 'protective' legislations. The study of labour laws from the global aspect are classified into Seven as follows,

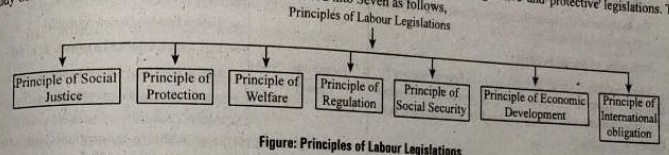


Figure: Principles of Labour Legislations

1. **Principle of Social Justice**

International labour organizations (ILO) states that "universe and lasting peace can be established only if it is based upon social justice" and its Philadelphia charter of 1994 states, "All human beings, irrespective of race, creed or sex, have to pursue both their material well-being and their spiritual development in condition of freedom and dignity, of economic security and equal opportunity". Addition to this, the principle of social justice is based on the establishment of cordial relationship and removal of injustice within certain groups of labours i.e; among slaves, migrant labours, bonded labour etc. It arises due to inequality between men and women, working hours, payment of wages, employment terms etc,

Some Laws relating to principle of social justice are listed below,

- Contract labour (Regulation and Abolition) Act, 1970
- Indian slavery Act, 1843
- Equal Remuneration Act, 1976

2. **Principle of Protection**

The principle of protection states that, providing protection to those labours who protect their own interest as well as other labours, against the risk involved with industrial laws. It arises due to hectic work schedules, employment of childrens under 18, women working under danger operations, low wages, malpractices in providing wages etc. In 1802, Health and Morals of Apprentices Act, was regulated to reduce the industrial work loads on labourers.

Some laws relating to principle of protection are as follows,

- Factories Act, 1948,
- Mines Act, 1952,
- Child labour (Prohibition and Regulation) Act, 1986
- 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 worker at their work places and improve the standard of living of the workers and their family members. The significance of this principle is to maintain industrial relationship and satisfy workers.

Some laws relating to principle of welfare are as follows,

- Mica Mines Labour Welfare Funds Act, 1946
- Beedi Workers Welfare Fund Act, 1976
- State Labour Welfare Fund Acts and Welfare Provisions under the Factories Act, 1948 etc.

Scanned By Scanner Go

4. Principle of Regulation

The principle of regulation balances the relationship between two superior group i.e., among workers and the organization and between employer and the organization. On other hand, it protects the interest of society. This principle came in to force to curb the disputes arising due to employer strong position when the workers misuse the rights conferred upon them and when the strikers, lock-outs affect the society at large.

Some Laws relating to principle of regulation are as follows,

- Trade Unions Act, 1926,
- Industrial Dispute Act, 1947
- Trade union and Labour Relations (Consolidation) Act, 1992 of Great Britain etc.

5. Principle of Social Security

The Principle of social security seeks to benefit society by providing income securities in the form of pension, retirement benefits, disablement and old age. This law is classified into two types.

- Social assistance legislation,
- Social insurance legislation

In social assistance legislation, workers avails the benefit as rights and do not contribute for availing such rights, where as in social insurance legislation, workers avails the benefit by paying the premium amount 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 enacted to improve the industrial and economic development by,

- Maintaing industrial relationships
- Enhancing better worker conditions
- 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 enacted 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, wages,employment of children of minimum age, night work, employment of women with maternity benefits, equal pay etc.

Q12. Explain the fundamental rights as incorporated in the Indian Constitution.

OR

Explain the fundamental rights of labour legislation.

Model Paper-III, Q10(a)

Answer :

Fundamental Rights

Fundamental rights are incorporated in part III of the Constitution under Articles 12 to 35. The "Freedom Movement" for "Independent India" is the main reason behind these provisions. The guiding principles for these fundamental rights is Annie Beasant's Commonwealth of India Bill 1925 and Nehru Report 128.

Classification of Fundamental Rights

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 freedom of religion (Article 25 to 28)
- → Cultural and educational rights (Article 29 to 30)
- → Right to Constitutional Remedies (Article 32)

Right to property is provided by the original Constitution under Article 31 but it was removed by 44th Amendment Act, 1978. At present, it is a legal right under Article 300.

1. 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 state should not discriminate any citizen on 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 accepting titles except for military or academic.

2. Right to Freedom (Article 19 to 22)

(i) Article 19 is the most important part of the Constitution. It provides 6 freedoms to the citizens. They are,

(a) Right to freedom of speech and expression. 19(1 - a)

(b) Right to freedom to assemble peacefully 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)

(f) Right to freedom to practice any profession or to carry on any occupation, trade or business. 19(1 - g)

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Note : Article 19 (f) i.e., The freedom to acquire property is removed by the 44th Amendment Act, 1978.

(ii) Article 20 states that no person shall be convicted of any offence except for violation of a law.

(iii) 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.

(iv) Article 21-A describes that state shall provide free and compulsory education to all children of the age of six to fourteen years.

(v) Article 22 states that no citizen who is arrested can be detained in custody without being informed.

3. Right Against Exploitation (Article 23 to 24)

(i) Article 23 prohibits the traffic in human beings, begar 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 companies.

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, practise and propagate any religion.

(ii) Article 26 states that subject to public order, morality and health, every religious denomination or any section there of shall have the right.

(iii) Article 27 states that no person shall be compelled to pay any taxes for the promotion or maintenance of any particular religion or religious denomination.

(iv) Article 28 states that no religious instruction shall be provided in any educational institutions.

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, either 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 the supreme court by appropriate proceedings for the enforcement of the rights guaranteed by the constitution of India.

Q13. Write about the establishment of ILO. Discuss the types of International Labour organization (ILO) conventions influencing Indian labour legislation.

Answer :

Establishment of ILO

ILO with the help of conventions and recommendations have taken up the responsibility of starting the international minimum standards of labour which further forms the international labour code. They include a greater range of subject like wages, hours of work, annual holidays with pay, minimum age of employment, medical examination, maternity protection, industrial health, safety and welfare, social security freedom of association, right to organise, and bargain correctively, employment conditions of seamen and employment.

Types of International Labour Organization (ILO)

The different types of International Labour organization (ILO) conventions influencing Indian labour legislation are as follows,

Figure: Types of ILO Conventions Influencing Labour Legislations

1. Working Conditions

The conventions related to working conditions includes the following,

(a) The Factories Act, 1948.

(b) The Shops and Establishments Act, 1953.

(c) The Contract Labour (Regulation and Abolition) Act, 1970.

(d) The Mines Act, 1952.

(e) The Child Labour (Prohibition and Regulation) Act, 1986 etc.

2. Employment of Children and Young Persons

The conventions related to employment of children and young persons includes the following,

(a) Minimum Age (Industry) Con. (No. 5), 1919.

(b) Medical Examination of Young Persons (Sea) Con. (No. 16), 1921.

(c) Night work of Young Persons (Industry) Con. (No. 6), 1919 and (No. 90), 1948.

(d) Minimum Age (Underground Work) Con. (No.123), 1965.

3. Employment of Women

The conventions related to employment of women includes the following,

(a) Night work (Women) Con. (No. 4), 1919.

(b) Night work (Women) (Revised) Con. (No. 41), 1934.

(c) Equal Remuneration Con. (No. 100), 1951.

(d) Discrimination (Employment and Occupation) Con. (No. 111), 1958.

(e) Underground work (Women) Con. (No. 45), 1935.

Scanned By Scanner Go

4. **Health, Safety and Welfare**

The conventions related to health, safety and welfare includes the following,

(a) Prevention of Industrial Accidents Rec. (No. 31), 1929.
(b) Power-driven Machinery Rec. (No. 32), 1929.
(c) Labour Inspection Rec. (No. 20), 1923.
(d) Guarding of Machinery Con. (No. 119), 1963.
(e) Occupational Safety and Health Con. (No. 155) 1981.
(f) Welfare Facilities Rec. (No. 102), 1956 and
(g) Workers Housing Rec. (No. 115), 1961.

5. **Social Security**

The conventions related to social security includes the following provisions,

(a) Employee's State Insurance Act, 1948.
(b) Workmen's Compensation Act, 1923.
(c) The Payment of Gratuity Act, 1972.
(d) The Employee's Provident Fund and Miscellaneous Provisions Act, 1952.
(e) Coal Mines PF Act, 1948.

6. **Wages and Bonus**

The conventions related to wages and bonus includes the following provisions,

(a) Equal Remuneration Act, 1976.
(b) The Payment of Wages Act, 1936.
(c) The Minimum Wages Act, 1948.
(d) The Payment of Bonus Act, 1965.

7. **Industrial Relations and Conflict Prevention**

The conventions related to industrial relations and conflict prevention includes the following provisions,

(a) The Industrial Disputes Act, 1947.
(b) The Industrial Employment Act 1946.
(c) 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 : Model Paper-I, Q19(b)

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 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 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.

Each state has framed its own set of factories rules to administer and implement the provisions of the Central Factories Act.

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 any part of the machinery or premises used for manufacturing process or in any kind of work incidental to or connected with the manufacturing process or the subject of the manufacturing process. Workers do not include any member of the armed forces of the union.

6. **Manufacturing Process**

The term 'manufacturing process' includes any process for,

(a) Making, repairing, altering, finishing, ornamenting, packing, oiling, cleaning, washing, breaking up, demolishing or otherwise treating or adapting any article or substance with the intention of its use, transport, sale, delivery or disposal.
(b) Generating, transmitting or transforming power.
(c) Pumping water, oil, sewage or any other substance.
(d) Constructing, reconstructing, refitting, repairing, finishing or breaking up ships or vessels.
(e) Composing types for printing, printing by letter press, photography, lithography or other similar process of book binding.
(f) Storing or preserving an article in cold storage.

7. **Factory**

The term factory includes,

(a) 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 manually.
(b) 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 is ordinarily so carried on.

A factory does not include a mine which is subject to the operation of the Mines Act, 1952 or a mobile unit belonging to the armed forces or a railway running shed or a restaurant hotel or eating place.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

8. **Machinery**

Prime movers, transmission machinery and all other appliances whereby power is generated, transformed, transmitted or applied are included under the term 'machinery'.

9. **Occupier**

Occupier is a term used for the proprietor, partner or one of the directors who has the ultimate control over the affair of the factory.

10. **Manager**

Manager is a person who manages the factory and is appointed by the occupier and informed to the Chief Inspector of factories of the state. Occupier himself may be the manager in some instances.

11. **Relay**

In case of same kind of work being carried out by two or more sets of workers working during different periods of the day, each of such sets is called a relay.

12. **Shift**

In case of same 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.

13. **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 main 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 healthy and sanitary conditions of work in the factory.
4. To ensure safety of the workers against accidents on machines and other equipment and taking care that children are not employed for any work which involves dangerous machinery.
5. To regulate and control the provisions of the Act through appointment of inspectors by the State Government. These inspectors have the power to enter any premises and take samples of the substances used therein and exercise such other powers as may be prescribed.

Q15. Briefly explain the important provisions of Factories Act, 1948.

Answer : Model Paper-II, Q10(b)

The following are the important provisions of Factories Act, 1948,

1. **Provisions Relating to Approval, Licensing and Registration of Factories**

For answer refer Unit-V, Q16.

2. **Provisions Regarding Health**

For answer refer Unit-V, Q17, (Refer only Side Headings).

3. **Provisions Regarding Safety**

For answer refer Unit-V, Q18, (Refer only Side Headings).

4. **Provisions Regarding Welfare of Workers**

For answer refer Unit-V, Q19, Topic: Provisions Regarding Welfare of Workers (Refer only Side Headings).

5. **Provisions Regarding Working Hours and Holiday for Adults**

For answer refer Unit-V, Q20, (Refer only Side Headings).

6. **Provisions Regarding Employment of Women and Young Persons**

For answer refer Unit-V, Q21, (Refer only Side Headings).

7. **Provisions Regarding Annual Leave with Wages**

For answer refer Unit-V, Q22, Topic: Provisions Regarding Annual Leave with Wages, (Refer only Side Headings).

8. **Provisions Relating to Notice of Certain Dangerous Occurrences**

For answer refer Unit-V, Q23(A), Topic: Provisions relating to notice of certain dangerous occurrences (Section 88A).

9. **Penalties**

For answer refer Unit-V, Q24, (Refer only Side Headings).

10. **Rights and Obligations of Employers and Employees**

For answer refer Unit-V, Q23(B), Topic: Rights and Obligations of Employers and Employees.

Q16. Briefly explain the provisions in the act relating to licensing and registration of factories.

Answer : Model Paper-III, Q11(a)

The various provisions for approval, licensing and registration of factories under factories act 1948 (section 6) are as follows,

1. Each and every employer who wants to construct or extend the factory, must take the permission of state government in writing. For the purpose of certification and approval, the employer must submit all the plans and specifications of construction to the chief inspector or the state government.
2. The employer must register his factory and should acquire the licence to operate it. He must pay the prescribed licensing and registration fees along with the information required by the government.
3. The licence shall not be granted or renewed unless a notice is given by the employer/occupier.

Scanned By Scanner Go

4. In order to get permission, the applicant sends an application to the state government or chief inspector along with all the plans and specifications. If he/she did not receive any order from government within 3 months from the date it was sent, then the applicant can consider that the permission is granted.

5. When the state government or the chief inspector 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 refusal from state government.

6. The government shall not consider the extension of factory in case if the replacement or addition of any machinery or plant does not reduce the minimum space needed for safe working. Also, the extension of factory shall not be allowed when the replacement of machinery affects the environmental conditions such as heat or dust or emission of steam 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 : Model Paper-II, Q11(a)

Provisions regarding health are contained in the section 11 to 20 of the Act. All these provisions are required to be carried out by employees in order to protect the health of their workers.

The provisions regarding health are explained below,

1. Cleanliness (Section 11)

As per section 11 of the Act, each and every factory should be kept clean and free from liquid flows acquiring from drain, privy or other inconvenience.

The preventive measures to be undertaken are,

(i) The floor of each work room should be cleaned atleast once in a week by washing the floor with disinfectants.

(ii) Partitions and ceilings of the work area, all sides of wall, sides and tops of passages and staircases must be repainted atleast once in five years. If all these are painted with washable white paint then they must be repainted atleast once in three years and washed with water atleast once in every six months. In case of smooth impervious floor, cleaning should be done once in every 14 months. In other cases, white washing or colour washing should be done once in every 14 months period.

(iii) Dust and dirt on floor, benches, staircases and passages should be cleaned daily by sweeping.

(iv) If at the time of manufacturing, floor becomes wet then preventive measures should be taken up for proper drainage.

(v) The dates on which repainting should be done are recorded in a register.

2. Disposal of Wastes and Effluents (Section 12)

In order to prevent wastes and effluents, some rules have to be laid down by state government with respect to disposal of wastes and effluents.

3. Ventilation and Temperature (Section 13)

The following measures to be taken care,

(i) The temperature at working area should be kept at comfortable level to workers and temperature at work location should not cause harm 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 fans 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 keep the temperature low.

4. Dust and Fumes (Section 14)

If required, exhaust appliances will be arranged in close to the areas from where dust, fumes and other inconvenience occurs and these areas are kept close. Stationary internal-combustion engine is used only after the exhaustion of dust, fumes or other impurities 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 impurities which might cause harm to the health of workers.

5. Artificial Humidification (Section 15)

The state government might set some rules for factories which create artificial humidity,

(a) Setting standards for humidification.

(b) Control the methods opted for increasing the humidity of air artificially.

(c) State the tests for identifying the humidity of the air to be created and recorded.

(d) Arranging suitable ventilation and cooling of the air in the work areas.

6. Over Crowding (Section 16)

The work area should not be over crowded with huge number of workers as it may cause harm to the health of workers working in such crowd areas. According to the Act, in each and every work room a worker should be allotted with 9.9 cubic metres of space in case of old factories and 4.2 cubic 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 work room.

7. 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.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

8. Drinking Water (Section 18)

Proper arrangements must be made in each and every factory 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 should be placed atleast 6 metres away from toilets or washing place.

9. Conservancy Arrangements (Section 19)

For providing conservancy services, separate arrangements must be made for male and female workers. Sweepers must be appointed whose main responsibility is to keep the toilets and work areas clean. If the factory consists of more than 250 workers than toilets of prescribed sanitary type must be arranged at convenient locations accessible to workers when they are in the factory. Floors, internal walls of height 90 centimeters and sanitary blocks in glazed tiles should be arranged. All these should be cleaned once in every week in disinfectants or detergents or both.

10. Spittoons (Section 20)

An enough number of spittoons should be arranged in each and every factory at convenient places. The spittoons must be kept in clean and hygienic condition. Each and every person in a factory should use spittoons to spit, if anyone spit outside the spittoons then that person will be punished with not more than 5 rupees fine. The state government might set rules with respect to kinds and number of spittoons 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 : Model Paper-I, Q11(a)

Section 21 to 41 of the Indian constitution Act deals with safety provisions. The safety provisions include,

1. Fencing of Machinery (Section 21)

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 mover, every moving component part of a main mover, the head-race and tail-race of each and every water wheat and wheat turbine and each and every component of an electric generator, motor or rotary convertor, each and every component of transmission machinery should be properly fenced with safety construction. State government has right to lay down the rules pertaining to 'fencing of machinery'.

2. Work on or Near Machinery in Motion (Section 22)

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 adults and who are wearing tight-fitting garments. These workers are not supposed to carry belt of a moving pulley except when belt is small than 15 cm in width and the belt-joint is either flush with belt or laced. Young children and women are not permitted to involve in lubricating, cleaning or adjusting any component of moving machine, if they are to be protected from the injury of such moving machine component.

3. Employment of Young Persons on Dangerous Machines (Section 23)

Young persons are permitted to work on dangerous machines when,

(a) They are provided with clear instructions regarding the dangers attached with the machine and corrective action to be taken up.

(b) They are well trained to work on dangerous machines or had already worked on dangerous machines under the guidance of experienced person.

4. Striking Gear and Devices for Cutting Off Power (Section 24)

An appropriate striking gear or other mechanical devices are required to maintained, facilitated and utilized in each and every factory to move the driving belts, correct actions must be taken up to stop belts from creeping back on to the fast pulleys. Driving belts should not lie on shafting in motion, when they are not in utilization. Devices for cutting off power should be made available at every work place.

5. Self Acting Machines (Section 25)

Travelling component of a self acting machine and not even one material worked on that machine will be permitted to run on its inward or outward traverse not crossing 18 inches from any fixed structure which is not a component of the machine, if an individual is responsible to pass through the space on which it runs.

6. Casing of New Machinery (Section 26)

As per section 26, in each and every factory started after 1st April, 1949, each and every machinery which works with power must be properly safeguard to protect the workers from danger.

Section 26 of the Indian constitution, also stops individuals wiring or setting new machines without proper covering or guarding. The people doing so will be kept in jail for three months or asked to pay ₹ 500 fine or sometimes both.

7. Prohibition of Employment of Women and Children Near Cotton Openers (Section 27)

Women and children are not allowed to engage in activities like pressing cotton wherein cotton opener is at work. But one exception to this is that, they can be engaged in other part of the factory i.e., feed-end, if feed-end of the cotton opener and delivery end are maintained as two different parts of the factory. For maintaining such two parts, written permission has to be taken from the inspector.

8. Hoists, Lifts, Lifting Machines (Section 28 and 29)

As per section 28 and 29 of the Indian constitution, each and every factory should maintain lifting machines, ropes, chains and lifting tackles of good quality. Whether all these are working properly or not should be tested once in every six months by efficient individual.

Scanned By Scanner Go

9. Revolving Machinery (Section 30)

In every location of a factory where grinding process takes place, a paper has to be affixed which contains information about safe working peripheral speed of every revolving machine such as cage, vessel, basket, pulley, flywheel or disccorrective actions are required to be undertake to see to it that safe working speed is not crossed.

10. Pressure Plant (Section 31)

Section 31 of the Indian constitution says that, if factory operation exceeds the atmospheric pressure then effective measures have to be taken up to carry out the operation without crossing the working pressure.

11. Floors, Stairs and Means of Access (Section 32)

Section 32 of the Indian constitution states that, each and every factory should properly construct and maintain all floors, stairs, steps, passages and gangways in the factory. Means of access to every individual in the factory must be provided and maintained at every work location.

12. Pits, Sumps, Openings in Floors etc (Section 33)

Each and every pit, sumps, openings in floors etc., should be properly fenced to prevent danger at work place.

13. Excessive Weights (Section 34)

As per section 34 of the Indian constitution, no individual should be appointed in a factory to lift, move or carry heavy load which might cause him/her injury. The state government might specify the maximum weights which adult women, children and adolescents should be allowed to lift, move or carry in a factory.

14. Protection of Eyes (Section 35)

In order to protect the eyes of workers from particles or fragments coming out from the manufacturing process or from exposure to heavy lightnings, the state government might need the provision of effective screens and protecting goggles.

15. Precautions Against Dangerous Frames (Section 36)

No individual will be permitted to go into tank, chamber, vat, flue, pipe or other restricted place where dangerous fumes exist. People are allowed to enter them if manhole of appropriate size or other effective means of a gross are facilitated in the factory to enter into tank, vat, flue, pipe, chamber etc.

16. Precautions Regarding the Use of Portable Electric Light (Section 36 A)

According to section 36 (A),

- Portable electric light or other electric appliance of voltage more than 24 volts should be allowed to use inside tank, pit, chamber, vat, pipe, flue or other restricted areas.
- In case, if inflammable gas, dust or fume exists in areas like tank, pipe, chamber, pit, pipe, flue or other restricted areas then only flame proof construction should be used in those areas.

17. Explosive or Inflammable Dust, Gas etc., (Section 37)

In case of factories, where manufacturing process give rise to gas, dust, fume or vapour, all possible measures have to be taken up to stop explosion by,

(i) Preventing collection of dust, gum, gas or vapour.

(ii) Proper enclosure of plant or machinery utilized in the manufacturing process and

(iii) Inclusion or exclusion of all practical sources of explosion.

18. Precautions in Case of Fire (Section 38)

In each and every factory, precautions have to be taken up against fire. The exit doors should not be locked and should get opened quickly. The exit doors should be constructed in such a way that they get opened outwards. The exists which are to be used in situations of fire should be specified in the language understandable to maximum number of workers working there.

19. Power to Require Specifications of Defective Parts or Tests of Stability (Section 39)

Section 39 of the Indian constitution Act give power to inspector, to rule on manager of a factory. Inspector might send a written order to manager to provide him details about defective parts or inspector might ask manager to test the stability of items 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 inspectors, to serve on the manager of a factory. An inspector might send a written order which contains the measures to be undertaken before a specified date for the protection of machinery and buildings. If the danger is about to come then inspector is given power to prevent the use of those machinery, buildings etc., till they are modified.

21. Maintenance of Buildings (Section 40 A)

If inspector feels 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 or both factory, which contains the measures to be undertaken by occupier manager or both before the specified date mentioned in the report.

22. Safety Officers (Section 40 B)

In case of factories, where one thousand or more than one thousand workers are appointed or where according to state 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 specifications. The qualifications, roles and responsibilities and tenure of office of safety officers will be decided by the state government.

23. Power to Make Rules (Section 41)

The state government possess power to frame rules in addition to the provisions regarding safety mentioned in the Act.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q19. Explain the provisions of Welfare of Workers.

Answer :

The act has given/enlisted certain detailed provisions for the welfare of workers. The different provisions stated in the Act are as follows,

1. Washing Facilities (Section 42)

Every factory must provide the following facilities,

(a) Sufficient and appropriate facilities to the worker for washing must be given and maintained for the worker's use in the future.

(b) Both male and female workers must be provided with separate and sufficient screened facilities for their use.

(c) These facilities must conveniently used and shall be kept clean.

2. Facilities for Storing and Drying Clothing (Section 43)

The state government may formulate rules as per the provision of appropriate places for maintaining cloth not worn during the period of wet clothing.

3. Facilities for Sitting (Section 44)

Section 44 states that,

(a) Every factory must arrange suitable sitting and maintenance facility for all workers who are usually required to work in a standing position, so that they may benefit out of the opportunity for rest which would take place in the course of work.

(b) If incase, a chief inspector opines and thinks that workers in a specific room would be able to work effectively in sitting position, then chief inspector would give a written order and would direct the occupier to provide sitting arrangements before a stipulated period of time.

4. First-AID Appliance (Section 45)

According to section 45, all the factories should possess at least one first-aid box with certain specified contents. In addition, to this there should be atleast one first-aid box for among 150 ordinary employed at the same time.

All the first-aid boxes or cupboards must be maintained by a separate person and must always a present at all the working hours of the factory. Infact a first-aid register should be maintained along with a box and all the essential entries shall be made into it.

According to section 45(4) every factory having 500 or more workers must maintain an ambulance room, staffed by a doctor a compounder and a nurse and equipped with atleast minimum mentioned articles. The factories should even have an ambulance van available at the phone call.

5. Canteens (Section 46)

According to section 46, canteens needs to present in those factories who holds more than 250 workers. The state government formulates the rules,

(i) The date by which canteen shall be arranged.

(ii) The standards of the canteen with regards to construction, accommodation, furniture and other equipment.

(iii) All the food stuffs to be served and their charges.

(iv) The setting-up of the managing committee for the canteen and representation of the workers in the management of the canteen.

(v) The different forms of expenditure in maintaining the canteen which is not to be take into consideration while fixing the cost of foodstuffs and which must beared by the employer.

6. Shelter, Rest Room and Lunch Rooms (Section 47)

The important points of this section are follows,

(i) Every factory where its ordinary employed workers are more than 150 shall be provided with adequate and appropriate shelters or rest rooms and a proper lunch room with the facility of good drinking water where in the workers can eat meals brought by them. In case of a provision of the lunch room the worker are not allowed to have food in the working area.

(ii) The shelters or rest rooms or lunch rooms which are being provided must be properly ventilated and lighted and shall must be managed in a well and clear conditions.

(iii) The state government may set the standards with regards to the shelters, rest rooms and so on, but it may exclude any factory or class or description of factories from the needs of this section.

7. Creches (Section 48)

According to section 48, every factory where its ordinary employed women workers are more than 30, must provide and maintained a suitable room or rooms for the use of children under the age group of 6 years. This rooms shall be managed by trained women for caring children and infants. Every proper provision must be taken in creches for the purpose of washing and changing the clothes of the children and for the supply of free milk or refreshments or both. Infact other facility must be provided to mothers such as feeding their children at appropriate time intervals.

The act authorizes the state government to formulates rules as follows,

(i) To specify the exact location and the standard with regards to the construction, accommodation, furniture and other equipment in the rooms which are to be provided.

(ii) To provide the essential provision of extra facilities for the children care, appropriate provisions of facilities for washing and changing the clothes.

(iii) To make the provisions for providing free milk or refreshment or both for such children.

(iv) To provide the facilities to mothers to feed their children at required intervals.

Scanned By Scanner Go

8. Welfare Officers (Section 49)

According to section 49,

(a) The factory where its ordinary employed worker are either 500 or more must appoint in the factory like the number of welfare officers as specified.

(b) The state government must mention duties, qualifications and conditions of service of officers being employed.

9. Power to Make Rules in Connection with Welfare Activities (Section 50)

Under this section, the state government is authorized to formulate rules as follows,

(a) To exempt compliance with all other such alternative arrangements for the workers welfare any factory or class of factories from the compliance along with the provisions of welfare.

(b) To direct every factory or group of factories that the representatives of ordinary employed workers in the factory shall be related 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-I, Q11(b)

The factories Act 1948, treat both perennial and non-perennial factories as same. Therefore, the number of working hours for all factories are also kept same. The following are the provisions regarding working hours and holiday for adults,

1. Hours of Work (Section 51)

As per this provision, an adult worker can be allowed to work for maximum 48 hour a week.

According to section 54, the daily working hours of an employee/worker must not exceed nine hours.

In this regards, Section (55) states that, the employee is not allowed to work for more than five hours without an interval of half an hour or more. The approval of chief inspector 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 him/her a full day holiday within three days.

If the manager desires to make the employee work on Sunday, then before taking any action, the manager must take permission from the chief inspector. If permission is granted then the notice regarding working on Sunday must be clearly displayed on the notice board.

3. Compensatory Holidays (Section 53)

If the worker is made to work on weekly holiday under the provisions of this Act, then immediately within a month or two, the worker must be granted with compensatory holidays equal to the number of holidays he/she had worked.

4. Night Shifts (Section 57)

According to section 57, when an employee works for night shift, then two situations are considered,

(a) The weekly holiday is twenty four hours and starts immediately his/her shift ends.

(b) 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 twenty four hours.

5. Extra Wages for Overtime (Section 59)

An adult worker must be paid extra on working more than nine hours a day and 48 hours a week. This Payment must be double the ordinary/base pay and is given for working overtime.

In this regards, 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 three months should not be more than 75 days.

6. Notice of Periods of Work for Adults (Section 61)

In any factory, the management must clearly notify the periods of work of adults, categorize of workers in groups according per their shifts, relays and works etc. If any changes are to be made in the work system, then the management must notify/inform the inspector regarding such changes before executing 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 to 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 and at same time.

9. Register of Adult Workers (Section 62)

The management should maintain a record of adult workers. This register or record should include information such as worker's name, type of work he/she performs, the group 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-II, Q11(b)

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 woman should not be allowed to work more than the regular nine hours of work and the working hours should be between 6 am and 7 pm. Except in the weekly holiday or any other holiday, there should not be the change of shift particularly for women.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

2. Work on or Near Machinery in Motion

As per section 22 (2), a women must not be allowed to work between any part or machinery while is in motion. The attempt of a women to work or clean or running machinery is a risky job and is contrary to the act.

3. Excessive Weights

The State Government may set rules concerning the maximum weights which can be carried, lifted or moved by adult women, adult men, and children who work in factories.

4. Dangerous Operations

According to Section 87(b), the state government may set rules to restrict the women from carrying out work is considered as dangerous or injurious to the health of women.

5. Creches

As per Section 48, if a factory employs more than thirty women, then women workers must be provided with rooms for their children having age not more than six years.

6. Prohibition of Employment of Women Near Cotton Openers

As per Section(27), women is prohibited from pressing the cotton while the cotton-opener is moving at work.

Provisions Relating Employment of Young Persons

Few restrictions are imposed on the employment of young persons under the responsibility of state government to protect the health of future citizens. They are,

1. Prohibition of Employment of Young Children (Section 67)

A child under fourteen years is restricted from working in factories.

2. Child or Adolescent to Carry Token (Section 68)

A child above fourteen years working in a factory must have a certificate of fitness from the surgeon or a token referring to fitness certificate.

3. Certificate of Fitness (Section 69)

The certificate of fitness is issued by a certifying surgeon. This certificate is issued after the examination of physical fitness and age of a child. This certificate will be valid only for 1 year.

The certificate shows the age of a child (i.e. more than fourteen years) physical standards (i.e. his/her ability to work in factory and his/her capability to perform the work for full day. Either a young person or the manager of a factory where the young person 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 an adult and hence all the provisions concerning the adult worker are considered as applicable to the child. To work in a night shift, the child's age must be more than seventeen years.

5. 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 prohibited from working night hours.

(i) The shifts in which the children work must not overlap and each shift can be extended only till 5 hours. Additionally, child must not be allowed to work in relays which change frequently.

(ii) Like one of the provision concerning adults, children are not allowed for double employment (i.e. working in two different factories on the same day but at different timings).

6. Notice of Period of Work for Children (Section 72)

As per this provision, the child must be given clear notice about the period of work in which the child is require to work.

Register of child workers (Section 73) must have the following information about the child,

(i) The name of the child.

(ii) Nature of the work carried out by child.

(iii) The group to which the child belongs to and.

(iv) Certificates of fitness number.

7. Hours of Work to Correspond with Notice Under Section (72) and Register Under Section (73) and (74)

As per this provision, a child shall not be allowed to work in any factory. But can work based upon the notice period of work for children which is displayed in the factory.

8. Power to Require Medical Examination (Section 75)

The inspector has authority to give notice to the manager of factory stating that,

(i) The medical examination of child by the certifying surgeon is required and

(ii) If the child is not fit to work, then he/she should be prohibited from working in factory.

9. Power to Make Rules (Section 76)

The State Government Makes the rules concerning,

(i) The issues of duplicate certificate in case, if the person lost his/her original ones.

(ii) The physical standards which a person need to acquire in order considered as to be fit enough to work in factories.

(iii) The procedure of certifying surgeons.

(iv) Assignment of other duties to the surgeons apart from issuing the certificate.

(v) Fixing the fees to be paid to the certifying surgeon.

Scanned By Scanner Go

5.2.3 Provisions on Annual Leave with Wages, Special Provisions, Notice of Certain Dangerous Occurence, 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 Paper-III, Q10(b)

(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 wage when he/she worked for two hundred and forty days during a calender 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 done or not for the entire 240 days.

In order to compute the 240 days of a calender 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 calender year, then these leaves can be enjoyed in the subsequent year, at a limit of 30 days for adult and 40 days for a child weekly holidays or holidays for festivals are not regarded as leaves. An application for annual level should be submitted to the manager in writing.

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 earnings. Calculation of wages during leave period excludes overtime and bonus whereas the dearness allowances are included.

3. Payment in Advance in 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 adults and not less than five days in case of child.

4. Mode of Recovery of Unpaid 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 inspectors to ensure to update record of the leaves of workers, so that, the register can be kept accessible to the inspector for examination whenever required.

(B) Special Provisions under the Factories Act 1948

Some of the special provisions are,

1. Department as Factories (Section 4)

The state government in response to the application, declares that the different branches or departments of a factory are regarded as separate factories.

2. Exemption During Public Emergency (Section 5)

As per Section (5) of the Act, the factories are exempted from performing according to the provision of Act at the time of any public emergency. This exception is given by notification in official Gazette. The exception can be made for time duration not more than three months.

3. Power to Apply the Act to Certain Promises (Section 85)

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 below ten in number or they are not employed by occupies but working with the owner's permissions.

4. Exemption of Public Institutions (Section 86)

The State Government provides exception for the places such as workshops where the manufacturing process is carried out and is attached to any institution of education, training and reformation. The exception will not be allowed for the provisions concerning holidays or working hours.

5. 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. Periodic Medical Examination of workers is to be carried out and the fee incurred for such examination is to be paid by factory owner.

Any specific materials which causes harm to the workers are to be prohibited and controlled. Additionally the safeguarding equipments must be provided to the workers to protect them from injuries.

6. Noticeable Accidents (Section 88)

If an accident took place in factory and as a result of the workers are got injured or dead, then the manager of the factory must notify this to the legal authorities immediately. The authorities in response to the notification may carry out the enquire of the accident within a month. The injured worker must be allowed to take rest for 48 hours or more than that depending on the severeness 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.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Answer :

(i) Provisions Relating to Notice of Certain Dangerous Occurrences (Section 88A)

If any dangerous incident occurs in a factory which causes the severe injury or disability to a worker. Then the manager of that factory should give notice to the concerned authorities about such incident.

1. Notifiable Diseases (Section 89)

If a worker gets effected 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 incident to the concerned authorities. In response to the accident, the medical practitioner is required to send the report immediately to the chief Inspector in writing. The report including the workers name, full address, and the disease with which the worker is suffering with, the name and address of factory to which the patient belongs to and so on.

In case, 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 (Poisoner caused due to preparations or compound of lead)
2. Lead tetraethyl poisoning
3. Phosphorus poisoning or the effects of it
4. Mercury poisoning or the effects of it
5. Manganese poisoning or the effect of it
6. Arsenic poisoning or its effect
7. Poisoning caused due to nitrous fumer
8. Carbon di-sulphide poisoning
9. Chromo ulceration or its effects
10. Anthrax and so on.

2. 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 legislations to assess/enquire the accidents taking place in the factory. These persons will have the right to exercise the power of inspectors.

(B) Rights and Obligations of Employers and Employees

1. Rights and Obligations of Employers

Rights of Employers

The various rights of employers provided under the Act are as follows,

(a) Enabling the workers to have awareness about health and safety measures

(b) Not allowing the children and young persons to work if they don't posses the certificate of fitness from a certifying surgeon.

(c) Constructing the new factories or extending the existing factories, if did not receive any response from Government within 3 months even after submission of all necessary documents can consult a court if not satisfied with the Government decisions.

Obligations of the Employers

Under the Factories Act 1948, the owners or the occupiers of a factory are required to perform the following obligations,

(a) Getting approval from the Government regarding the location, plan and construction of the factory and the licence and registration certificates for managing the factory.

(b) Welfare health and safety measures are to be implemented according to the provisions of the Act.

(c) Following all the provisions concurring the hours of work, spread over, change of shifts, double employment and employment of children and women.

(d) Making all benefits and services such as annual leaves weekly holidays, extra wages for overtime, first aid, canteens, crechus, rest and launch room etc., available to the workers.

(e) Maintain records and registers which can be used whenever required, submit records and registers to the government for enforcement of the Act.

2. Rights and Obligations of Employees

Rights of Employees

The Act provides the following rights to the employees/workers. They can demand health safety and welfare facilities and benefits, annual leave etc.

They may deny to work against the provision of the Act and can go through the legal provisions framed about working hours, rest intervals, weekly holidays and overtime conditions.

(a) They can also demands for advance payment of annual leave if leave taken is not below four days.

(b) They can demand double payment for overtime work.

(c) As per the provisions of the Act, a workers has right to get wages for annual leave irrespective of his discharge from service or whether she/he has performed the service in the calendar year or not.

Obligations of Employees

According to the Act, the workers are not allowed to,

(a) Purposefully misuses or neglect the instruments or machines/appliances of factory which are provided for the health safety and welfare of the workers.

(b) Involve in any activity which can put himself or other workers in dangerous situation.

Scanned By Scanner Go

Q24. What are the penalties specified in Factories Act, 1948?

Answer :

As per the Factories Act 1948, if any factory performs something/some activity, which is contrary of the Act, then that factory is liable for penalties. The penalties and procedures 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 year or fine upto one lakh rupees or both. If the factory continue to violet the rules even after the declaration of guilt i.e. conviction then in such case, the fine would be one thousand rupees for each day of continuous conviction.

2. Liability of the Owner (Section 93)

If the owner of the premises has many buildings and he/she leased out these buildings to different factories, then according to the Act, that owner is responsible to provide basic facilities or Services like drainage, water supply, lighting, sanitation and approach road etc., to all factories. The owner may receive an order from State Government to provide there facilities incase 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 punished with imprisonment upto 3 years or fine not below ten thousand and upto two lakh rupees or both at the same time.

In case, if the offence result in an accident leading to death or injury, 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 taking any action or restrict any worker appraising before the inspector for examination or fails to submit register or 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 Disclosing the Information (Section 96)

Under this section, if any person attempts to publish or disclose 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, violets any provisions of the Act, then he/she will be liable for fine upto five hundred rupees.

7. Penalty for Using False Certificates of Fitness (Section 98)

A person will be punished with imprisonment which extends to two months or fine upto one thousand rupees or both if he/she will fully tries to use the certificate of fitness issued some other person.

8. Penalty for Permitting Double Employment of a Child (Section 99)

With the consent of parent, a child performs double employment (i.e. works in two different factories on the same day but at different times) then the parents or guardian of that child will be punished fine which extends upto one thousand rupees. In case if the parents/guardian are not aware about the double employment of a child then, this punishment is no applicable.

9. Presumption as to Employment (Section 103)

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 or rest time.

10. Burden as to One's Age (Section 104)

If a court regards the worker/person as supreme under age, then the entire responsibility would be imposed on the accused for proving that child/person is not under age

5.3 INDUSTRIAL DISPUTE ACT, 1947

Q25. What is Industrial Dispute Act, 1947? State its features and objectives.

Answer :

Industrial Dispute Act, 1947

The Industrial Disputes 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 Patna High court, the basis of the Act "amelioration of the conditions of workmen in an industry".

Features of Industrial Dispute Act, 1947

The salient features of Industrial Disputes Act, 1947 are as follow,

1. A permanent machinery (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. Strikes and lockouts during pendency of conciliation and arbitration proceedings and the arbitration awards, enforced by the government order are prohibited.
4. Specific time limits for various stages of conciliation and arbitration, to eliminate delays are prescribed.
5. An obligation on employers to recognise and deal with representative trade union has been imposed.
6. Works committees to provide machinery for mutual consultation between employers and employees have been set up.
7. Industrial disputes may be referred to an industrial tribunal where both the parties to any industrial dispute, apply for such reference where the appropriate government considers it further to do so.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

8. The Act includes 40 Sections grouped into seven Chapters, each chapter dealing with,
   - *Chapter-I* : Preliminary matters.
   - *Chapter-II* : Various authorities under the Act.
   - *Chapter-III* : Reference of disputes to various authorities.
   - *Chapter-IV* : Procedures, powers and duties of authorities.
   - *Chapter-V* : Unfair labour practices.
   - *Chapter-VI* : Penalties for illegal strikes.
   - *Chapter-VII* : Miscellaneous provisions.

   The act has five schedules, each 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.
9. 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).
10. The Act provides the following machinery for settling the industrial disputes,

(i) **Conciliation**
   (a) Works Committee (Section 3)
   (b) Conciliation Officer (Section 4)
   (c) Board of Conciliation (Section 5).

(ii) **Arbitration**
   Court of Inquiry (Section 6).

(iii) **Adjudication**
   (a) Labour Court (Section 7)
   (b) Industrial Tribunal (Section 7A)
   (c) National Tribunal (Section 7B).

Conciliation can be described as "*quasi-administrative machinery*" and Arbitration and Adjudication are called "*quasi-judicial machineries*".

Objectives of Industrial Dispute Act, 1947

Objectives of the Act, in accordance with the judgement given by supreme court are as follows,

1. To promote measures for securing and preserving amity and good relations between the employers and the employees
2. To minimise the differences and to get the dispute settled through adjudiciary authorities.
3. To provide a suitable machinery for investigation and settlement of industrial disputes between employers and employees, between employers and workmen; or between workmen and workmen with a right of representation of employee registered trade union or by an association of employers.
4. To prevent illegal strikes and lockouts.
5. To provide relief to workmen in matters of layoffs, retrenchment, wrongful dismissals and victimization.
6. To give the workmen the right of collective bargaining and promote conciliation.

Q26. What are the different types of Industrial Disputes?

Answer :

The following are the different types of industrial disputes,

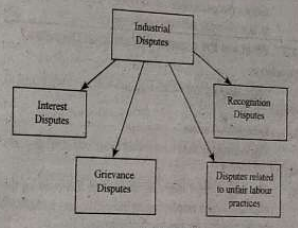


Figure: Types of Industrial Disputes

1. Interest Dispute

Interest disputes are known as economic disputes or conflicts of interest. It mainly deals with the ascertainment of the terms and conditions of employment for workers across the industry. Generally such disputes, originates from the demands of trade unions or proposals for better wages, job security, fringe benefits or other employment terms and conditions.

As there are no hard and specific standards for setting such disputes, the disputing parties bargain and compromise to resolve such disputes.

2. Grievance Disputes

Grievance disputes are also known as legal disputes of conflict or rights. They originate from a single worker or from a group of workers in the same group as a protest against the day to day working relations. Grievances are related to the fields, like over time payment, promotion, demotion, transfer etc.

The interested parties should resolve such disputes in a tactful manner as, if these disputes are not resolved then it may result in bitter hateful working relations and a climate of industrial strike between the management and the workers.

Scanned By Scanner Go

3. Disputes Related to Unfair Labour Practices

These disputes arise as a result of unfair/discriminatory treatment of employees, who actively participate in trade union activities, by the management. The aim of such unfair labour practices is to restrain/prevent the employees, from joining/establishing trade unions.

In many countries many strict laws are enforced to prevent such unfair practices.

4. Recognition Disputes

This type of disputes occur if the management does not want to recognize a trade union for collective bargaining. Such a refusal may be because of the different reasons like,

(a) The management refuses to recognize the concept of trade unions as it dislikes the trade unions due to trade union victimisation.

(b) The management refuses to recognize trade unions as there are more than one trade union, making conflicting claims to recognition. In such a case, the parties may follow the guidelines of voluntary codes of discipline as laid down in different countries.

Q27. What are the causes of Industrial Disputes?

Answer :

The causes of industrial disputes can be categorized as follows,

1. Industrial Causes

The industry-related factors that cause industrial disputes are,

(a) The employment methods or policies followed by the organisations in employing an individual may sometimes be the reasons for the conflict/dispute.

(b) The type of work, unpleasant working conditions, non-availability of machinery to do the work, working hours etc., may lead to industrial strike.

(c) Rights and obligations and their interpretations by employees and employers.

(d) Dismissal of an individual or other form of disciplinary actions.

(e) Agreements that are registered and enforceable.

(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 to employees are the sources 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 friction. They are,

(i) Discharging or dismissing the workers by way of discrimination or any other unnecessary issues.

(ii) Assigning a work to the workers which is not mentioned in job profile.

(iii) Forcing the employees to join a particular trade union or refraining from joining a trade union.

(b) *Ineffective Leadership/Supervision*: Ill-treatment of workers by adopting the age-old master-servant relationship, authoritarian working climate of the organisations may be some of the causes of industrial disputes.

(c) Disinterest of management to involve employees in decision-making.

(d) Managements unwillingness to recognize a particular trade union.

3. Government Machinery

Though government acts as a balance between the management and workers in settling the disputes, sometimes government related factors become the causes of industrial disputes.

Various government related factors that cause industrial disputes are,

(a) Variations in economic policies like Privatisation and Liberalization may cause many strikes and disturb the industrial relations.

(b) Improper and inadequate labour laws and their implementation.

(c) Government's inability to see whether labour laws are perfectly implemented by the employers.

(d) Lack of confidence of employers and employees in governments conciliation machinery.

(e) Failure of Governments conciliation machinery in solving the dispute.

4. Political and Legal Causes

Many political and legal factors interfere in the peaceful working of industrial relations and cause industrial disputes.

Various political and legal factors include,

(a) Politics influencing the trade union movement

(b) Political instability

(c) Strained central-state relations

(d) Existence of multiple labour laws.

5. Economic Causes

Royal Commission on Labour in India says that the reasons for any strike are entirely or largely the economic reasons.

Various economic causes 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.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

(b) *DA and Bonus*: Rise in prices may also demand for more Dearness Allowance and the requirement of bonus and the non-fulfillment of these needs may cause industrial strike.

(c) *Increasing Industrial Profits*: Rise in the profits demand for worker's share in the increased percent of profits and the unwillingness of the management may cause industrial disputes.

Q28. Explain the measures or methods to resolve Industrial Disputes.

Answer :

Methods or Measures to Resolve Industrial Disputes

The following remedial measures are provided under the Industrial Disputes Act, 1947,

1. Conciliation

Conciliation is one of the most important method for the prevention and settlement of industrial disputes through the intervention of a neutral third party. Conciliation is defined as, "the practice by which the services of a neutral third party are used in a dispute as a means of helping the disputing parties to reduce the extent of their differences and to arrive at an amicable settlement or agreed solution. It is a process of rational and orderly discussion of differences between the parties to a dispute under the guidance of a conciliator".

– *International Labour Organisations*

2. Voluntary Arbitration

If the proceeding of the conciliation fails to resolve the dispute, then the conciliation officer may advise or convince the disputant parties to refer the dispute to the arbitrator who is an independent party, appointed by the mutual agreement of the disputants. Both the parties to the dispute gives out the viewpoints to the arbitrator who listens and gives his award of judgement 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 disputes whether they directly or indirectly linked to the settlement.

3. Adjudication

Adjudication is the process in which a neutral third party appointed by the government intervenes into the dispute with an aim 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,

(i) 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 office 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 lockouts

(d) All matter except the reserved matters of the industrial tribunals.

(ii) 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 advise to the presiding officer in the proceedings two assessors are appointed by the concerned government. The industrial tribunal makes judgements in the following matters,

(a) Compensation and others allowances.

(b) Working hours and resting hours.

(c) Working shift.

(d) Classification on the basis of grades.

(e) Discipline rules

(f) Rationalisation and so on.

(iii) National Tribunal

National tribunals also consists of independent person (who is known as adjudicatory body) and must be appointed by the central government in order to resolve the national disputes which can influence the industries in different states.

Q29. Explain Guidelines for handling Industrial Disputes and Settlement of grievances, according to Industrial Disputes Act.

Answer :

The guidelines for effective handling of industrial disputes are determined in detail with the help of procedures/mechanism for prevention and settlement of industrial disputes. They are,

Procedure/Mechanism for Prevention of Industrial Disputes

The machinery for preventing industrial disputes has been set up to maintain harmonious relations between labour and management. The following figure represents the preventive machinery of industrial disputes.

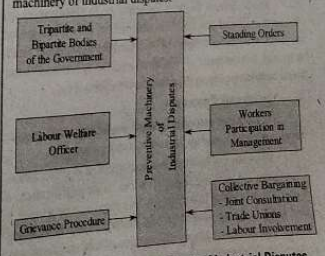


Figure: Preventive Machinery of Industrial Disputes

Scanned By Scanner Go

1. Tripartite and Bipartite Bodies of the Government

Tripartism refers to the setting up of consultative machinery at the industrial and national 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 types/levels of tripartite bodies are,

(i) The Indian Labour Conference (ILC)

(ii) The Standing Labour Committee (SLC)

(iii) The Committee on Conventions.

Like Tripartite bodies, the practices and policies of bipartite bodies shaped the industrial relations in India by resolving the differences between partners. They are labour management committees established as a part of a grievance process in order to resolve disputes.

The bipartite consultation has only two parties i.e., Employers and Employees are two important bipartite bodies Work Committees and Joint Management Councils.

2. Standing Orders

'Standing orders' refers to the specified set of rules and regulations which controls the working conditions of employees. It outlines the duties and responsibilities of both the employees and their employers.

Standing orders is one of the methods of establishing industrial harmony and peace. It provides the employers and workers with rules and regulations, duties and responsibilities that help in minimizing misunderstanding 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 500 or more workers should have of at least one welfare officer and if the number of employees are more than 2,500, the Assistant and/or Additional Welfare Officer should be appointed to assist the welfare officer. A Labour Welfare Officer should advice and assist in implementing legislative and non-legislative provisions relating to the issues like working conditions, health and safety etc.

4. Worker's Participation in Management

Davis defined Workers Participation in Management as "It is a mental and emotional involvement of person in a group situation which encourages him to contribute to goals and share responsibilities 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 framed to end 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 disturbs the employees, it is beneficial for the organizations to solve the disputes as soon as possible.

6. 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 employees wages and benefits, to frame working rules and to settle the disputes etc.

Settlement of Industrial Disputes

The various methods for settlement of industrial disputes are represented in the following figure,

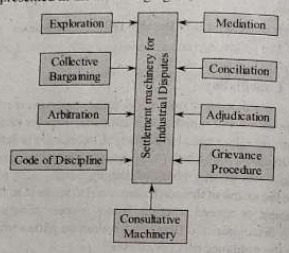


Figure: Settlement Machinery for Industrial Disputes

1. Exploration

Exploration is an attempt to settle the disputes in which the government appoints a board as a court 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 problem/dispute. When exploration is made compulsory, the lockouts and strikes 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 solution to the dispute.

2. Mediation

Mediation is one of the methods to settle the disputes in which a third person guides both the parties in decision-making.

In this method the third-person, neither imposes his will nor his judgement 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 that the work is not stopped. A mediator can be an outsider. Any non-governmental board or government 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 employees wages and benefits, to frame working rules and to settle the disputes etc.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

4. Conciliation

Conciliation is one of the most important method for the prevention and settlement of industrial disputes through the intervention of a neutral third party.

5. Arbitration

Arbitration is the process in which a neutral third party intervenes/is asked to intervene into the problematic situation/dispute. The arbitration process analyses the bargaining situation, listens to both the parties to the dispute, gathers the information, identifies the causes of dispute and recommends the actions that are acceptable and amicable and bind both the parties.

6. Adjudication

Adjudication is the process in which a neutral third party appointed by the government intervenes into the dispute with an aim to give the final settlement. Failure of conciliation to settle the dispute leads the government to refer the dispute to adjudication.

7. 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.

8. Grievance Procedure

A grievance procedure is an organized sequential process which is framed to end 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 disturbs the employees, it is beneficial for the organizations to solve the disputes as soon as possible.

9. Consultative Machinery

The consultative machinery set by the government is referred at the last to settle the disputes. Consultative machinery mainly aims at bringing the parties together by removing the differences between them and by settling the dispute.

Consultative Machinery operates at four levels. i.e., plant level, industry level, state level and national level. The different consultative machinery at different levels are,

Plant Level

At this level, works committees and joint management councils are involved.

Industrial Level

It includes wage boards and industrial committees.

State and National Level

It includes Indian Labour Conference (ILO) and Standing Labour Committee (SLC).

5.4 EMPLOYEE STATE INSURANCE (ESI) ACT, 1948

Q30. What is Employee State Insurance (ESI) Act, 1948? Explain important definitions, objectives and applicability of ESI Act, 1948.

Answer :

Employee State Insurance (ESI) Act, 1948

ESI Act, 1948 was introduced basically with an aim to offer benefits to the employees. It even makes attempts to achieve the objective of socio-economic justice specified in the directive principles of state policy under Part IV of the constitution in the articles 41, 42 and 43. It instructs the state to make better provisions for insuring the right to work, educate and provide public assistance in case of unemployment, old age, sickness and disablement and in other cases to make provisions for ensuring fair and healthy conditions of work and maternity relief by using appropriate legislation or economic organisation or in any other manner to all workers.

Important Definitions of ESI Act, 1948

The Important Definitions of ESI Act, 1948 are,

1. Employee

Under Section 2(9) of the Act, the term 'employee' is defined as any person employed on wages in association with the work of a factory or establishment to which the ESI is applicable.

2. Wages

The term "wages" include all remunerations that are paid in terms of cash, if the conditions of the contract are period satisfied. Wages also consists of any payment in any period of approved leave, lock out or strike which is legal and payment of other remuneration by not exceeding 2 months but it does not include,

(a) Travelling expenses or value of travelling concession.

(b) Sum paid to pay special expenses.

(c) Bonus payable on discharge.

(d) Payment of contribution to the provident fund or pension fund.

3. Contribution

Contribution is the sum of money paid by the employer to the corporation in respect of employees.

4. Corporation

Corporation is the ESI corporation established under ESI Act.

5. Employment Injury

Any injury caused to the employee due to an accident or occupational disease in the course of employment is referred to as employment injury.

Scanned By Scanner Go

6. Principle Employer

Principle employer is the occupier or owner of the factory.

7. Sickness

Sickness is an employee's condition which requires medical treatment and his/her absenteeism from the employment based on medical concerns.

Objectives of ESI Act, 1948

The ESI Act, 1948 was enacted with the following objectives,

1. To introduce health insurance scheme for the industrial workers.
2. To provide medical benefits in the situations of sickness, maternity and on-the-job injury to the factory employees.
3. To provide periodical payment to the employee or their dependents, incase of permanent injury to the industrial worker.
4. To provide periodical payments to the insured person in case of sickness certified by an officially appointed medical practitioners.
5. To ensure periodical payments to the insured women employee in case of sickness or maternity.

Applicability of ESI Act, 1948

The implementation of the scheme is territorial under section 1(4). This Act firstly applied to all the factories adopting power and employing 20 or more persons on wages under the section 1(5) of the Act. The provisions of the Act is extended to cover.

1. The factories using smaller providers and employing 10 to 19 individuals.
2. The factories not using power and employs 20 or more persons.
3. Shops.
4. Hotels and restaurants.
5. Cinemas and preview theatres.
6. Newspaper establishments and
7. Road motor transportation undertakings which employee 20 or more person.

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 authorised to get sickness cash benefits at the rate of standard benefit for a period of all days in 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 paid/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 40% 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.

2. Maternity Benefit

An insured woman is authorised to receive maternal benefit at a double standard benefit rate is practically equivalent to full wages for a period of 12 weeks out of which not more than 6 weeks will precede the predicted confined date. The additional maternity benefit is provided for miscarriage. Generally, the eligibility criteria for maternity benefit is 80 days in one or two preceeding contribution periods of one year.

3. Disablement Benefit

When a person suffers an injury during the course of his employment, he will get free medical treatment and temporary disablement benefit in cash, which is 70% of the wages and is only till the time of temporary disablement lasts. 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 at full rate which is generally the 70% of his wages. But, for partial permanent disablement a part of it will be provided as life pension. This type of benefits are also paid for Sundays.

4. Dependents Benefit

The dependents benefit deals with providing timely assistance 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 40% rate more than the standard benefit rate will be given regularly to the widow and children. The dependent benefit is generally payable to a dependent parent or grandparent for life if there is no widow or child left and such benefit is equal to 3/10ths of the full rate, but if there are two or more parents or grandparents then in such situation the payable amount shall be equally distributed among them.

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 as funeral benefit. The limit for collecting such benefit is 3 months from the death 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,

(i) Restricted medical care.
(ii) Expanded medical care.
(iii) Full medical care.

Q32. Write a note on the following,

(A) Registration and administration under ESI Act, 1948

(B) Restrictions, protection, penalties and damages, miscellaneous under ESI Act, 1948.

Answer :

(A) Registration and Administration Under ESI Act, 1948

The following is about the registration and administration under ESI Act, 1948,

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Registration under ESI Act, 1948

According to the section 2-A of the Act, the registration of a factory (or) establishment with the employees state insurance corporation is a statuatory responsibility. The owner of a factory (or) establishment to which the Act is applicable for the first time has to submit a declaration of registration included in the form 01 to the suitable regional office within 15 days after the applicability of the Act. After receiving the 01 form the regional office will evaluate the coverage and once it is satisfied with the applicability of the Act to the factory (or) establishment it will assign a code member to the employer.

The registration forms of the employees are considered as the declaration forms. It is the responsibility of the principal employer to get the declaration form billed in by all the employees included in the scheme.

The statutory registers which have to be maintained upto date are as follows,

1. The register of employees.
2. The accident book in which all accidents to employees during the course of employment is maintained.
3. Inspection book.

Administration Under ESI Act, 1948

The corporate body which is known as the Employees State Insurance Corporation (ESIC) manages all the schemes It includes the members such as employees, employers, the parliament, central and state governments and medical profession. Basically, this board based body is liable for policy planning, decision making and monitoring the operations of scheme by a Standing Committee which is formed from the main corporate body. The union minister of labour, is the head of the chairman and acts as a chairman of such corporation.

The chief executive officer of the corporation is its director general who is also considered as an ex-officio member of the Corporation and its Standing Committee. For the purpose of the implementation of the scheme, the ESIC has established a network of regional office and local offices all across the country. The regional director manages the regional office. All the records of the insured persons are maintained by regional office within its area. It also manages the local offices. The medical benefits are managed by the respective state governments.

(B) Restrictions, Protection, Penalties, Damages and Miscellaneous under ESI Act, 1948

The following is about restrictions, protection, penalties, damages and miscellaneous under ESI Act, 1948,

Restrictions Under ESI Act, 1948

A person who is authorised to get the benefits specified under this Act is not authorised to get same benefit under any other Act. An insured person will not be authorised to get benefit at the same time for the following,

1. Kind of sickness benefit and maternity benefit or
2. The sickness benefit and disablement benefit for temporaror disablement or
3. The maternity benefit as well as the disablement benefit for temporary disablement.

In case, if an insured person is authorised for more than one benefit then he/she may have an option to select the most suitable benefit.

Protection Under ESI Act, 1948

An employer cannot either dismiss, discharge (or) punish an employee at the time he/she is receiving the sickness benefit (or) maternity benefit (or) of disablement (or) is under medical treatment for sickness (or) is absent from work because of illness. Any type of notice of dismissal, discharge (or) reduction during such particular time is considered as invalid and inoperative.

The employer can discharge (or) punish an employee on due notice under the following cases,

1. Any person who has obtained temporary disablement benefit and has been absent for either six months (or) more continuously.
2. Any person who is undergoing medical treatment for sickness apart from TB (or) any other disease resulting out from pregnancy and who has been absent continuously for 6 months (or) more.
3. Any person undergoing medical treatment for TB (or) a malignant disease and who has been absent for 18 months (or) more. (Section 73 and Regulation 98).

Penalties and Damages Under ESI Act, 1948

The Act with regards to different offences provides penalties and damages. In case, if a person commits an offence and who has been guilty by the court then he/she will be punishable for every such offence with imprisonment for a particular term which may either extend up to ₹ 2000 (or) both.

In case, if a subsequent offence is for failure to pay any contribution (or) amount then for such subsequent offences a person will be held responsible to get punished for a term of imprisonment which may extend up to one year and which shall not be less than 3 months, besides the person would be held responsible to pay a fine, maximum upto ₹ 4000.

Under section 45-B of the Act, any contribution (or) amount due and unpaid can be recovered with the help of district collector as arrears of land revenue. The employers insurance court of the area was formed under section 74 of the Act facilitates the employer to raise any dispute for adjudication.

According to regulation 31-A, the employer is responsible to pay interest at 6 per cent rate per annum for every single day of default (or) delay in the payment of his contribution (or) amount. Further, the corporation is also authorised to recover damages from the employer who usually fails to pay the contribution (or) delay payments as per section 85-B of the Act. But the amount damages cannot exceed the amount of contribution. While the damages can also be recovered as arrears of land revenue.

Miscellaneous Under ESI Act, 1948

Under the employee's state insurance Act, the cash benefits which are payable are not held responsible to association (or) sale in execution of any court decree (or) order. In fact the right to get benefit is not transferrable (or) assignable in nature.

Scanned By Scanner Go

In case, if the dispute takes place under the provisions of the Act, then the issue needs to be resolved with the help of the employee's insurance court and not by any civil court. While appeal will be filed before the High Court from an order of the employer's insurance court, but only in case it includes a significant question of law. The period of limitation for such appeal is 60 days and delay would entertained only for certain reasons.

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 the compensation to a workman. The most important benefit of this legislation is that, by maximising the significance of suitable safety devices, it decreases the number of accidents to the workmen. With the help of this Act, the benefit of workmen and the liability has been improved.

Important Definitions of Workmen's Compensation Act, 1923

1. **Dependents**

   The dependents would be a widow, unmarried daughter, minor son or a widowed mother.

2. **Minor**

   A person below 18 years is referred to as a "minor".

3. **Partial Disablement**

   It is a disablement that occurs to a worker with temporary nature and that minimizes the workmen's capacity of earning.

4. **Total Disablement**

   It is a disablement that occurs 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 as a railway servant and whose employment is not permanent.

Features of Workmen's Compensation Act, 1923

The salient features/principles of workmen's compensation act are,

1. **Doctrine of Added Peril**

   The principle of added peril signifies that if an employee while performing the business, trade or work of his employer indulges himself in some other task which is not generally required to perform as per his employment contract in that situation he cannot claim the employer for the risk involved in such act. The doctrine of added peril is applied only when the worker meets with the accident while performing his actual duty.

2. **Self-inflicted Injury**

   The employer is not responsible for any kind of injury caused due to the accident which would have been expected or is made intentionally negligently by the worker himself such injury will not be considered as injury or accident as per the Act.

3. **Compensation**

   According to section 2(1)(c), the compensation refers to compensation provided for by this Act. In this act, compensation is different from the compensation which is paid for damages in wrongful acts or tasks.

4. **Dependent**

   The section 2(1)(d) of the Act defined the term 'dependent'. This sub-section classifies the relation of a worker into three groups. But, there is no preferential right between the dependents for maintaining any claim application the dependents are not divided into different categories as those mentioned in category will exclude others.

5. **Partial Disablement**

   The partial disablement is defined under section 2(1)(g) of this Act. This disablement is divided into two types,

   (i) Temporary partial disablement.

   (ii) Permanent partial disablement.

6. **Total Disablement**

   The section 2(1)(*l*) of the Act defined the term 'total disablement'. The total disablement occurs when a worker is disabled from performing any work which he was competent of doing during the time of accident. The competency for every work is different from the incompetency for the work which worker was performing at the time of accident.

7. **Wages**

   The section 2(1)(m) defined the term 'wages'' as the privilege or benefit which is competent of being estimated measured in terms of money. The privileges or benefits which are not considered as wages are as follows,

   (i) Travelling allowance or any travelling concession value.

   (ii) Any contribution paid by the employer of a worker for any pension or any provident fund.

   (iii) Any amount paid to a worker to include any special expenses which incurred on him by the nature of his employment.

   (iv) Any leave carry forward to next year.

8. **Section (3) Employer's Liability for Compensation**

   The employer's liability to pay compensation is restricted and is influenced by the provisions of the Act. According to subsection (1) of section (3), the liability of the employer to pay compensation rely on the following conditions,

   (i) A personal injury should have been occurred to a worker by an accident.

   (ii) The accident must take place at the time of employment.

   (iii) The injury should either lead to the death of the worker or in his total or partial disablement for a period more than 3 days.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

9. **Employer's Liability in Case of Occupational Diseases**

   The sub-section (2) of section 3 outlines about the payment of compensation if an injury is caused due to the occupational diseases. Schedule III of the act includes the occupational diseases. The schedule III is classified into three parts i.e., A, B and C. Any contracted disease should be an occupational disease belonging to the employment mentioned in schedule III.

10. **Personal Injury**

    The injury generally means a physiological injury. A personal injury not only means a physical or bodily injury but also includes the nervous shock, mental injury or strain.

11. **Accident**

    The definition of the term 'accident' is not given under any Act. It generally refers to any unexpected mishap, unwanted event or any circumstance either brought by some unanticipated or undersigned act which cannot be claimed against. The fundamental element of accident is the unexpectation.

12. **Arising Out of and in the Course of Employment**

    The term 'arising out' refers to the actual cause of accident and the term 'in the course of' means 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 employment.

Q34. Explain importance and principles governing Workmen's Compensation Act, 1923.

Answer :

Importance of Workmen Compensation Act, 1923

The Importance of Workmen Compensation Act,1923 is as follows,

1. It helps both the employer and employee by giving clear information regarding under what cases employee is eligible for compensation.
2. It declares that employee is eligible to the benefit of law irrespective of negligence.
3. It provides a simple technique for retrieval of compensation.
4. It provides the right to employee for asking about his actual compensation from employer.
5. It enable employee to feel protected against any manipulation involve in calculation of compensation.

Principles Governing Workmen Compensation Act, 1923

Some of the principles governing workmen compensation are,

1. **Employer's Liability for Compensation**

   The employer's liability to pay compensation is restricted and is influenced by the provisions of the Act. According to subsection (1) of section (3), the liability of the employer to pay compensation rely on the following four conditions,

   (i) A personal injury should have been occurred to a worker.

   (ii) Such injury should be caused by an accident.

   (iii) The accident must take place at the time of employment.

   (iv) The injury should either lead to the death of the worker or in his total or partial disablement for a period more than 3 days.

2. **Employer's Liability in Case of Occupational Diseases**

   The sub-section (2) of section 3 outlines about the payment of compensation, if an injury is caused due to the occupational diseases. Schedule III of the act includes the occupational diseases and it is classified into three parts i.e., A, B and C. Any contracted disease should be an occupational disease belonging to the employment mentioned in schedule III. For supporting any claim for compensation for an occupational disease specified in part A, no particular period of employment is required for the diseases specified in part B i.e., the worker should be in continuous employment of the same employer for a time period of 6 months in the employment, and finally for diseases specified in Part C, the employment period would be similar to the period specified by the central government for every such employment. The contracting of any disease outlined in schedule III will be considered as an injury by accident emerging and caused during the employment.

3. **Amount of Compensation**

   The amount of compensation payable by the employer would be in the following way,

   (i) In case of death, 50% of the monthly wages or ₹ 80,000 whichever is more, plus ₹ 2,500 for funeral expenses must be paid to the employee's family.

   (ii) In case of permanent total disablement mentioned under schedule of the Act, 60% of the monthly wage or ₹ 90,000 whichever is more must be paid to the employee.

   (iii) Under schedule I of the Act as specified with respect to the permanent partial disablement is being considered as such percentage of the payable compensation relies on the percentage of the less in earning capacity.

   (iv) Permanent partial disablement is not being mentioned in schedule I while in such case percentage of compensation payable in case of (b) above as is proportionate to the less of earning capacity.

   (v) Incase of a temporary disablement, either partial or complete a half monthly of the sum equal to 25% of the monthly wage, for the period of disablement or 5 year whichever is shorter must be taken into consideration.

   The payment of compensation amount should be made prior to the due date. It would be calculated on the basis of the date of accident. In case the amount is not being paid within one month from the due date, then the commissioner would after giving some opportunities of being heard, instructs the employer to pay either a simple interest of 12% p.a. or a higher rate not more than the maximum lending rate of any scheduled bank.

4. **Distribution of Compensation**

   The following points describes how wages/compensation are distributed,

   (i) The employer does not have to pay compensation to a worker whose injury has led to death or to a worker who is under legal disability. But in other circumstances, compensation can be paid by depositing with the commissioner.

Scanned By Scanner Go

(ii) Any other amount which is not less than ten rupees, that is generally payable as compensation can be deposited with the commissioner on behalf of the individual who is authorised to do so.

(iii) The commissioner's receipt can be an adequate discharge with respect to any compensation deposited with him.

(iv) By depositing the money under sub-section (1) as compensation to a deceased worker, the commissioner if he considers it essential, will publish a notice to or to be served on dependants in a suitable manner and ask the dependents to be present on a specific date which may think suitable for the distribution of the compensation. If the commissioner is fully satisfied with the enquiry which he may consider it as essential, then he will repay the balance of the money to the employer by whom it was paid. The commissioner on the application made by the employer will provide a settlement representing comprehensively all the disbursement made.

(v) The compensation which is deposited to a deceased worker is influenced by the deductions made under sub section (4) and is shared among the dependents of the deceased worker or any other person in the percentage which the commissioner may find suitable or may be allotted to anyone dependent 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 authorised person.

(vii) If the amount deposited with the commissioner is payable only to woman or to any other person who is under legal disability then such amount of compensation can be invested, applied or deal 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 commissioner is satisfied such as negligence of children by the parents or due to any other circumstances of any dependent then the commissioner may order to distribute the amount of compensation or in a manner in which the sum payable to any such dependant is invested, applied or dealt with benefit.

(ix) If the commissioner changes any order under sub-section (8) with respect to the payment of compensation to any person who has acquired the compensation by fraud, impersonation or other improper means then the amount paid to or on behalf of such person may be recovered in the manner specified in section 31.

5. Notice and Claims of Accidents

When an accident occurs, it is essential for the injured workman 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.

(i) The notice should include workman's details, cause and date of accident.

(ii) It is necessary to claim for compensation within two of the accident or within two years of the date of death.

(iii) Any disablement occurs to a workman due to the occupational disease, the period of 2 years is counted from the day the workman gives the disablement notice to the employer.

(iv) If the workmen dies due to the occurrence of accident, the commissioner sends a notice to the employer asking the circumstances behind workman's death.

6. Medical Examination

(i) If the employer of the workman wants to take the medical examination of the workman, then the workman should present himself/herself for the same.

(ii) The medical examination should be free of charge by the employer and it should come into affect within three days from the time the service notice is passed.

(iii) In case, if the workman is not ready to present himself for medical examination, the employer can suspend his/her compensation for the refusal period. The workman shall be able to receive full compensation only, after providing proper reason for not presenting himself/herself for medical examination.

(iv) The dependents of the deceased workmen would receive amount of compensation by the commissioner, if the workman whose right to compensation was suspended dies prior to medical examination.

5.6 PAYMENT OF BONUS ACT, 1965

Q35/ 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.

Answer :

Definition of Bonus

According to Meriam-Webster dictionary defined bonus as "something in addition to what is expected or strictly due" or money or an equivalent given in addition to an employees usual compensation of 'bonus'.

Bonus is regarded as one of the most controversial issue in the field of wage legislations. Right from its inception i.e., early 1920s, bonus has not been able to satisfy the employee and employer. Initially it was introduced as an ex-gratia payment, but later on, it took the form of mandatory payment with the help of enactment of legislation (payment of bonus act, 1965). Usually, bonus is considered as an ex-gratia payment made by the employer to his workers in order to motivate them to put in greater efforts in the process of production. It even highlights the management's wish to share its profits with the important workers who play a crucial role in the process of production and who contribute towards the income and profits of the organization.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

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 enforce 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 "set-off" and "set-on" principles.
4. To offer machinery for enforcement of employer's liability (bonus).

Important Definitions in Payment of Bonus Act, 1965

The payment of bonus Act, 1965 includes key terms such as "available surplus", "allocable surplus", "prior charges", "set-off" and "set-on", which needs some accounting and taxation knowledge. The different business entities may usually have different accounting periods. Hence, this act accurately defines the accounting periods, as the bonus calculations 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 in the annual general meeting, whether that period is an 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 employer of an organisation are closed and balanced on any other day instead of 31st March, then in such case, the employer selects the year which is ending on the day on which its accounts are closed and balanced.

The specified bonus must be distributed from the allocable surplus in the accounts of a company. Establishment allocable surplus is considered as percentage of available surplus, while the available surplus is obtained after subtracting the basic charges from the gross profit.

Steps 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 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 outcomes 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 are specified in the section 6 of the Act. This step helps in calculating the available surplus as per the section 5 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 in last accounting year, amount of bonus paid or liable to pay during the last accounting year.

Step: 4

The allocable surplus would be the amount equal to 60% or 67% of the available surplus. In case of non-banking companies, it would be 67 percent, while for other companies it would be 60 percent. For all the practical purposes, 60 percent of the available surplus is calculated as allowable surplus.

Q36/ Explain the various provisions related to Payment of Bonus Act, 1965.

OR

What are the salient features of the Payment of Bonus Act, 1965? Model Paper-III, Q11(b)

Answer :

Some of the provisions or salient features of payment of bonus act, 1965 are as follows,

Scanned By Scanner Go

(ii) Any other amount which is not less than ten rupees, that is generally payable as compensation can be deposited with the commissioner on behalf of the individual who is authorised to do so.

(iii) The commissioner's receipt can be an adequate discharge with respect to any compensation deposited with him.

(iv) By depositing the money under sub-section (1) as compensation to a deceased worker, the commissioner if he considers it essential, will publish a notice to or to be served on dependants in a suitable manner and ask the dependents to be present on a specific date which may think suitable for the distribution of the compensation. If the commissioner is fully satisfied with the enquiry which he may consider it as essential, then he will repay the balance of the money to the employer by whom it was paid. The commissioner on the application made by the employer will provide a settlement representing comprehensively all the disbursement made.

(v) The compensation which is deposited to a deceased worker is influenced by the deductions made under sub section (4) and is shared among the dependents of the deceased worker or any other person in the percentage which the commissioner may find suitable or may be allotted to anyone dependent 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 authorised person.

(vii) If the amount deposited with the commissioner is payable only to woman or to any other person who is under legal disability then such amount of compensation can be invested, applied or deal 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 commissioner is satisfied such as negligence of children by the parents or due to any other circumstances of any dependent then the commissioner may order to distribute the amount of compensation or in a manner in which the sum payable to any such dependant is invested, applied or dealt with benefit.

(ix) If the commissioner changes any order under sub-section (8) with respect to the payment of compensation to any person who has acquired the compensation by fraud, impersonation or other improper means then the amount paid to or on behalf of such person may be recovered in the manner specified in section 31.

5. Notice and Claims of Accidents

When an accident occurs, it is essential for the injured workman 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.

(i) The notice should include workman's details, cause and date of accident.

(ii) It is necessary to claim for compensation within two of the accident or within two years of the date of death.

(iii) Any disablement occurs to a workman due to the occupational disease, the period of 2 years is counted from the day the workman gives the disablement notice to the employer.

(iv) If the workmen dies due to the occurrence of accident, the commissioner sends a notice to the employer asking the circumstances behind workman's death.

6. Medical Examination

(i) If the employer of the workman wants to take the medical examination of the workman, then the workman should present himself/herself for the same.

(ii) The medical examination should be free of charge by the employer and it should come into affect within three days from the time the service notice is passed.

(iii) In case, if the workman is not ready to present himself for medical examination, the employer can suspend his/her compensation for the refusal period. The workman shall be able to receive full compensation only after providing proper reason for not presenting himself/herself for medical examination.

(iv) The dependents of the deceased workmen would receive amount of compensation by the commissioner, if the workman whose right to compensation was suspended dies prior to medical examination.

5.6 PAYMENT OF BONUS ACT, 1965

Q35/ 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.

Answer :

Definition of Bonus

According to Meriam-Webster dictionary defined bonus as "something in addition to what is expected or strictly due" or money or an equivalent given in addition to an employees usual compensation of 'bonus'.

Bonus is regarded as one of the most controversial issue in the field of wage legislations. Right from its inception i.e., early 1920s, bonus has not been able to satisfy the employee and employer. Initially it was introduced as an ex-gratia payment, but later on, it took the form of mandatory payment with the help of enactment of legislation (payment of bonus act, 1965). Usually, bonus is considered as an ex-gratia payment made by the employer to his workers in order to motivate them to put in greater efforts in the process of production. It even highlights the management's wish to share its profits with the important workers who play a crucial role in the process of production and who contribute towards the income and profits of the organization.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

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 enforce 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 "set-off" and "set-on" principles.
4. To offer machinery for enforcement of employer's liability (bonus).

Important Definitions in Payment of Bonus Act, 1965

The payment of bonus Act, 1965 includes key terms such as "available surplus", "allocable surplus", "prior charges", "set-off" and "set-on", which needs some accounting and taxation knowledge. The different business entities may usually have different accounting periods. Hence, this act accurately defines the accounting periods, as the bonus calculations 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 in the annual general meeting, whether that period is an 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 employer of an organisation are closed and balanced on any other day instead of 31st March, then in such case, the employer selects the year which is ending on the day on which its accounts are closed and balanced.

The specified bonus must be distributed from the allocable surplus in the accounts of a company. Establishment allocable surplus is considered as percentage of available surplus, while the available surplus is obtained after subtracting the basic charges from the gross profit.

Steps 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 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 outcomes 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 are specified in the section 6 of the Act. This step helps in calculating the available surplus as per the section 5 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 in last accounting year, amount of bonus paid or liable to pay during the last accounting year.

Step: 4

The allocable surplus would be the amount equal to 60% or 67% of the available surplus. In case of non-banking companies, it would be 67 percent, while for other companies it would be 60 percent. For all the practical purposes, 60 percent of the available surplus is calculated as allowable surplus.

Q36/ Explain the various provisions related to Payment of Bonus Act, 1965.

OR

What are the salient features of the Payment of Bonus Act, 1965? Model Paper-III, Q11(b)

Answer :

Some of the provisions or salient features of payment of bonus act, 1965 are as follows,

Scanned By Scanner Go

1. Employee

An individual employed in any industry on a salary or wage of not more than INR ₹ 10,000 per month for performing any skilled or unskilled manual, supervisory, managerial, administrative, technical or clerical work for hiring or rewarding on the basis of the express or implied terms of employment is called as an employee.

2. Salary or Wage

The salary or wage means the remunerations which are made in terms 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. It involves dearness allowance which is paid to an employee due to increase in the cost of living, but does not involve the following,

(a) Other allowances for the temporary employees.

(b) The allowances for any house accommodation or light, water, medical attendance or other amenity or for any service like discount on food grains and other articles.

(c) Travelling concession, bonus and a payable commission to the employee.

(d) 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 practise.

(e) The different allowances such as retrenchment compensation, or any gratuity or other retirement 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 on all the working days in an accounting year, then such employee will be paid a minimum bonus of INR ₹ 100 or as the case may be of 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 that accounting year then it shall be decreased proportionately.

4. Calculation of Number of Working Days

To meet the purposes of section 13, an employee is considered to have worked in an organization in any accounting year and also on the days on which,

(a) The employee has been laid off/dismissed under an agreement or as allowed by standing orders under the industrial employment act, 1946 or under the industrial disputes act, 1947 or under any applicable law to the establishment.

(b) The employee was on leave with salary or wage.

(c) The employee was absent because of temporary disablement occurred due to the accident which took place during the course of employment.

(d) The employee was on maternity leave with salary or wage in the accounting year.

5. Adjustment of Customary or Interim Bonus Against Bonus Payable Under the Act

An employer can deduct the amount of bonus paid from the amount of bonus payable by him to the employee under this act but only in the following two cases,

(a) If an employer has paid any puja bonus or other customary bonus to an employee, or

(b) If an employer has paid a part of the bonus payable under this act.

6. Deduction of Certain Amounts from Bonus Payable under the Act

In any accounting year, if an employee is exposed as guilty for any kind of financial misconduct which led to the financial loss to the employer, then under this act, the employer is allowed to deduct the loss incurred from the amount of bonus payable by him to the employee and he is entitled to get the balance (if any).

7. Separate Establishment

A department or undertaking or branch is considered as a separate establishment when the profit and loss accounts are created and maintained for such department or undertaking or branch.

8. Disqualification and Deduction of Bonus

The bonus can be deducted by an employer for that year if the employee is dismissed for fraud or riotous or violent behaviour in the premises of the establishment or theft, misconduct or damage of any property or misconduct resulting in the financial loss to the employee.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Q37. State the applicability and non-applicability of Payment of Bonus Act, 1965. Explain about maximum and minimum bonus.

Answer :

Applicability of Payment of Bonus Act, 1965

The payment of bonus act is applicable to,

1. The complete nation of India.
2. All factories and establishment wherein 20 or more workers are employed during any day of particular accounting year.
3. Even the adequate government can apply the provisions of this act to any establishment wherein less than 20 and more than 10 employees are working.
4. In order to compute the number of employees for applicability of the act part-time employees must also be taken into consideration.
5. The employees who are not withdrawing more than INR ₹10,000 per month and who has worked not more than 30 days in an accounting year shall be eligible for bonus.
6. Bonus is to be paid within 8 months from the expiry of the accounting year.
7. After the application of the act it continues to apply even, if the number of employees gets reduced to below 20.
8. This act is even applicable to the government companies and government owned corporations which produces goods or render services in competition with the private sector.

Non-Application of the Payment of Bonus Act, 1965

The payment of bonus Act is not applicable in the following cases,

1. Government employees.
2. The employees of local bodies, universities, public sector insurance employees and LIC employees, employees of RBI and public-sector financial institutions, charitable hospitals, social-welfare organizations and defence employees.
3. Any non-profit organization.
4. This act is also not applicable to an establishment in the public sector but only if the establishment in the public sector sells the goods or provide services in competition with an establishment in the private sector and the income from sales or services or both is not less than 20 percent of the gross income of the establishment.

Maximum and Minimum Bonus

Generally from the allocable surplus, the bonus paid to the employees is equal to their wages. A bonus paid is the minimum of 8.33 percent of the annual salary or wages or INR ₹100 whichever is higher.

This also includes following points,

1. An employee is eligible for bonus payment if he/she works for a minimum of 30 days in a particular accounting year.
2. A salary or wage of the employee must be INR ₹10,000 or less.
3. Though the salary may exceed INR ₹3,500 for calculating the bonus, the maximum salary is calculated as INR ₹3,500 only.
4. An employee is not eligible for bonus if he/she is removed from service for fraud or riotous or violent behaviour within premises of establishment or theft, misappropriation or damage of any property of establishment.
5. If an employee has not worked for all the working days in an accounting year, then his/her bonus will be less.
6. The minimum bonus is payable even though the organisation does not have allocable surplus or incurs losses.
7. The legislation has made the minimum bonus as a statutory right. There are certain exceptions for new establishment which are specified under section 16.

Scanned By Scanner Go

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,

1. Employed by Life Insurance Corporation of India.
2. Registered/listed under any scheme belonging to Dock Workers Act, 1948 and employed by listed/ registered employers.
3. Employees employed by,
   (i) The Indian Red Cross Society or any other institution of similar nature.
   (ii) Educational institutions and universities.
   (iii) Institutions such as social institutions, hospitals and chambers of commerce, whose establishment does not aim at gaining profit.
4. Belonging to RBI.
5. Hired through contractors for the purpose of building operations.
6. Employed by any industry which operates under the authority of any state government department or central government department.
7. Belonging to inland water transport companies working on the routes that pass through any other country.
8. Employees belonging to,
   (i) The Industrial Finance Corporation of India.
   (ii) The Unit Trust of India.
   (iii) The Industrial Development Bank of India.
   (iv) The Agriculture Refinance Corporation.
   (v) The Deposit Insurance Corporation.
   (vi) Any financial corporation established under Section 3/Section 3A of the State Financial Corporation act, 1951.
   (vii) Any financial institution which is a establishment in public sector and which the central government specifies in the Official Gazette relating to its objects, capital structure, its degree of financial assistance etc.
   (viii) Seamen are 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,

1. Payment of bonus may be used as an incentive where employees are required to meet specific goals.
2. Payment of bonus motivates the employees in achieving the goals.
3. Payment of bonus appreciate employees for their hardwork during an year or in a specific time period.

Negative Effects

Some of the negative effects of payment of bonus are,

1. Payment of cash bonus proves to be a costly affair for a company.
2. Employee is required to pay tax on the bonus he/she received.
3. Bonus can be paid to employees in different ways like profit sharing, incentives 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.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

FREQUENTLY ASKED QUESTIONS AND IMPORTANT QUESTIONS

SHORT QUESTIONS

Q1. What is labour legislation?

Answer :

For answer refer Unit-V, Q1.

Important Question

Q2. Write a note on Factories Act, 1948.

Answer :

For answer refer Unit-V, Q2.

Important Question

Q3. What are the provisions of Health under Factories Act,1948?

Answer :

For answer refer Unit-V, Q3.

Important Question

Q4. What are the principles of Industrial Dispute Act, 1947?

Answer :

For answer refer Unit-V, Q7.

Important Question

Q5. What are the provisions of payment of Bonus Act,1945?

Answer :

For answer refer Unit-V, Q9.

Important Question

ESSAY QUESTIONS

Q6. Explain the modern principles of labour legislation.

Answer :

For answer refer Unit-V, Q11.

Important Question

Q7. Explain the fundamental rights as incorporated in the Indian Constitution.

Important Question

OR

Explain the fundamental rights of labour legislation.

Important Question

Answer :

For answer refer Unit-V, Q12.

Q8. Write about Factories Act, 1948 and explain objectives of Factories Act, 1948.

Important Question

Answer :

For answer refer Unit-V, Q14.

Scanned By Scanner Go

Q9. What is Industrial Dispute Act, 1947? State its features and objectives.

Important Question

Answer :

For answer refer Unit-V, Q25.

Q10. Explain the measures or methods to resolve Industrial Disputes.

Important Question

Answer :

For answer refer Unit-V, Q28.

Q11. Explain Guidelines for handling Industrial Disputes and Settlement of grievances, according to Industrial Disputes Act.

Important Question

Answer :

For answer refer Unit-V, Q29.

Q12. 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, Q30.

Q13. Write about Workmen's Compensation Act, 1923 and State its features.

Important Question

Answer :

For answer refer Unit-V, Q33.

Q14. 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, Q35.

Q15. 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, Q36.

WARNING: Xerox/Photocopying of this book is a CRIMINAL act. Anyone found guilty is LIABLE to face LEGAL proceedings.

Scanned By Scanner Go