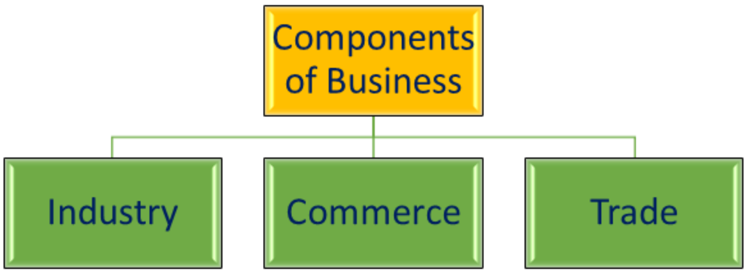

Unit-3
Management Practices

3.1 Industry, Commerce and Business

Business is an economic activity, concerned with the provision of goods and services with the aim of earning a profit. There are three major classifications of business activities, i.e., industry, commerce and Trade.

The **industry** is all about the production of goods, whereas **commerce** focuses on the distribution of goods and services, **Trade** simply means buying and selling goods and services in return for money or money's worth.



Meaning:

- Industry refers to the production (extraction, conversion, assemblage, processing or construction) of goods and services that satisfy human needs. It involves the conversion of basic raw materials or intermediate products into the end product.
- Commerce refers to the activities that facilitate the distribution of goods and services comprising trade and its auxiliaries and
- Trade is the actual exchange or process of purchase and sale of goods. Trade can be inland or international.

Supply or Demand side:

- The industry represents the supply side of goods and services whereas
- Commerce represents the demand side of goods and services.
- Trade represents both the supply and demand side because it is the exchange of goods and services.

Capital:

- Industry requires huge fixed and working capital in production.
- Commerce requires limited fixed capital but huge working capital.
- Trade requires limited fixed capital. However limited working capital would be enough for trade if turnover is quick.

Place:

- Industries can be run from home establishments (if small), workshops, factory or mines.

- Commerce involves the movement of goods from the place of production to the place of consumption.
- Trade is carried on where buyers and sellers exist in the Market.

Utility:

- Industry creates form utility by changing the form or shape of materials.
- Commerce creates place utility by moving goods from producers to consumers and time utility through the preservation of goods and their movement from one place to another.
- Trade creates possession utility through the exchange of goods and services.

3.2 Types of ownership in the organization -Definition, Characteristics, Merits & Demerits

3.3.1 Sole Proprietorship

- **Definition:** A business owned and operated by a single individual.
- **Characteristics:** Simplest form, owner has full control and receives all profits.
- **Merits:** Easy to establish, full control, direct profits.
- **Demerits:** Unlimited liability, limited resources, lacks continuity.

A sole proprietorship is a business owned by only one person. It is easy to set up and is the least costly among all forms of ownership. The owner faces unlimited liability; meaning, the creditors of the business may go after the personal assets of the owner if the business cannot pay them. The sole proprietorship form is usually adopted by small business entities.

Advantages

- Simple to create
- Least costly form
- Profit incentive
- Total decision-making
- No special legal restrictions
- Easy to discontinue

Disadvantages

- Unlimited personal liability
- Limited skills and abilities
- Feelings of isolation
- Limited access to capital
- Lack of continuity of business

3.3.2 Partnership

- **Definition:** Business owned by two or more individuals who share profits and liabilities.
- **Characteristics:** Shared responsibility, diverse skills and resources.
- **Merits:** Shared workload, diverse skills, shared financial burden.
- **Demerits:** Unlimited liability, potential conflicts, limited life span.

An association of two or more people who co-own a business for the purpose of making a profit. A partnership is a business owned by two or more persons who contribute resources into the entity. The partners divide the profits of the business among themselves. In general partnerships, all partners have unlimited liability. In limited partnerships, creditors cannot go after the personal assets of the limited partners.

Advantages

- Easy to establish
- Complementary skills
- Division of profits
- Larger pool of capital
- Ability to attract limited partners
- Little governmental regulation
- Flexibility
- Taxation

Disadvantages

- Unlimited liability of at least one
- Difficulty in disposing of interest
- Lack of continuity
- Potential for personality and authority conflicts
- Partners bound by law of agency

➢ Comparison of SOLE PROPRIETORSHIP and PARTNERSHIP

BASIS FOR COMPARISON	SOLE PROPRIETORSHIP	PARTNERSHIP
Meaning	A type of business organization, in which only one person is the owner as well as operator of the business, is known as Sole Proprietorship.	A business form in which two or more persons agree to carry on business and share profits & losses mutually is known as Partnership.
Governing Act	No specific statute	Indian Partnership Act, 1932
Owner	Known as sole trader or sole proprietor.	Individually known as partners and collectively known as firm.
Incorporation	Not required	Voluntary
Minimum members	Only one	Two
Maximum members	Only one	100 partners
Liability	Borne by the proprietor only.	Shared by the partners.
Decision making	Quick	Delay
Duration	Uncertain	Depends on the desire and capacity of the partners.
Profit & Loss	Proprietor is solely responsible for the profits & losses.	Shared in agreed ratio

Secrecy	Business secrets are not open to any person except the proprietor.	Business secrets are open to each and every partner.
Finance	Scope for raising capital is limited.	Scope for raising capital is comparatively high.

3.3.3 Corporation

- **Definition:** A legal entity separate from its owners (shareholders).
- **Characteristics:** Limited liability, perpetual existence, ease of transferring ownership.
- **Merits:** Limited liability, perpetual existence, access to capital markets.
- **Demerits:** Double taxation, complex structure, less control for shareholders.

A corporation is a business organization that has a separate legal personality from its owners. Ownership in a stock corporation is represented by shares of stock. The owners (stockholders) enjoy limited liability but have limited involvement in the company's operations. The board of directors, an elected group from the stockholders, controls the activities of the corporation. In addition to those basic forms of business ownership, these are some other types of organizations that are common today:

Advantages

- Limited liability of stockholders
- Ability to attract capital
- Ability to continue indefinitely
- Transferable ownership

Disadvantages

- Cost and time in incorporating
- Double taxation
- Potential for diminished incentives
- Legal requirements and red tape
- Potential loss of control

3.3.4 Cooperative Organizations

- **Definition:** Business owned and operated by its members for mutual benefit.
- **Characteristics:** Democratic control, shared benefits among members.
- **Merits:** Shared decision-making, equitable profits, mutual support.
- **Demerits:** Limited resources, potential conflicts, slower decision-making.

A cooperative (also known as co-operative, co-op, or coop) is "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and benefits through a jointly owned and democratically-controlled enterprise". The persons making up the group are called members. Cooperatives may be incorporated or unincorporated.

A cooperative organization always prefers:

- Service instead of profit maximization,
- Survival of the weakest instead of survival of the fittest,
- Self-help and self-reliance instead of dependence on external bodies.
- Development of moral character of members instead of emphasis on pure material development.

Types:

- businesses owned and managed by the people who use their services (a consumer cooperative)
- organizations managed by the people who work there (worker cooperatives)
- organizations managed by the people to whom they provide accommodation (housing cooperatives)
- hybrids such as worker cooperatives that are also consumer cooperatives or credit unions

Advantages

- A cooperative organization is owned and controlled by members.
- It has a democratic control: one member, one vote.
- This type of organization has a limited liability.
- Profit distribution (surplus earnings) to members is carried on in proportion to the use of service; surplus may be allocated in shares or cash.

Disadvantages

- A cooperative organization entails longer decision-making process.
- It requires members to participate for success.
- Extensive record keeping is necessary in this form of organization.
- It has less incentive, and there’s also a possibility of development of conflict between members.

3.3.5 Joint Stock Companies

A joint stock company is a business entity owned by shareholders, where ownership is represented by shares of stock. It has distinct characteristics:

1. **Separate Legal Existence:** Exists as a legal entity distinct from its shareholders.
2. **Limited Liability:** Shareholders' liability is limited to the value of their shares.
3. **Perpetual Succession:** Continues to exist even if shareholders change.
4. **Common Seal:** Has an official seal for formalizing documents.

Merits:

- **Limited Liability:** Shareholders are not personally liable for company debts.
- **Large Capital:** Ability to raise substantial capital from a large number of shareholders.

- **Perpetual Existence:** Continuity of operations is not affected by shareholders' changes.
- **Professional Management:** Expert management due to a separation of ownership and management.

Demerits:

- **Complex Management:** Decision-making can be slow due to involvement of numerous shareholders.
- **Conflict of Interests:** Differing opinions among shareholders can lead to conflicts.
- **Lack of Secrecy:** Company information is publicly accessible.
- **Government Regulations:** Subject to strict regulatory compliance.

3.3.6 Government-owned

Government-owned companies, also known as government companies, are entities where at least 51% of the company is owned by the government, either at the central, state, or local level. They have specific characteristics:

1. **Government Ownership:** Majority ownership (at least 51%) by government authorities.
2. **Operational Autonomy:** While owned by the government, they often operate independently.
3. **Social Welfare:** Focus on public welfare and national development.
4. **Government Control:** Government has a significant say in decision-making.

Merits:

- **Social Welfare:** Prioritize public welfare over profits.
- **Stability:** Government backing provides stability and trust.
- **Infrastructure Development:** Contribute to national infrastructure projects.
- **Policy Implementation:** Implement government policies effectively.

Demerits:

- **Bureaucratic:** Can be slow due to bureaucratic processes.
- **Political Interference:** Susceptible to political influences.
- **Limited Innovation:** May lack innovation seen in private sectors.
- **Inefficiency:** Operational inefficiencies due to lack of competition.

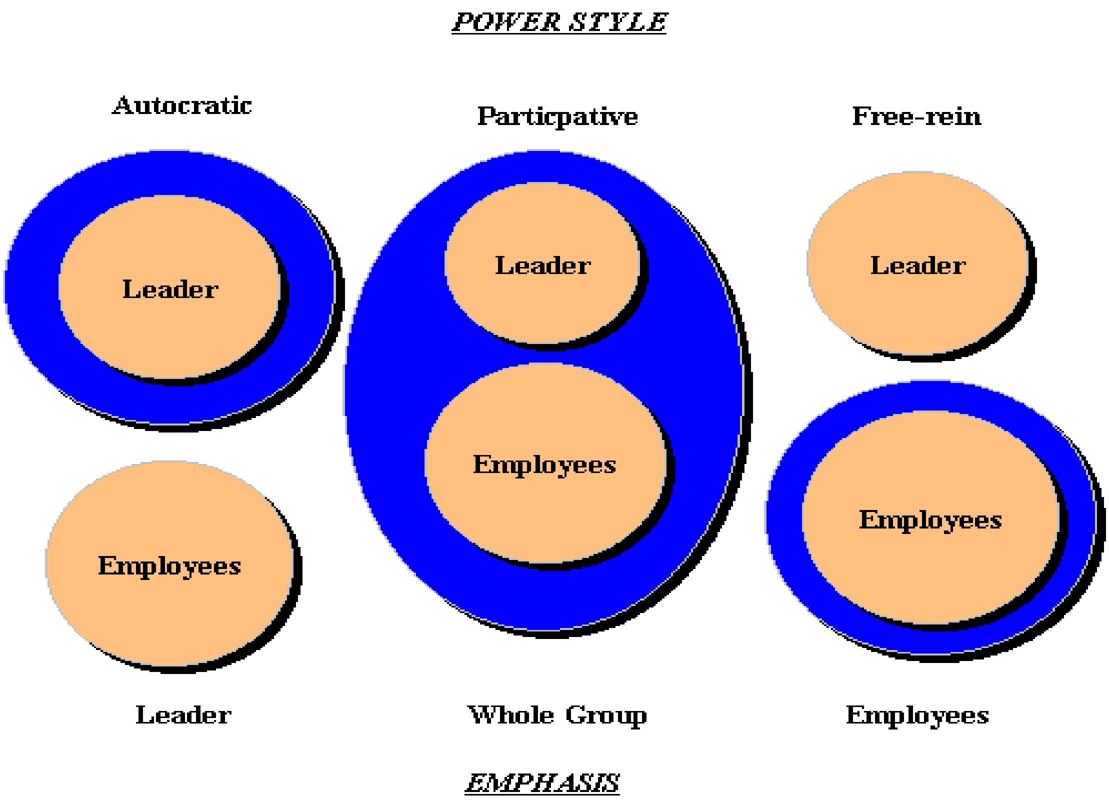
3.3 Different Leadership Models

Leadership is an integral part of management and plays a vital role in managerial operations. It provides direction, guidance and confidence to the employees and helps organization in the attainment of goals in much easier way. It provides direction and vision for the future of an organization. In short, it induced individuals to contribute optimum towards the attainment of the Organization's goal.

"LEADERSHIP is the process of influencing the activities of an individual or a group in efforts towards goal achievement in a given situation".

3.3.1 Different Leadership Models /style

1. **Autocratic leader**: boss makes decisions on their own without consulting employees
2. **Democratic leader**: involves employees in making decisions
3. **Free-reign (Laissez Faire) leader**: The leader believes in minimal supervision, leaving most decisions to employees.
4. **Freelance Leader**: The leader has full faith in employees (Self Employee), Freelance has full power and leader not interfere in it.



3.3.2 Autocratic Leader (Authoritarian Leader)

"A leadership style where the leader makes all decisions independently or without consulting with a subordinate"

The autocratic leadership style is centered on the boss. In this leadership, the leader holds all authority and responsibility. In this leadership, leaders make decisions on their own without consulting subordinates. They reach decisions, communicate them to subordinates and expect prompt implementation. An autocratic work environment normally has little or no flexibility.

<u>Advantages:</u>

- Provides strong motivation and reward for the leader
- Quick decision making takes place as single person decides for the whole group
- Subordinate are only to carry out the orders of the leader
- Decision making, planning or organizing need initiative
- Good in certain circumstances, such as urgent task or military action.

Disadvantages:

- poor decisions, poor level of employee motivation
- Leads to frustration, low morale and conflict among subordinate
- Subordinate tend to shirk responsibility and initiative.
- Full potential to subordinate and their creative ideas are not utilized
- Organizational continuity is threatened in the absence of the leader because subordinate get no opportunity for development

3.3.3 Democratic Leader (Participative leadership)

"A leadership style where a leader encourages employee participation in decision-making persuasive or consultative "

In this leadership style, subordinates are involved in making decisions. Unlike autocratic, this headship is centered on subordinates' contributions. The democratic leader holds final responsibility, but he or she is known to delegate authority to other people, who determine work projects. The most unique feature of this leadership is that communication is active upward and downward.

Advantages:

- Better decisions, employee motivation
- It improves the job satisfaction and morale of subordinate
- The leader multiplies his abilities through the contribution of his followers.
- It develops positive attitudes and reduces resistance to change

Disadvantages:

- Delayed decision, long consultation
- This style may not yield positive result when the interaction of subordinates with the leader is less.
- This may be used as passing the buck to others and abdicating responsibility
- This style needs tremendous communication and persuasive skills on the part of the leader.

3.3.4 Free Rein Leader (The Laissez-faire Leader)

"A leadership style where employees are encouraged to make their own decisions within limits."

Laissez-faire means to "leave alone". Laissez-faire leadership gives authority to employees. Departments or subordinates are allowed to work as they choose with minimal or no interference. According to research, this kind of leadership has been consistently found to be the least satisfying and least effective management style.

Advantages:

- More freedom for employees

- Positive effect on job satisfaction and morale of subordinates
- Maximum possible scope for development of subordinates
- Full utilization of potential of subordinates

Disadvantages:

- Few guidelines, little incentive, poor motivation, maybe a mess
- Subordinate do not get the guidance and support of the leader
- It ignores the leader contribution just as Autocratic style ignores the contribution of the subordinates
- Subordinates may move in different directions and may work at cross purpose which may degenerate into chaos

3.3.5 Freelance Leader

"A leadership style where employees are free to make their own decisions without any limits"

A freelancer or freelance worker is a term commonly used for a person who is self-employed. Fields, professions, and industries where freelancing is predominant include music, writing, acting, computer programming, and web design.

Advantages:

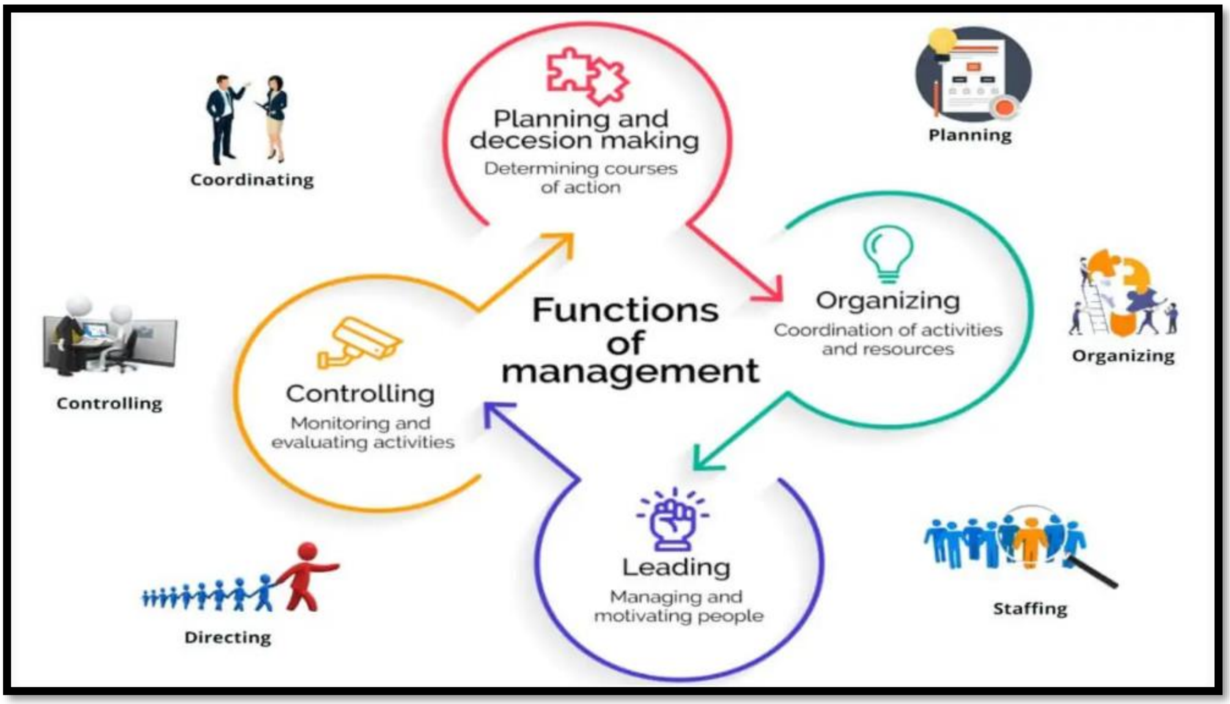
- To be your own Boss
- Positive effect on job satisfaction
- Full utilization of the potential of a person

Disadvantages:

- Too risky for Boss to give all power to freelancer
- All right or wrong decision accept my top management
- freelancer may move in different directions and may work at cross purpose which may degenerate into chaos

Comparison chart of Leadership Model

3.4 Functions of Management- Merits & Demerits



3.4.1 Planning

Planning:

- **Definition:** Planning is the process of setting goals, determining courses of action, and developing strategies to achieve objectives in the future.

Merits of Planning:

1. **Clarity of Goals:** Provides clear objectives and directions for the organization.
2. **Resource Utilization:** Optimizes the allocation of resources, ensuring efficiency.
3. **Coordination:** Facilitates coordination among different departments and teams.
4. **Risk Management:** Identifies potential risks and enables proactive risk mitigation.
5. **Motivation:** Sets targets, motivating employees to achieve goals.

Demerits of Planning:

1. **Rigidity:** Overemphasis on planning can lead to inflexibility in adapting to changes.
2. **Time-Consuming:** Elaborate planning processes can be time-intensive.
3. **Costly:** Planning processes and tools can be expensive to implement.
4. **False Sense of Security:** Relying solely on plans might create a false sense of security, overlooking real-time challenges.
5. **Resistance:** Employees might resist plans if they feel their input isn't considered, affecting implementation.

3.4.2 Company's Organization Structure (Organizing)

- **Definition:** Organizing is the process of arranging and structuring activities, resources, and tasks to achieve organizational goals effectively. It involves defining roles, establishing relationships, and ensuring the coordination of efforts within the organization.

Merits of Organizing:

1. **Clarity in Roles:** Clearly defines roles and responsibilities, reducing confusion.
2. **Efficient Resource Utilization:** Ensures optimal use of resources, enhancing productivity.
3. **Specialization:** Encourages specialization, leading to expertise in specific areas.
4. **Improved Communication:** Facilitates smooth communication channels, reducing misunderstandings.
5. **Flexibility:** Allows for adaptation to changing circumstances and business needs.

Demerits of Organizing:

1. **Rigidity:** Overemphasis on structure can lead to inflexibility in response to changes.
2. **Conflict:** Disputes can arise over responsibilities and authority, leading to conflicts.
3. **Costly:** Elaborate organizational structures can be costly to implement and maintain.
4. **Resistance to Change:** Existing staff may resist changes in their roles or structures.
5. **Complexity:** Intricate structures can create confusion and complexity in decision-making.

Company's Organization Structure:

Companies can adopt various organizational structures, such as functional, divisional, matrix, or flat structures. The choice depends on the company's size, goals, and industry requirements.

3.4.3 Directing

- **Definition:** Directing in management refers to the process of guiding, instructing, and supervising employees to achieve organizational goals. It involves motivating, leading, and communicating with employees to ensure their efforts align with the organization's objectives.

Merits of Directing:

1. **Clarity of Goals:** Directing provides a clear vision and goals for employees, enhancing focus.
2. **Employee Motivation:** Effective direction boosts employee morale and motivation.
3. **Improved Communication:** Directing ensures smooth communication, minimizing misunderstandings.

4. **Increased Productivity:** Proper guidance leads to efficient work processes and higher productivity.
5. **Adaptability:** Directors can steer the organization toward adaptability and change.

Demerits of Directing:

1. **Resistance:** Employees may resist directives if they feel micromanaged or undervalued.
2. **Misinterpretation:** Poor communication can lead to misinterpretation of directions.
3. **Overemphasis:** Overemphasis on directing can stifle employee creativity and innovation.
4. **Dependency:** Excessive direction might make employees overly dependent on management decisions.
5. **Conflict:** Conflicts can arise if directions given to different employee's conflict with each other.

3.4.4 Controlling

- **Definition:** Controlling in management refers to the process of monitoring, evaluating, and regulating activities and outcomes within an organization to ensure they align with the predetermined goals and objectives. It involves measuring performance, comparing it with standards, and taking corrective actions if necessary.

Merits of Controlling:

1. **Goal Achievement:** Helps in accomplishing organizational goals effectively.
2. **Efficient Resource Utilization:** Ensures optimal use of resources like time, money, and manpower.
3. **Performance Evaluation:** Provides a basis for evaluating individual and organizational performance.
4. **Adaptability:** Allows for adjustments and changes in strategies to meet objectives.
5. **Enhanced Productivity:** Identifies inefficiencies and encourages productivity improvements.

Demerits of Controlling:

1. **Resistance:** Employees might resist control measures, affecting morale.
2. **Rigidity:** Excessive control can lead to rigid organizational structures.
3. **Costly:** Implementing control systems can be expensive and time-consuming.
4. **Creativity Suppression:** Over-control may stifle creativity and innovation among employees.
5. **Focus on Short-Term Goals:** Control sometimes prioritizes short-term gains over long-term strategies.

3.4.5 Staffing- Recruitment and management of talent.

Staffing:

- **Definition:** Staffing is the process of acquiring, deploying, and retaining a workforce to ensure that the organization has the right people with the right skills in the right positions to achieve its goals.

Merits of Staffing:

1. **Talent Acquisition:** Ensures recruitment of skilled and qualified individuals.
2. **Optimal Utilization:** Matches employees' skills with job requirements, enhancing productivity.
3. **Employee Development:** Provides opportunities for training and skill enhancement.
4. **Team Building:** Fosters a cohesive and efficient working environment.
5. **Adaptability:** Allows for adjustments in staffing levels based on organizational needs.

Demerits of Staffing:

1. **Costly Process:** Recruitment, training, and onboarding can be financially burdensome.
2. **Time-Consuming:** Takes time to find suitable candidates, delaying operational tasks.
3. **Employee Turnover:** High turnover rates can disrupt workflow and team dynamics.
4. **Mismatched Skills:** Inadequate staffing decisions can lead to skill gaps and inefficiency.
5. **Legal Challenges:** Adhering to labor laws and regulations can be complex, leading to legal issues if not handled properly.

3.5 Financial organization and management

Financial organization and management involve the strategic planning, organizing, directing, and controlling of an organization's financial processes and resources. Effective financial management ensures the efficient use of funds, proper allocation of budgets, and adherence to financial regulations. Key aspects include:

1. **Strategic Financial Planning:** Creating long-term financial goals aligned with the organization's objectives and market dynamics.
2. **Budgeting and Resource Allocation:** Developing budgets, allocating resources wisely, and managing expenses to maximize profitability.
3. **Financial Reporting:** Generating accurate and timely financial statements for stakeholders' decision-making.
4. **Risk Management:** Identifying and mitigating financial risks to safeguard the organization's assets and investments.
5. **Compliance and Regulations:** Ensuring adherence to financial laws and regulations applicable to the industry.
6. **Cash Flow Management:** Monitoring cash flow patterns to maintain liquidity and meet operational needs.
7. **Investment Strategies:** Making informed investment decisions to grow capital and achieve financial stability.

Financial management is vital for business sustainability, growth, and strategic decision-making.

3.6 Differences between Management and Administration

- Management is the act or function of putting into practice the policies and plans decided upon by the administration.
- Administration is a determinative function, while management is an executive function.
- Administration makes the important decisions of an enterprise in its entirety, whereas management makes the decisions within the confines of the framework, which is set up by the administration.
- Administrators are mainly found in government, military, religious and educational organizations. Management, on the other hand, is used by business enterprises.

BASIS FOR COMPARISON	MANAGEMENT	ADMINISTRATION
Meaning	An organized way of managing people and things of a business organization is called the Management.	The process of administering an organization by a group of people is known as the Administration.
Authority	Middle and Lower Level	Top level
Role & Function	Executive and Governing	Decisive, Legislative and Determinative
Concerned with	Policy Implementation	Policy Formulation
Area of operation	It works under administration.	It has full control over the activities of the organization.
Applicable to	Profit-making organizations, i.e. business organizations.	Government offices, military, hospitals, religious and educational organizations.
Decides	Who will do the work? And how will it be done?	What should be done? And When is should be done?
Work	Putting plans and policies into actions.	Formulation of plans, framing policies and setting objectives
Focus on	Managing work	Making best possible allocation of limited resources.
Key person	Manager	Administrator
Represents	Employees, who work for remuneration	Owners, who get a return on the capital invested by them.

Practically, you will find that the terms are more or less the same. You would have noticed that a manager performs both administrative and functional activities. Although the managers who are working on the topmost level are said to be the part of administration whereas the managers working on the middle or lower level represents management. So, we can say that administration is above management.