UNIT-II

FINANCING AND MANAGING THE NEW VENTURES

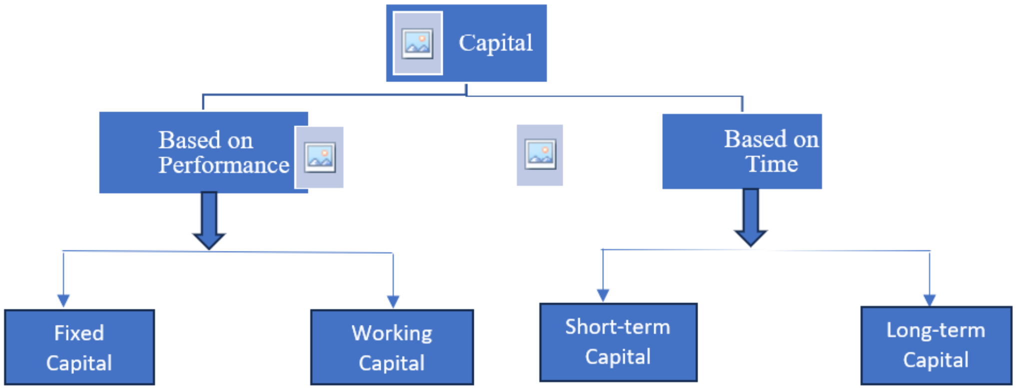
CAPITAL:

Capita is defined as wealth, which is created over a period of time through abstinence to spend.
Money that one has invested.
Cash or goods used to generate income either by investing in a business or a different income property.
The net worth of a business; that is, the amount by which its assets exceed its liabilities.

Need/Importance of Capital:

- To start the business (To buy fixed assets like land, buildings, furniture, etc.)
- To meet day to day expenses
- To implement/install latest technology
- To compete and survive in the market
- To expand and diversify the business

CLASSIFICATION/TYPES OF CAPITAL



Fixed Capital or Long-Term Capital: Fixed capital is that portion of capital which is invested in acquiring long term assets such as land and buildings, furniture etc. Fixed capital forms the skeleton of the business. It provides the basic assets as per the business needs. These assets are not meant for resale. They are intended to generate revenues.

Working Capital or Short-Term Capital: Working capital is the flesh and blood of the business. It is that portion of capital that makes a company to work. It is not just possible to carry on the business with only fixed assets; working capital is must.
Working capital is also called circulating capital. It is used to meet regular or recurring needs of the business. It is also called as revolving capital, temporary capital etc.

Difference between Fixed Capital and Working Capital

Long-Term Capital	Short-Term Capital
Also known as Fixed Capital	Also known as Working Capital
Its duration is more than 1 year	Its duration is less than 1 year
It gives structure to the business	It gives life to the business (Continuity)
It is used to purchase fixed assets in the business	It is used to meet day to day expenses of the business
Amount of fixed capital depends upon the nature and size of the business	Amount of fixed capital depends upon the nature and size of the business
Sources of Fixed capital are Own capital, Shares, Debentures etc	Sources of working capital are Trade credit, Bank OD, loans etc

SOURCES OF FINANCE/CAPITAL:

Sources of Finance may be classified under various categories based on the duration of requirement:

I. Long-term sources of finance II. Short-term sources of finance

I. LONG – TERM SOURCES OF FINANCE:

Long – term finance refers to that finance available for a long period say 1 years and above. It is used to purchase fixed assets such as Land & Buildings and Plant & Machinery etc.

i. **Own Capital:** Irrespective of the form of organization, the owners of the business have to invest their own money to start with. Money invested by the owner, partners or promoters is permanent and will stay with the business throughout the life of the business.

ii. Share Capital: The capital obtained by issue of shares is known as share capital. The capital of a company is divided into small units called shares. Each share has its nominal value. For example, a company can issue 1, 00,000 shares of Rs. 10 each for a total value of Rs. 10, 00,000. The person holding the share is known as shareholder. There are two types of shares issued by a company

ii.a. Equity Share Capital: Equity Shares also known as ordinary shares, which means, other than preference shares. Equity shareholders are the real owners of the company (They are referred to as 'residual owners' since they receive what is left after all other claims on the company's income and assets have been settled). Further, through their right to vote, these Shareholders have a right to participate in the management of the company. (i.e., control over the management of the company). Equity shareholders are eligible to get dividend if the company earns profit. Equity share capital cannot be redeemed during the lifetime of the company. The liability of the equity shareholders is limited to the extent of capital contributed by them in the company.

ii.b. Preference Share Capital: The capital raised by issue of preference shares is called preference share capital. The preference shareholders enjoy a preferential position over equity shareholders in two ways: (i) receiving a fixed rate of dividend, out of the net profits of the company, before any dividend is declared for equity shareholders; and (ii) receiving their capital after the claims of the company's creditors have been settled, at the time of liquidation. Preference shareholders are eligible to get fixed rate of dividend and they do not have voting rights.

iii. Debentures: A Debenture is a document issued by the company. It is a certificate issued by the company under its seal acknowledging a debt. According to the Companies Act 1956, "debenture includes debenture stock, bonds and any other securities of a company whether constituting a charge of the assets of the company or not."

iv. Government Grants and Loans: Government may provide Long – term finance directly ar indirectly by subscribing to the shares of the companies or by the way of loans. Only if the project satisfies certain conditions such as setting up a project in a back ward area, or ventures into projects which are beneficial for the society as a whole.

V. Retained Earnings (profits): The portion of the net earnings of the company that is not distributed as dividends is known as retained earnings. The amount of retained earnings available depends on the dividend policy of the company. It is generally used for growth and expansion of the company.

SHORT – TERM SOURCES OF FINANCE:

Short term finance is that finance which is available for a period of one day to one year.

i. **Bank Overdraft:** An overdraft is an extension of credit from a lending institution when an account reaches zero. An overdraft allows the individual to continue withdrawing money even if the account has no funds in it. Basically, the bank allows people to borrow a set amount of money. Interest is charged on a day-to-day basis on the actual amount overdrawn.

ii. **Trade Credit:** Trade credit is the credit extended by one trader to another for the purchase of goods and services. Trade credit facilitates the purchase of supplies without immediate payment. Trade credit is commonly used by business organizations as a short-term source of financing. The volume and period of credit depends on factors such as reputation of the purchasing firm, financial position of the seller, volume of purchases, past record of payment and degree of competition in the market.

iii. **Advances from Customers:** It is common to collect full or part of the order amount from the customers in advance. Such advances are useful to meet the working capital needs.

iv. Indigenous Bankers: Indigenous Banking is a banking system in which private companies or individuals function as banks by offering services like loans and deposits. The people who carry out these financial services are called Indigenous Bankers.

v. Debt factoring: Debt factoring is an external, short-term source of finance for a business. With debt factoring, a business can raise cash by selling their outstanding sales invoices (receivables/debtors) to a third party (a factoring company) at a discount.

vi. Accrued expenses: Expensed incurred but not paid for them known as called as accrued expenses. Example wages, salaries, rent etc incurred but not paid yet is another source of finance.

vii. Commercial Paper: Commercial paper is an unsecured, short period debt tool issued by a company, usually for the finance inventories and temporary liabilities. The maturities in this paper range between for a short period of 90 days to 364 days. s. These papers are like a promissory note issued in huge sums

viii. **Bank Credit**: Banks are the key sources of short-term finance like commercial banks. They provide different sources of finance to the firm in order to meet their requirements such as loans, cash credits etc.

Sources of Finance for Small Scale Enterprise

Sources of finance available to small scale enterprise ae divided into two types. They are Internal sources and External Sources

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, deposits and loans provided by the owners/partners/directors etc. The other internal sources of raising funds include taking personal loans on owners' personal assets like land buildings life insurance policy etc.

External Sources: Amount raised from other than owners or outside of the business is called external sources and this includes
Deposits or borrowings from relatives, friends and others
Bank borrowings for the working capital purpose
Credit facilities form the commercial banks/financial institutions
Hire purchase or leasing facility

SHORT-TERM FINANCE FORM 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 1 year to meet the requirements of working capital. After taking the loan from the bank, borrower needs to pay interest at regular intervals and principal at maturity or in instalments or both at a time as per the agreement. These loans may be secured or unsecured.

2. **Cash Credit**: Cash credit is the most popular method of bank finance for working capital. Cash credit means a borrower is allowed to withdraw funds from the bank up to a specific limit against some securities.

The borrower need not withdraw the entire funds at once. He can withdraw it as per his requirement. The borrower can deposit any excess amount with him. He is allowed to pay interest on the daily balance and not on the entire amount of the loan

3. **Overdrafts**: It is also known as Bank OD: It is an agreement between bank and current account holder. An overdraft allows the current account holder (individual) to continue withdrawing money even if the account has no funds in it. Basically, the bank allows people to withdraw/borrow a set amount of money. Interest is charged on a day-to-day basis on the actual amount overdrawn.

4. **Purchasing and Discounting Bills**: Purchasing and discounting of bills are one of the most important forms of short-term 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 the 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 up to 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.

RECORD KEEPING:

Record keeping is the method of keeping track of business transactions and activities either manually or digitally. Common records that a business should keep include correspondence, accounting, employees etc. 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 the financial records of the firm such as balance sheet, cash flow statement, inventory management etc. These records may be maintained manually or digitally. Now a days most of the organizations are maintaining their records digitally.

Advantages of Record Keeping:

1. Permanent and Reliable Record: It helps maintain the permanent record of all the transactions, which will help ensure the reliability of data.

2. Arithmetical Accuracy of the Accounts: Continuous recording of transactions will assist in identifying any arithmetical inaccuracies that might have occurred—for example, excess payment to suppliers or double treatment of any transactions.

3. Net Result of Business Operations: The profit earned during the given period will be based on ongoing business operations.

4. Ascertainment of Financial Positions: It helps identify the business's financial position.

5. Calculation of Dues: All the outstanding liabilities and dues at a given time can be calculated based on the accurate financial statements prepared.

6. Control Over Assets and Borrowings: It features better control over assets, and borrowings can be undertaken; this will help manage the funds and various positions of business.

7. Identifying Dos and Don'ts: Financial statements help find things that went south and need to be rectified to ensure better operations in the future.

8. Taxation: It is highly recommended and needed by tax authorities. To complete their assessments, business people have to appropriately maintain the records, which will help determine the tax liability over them.

9. Management Decision Making: Management is highly dependent on the financial records to plan the business operations. Moreover, they also need continuous reporting by the middle level about the progress made in finance terms. The financials maintained by the organization governs all the strategic decisions.

10. Legal Requirements: There is a massive requirement of statutes, local GAAPs, IFRSs, etc., to maintain the proper books of account and ensure transparency.

Disadvantages:

1. Clerical: Recordkeeping is a highly tedious and perpetual job for large organizations. It becomes tough for them to maintain the same.

2. Manual and Monotonous: It is a highly manual job. The same work needs to be carried out every time the transaction occurs. This makes it a highly monotonous job.

3. Subjective needs to be Checked before Analysed – Various accounting aspects like depreciation, stock valuation, etc., require assumptions that make the accounting highly subjective. The viability of such assumptions needs to be verified before analysing the financial statements.

RECRUITMENT

"Recruitment is the process of discovering potential candidates for actual or anticipated organizational vacancies. - DeCenzo and Robbins

"Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization." - Edwin Flippo

Recruitment is a positive function.

Objectives of Recruitment:

To provide the organization with a pool of potential and skilled human resources
To forecast the human resource requirements of the organization using various statistical and other tools
To increase the number of job applicants at reduced cost
To align the recruitment process with the strategic goals of an organization
To use effective recruitment tools and techniques so that a greater number of aspirants can be recruited which helps in increasing the efficiency of selection process
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:

1. **Recruitment Planning:** The first step of the recruitment process is planning. The HR department must collect the data about the number and types of vacancies available. Planning involves the setting of specific targets for a specific job, depending upon the number and type 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.

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 or External sources)
iii. When to look for (Perfect timing)

3. Searching: This is the third step. 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. 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

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.

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 involves costs like:
i. Cost of advertising in newspapers, magazines, online agencies like Naukri.com, monster.com etc.
ii. Salaries paid to the recruiters
iii. Cost of outsourcing the job till the post is filled
iv. Administrative and overhead expenses

<u>Sources of Recruitment</u>

Internal Sources:	**External Sources:**
Transfer	Advertisement
Promotion	Employment Exchange
Appointing sons/daughters of	Job fairs & Online job portals
Pre matured Employee	Unsolicited applications
Employee referrals	Campus recruitment
	Consultants/Outsourcing/Labour contractors etc.

MOTIVATING AND LEADING TEAMS

Motivation is a biological, social or psychological state that drives a person towards a specific action.

Motivation is a general term applying to the entire class of drives, desires, needs, wishes and similar forces that induce an individual or a group of people to work **-Koontz and O'Donnel**

Motivation is an important factor which encourages persons to give their best performance and help in reaching individual or organizational goals. A strong positive motivation will enable the increased output of employees but a negative motivation will reduce their performance.

<u>Types of Motivation:</u>

Intrinsic Motivation: The act of being motivated by internal factors to perform certain actions and behaviour is called intrinsic motivation. Intrinsic motivation means that the individual's motivational stimuli are coming from within. The individual has the desire to perform a specific task, because its results are in accordance with his belief system or fulfils a desire and therefore importance is attached to it. Examples: Acceptance, Curiosity, Honor, Independence, Power, Social Status etc.,

Extrinsic Motivation: Extrinsic motivation means that the individual's motivational stimuli are coming from outside. In other words, our desires to perform a task are controlled by an outside source. Extrinsic motivation is external in nature. The most well-known and the most debated motivation is money. Below are some other examples: Bonus, Incentives, Salary hikes, Gifts, Awards and Rewards etc.

Positive Motivation: Positive motivation or incentive motivation is based on reward. It is the process of influencing the employee's behaviour through the possibility of rewards. It is achieved by fulfilling the varied needs of individuals and the group. Examples: Bonus, Promotion etc.

Negative Motivation: Negative or fear motivation is based on force or fear. It is defined as the process of influencing the employee's behaviour through the consequences or reactions which people seek to avoid. Fear causes employees to act in a certain way. In case, they do not act accordingly then they may be punished with demotions or lay-offs. The fear acts as a push mechanism. The employees do not willingly co-operate, rather they want to avoid the punishment. Example: Dismissals, Demotion, Salary cut etc.

Non-financial motivation: non-financial motivators are those which are not associated with monetary rewards. They include recognition on the job front, merit certification, promotion, higher power etc.

Financial Motivation: The process of influencing employees by means of money i.e., higher salaries and wages, bonus, allowances, retirement benefits etc., is called financial Motivation.

MOTIVATIONAL THEORIES

1. ABRAHAM MASLOW'S HIERARCHY OF NEEDS:

Abraham Harold Maslow, in his 1943 paper "A Theory of Human Motivation," proposed that people are motivated by five categories of needs: physiological, safety, love, esteem, and self-actualization. These needs are represented as a pyramid, with basic physiological needs such as food, water and shelter at the base and the need for self-actualization at the top. According to him, there is hierarchy for need, which is presented in the following way.

Physiological needs: These refer to basic physical needs like drinking when thirsty or eating when hungry. 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 at this level, and the other level will provide him with little motivation.

A famous saying 'man can live on bread alone if there is no bread' suggests that man first try to acquire necessities for their survival.

Safety Needs: Once physiological needs are satisfied to a reasonable level, the next level in the hierarchy is safety. Safety means being free of physical danger or self-preservation. In the industrial society, employee can be motivated through either positive action like pension plan, insurance plan etc... Or negative actions like laid off or demotions.

Social needs: After the first two needs are satisfied, social needs become important in the need hierarchy. Since man is a social being, he has a need to belong and to be accepted by various groups. In the organisation, workers form informal group environment to support unfulfilled social needs such as affiliation.

Esteem needs: These needs are concerned with self-respect, self-confidence, a feeling of personal worth, feeling of being unique and recognition. Satisfaction of these needs produces feelings of self-confidence, prestige, power and control. These needs are satisfied through adaptive behaviour, matured behaviour or with irresponsible actions.

Self-actualization needs: It is the need to maximize one's potential, whatever it may be. It is related with the development of intrinsic capabilities which lead people to seek situations that can utilize their potential. This includes competence which implies control over environmental factors both physical and social and achievement.

Conclusion: Maslow suggest that the various levels are interdependent and overlapping, before emerging each higher-level need, the lower-level need has been completely satisfied. Since one need does not disappear when another emerges, all needs tend to be partially satisfied in each area. Psychologist's claims that need have a certain priority, as the more basic needs are satisfied, an individual seeks to satisfy the higher needs. If his basic needs are not met, efforts to satisfy the higher needs should be postponed.

2. DOUGLAS Mc GREGOR'S THEORY:

Douglas McGregor presented two sets of assumptions managers make about the nature of their employees, **these sets are named as theory X and theory Y.**

Under theory X, it is assumed that:

- employees are inherently lazy
- they require constant guidance and support
- sometimes they require even coercion and control
- given an opportunity, they would like to avoid responsibility
- they don't show up any ambition but always seek security

To explain theory X, McGregor elaborated Taylor's observations about workers using the rule of thumb approach.

Theory Y focuses a totally different set of assumptions about the employees. **Theory Y states that**

- some employees consider work as natural as play or rest
- these employees are capable of directing and controlling performance on their own. They are much committed to the objectives of the organisation
- higher rewards make these employees more committed to organisation
- given an opportunity, they not only accept responsibility but also look for opportunities to outperform others
- most of them are highly imaginative, creative, and display ingenuity in handling organisational issues

3. HERZBERG'S MOTIVATION – HYGIENE THEORY:

Frederick Hertzberg conducted a structured interview Programme to analyze the experience and feelings of 200 engineers and accountants in nine different companies in Pittsburg area, U.S.A. During the structured interview, they were asked to describe a few previous job experiences in which they felt 'exceptionally good' or exceptionally bad about jobs.

In his analysis, he found that there are some job conditions which operate primarily to dissatisfy employees when the conditions are absent, however their presence does not motivate them in a strong way. Another set of job conditions operates primarily to build strong motivation and high job satisfaction, but their absence rarely proves strongly dissatisfying. The first set of job conditions has been referred to as maintenance or **hygiene factors** and second set of job conditions as **motivational factors**.

- **Hygiene Factors:** Hygiene factors are the basic requirements such as company policies and procedures, salary, security, supervision, working conditions, personal and social life, and so on. If these are provided, it may not lead to happiness. But if these are not provided, it may lead to unhappiness. In other words, hygiene factors do not motivate. These-set minimum criteria for normal functioning of the organisation. If these are provided, people can work in the organisation in the normal way. But if these are not provided, it results in dissatisfaction.
- **Motivational Factors:** The other set comprising motivators refers to the higher order needs such as-recognition on the job front, awards and rewards, challenging assignments, promotion, responsibility, growth and so forth. All these needs are built around the nature and content of the job. Where these, at least a few, are taken care of, it leads to satisfaction. If not, it may not result in satisfaction. But it does not definitely end up in dissatisfaction.

TEAM:

A team is a group of people who work together toward a common goal.

A group of individuals having compatible skills working together for attaining a common goal is called as team. Teams play vital role in the success of an organization. Teams are regarded as building blocks of an organization. Individuals play the game, but teams win championship

TEAM WORK:

Teamwork involves a set of interdependent activities performed by individuals who collaborate toward a common goal.

The sum of the efforts undertaken by each team member for the achievement of the team's objective is called team work.

Characteristics of Successful Teams: (According to Larson and Lafasto)

- The goals of the teams should be clear and preferable
- Teams must have a result-oriented structure
- All the members of the team should be skilful and talented
- All the team members should have a unified commitment towards the set goals
- Teams should have a collaborative climate
- All the team members should aim for the standards of excellence
- The team members must receive external support and recognition in the teams
- There should be high minded and honest leadership in the teams

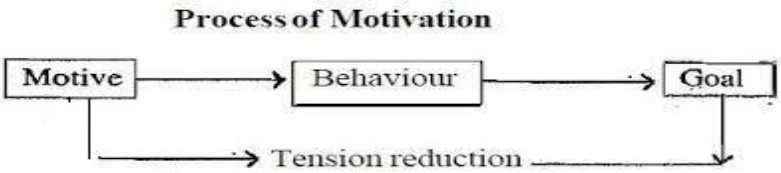
Thus, for achieving superior team performance, all the above characteristics should be present in the system. If any of the characteristics is missing in the team, then it leads to declining performance.

Important Factors that Motivate Teamwork

- Collaboration
- Cordial working environment
- Resolving issues
- Development of strong bond
- Flexibility
- Skilled personal
- Satisfied employees
- Stress free environment

Procedure Involved in Motivating Teams in an Organization:

Motivation concerns those processes which produces goal-directed behavior. The basic elements of the process of motivation are:



1. **Behavior**: All behaviour is a series of activities. Behaviour is generally motivated by a desire to achieve a goal. In order to predict and control behaviour managers must understand the motives of people.

2. **Motives**: Motives prompt people to action. They are the primary energizers of behaviour. They are the 'ways' of behaviour and mainsprings of action. They are largely subjective and represent the mental feelings of human beings. They are cognitive variables. They cause behaviour in many ways. They arise continuously and determine the general direction of an individual's behavior.

3. **Goals**: Motives are directed toward goals. Motives generally create a state of disequilibrium, physiological or psychological imbalance, within the individuals. Attaining a goal will tend to restore physiological or psychological balance. Goals are the ends which provide satisfaction of human wants. They are outside an individual; they are hoped for incentives toward which needs are directed. One person may satisfy his need for power by kicking subordinates and another by becoming the president of a company. Thus, a need can be satisfied by several alternate goals.

LEADERSHIP

Leadership is the ability to awaken in others the desire to follow a common objective. - **Livingston**

Leadership is the ability of influencing people to strive willingly for mutual objectives. – **Terry**

Leadership is the ability of a manager to induce sub-ordinates to work with zeal and confidence.

PROCEDURE INVOLVED IN LEADING TEAMS IN AN ORGANIZATION:

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 organization is considered as legitimate power
4. **Expert Power**: The power which a leader obtains 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 & situations influence the leaders in the following ways

- Leaders are influenced by the responses or the performance given by their followers
- The characteristic features of the followers such as young or old, personal background, educational qualifications etc., influences the leader
- The behaviour, discipline and punctuality of the followers
- The nature or the significance of task carried out by the followers
- The organizational policy, its environment and climate influence the leaders
- The superior influence on their leaders.
  Thus, in this way, leaders influence their followers and followers influence their leaders.

FINANCIAL CONTROLS

Financial controls refer to the development of policies and procedures by an organization to manage its financial resources and operate efficiently. It is essential for cash flow management, budgeting, and the prevention of any fraud or theft. Thus, it enables the business to track and oversee its financial activities to grow and prosper.

Financial controls are policies and procedures designed to prevent or detect accounting errors and fraud. Examples of financial controls include account reconciliation, double-counting cash deposits, approving new vendors and rotating staff responsibilities.

IMPORTANCE of financial control:

1. **Financial Discipline:** Financial control ensures adequate financial discipline in an organization by efficient use of resources and by keeping adequate supervision on the inflow and outflow of resources.
2. **Co-ordination of Activities:** Financial control seeks to achieve the objectives of an organization by coordinating the activities of different departments of an organization.

3. **Ensuring Fair Return:** Proper financial control increases the earnings of the company, which ulti-mately increases the earnings per share.

4. **Reduction in Wastages**: Adequate financial control ensures optimal utilization of resources leav-ing no room for wastages.

5. **Creditworthiness**: Financial control helps maintain a proper balance between debt collection period and the creditors' payment period, thereby ensuring proper liquidity exists in a firm which increases the creditworthiness of the firm.

Types of Financial or Accounting Controls:

There are basically three types of accounting controls which are explained as follows:

1. Preventive Controls: Preventive controls is defined as the existing controls which are already in action and are aligned to the policies and procedures. These are mainly in place to avoid any kind of inaccuracies or wrong practices and are generally the set of rules which should be followed by each and every employee. One typical example of this can be reducing the involvement of management in the preparation of financial statements. Although it is necessary for the management to get involved in such instances because they are aware of each and every number, but it is the final say of the accountants based on whose verdict the numbers are fixed. The management may have some wrong intentions to dress the financials for their own benefit.

2. Detective Controls: These are controls that are targeted to identify any existing practices which are not in line with the current policies and procedures. The goal here is to look for areas that are not operating as in the way it should be. This can be due to employees practicing illegal or wrong measures intentionally or like detection of any major faults in the system or accounting practices. Few types of detective controls can be inventory control/checks or internal audits.

3. **Corrective Controls:** Corrective controls are the aftermath results of detective controls. Whenever some discrepancy is found from detective controls, corrective controls are applied in. They are applied to sort any issues which have raised on account of detective controls. An example of this can be any issues which the account has raised based on an internal audit, the rectification measures are termed as corrective controls. Corrective controls are more time consuming because these is where the major changes to the system or process is taken care of and suggestive changes are applied henceforth.

Process of Financial Control:

According to Henry Fayol, 'in an undertaking, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established'. Thus, as per the definition of Fayol, the steps of financial control are

1. Setting the Standard: The first step in financial control is to set up the standard for every financial transaction of the concern. Standards should be set in respect of cost, revenue and capital. Standard cost should be determined in respect of goods and services produced by the concern taking into account every aspect of costs. For example, Revenue standard should be fixed taking into account the selling price of a similar product of the competitor, sales target of the year, etc.

2. Measurement of Actual Performance: The next step in financial control is to measure the actual per-formance. For keeping records of actual performance financial statements should be prepared periodi-cally in systematic manner.

3. Comparing Actual Performance with Standard: In the third step, actual performances are compared with the pre-determined standard performance. The comparison should be done regularly.

4. Finding Out Reasons for Deviations: If there are any deviations in the actual performance with the standard performance, the amount of variation or deviations should also be ascertained along with the causes of the deviations. This should be reported to the appropriate authority for necessary action.

5. Taking Remedial Measures: The last and the final step in financial control is to take appropriate steps so that the gaps between actual performance and standard performance can be bridged in future, i.e., in order that there is no deviation between actual and standard performance in future.

MARKETING AND SALES CONTROLS

Marketing control refers to the measurement of the company's marketing performance in terms of the sales revenue generated, market share captured, and profit earned. Here, the actual result is compared with the standard set, to find out the deviation and make rectifications accordingly.

Sales control refers to the operations that managers undergo to keep track of and make predictions about the sales and performance of the company.

Objectives of Marketing/Sales Control:

Creation of new customers
Enhancement of business profitability
Raising consumers' living standards
Customer retention and need satisfaction

Types of Marketing Control:

Control does not refer to imposing one's will on others; rather, it refers to increasing productivity by lowering the likelihood of mistakes & upholding the management's standards.

Annual Plan Control: The term "annual plan control" refers to the plans that are made for a year to control operational operations through the effective application of management by objectives. The organization's top management often creates and oversees these programs. Sales analysis, market share analysis, marketing spend to sales ratios, financial analysis, and corrective actions are the five performance tools that managers use to monitor the status of targets in the annual plan.

Profitability Control: Companies conduct frequent research in addition to their annual plan control to ascertain the real profitability of their various products, markets, consumer groups, trade routes, and other marketing variables. The capacity to allocate marketing and other costs to suitable promotional entities and activities is necessary for this purpose. Marketing executives can use marketing profitability analysis to determine which existing marketing initiatives should be expanded, dropped, or scaled back.

Efficiency Control: The goal of efficiency control is to boost the effectiveness of marketing initiatives like direct marketing, advertising, sales promotion, and distribution. Marketing managers constantly monitor specific key ratios that show how well these tasks are being carried out, and they also put studies into practice to uncover ways to boost performance.

Strategic Control: From time to time, marketing managers should reassess their strategic approach to the market environment. The major tool used here is marketing audit. Marketing audit is a comprehensive, systematic, and independent examination of a company's marketing environment, marketing objectives, strategies, and activities. The goal is to determine the firm's challenges and opportunities to recommend a strategic plan of action that helps improve the company's marketing performance.

Types of Sales Control:

Sales Budget: Sales budget creates overall constraint for the sales team to operate within. Budget in terms of expenses and efforts spent can control the sales activities well and align them with company's sales objectives and profit targets. A sales team may be able to perform well and meet sales target but if the cost spent to achieve the same is very high then the profit would be less. Hence companies assign a sales budget for the sales activities.

Sales Programs: Sales program are a set of activities, training and best practices which a company follows for performing sales activities. A sales program can train the sales force well on the companies values so that the sales team follows them when they go on field to sell the products and services. Through a program it can be ensured that all the sales team members follow similar approach and system to achieve it.

Sales Audit: Sales audit is the systematic and unbiased review of the basic objective and policy of the selling function of an organization. Sales audits help in improving the effectiveness of the sales arm of the organization.

Sales Analysis: Sales analysis is the study of sales volume operations to find the sales and profit trend. It helps in achieving better sales performance. It also provides insights on the sales territories, type of customers and products.

<u>Marketing or Sales Control Process:</u>

Determining Marketing/Sales Objectives: The initial step in marketing control is the setting up of the marketing goals, which are in alignment with the organizational objectives.

Establishing Performance Standards: To streamline the marketing process, benchmarking is essential. Therefore, performance standards are set for carrying out marketing operations.

Comparing Results with Standard Performance: The actual marketing performance is compared and matched with the set standards and variation is measured.

Analysing the Deviations: This difference is then examined to find out the areas which require correction, and if the deviation exceeds the decided range, it should be informed to the top management.

Rectification and Improvement: After studying the problem area responsible for low performance, necessary steps should be taken to fill in the gap between the actual and expected returns.

<u>E-COMMERCE AND ENTREPRENEURSHIP</u>

E-Commerce means buying and selling of goods, products, or services over the internet. E-commerce is also known as electronic commerce or internet commerce. These services provided online over the internet network. Transaction of money, funds, and data are also considered as E-commerce.

<u>Types of E-Commerce</u>: The following are the different types of e-commerce platforms:

1. Business-to-Business (B2B)
2. Business-to-Consumer (B2C)
3. Consumer-to-Consumer (C2C)
4. Consumer-to-Business (C2B)
5. Business-to-Administration (B2A)
6. Consumer-to-Administration (C2A)

1. Business-to-Business (B2B): A B2B model of business involves the conduct of trade between two or more businesses/companies. The channels of such trade generally include conventional wholesalers and producers who are dealing with retailers. Some of the businesses operating in this channel include **Walmart, India Mart etc.**

2. Business-to-Consumer (B2C): B2C of business deals with the sale of goods and/or services to the end consumer through digital means. The facility enables the consumer to have a detailed look at their proposed products/services before placing an order. After the placement of such orders, the company or agent receiving the order will then deliver the same to the consumer in a convenient time-span. Some of the businesses operating in this channel include well-known players like **Amazon, Flipkart,** etc.

3. Consumer-to-Consumer (C2C): This business model is leveraged by a consumer for selling used goods and/or services to other consumers through the digital medium. The transactions here are pursued through a platform provided by a third party, the likes of which include **OLX, Quickr**, etc.

4. Consumer-to-Business (C2B): A C2B model is the exact reversal of a B2C model. the C2B model provides the end consumers with an opportunity to sell their products/services to companies. The method is popular in crowdsourcing based projects, the nature of which typically includes **logo designing, sale of royalty-free photographs/media/design elements**, and so on and so forth.

5. Business-to-Administration (B2A): B2A e-commerce is commerce between Companies and public sector, i.e., Government. It refers to the use of the Internet for Public Procurement, licensing procedure, and other government-related Operation. Example: Business pay taxes, file reports, or sell goods and services to Govt. agencies.

6. Consumer-to-Administration (C2A): The C2A platform is meant for consumers, who may use it for requesting information or posting feedbacks concerning public sectors directly to the government authorities/administration. Its areas of applicability include, Payment of electricity bill, Remittance of statutory payments, Filing of tax returns etc.

Importance/Advantages of e-commerce: There are many advantages of e-commerce including:

1. Companies can reach a wider audience.
2. Companies have lower operational costs.
3. Consumers can easily compare, shop across different brands.
4. Removes Geographical barriers
5. There's a greater selection of goods available.
6. Shopping from home is more convenient for the consumer.
7. It helps to expand your business and your brand
8. Good customer service (24x7)

INTERNET ADVERTISING

Internet advertising, also known as online marketing, Online advertising, digital advertising or web advertising, is a form of marketing and advertising which uses the Internet to promote products and services to audiences and platform users

Types of Internet Advertising/Marketing: It is classified into two types. They are

1. **PUSH MARKETING:** A Push Marketing Strategy also called push promotional strategy, where businesses attempt to take their products to the customers. In a Push marketing strategy, the goal is to use various marketing techniques or channels to 'Push' their products in order to be seen by the consumers starting at the point of purchase. You see an ad while watching a YouTube video, a T.V ad, a pamphlet, or a flyer with some product advertisement, all of these are Push marketing. Push Marketing Strategies are:

1.1. Television advertisements: You must’ve seen a lot of brand commercials on the go, all these ads are push marketing. A classic example is of Lux brand. The soap brand features top celebrities, so the customers prefer to purchase their brand. That’s how they push their brand, and it works wonders as it captures a big share in the market.

1.2. Billboards: It is a conventional marketing strategy. Using large print advertisements on high platforms (billboards) to market a brand or product. These advertisements are often placed in areas of high traffic so drivers and pedestrians can see them.

1.3. Direct advertisements/ Marketing: As the name suggests, the customers directly interact with such ads in a showroom, mall, or grocery store. All the products placed in such places are an example of push marketing. The salesperson who guides you through the store and explains about the products, insurance agents who educate customers about a policy are also example of push marketing

1.4. Online Display ads: Any advertisement you see on any online platform is an example of push marketing. The PPC ads, google ads, YouTube ads, and social media ads are a part of online display ads.

1.5. Social Media Advertisements: social media is a place where both push and pull works. You must have come across Instagram ads or Facebook ads. The marketers create such ads by capturing the audiences and targeting them.

2. PULL MARKETING: It is a strategy where the marketers attract the customers towards their brand by offering them valuable content or creating a buzz about their brand. Pull Marketing Strategies are:

2.1 Search Engine Optimization (SEO): SEO is a process of maximizing the number of visitors to a particular website by ensuring that the site appears high on the list of results returned by a search engine. The marketers attract their customers by understanding their search intent and offering what they look for.

2.2 Social media Content: As stated earlier, both push and pull marketing strategy works on social media platforms. In pull marketing strategy, the marketers create consumable, valuable, and creative content which engages the target audience. An example is meme marketing, where brands create memes to engage audiences. Another example is tutorials where the content creators show how to use a specific product.

2.3 Word of Mouth: The strategy is either used by marketers or either the result of phenomenal brand features. If the product is good, the customer will talk about it, refer it to friends and be a spokesperson for the brand. You watch a good movie, refer it to your friend, that's word of mouth.

2.4 Content Marketing: Content marketing means offering consumable content to users to engage and then attract them to a brand. Blogging is a classic example of content marketing.

Advantages and Disadvantages of Internet Advertising:

Advantages:

- Regularly updated in real-time
- Vast amount of information
- Can find information using search engines
- Available on many platforms
- Web content can include text, image, video, audio, animation etc.

Disadvantages:

- Not regulated
- Online threats (Hacking, fishing, virus etc.)
- Easily become distracted
- Sharing of illegal content
- Exposure to inappropriate material
- Information may not be reliable

NEW VENTURE EXPANSION STRATEGIES AND ISSUES

Business Expansion:

Business expansion typically occurs when a company has reached a point of growth and is actively seeking out additional opportunities to generate greater profits.

Business expansion takes on different forms. It includes purchasing new assets, opening new units, adding sales personnel, increasing advertising, adding franchises, entering new markets, providing new products or services, and more.

METHODS OF BUSINESS EXPANSION

1. JOINT VENTURE:

A joint venture is an agreement between two or more parties joining together for some business purpose on a temporary basis.

A joint venture is usually a temporary partnership without the use of a firm name, limited to carrying out a particular business plan in which the persons concerned agree to contribute capital and to share profits or losses. The parties in a joint venture are known as co-venturers and their liability is limited to the adventure concerned for which they agree to contribute capital and share profits or losses.

FEATURES OF A JOINT VENTURE are:

- Two or more person are needed.
- It is an agreement to execute a particular venture or a project.
- The joint venture business may not have a specific name.
- It is of temporary nature. So, the agreement stands terminated as soon as the venture is complete.
- The co-ventures share profit and loss in an agreed ratio, otherwise equally.
- The co-ventures are free to continue with their own business during the life of joint venture.

TYPES OF JOINT VENTURE:

Project-Based Joint-Ventures: Project-based joint-ventures are formed to collaborate on a specific project, usually with a specific goal and timeline. The participants pool their resources, expertise, and capabilities to achieve the project's goals more effectively than they could individually.
Once the project is completed or the desired outcome is achieved, the joint venture may be dissolved, and the partnering companies may go back to operating independently or collaborate on other projects in the future.

Function-Based Joint-Venture: In a function-based joint venture, companies collaborate to perform a particular business function or activity, like marketing, sales, or distribution. This type of joint venture allows companies to leverage each other's expertise, resources, and networks in specific business areas, resulting in increased efficiency and market reach.

Vertical Joint-Venture: A vertical joint venture is a strategic collaboration between companies at different stages of the supply chain (e.g., manufacturers, distributors, or retailers). The main goal of this type of partnership is to optimise the supply chain by combining the unique capabilities and resources of each company, leading to increased efficiency, cost savings, and better control over production and distribution processes.

Horizontal Joint-Venture: Horizontal joint-ventures are strategic collaborations between companies that operate within the same industry or market, often as competitors. These partnerships focus on combining resources, technology, or expertise to achieve a shared objective, e.g. expanding into new markets or creating innovative products. This type of venture can provide participating companies with a competitive edge by leveraging their collective strengths and helping them mitigate risk.

Reasons for forming Joint Venture:

- Combine resources
- Save costs
- Enter foreign markets
- Create synergy
- Gain competitive advantage

Advantages of Joint Venture:

- Increased the capacity.
- Sharing of risks and costs.

- Access to new knowledge and expertise.
- Access to new markets & enlarge their audience.
- Access to higher resources like technology, finance etc

Disadvantages of Joint Venture:

- **JV's** may result in disputes among parties due to varied interest
- Delay in decision making due to involvement of many parties

MERGERS AND ACQUISITIONS:

The terms 'merger' and 'acquisition' refer to the unification of two or more companies, but they have different processes and outcomes.

Merger: Two or more companies usually similar in power or size voluntarily combine their assets to create a new business or large legal entity.

Acquisition: One company gains control over a target company by purchasing the majority of its shares (not always voluntarily). The acquired company usually ceases to exist as an independent business.

Reasons for Merger & Acquisition:

Client base expansion	Increased market share
Access to different markets	Higher shareholder value
Diversification of new products or services	Improved economies of scale

Benefits of mergers and acquisitions:

Economies of Scale	Access to new/additional resources
Access to new markets	Diversification of Risk
Increased Market Share	Tax Benefits
To meet the competition	New product development

Types of mergers:

Horizontal merger: A horizontal merger is when one company acquires another company that is in the same business. For example, A Ltd., a TV manufacturer, acquires X Ltd., another TV manufacturer.

Vertical merger: This is when a company acquires either a supplier of inputs or a distributor of its products or the company to which it sells its products. For example, a garment company acquiring the yarn dyeing company. Vertical merger can be a forward and backward merger.

Conglomerate merger: A conglomerate merger occurs when one company buys another company from a completely separate industry. For example, a company involved in the real estate business acquires an insurance company

Congeneric merger: A congeneric merger occurs when one company buys another company that offers different products or services, but caters to the same customer base. So, if a streaming network were to buy a smart tv manufacturer or a production company, that would be considered a congeneric merger.

Types of Acquisition:

1. Friendly: When the acquirer and the target company mutually agree to the terms and conditions of the acquisition, it results in a friendly acquisition.

2. Hostile: Sometimes one company bypasses the decisions of the target company's board and management against acquisition and directly approaches the shareholders or implements aggressive tactics to gain control.

3. Buyout: In the buyout process, one company may purchase a 51% stake in the target company to gain control over it.

Differences between Merger and Acquisition

Basis of comparison	**Merger**	**Acquisition**
Definition	A process where more than one companies come forward to work as one.	One company buys out the other company.
Title	A new entity is formed.	The acquired company comes under the name of the acquiring company.
Scenario	Two or more companies that consider each other on equal terms usually merge.	Acquiring a company is usually larger than the acquired company.
Stocks	New stocks may be issued	No new stocks are issued
Example	Merging of Vodafone & Idea to become vi	Tata Motors acquisition of Jaguar Land Rover

Challenges in Mergers and Acquisitions:

1. **Lacking a good motive for the acquisition:** Problems of mergers and acquisitions begin even before a deal takes place. If you don't have a good answer to the question 'why are we doing this?' the merger or acquisition, its first problem and leaves scope for chances arising others problem.

2. **Targeting the wrong company:** Targeting the wrong company leaves huge expense to the acquiring company in terms of waste of time, money and other resources.

3. **Overestimating synergies:** Synergies occur when one plus one is greater than two. This usually means either increased revenue or cost savings which are a consequence of the transaction. these are a strong motive for many deals, but they're also commonly overestimated.

4. **Overpaying:** The most common problem that arises in mergers or acquisitions is over estimating the value of the acquiring company. This reduces overall value of the firm.

5. **Exogenous risks:** Economic, industry or technological shifts can mean that even the most well-planned deals can fail.

6. **Losing the trust of important stakeholders:** Human capital is a significant part of most modern businesses. Just because higher management is enthused about a merger or acquisition, it doesn't mean that the staff will be. This goes for people at the top of the company's hierarchical structure as well as those at the bottom. Losing the trust of either is a massive problem in mergers and acquisitions.

7. **Inadequate due diligence:** Post merger or acquisition, the acquiring company should pay attention on its operation. Inadequate attention may make the deal failure.

8. **Failed Integration:** Technically, integration comes after a merger or acquisition, but that doesn't mean it should be an afterthought. Problems with acquisitions during Integration, which include culture and change management, can create an inefficient and even toxic work environment.