MANAGEMENT

31/07/2023

We have to understand customer behaviour.
Managers are required in industries. So, there was no concept of Management in the world before Industrial Revolution.

Increasing the Market Share → Colonization

Frederick Taylor
(German Mechanical Engineer)

He said industry runs unscientifically.
He argued for standardisation of practices.
Standardisation should be done based on actual emperical studies.
He did 'Time and Motion' study.

- Assembly Line was first used by Ford Motor Company.
- Feudalism leads to no motivation.
  Identify the star workers and pay him more.
  Make the worker feel increasing productivity will also help him.
- Adverserial relationship does not help.

⊙ Classical Management Theorem

Weber
(Mining Engineer)

He wanted to emulate safe and stable systems.
By this time, Government was Bearucracy.
- Office property and personal property has to be separated.
- Most importantly, authority should be bound to the chair only.
- Organisation should be heirarchical.

Fayol → Introduced 'Managers'.

14 principles of Management.

Transitioning from 19th to 20th century, 'Communism' came into picture.
Unions were forming accross factories.
Also, came 'Humanist' movement.

- Abraham Maslow's Heirarchy of Needs

Self-Actualisation

Esteem Needs

Belongingness

Security

Physiological Needs

Then came the third wave of management.
'Behavioral Theorists'

Hawthon Study → General Electric study conducted to get what else motivates workers.

McGregor → Theory X
Theory Y

There are two motivators –
(i) ~~Exctrinsic~~ (Money, societal pressure)
(ii) Intrinsic (Passion)

14/08/2023

Hawthorne Study

Hypothesis 1 : Illumination effects productivity.

There are two groups of parameters –

(a) experimental

(b) control

Illumination were of three types –

(a) Dim

(b) Bright

(c) Moonlight

Moonlight affected productivity severely.
They concluded that illumination does not have any effect on productivity unless people are made to work under moonlight.

Hypothesis 2 : Relay (equipment they were working)

10 minutes of break for two chunks

5 minutes of break for four chunks

Rythym is required in mentally non-laborious job and frequent breaks can hamper productivity.

They were given food during breaks and then some days later it stopped.
Productivity did not go down.

Group's performance increase if reward is grouped.

Hypotheses 3 : Mass Interviews

Non-judgemental Yes/No questions

Hypotheses 4 : Wiring

Time and quantity were limited.

Employees form their informal group.

Some people thought meeting the requirement will resut in increase in work-load.

- What should Mangers do?

=> Strategy is something that gives you competetive advantage.

Top leadership always think they are in a battle.

1. Planning
   - → Strategic → Conceptual
   - → Tactical → For people who implement Strategies
   - → Operational → Those who make it work

2. Organising (Physical resources)
3. Directing → Leader
4. Control

Manager has formal authority and they have systematic knowledge.

Leaders do not have formal authority, they are natural motivators, cannot be taught.

Leader

↓

Great Man (Theory 'Greco-Roman')

↓

Trait theory
(Identifying traits and predict them)

Trait theory bought 'correlation' but could not bring 'causality'.

Nature
+
Nurture
→ Phenotype

Nature is genotype.

We can now train people to become leaders.
That's Behavioral Theory.

Power
- Reward
- Coercive
- Referent
- Legitimate

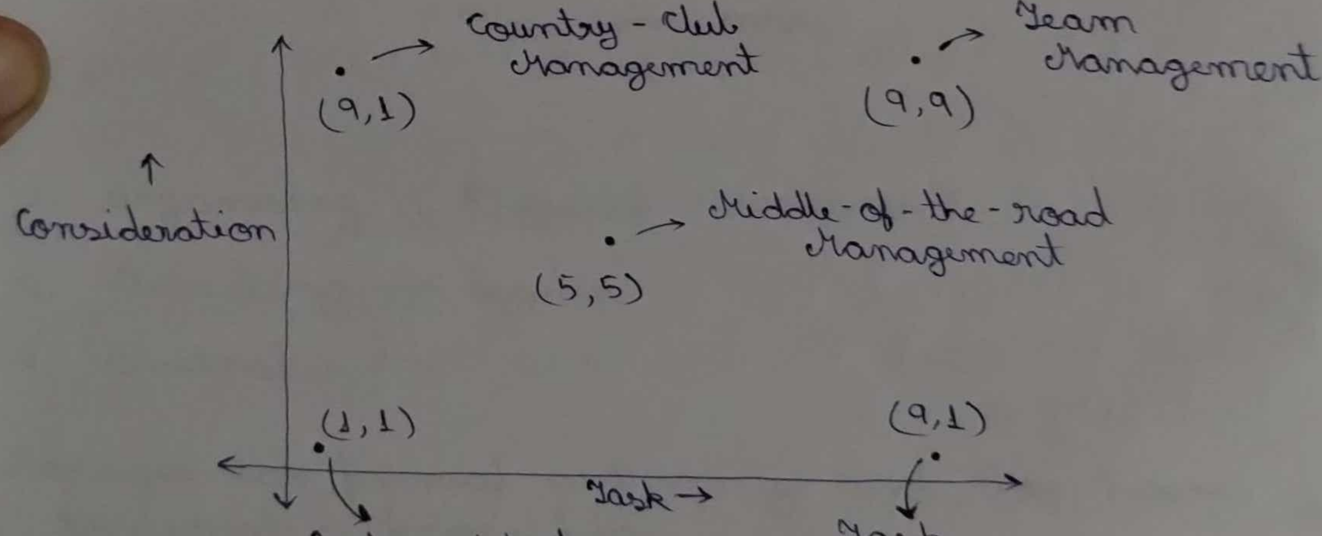
"Referent" power is like when we believe someone is better than us in some way and we can learn from them.

Eklavya thought of Dronacharya as his guru because he knew Dronacharya was a better archer.

We follow a teacher because he knows better.

- Initially, it was thought that 'consideration' and 'Task' are two opposite ends of the same continuum.

But, they are actually orthogonally related.



This was done by Blake and Mouton.

- Personality, temparament, skill-level etc. of the employees also matter.
- Freud (Read books)
- Pretty people have previlege. This is called Halo Effect.

- 'In-group' members get good projects. They think that the manager is their leader. They have less absentism and are generally happy.

'out-group' members only get busy projects. They work and take money at the end of month. This is called LMX model.

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Leadership Management Exchange

- 'In-group' members have also problems. They get affected when management team changes. Elon fired top twitter managers.

- Types of leadership

(i) Autocratic

- → works when skill-level has a big variation
- → It is very fast in decision-making
- → No commitment and responsibility from employees

(ii) Democratic

- → works if opinions are required
- → when everyone has high and comparable skill-levels and some people have even more

(iii) Free-reign

- → Leader is only titular head
- → everyone is equally capable

Organisational
Factors
- Task Structure
- Leader - Member Relationship
- Power Authority

Fiedlers Contingency Model

There are 3 (Good, Bad, Intermediate) of each of the factors.

- All three are good in Army.
- All three are bad in a college classroom.
- In a bad such environment, task-driven management works best. Same works for good environment.

This is Situational Leadership.

FINANCE

02/08/2023

- Staircase provides elevation. ☺
- For convenience, only a bit of 'cost accounting' will be studied.
- Decision making is available only when there are at least two ways / paths.
- 'The Nation's Wealth' by Adam Smith
- Economics is the study of wealth.
- AICPA (see their defination)
  AAA (More suited for cost accounting)
- Half-Truth leads to blunder.
  Partial Information is also dangerous.

Information Asymmetry is a deadly problem in modern accounting studies.

- Accounting is the process of identifying, measuring and communicating economic information to permit prudent judgement and decision by the users of information.
- One person must have quality information back-up if he wants to invest.
- Life is always unfair. ☹
- orthodox : Not adapting to changes
  Conservative : They are scared

One of the fundamental constructs in accounting is 'Conservatism'.

'Account for anticipated loses.'

- If you understand that there is a possibility of loss, you should take protection.
  Nobody knows the future.
- If we are ready, the consequences do not hit so badly.

- Capital is the life-blood of business.
- Stake : value at risk

Investors and prospective investors are stake-holders.
Employees, creditors are also stake-holders.
Government will get some tax.
Customers need long term support.

'Corporate Social Responsibility' (CSR)

- There are different categories of stake-holders. Every category has their own information requirement.
- We can't be certain of future. So, we have 'Insurance'.

'Uncertainty' and 'Risk' are different.
We can assign a probability distribution to 'Risk' and finance can take risks but we cannot probabilistically control outcome if there is 'uncertainty'.

- When we don't have past information, we cannot formulate strategies.
- If everyone is a theif, nobody is to blame.
- Measurement is quantification.

We do it by assigning numbers. It is generally compared against a standard.

- Feedback is not necessary in communication.

Information
Transmiter (encodes data to signal)
Medium
Receiver (Decodes signal)

Q. What is the role of 'Keyword' in finance?

- Don't pretend to be smart, be smart.

08/08/2023

-> Cost and Cost-Accounting

Cost-Accounting is more focused with manufacturing sector.

- without compromising quality, we have to ensure that all the inputs are utilized to maximum extent.
- we cannot afford to waste resources.
- cost-accounting is a subject that deals with cost, utilization of resources i.e. it is the body of knowledge.
- 'Cost' is the amount of scarce resources sacrifice in order to achieve a particular objective.
- 'Resources' are the items which have the power to satisfy human needs:

Types —

(i) Ubiquitous (Freely available; abundant)
Eg.:- Sunshine, Air

(ii) Scarce (Limited in supply as with its demand)
Eg.:- Coal, Iron-ore

- Four factors of production are Land, Labour, Capital and Entrepreneurship.
- Sacrifice is parting with something owned by somebody voluntarily.

That something has to be a scarce resource.

- controlling wastage is also reflected in cost.
- unless the 'basis' is mentioned, the classification is useless.
- According to input,

Element-wise classification:

Some inputs are tangible, called 'Materials'.
So, first cost is 'Material Cost'.

The next category is 'wage category'. This is paid to a human being in compensation for his labour.

The last one is mixed. It is neither paid to humans nor are physical costs. These are called 'Expenses'.

- According to tracebility,

If one cost is benifitting only one product, it is called 'Direct cost'.

If one item of cost is benifittig multiple products, it is called 'Indirect cost' or 'overhead'.

- According to function,
  - Manufacturing cost
  - Administrative cost
  - Selling and Distribution
  - Research and Development

- According to behaviour or variability,

Here, the parameter is quantity.

Cost should be fixed, it seems so, but its not. essentially cost is variable.

Production function:

$$\text{output} = f(\text{input})$$

Some inputs cannot be changed overnight like manging directors. There comes the concept of constant input.

'Short run' → The period in which one or more inputs cannot be changed.

'Long run' → There is no constant input, so there is no fixed cost.

In case of multiple alternatives, the common cost is 'Irrelevant cost' because it is present in every one of them. The cost which is present in one alternative and not in others, is called 'Relevant cost'.

22/08/2023

Financial accounting
Cost accounting
Management accounting

The later ones were developed to overcome the problems of the previous ones.

- The purpose of business is to earn profit, plain and simple.
- When we have invested some scarce resource, which has alternative uses, for some activity. If our objective is not achieved, we are wasting the resource.
  Instead of wasting resource, we should put it to use in the next best alternative.
- We have to look back if what we had been doing, generated profit.
  1st April, some year ⟶ 31st March, Next year
  This is Financial Accounting.
  This period is known as 'Accounting Period'.
- If we are not getting good returns for successive periods of time, we should stop. Salvage whatever is left, otherwise capital will keep decreasing.
- Perspective is very important in life.
- In early days of civilization,

Mr. A	Mr. B
Product A	Product A
Product B	Product B

Each person made everything.
Slowly, people started to understand, they cannot be good at everything.

Now A and B decide they will make whatever they are good at.

Mr. A	Mr. B
Product A	Product B

- With the same effort as earlier, each person will make more of each product. There comes the idea of 'surplus'. Then comes the idea of 'exchange'.

- Instead of making more products, people can improve the quality of product. That is how 'Standards of Living' are increased.

- There are self-competing brands. Now, a single business can have multiple products.

- Earlier, one business meant one product. Evaluating the product meant evaluating the business. That's why Finalcial Accounting was so simple.

- Methods of computation of cost

If we have different distinguishing characteristics, and those influence the cost, then there have to be different methods of computing cost.
So, we have to categorise the industries first.

Types of industries—

(i) Goods-Manufacturing and Service

Cost unit – Unit against which you express cost

For goods → cost per good

For service sector, it is difficult to select a feature based on which unit is decided. So, we take composite unit.

For goods,
There can be two types
(i) Standardised manufacture
(ii) Manufactured based on customer specification

Your account should reflect what actually is happening in business.

In Standardised manufacture, there are two cases —

(a) 'unit' or 'output' costing
Done by averaging all cost of making and then calculating 'cost per unit'.

(b) If production is carried on different stages of manufacture, then output costing is not applicable.
Eg :- Textile (Thread, Shirt, Piece)
Pharma (Chemical, medecine)

ABC analysis → Analysis of value
Less product but highly valuable (More imp.)
More products but less valuable (Less imp.)

Here, we need 'Process' costing.

In Manufacturing based on customer specification, there are two cases —

(a) Job costing
Done based on what kind of job is being done. Has 'Job Number' for each job.

(b) Normal business won't work here.
We will appoint a compenent 3rd party to supervise.
This is a case where manufacturing takes long time.

- Unsolicited advice giveth not. ☺

If the third-party gives certificate that 10% has been done, we will only pay for 8%.

Then the manufacturer cannot leave without completion.

So, a legal contract has to be done.
This is 'contract' costing.

→ When cost overrun happens, we have it accounted for in legal clause as 'escalation