**Long Questions (FOM)**

1. Define Management. Explain in detail the nature of management.

Many management experts have tried to define management. But, no definition of management

has been universally accepted. Let us discuss some of the leading definitions of management:

Henry Fayol, "To manage is to forecast and plan, to organize, to compound, to co-ordinate and to control."

Harold Koontz says, "Management is the art of getting things done through and within formally organized group."

Peter F. Drucker defines, "management is an organ; organs can be described and defined only through their functions".

CHARACTERISTICS OF MANAGEMENT

1. Economic Resource: Management is one of the factors of production together with land, labour and capital. As industrialization increases, the need for managers also increases. Efficient management is the most critical input in the success of any organized group activity as it is the force which assembles and integrates other factors of production, namely, labour, capital and materials. Inputs of labour, capital and materials do not by themselves ensure production, they require the catalyst of management to produce goods and services required by the society.

Thus, management is an essential ingredient of an organization.

2. Goal Oriented: Management is a purposeful activity. It coordinates the efforts of workers

to achieve the goals of the organization. The success of management is measured by the extent to which the organizational goals are achieved. It is imperative that the organizational goals must be well-defined and properly understood by the management at various levels.

3. Distinct Process: Management is a distinct process consisting of such functions as planning, organizing, staffing, directing and controlling. These functions are so interwoven that it is not possible to lay down exactly the sequence of various functions or their relative significance.

4. Integrative Force: The essence of management is integration of human and other resources to achieve the desired objectives. All these resources are made available to those who manage. Managers apply knowledge, experience and management principles for getting the results from the workers by the use of non-human resources. Managers also seek to harmonize the individuals' goals with the organizational goals for the smooth working of the organization.

5. System of Authority: Management as a team of managers represents a system of authority, a hierarchy of command and control. Managers at different levels possess varying degree of

authority. Generally, as we move down in the managerial hierarchy, the degree of authority gets gra

dually reduced. Authority enables the managers to perform their functions effectively.

6.Multi-disciplinary Subject :Management has grown as a field of study (i.e. discipline) taking the help of so many other disciplines such as engineering, anthropology, sociology and psychology. Much of the management literature is the result of the association of these disciplines. For instance, productivityorientation drew its inspiration from industrial engineering and human relations orientation from psychology. Similarly, sociology and operations research have also contributed to the development of management science.

7. Universal Application :Management is universal in character. The principles and techniques of management are equally applicable in the fields of business, education,military, government and hospital. Henri Fayol suggested that principles of management would apply more or less in every situation. The principles are working guidelines which are flexible and capable of adaptation to every organization where the efforts of human beings are to be coordinated.

2. Explain in detail the process of Management.

Henri Fayol identifies five functions of management, viz. planning, organizing, commanding, coordinating and controlling.

1. Planning: Planning is the most fundamental and the most pervasive of all management functions. If people working in groups have to perform effectively, theyshould know in advance what is to be done, what activities they have to perform in order to do what is to be done, and when it is to be done. Planning is concerned with 'what', 'how, and 'when' of performance. It is deciding in the present about the future objectives and the courses of action for their achievement. It thus involves:

(a) determination of long and short-range objectives;

(b) development of strategies and courses of actions to be followed for the achievement of these objectives; and

(c) formulation of policies, procedures, and rules, etc., for the implementation of strategies, and plans.

The organizational objectives are set by top management in the context of its basic purpose and

mission, environmental factors, business forecasts, and available and potential resources. These objectives are both long-range as well as short-range. They are divided into divisional, departmental, sectional and individual objectives or goals.

2. Organizing: Organizing involves identification of activities required for the achievement of enterprise objectives and implementation of plans; grouping of activities into jobs; assignment

of these jobs and activities to departments and individuals; delegation of responsibility and

authority for performance, and provision for vertical and horizontal coordination of activities. Every

manager has to decide what activities have to be undertaken in his department or section for the achievement of the goals entrusted to him. Having identified the activities, he has to group identical or similar activities in order to make jobs, assign these jobs or groups of activities to his subordinates, delegate authority to them so as to enable them to make decisions and initiate action for undertaking these activities, and provide for coordination between himself and his subordinates, and among his subordinates. Organizing thus involves the following sub-function :

(a) Identification of activities required for the achievement of objectives and implementation of plans.

(b) Grouping the activities so as to create self-contained jobs.

(c) Assignment of jobs to employees.

(d) Delegation of authority so as to enable them to perform their jobs and to command the re

sources needed for their performance.

(e) Establishment of a network of coordinating relationships.

3. Staffing: Staffing is a continuous and vital function of management. After the objectives have been determined, strategies, policies, programmes, procedures and rules formulated for their achievement, activities for the implementation of strategies, policies, programmes, etc. identified and grouped into jobs, the next logical step in the management process is to procure suitable personnel for manning the jobs. Since the efficiency and effectiveness of an organization

significantly depends on the quality of its personnel and since it is one of the primary functions of management to achieve qualified and trained people to fill various positions, staffing has been recognized as a distinct function of management. It comprises several sub-functions :

(a) Manpower planning involving determination of the number and the kind of personnel required.

(b) Recruitment for attracting adequate number of potential employees to seek jobs in the enterprise.

(c) Selection of the most suitable persons for the jobs under consideration.

(d) Placement, induction and orientation.

(e) Transfers, promotions, termination and layoff.

(f) Training and development of employees.

4. Directing: Directing is the function of leading the employees to perform efficiently, and contribute their optimum to the achievement of organizational objectives. Jobs assigned to subordinates have to be explained and clarified, they have to be provided guidance in job performance and they are to be motivated to contribute their optimum performance with zeal a

nd enthusiasm. The function of directing thus involves the following sub-functions:

(a) Communication

(b) Motivation

(c) Leadership

5. Controlling: Controlling is the function of ensuring that the divisional, departmental, sectional and individual performances are consistent with the predetermined objectives and goals. Deviations from objectives and plans have to be identified and investigated, and correction action taken. Deviations from plans and objectives provide feedback to managers, and all other management processes including planning, organizing, staffing, directing

and coordinating are continuously reviewed and modified, where necessary.

Thus, controlling involves the following process:

(a) Measurement of performance against predetermined goals.

(b) Identification of deviations from these goals.

(c) Corrective action to rectify deviations.

3. What is the difference between Management and Administration.

The use of two terms management and administration has been a controversial issue in the management literature. Some writers do not see any difference between the two terms, while others maintain that administration and management are two different functions. Those who held management and administration distinct include Oliver Sheldon, Florence and Tead, Spriegel and Lansburg, etc. According to them, management is a lower-level function and is concerned primarily with the execution of policies laid down by administration. But some English authors like Brech are of the opinion that management is a wider term including administration. This controversy is discussed as under in three heads:

(i) Administration is concerned with the determination of policies and management with the implem

entation of policies. Thus, administration is a higher level function.

(ii) Management is a generic term and includes administration.

(iii) There is no distinction between the terms management and administration and they are used interchangeably.

(i) Administration is a Higher Level Function :Oliver Shelden subscribed to the first viewpoint. According to him, "Administration is concerned with the determination of corporate policy, the coordination of finance, production and distribution, the settlement of the compass of the organization and the ultimate control of the executive. Management proper is concerned with the execution of policy within the limits set up by administration and the employment of the organization in the particular objects before it... Administration determines the organization; management uses it. Administration defines the goals; management strives towards it".

(ii) Management is a Generic Term :The second viewpoint regards management as a generic term including administration. According to Brech, "Management is a social process entailing responsibility for the effective and economical planning and regulation of the operation of an enterprise in fulfillment ofa given purpose or task. Administration is that part of management which is concerned with the installation and carrying out of the procedures by which the programme is laid down and communicated and the progress of activities is regulated and checked against plans". Thus, Brech conceives administration as a part of management. Kimball and Kimball also subscribe to this view. According to them administration is a part of management. Administration is

concerned with the actual work of executing or carrying out the objectives.

(iii)Management and Administration are Synonymous:The third viewpoint is that there is no distinction between the terms 'management' and 'administration'. Usage also providesno distinction between these terms. The term management is used for higher executive functions like determination of policies,planning, organizing, directing and controlling in the business circles, while the term administration is used for the same set of functions in the Government circles. So there is no difference between these two terms and they are often used interchangeably.

4. Explain the nature of Management as- Science, Art, Profession.

Management as a Science : Development of management as a science is of recent origin, even though its practice is ages old. Fredrick W. Taylor was the first manager-theorist who made significant contributions to the development of management as a science.He used the scientific methods of analysis, observation and experimentation in the management of production function. A perceptive manager, as he was, he distilled certain fundamental principles and propounded the theory and principles of scientific management. His work was followed by many others including Gantt, Emerson, Fayol, Barnard, etc. Duringthe last few decades, great strides have been made in the development ofmanagement as a systematized body of knowledge which can be learnt, taught and researched. It has also provided powerful tools of analysis, prediction and control to practicing

managers. The scientific character ofmanagement has been particularly strengthened by management scientistswho have developed mathematical models of decision making. Another characteristic of science in management is that it uses the scientific methods of observation, experimentation and laboratory research. Management principles are firmly based on observed

phenomena, and systematic classification and analysis of data. These analyses and study of observed phenomena are used for inferring cause-effect relationships between two or more variables. Generalizations about these relationships result in hypotheses. The hypotheses when tested and found to be true are called principles. These principles when applied to practical situations help the practitioner in describing and analyzing problems, solving problems and

predicting the results.

Management as an art : Just as an engineer uses the science of engineering while building a bridge,

a manager uses the knowledge of management theory while performing his managerial functions.

Engineering is a science; its application to the solution of practical problems is an art. Similarly,management as a body of knowledge and a discipline is a science; its application to the solution of organizational problems is an art. The practice of management, like the practice of

medicine, is firmly grounded in an identifiable body of concepts, theories and principles. A medical practitioner, who does not base his diagnosis and prescription on the science of medicine, endangers the life of his patient. Similarly, a manager who manages without possessing the knowledge of

management creates chaos and jeopardizes the well-being of his organization. Principles of management like the principles of medicine are used by the practitioner not as rules of thumb but as guides in solving practical problems. It is often said that managerial decision making involves a large element of judgement. This is true too. The raging controversy whether management is a science or an art is fruitless. It is a science as well as an art. Developments in the field of the knowledge of management help in the improvement of its practice; and improvements in the practice of management spur further research and study resulting in further

development of management science.

Management as a Profession : We often hear of professionalisation of management in our country. By a professional manager, we generally mean a manager who undertakes management asa career and is not interested in acquiring ownership share in the enterprise which he manages. But, is management a profession in the true sense of the word? or, is management a profession like the professions of law and medicine? According to McFarland a profession possess the following characteristics :

(i) a body of principles, techniques, skills, and specialized knowledge;

(ii) formalized methods of acquiring training and experience;

(iii) the establishment of a representative organization with professionalisation as its goal;

(iv) the formation of ethical codes for the guidance of conduct; and

(v) the charging of fees based on the nature of services.

5. Explain the different levels of management with their functions.

1.Top management of a company consists of owners/shareholders, Board of Directors, its Chairman, Managing Director, or the Chief Executive, or the General Manager or Executive Committee having key officers.

The important functions of top management include :

(a) To establish the objectivesor goals of the enterprise.

(b) To make policies and frame plans to attain the objectives laid.

(c) To set up an organizational frame work to conduct the operations as per plans.

(d) To assemble the resources of money, men, materials, machines and methods to put the plans into action.

(e) To exercise effective control of the operations.

(f) To provide overall leadership to the enterprise.

2.Middle management of a company consists of heads of functional departments viz. Purchase Manager, Production Manager, Marketing Manager, Financial controller, etc. and Divisional and Sectional Officers working under these Functional Heads.

The following are the main functions of middle management :

(a) To interpret the policies chalked out by top management.

(b) To prepare the organizational set up in their own departments for fulfilling the objectives implied in various business policies.

(c) To recruit and select suitable operative and supervisory staff.

(d) To assign activities, duties and responsibilities for timely implementation of the plans.

(e) To compile all the instructions and issue them to supervisor under their control.

(f) To motivate personnel to attain higher productivity and to reward

them properly.

(g) To cooperate with the other departments for ensuring a smooth functioning of the entire organization.

3.Lower level or operative management of a company consists of Superintendents, Foremen, Supervisors, etc. It is placed at the bottom of the hierarchy of management, and actual operations are the responsibility of this level of management. It consists of foreman, supervisors, sales officers, accounts officers and so on. They are in direct touch with the rank and file or workers. Their authority and responsibility is limited. They pass on the instructions of the middle management to workers.They interpret and divide the plans of the management into short-range operating plans. They are also involved in the process of decisions-making. They have to get the work done through

the workers. They allot various jobs to the workers, evaluate their performance and report to the middle level management. They are more concerned with direction and control functions of management. They devote more time in the supervision of the workers.

6. Explain the contribution of Henry Fayol towards management.

He developed the following principles underlying management of all kinds of organizations :

1. Authority and Responsibility are Related :Fayol held that authority flows from responsib

ility. Managers who exercise authority over others should assume responsibility for decisions as

well as for results. He regardedauthority as a corollary to responsibility. Authority is official as well as personal. Official authority is derived from the manager's position in organizational hierarchy and personal authority is compounded of intelligence, experience, moral worth, past services, etc. A corollary of the principle that no manager should be given authority unless he assumes responsibility is that those who have responsibility should also have commensurate authority in order to enable them to initiate action onothers and command resources required for the performance of their functions

2. Unity of Command : This principle holds that one employee should have only one boss and receive instructions from him only. Fayol observed that if this principle is violated authority will be undermined, discipline will be jeopardy, order will be disturbed and stability will be threatened. Dual command is a permanent source of conflict. Therefore, in every organization, each subordinate should have one superior whose command he has to obey.

3. Unity of Direction : This means that all managerial and operational activities which relate a distinctgroup with the same objective should be directed by "one head and one plan. According to Fayol, there should be, "one head and one plan for a group of activities having the same objective". It, however, does not mean that all decisions should be made at the top. It only means that all related activities should be directed by one person.

4.Scalar Chain of Command : According to Fayol scalar chain is the chain of superiors ranging from the ultimate authority to the lowest ranks. The line of authority is the route followed via every link in the chain by all communication which start from or go to the ultimate authority.

5.Division of Work : This is the principle of specialization which, according to Fayol, applies to all kinds of work, managerial as well as technical. It helps a person to acquire an ability and accuracy with which he can do more and better work with the same effort. Therefore, the work of every pers

on in the organization should be limited as far as possible to the performance of a single leading

function.

6.Discipline :Discipline is a sine qua non for the proper functioning of an organization. Members of

an organization are required to perform their functions and conduct themselves in relation to others

according to rules, norms and customs. According to Fayol, discipline can best be maintained by: (i) having good superiors at all levels; (ii) agreements (made eitherwith the individual employees or

with a union as the case may be) that are as clear and fair as possible; and (iii) penalties judiciously imposed.

7. Subordination of Individual Interest to General Interest :The interest of the organization is above the interests of the individual and the group. It can be achieved only when managers in high

positions in the organization set an example of honesty, integrity, fairness and justice. It will involve an attitude and a spirit of sacrificing their own personal interests whenever it becomes apparent that such personal interests are in conflict with organizational interests. It may, however, be emphasized that social and national interests should have precedence over organizational interests whenever the two run counter to each other.

8. Remuneration :Employees should be paidfairly and equitably. Differentials in remuneration should be based on job differentials, in terms of qualities of the employee,application,responsibility, working conditions and difficulty of the job. It should also take into account factors like cost of living, general economic conditions, demand for labour and economic

state of the business.

9. Centralisation :Fayol believed in centralisation. He, however, did not contemplate concentration of all decision making authority in the top management. He, however, held that centralisation and

decentralisation is a question of proportion. In a small firm with a limited number of employees, the owner-manager can give orders directly to everyone. In large organizations, however, where the

worker is separated from the chief executive through a long scalar chain, the decision making authority has to be distributed among various managers in varying degrees. Here one generally comes across a situation of decentralisation with centralised control. The degree of centralisation

and decentralisation also depends on the quality of managers.

10. Order :Order, in the conception of Fayol, means right person on the right job and everything in its proper place. This kind of order, depends on precise knowledge of human requirements and resources of the concern and a constant balance between these requirements and resources.

11. Equity : It means that subordinates should be treated with justice and kindliness. This is essential for eliciting their devotion and loyalty to the enterprise. It is, therefore the duty of the chief executive to instill a sense of equity throughout all levels of scalar chain.

12. Stability of Tenure of Personnel : The managerial policies should provide a sense of reasonable job security. The hiringand firing of personnel should depend not on the whims of the superiors but on the well-conceived personnel policies.

13. Initiative : It focuses on the ability, attitude and resourcefulness to act without prompting from others. Managers must create an environment which encourages their subordinates to take initiative

and responsibility. Since it provides a sense of great satisfaction to intelligent employees, managers should sacrifice their personal vanity in order to encourage their subordinates to show initiative.

14. Esprit de Corps : Cohesiveness and teamspirit should be encouraged among employees. It is one of the chief characteristics of organized activity that a number of people work together in close

coopearation for the achievement of common goals. An environment should be created in the organization which will induce people to contribute to each other's efforts in such a way th

at the combined effort of all together promotes the achievement of the overall

objectives of enterprise.

7. Explain the significance of management.

1. Achievements of group goals :Management makes group efforts more effective. The group as a

whole cannot realise its objectives unless and until there is mutual co-operation and co-ordination

among the members of the group. Management creates team work and team spirit in an organization by developing a sound organization structure. It brings the human and material resources together and motivates the people for the achievement of the goals of the organization.

2. Optimum utilization of resources :Management always concentrates on achieving the objectives of the enterprise. The available resources of production are put to use in such a way that all sort of wastage and inefficiencies are reduced to a minimum. Workers are motivated to put in their best

performance by the inspiring leadership. Managers create and maintain an environment conducive to highest efficiency and performance. Through the optimum use of available resources, management accelerates the process of economic growth.

3. Minimisation of cost :In the modern era of intense competition, every business enterprise must minimise the cost of production and distribution. Only those concerns can survive in th

e market, which can produce goods of better quality at the minimum cost. A study of the principles of management helps in knowing certain techniques used for reducing costs. These techniques are production control, budgetary control, cost control, financial control, material control, etc.

4. Change and growth :A business enterprise operates in a constantly changing environment. Changes in business environment create uncertainties and risk and also produce opportunities

for growth. An enterprise has to change and adjust itself in the everchanging environment. Sound management moulds not only the enterprise but also alters the environment itself to ensure the success of the business. Many of the giant business corporations of today had humble beginning and grew continuously through effective management.

5. Efficient and smooth running of business : Management ensures efficient and smooth running of business, through better planning, sound organization and effective control of the various factors of

production.

6. Higher profits :Profits can be enhanced in any enterprise either by increasing the sales revenue or reducing costs. To increase the sales revenue is beyond the control of an enterprise. Management by

decreasing costs increases its profitsand thus provides opportunities for future growth and development.

7. Provide innovation :Management gives new ideas, imagination and visions to an enterprise.

8.Social benefits :Management is useful not only to the business firms but to the society as a whole.

It improves the standard of living of the people through higher production and more efficient use of scarce resources. By establishing cordial relations between different social groups, management promotes peace and prosperity in society.

8. Explain in detail the sources of recruitment.

Internal Sources

1. Transfer :Transfer involves the shifting of an employee from one job to another. At the time of transfer, it is ensured that the employee to be transferred to the new job is capable of performing it. In fact, transfer does not involve any drastic change in the responsibilities and status of the employee. On the other hand, promotion leads to shifting an employee to a higher position carrying higher responsibilities, facilities, status and pay.

2. Promotion : Many companies follow the practice of filling higher jobs by promoting employees who are considered fit for such positions. Filling vacancies in higher jobs from within the organization has the following merits :

(a) Improves morale :When an employee from inside the organization is given the higher

post, it helps in increasing the morale of all employees. Generally every employee expects

promotion to a higher post (carrying more status and pay) if he fulfils the requirements.

(b) No error in selection : When an employee is selected from inside, there is no possibility of

errors in selection since every company maintains complete record of its employees and can

judge them in a better manner.

(c)Promotes loyalty: It promotes loyalty among the employees as they feel secured on account

of chances of advancement.

(d)No hasty decision: The chances of hasty decisions are completely eliminated as the existing employees are well tried and can be relied upon.

(B) External Sources

1. Direct Recruitment: An important source of recruitment is direct recruitment by placing a notice on the notice board of the enterprise specifying the details of the jobs available. It is also known as recruitment at factory gate. The practice of direct recruitment is generally followed for filling casual

vacancies requiring unskilled workers. Such workers are known as casual or badly

workers and they are paid remuneration on daily wage basis.

2. Unsolicited Applications: Many qualified persons apply for employment to reputed companies on their own initiative. Such applications are known as unsolicited applications. They serve as a good source of manpower. A proper record may be kept of such applications and the candidates may be called for interview whenever the need arises.

3. Advertisements: Advertising the job has become a fashion of the day with the large scale

enterprises, particularly when the vacancy is for a higher post or when there are a large

number of vacancies.

4. Employment Agencies: Employment exchanges run by the Government are regarded as a good source of recruitment for unskilled, semi-skilled operative jobs. In some cases, compulsory notification of vacancies to employment exchange is required by law.

9. What is the difference between Recruitment & Selection.

Difference between Recruitment and Selection

1. Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization. On the other hand, selection means employment of workers or establishing a contractual relationship between the employer and the worker.

2. Recruitment is a positive process of searching for prospective employees, whereas selection is

a negative process because it involves rejection of unsuitable candidates.

3. The purpose of recruitment is to create a large pool of applicants for the jobs in the organization. But selection aims at eliminating unsuitable candidates and ensuring most competent people for the

jobs.

4. Recruitment is a relatively simple process as the candidates are required to fill in the prescribed forms and deposit with the employer. But selection is a complex and lengthy process under which the candidates have to pass through a number of stages before getting the offer for a job.

10. Explain in detail the process of Selection.

1.Preliminary Interview :

In most of the organizations, the selection programme begins with preliminary interview or screening. The preliminary interview is generally brief and does the job of eliminating the totally unsuitable candidates. The preliminary interview offers advantages not only to the organization, but also to the applicant.

2. Receipt of Applications: Whenever there is a vacancy, it is advertised or enquiries are made

from the suitable sources, and applications are received from the candidates. Standard application

forms may be drawn up for all jobs and supplied to the candidates on request.

3. Screening of Applications: After the applications are received, they are screened by the screening committee and a list is prepared of the candidates to be interviewed. Applicants may be called for

interview on some specific criteria like gender, desired age group, experience and qualifications. The number of candidates to be called for interview is normally five to seven times the number of posts to the filled up.

4. Employment Tests: Employment tests are used to select persons for various jobs. They help in

matching the characteristics of individuals with the vacant jobs so as to employ right kinds of

personnel.

5. Medical Examination: The pre-employment physical examination or medical test of a candidate is an important step in the selection procedure. Though in the suggested selection procedure, medical test is located near the end, but this sequence need not be rigid. The organizations may place the medical examination relatively early in the process so as to avoid time and expenditure to be incurred on the selection of medically unfit persons.

6. Background Investigation: A referee is potentially an important source of information about the candidate's ability and personality if he holds a responsible position in some organization or has been the boss or employer of the candidate. Prior to final selection, the prospective employer normally makes an investigation on the references supplied by the applicant and undertakes more or less a thorough search into the candidate's past employment, education, personal reputation, financial condition, police record, etc.

7. Final Selection: After a candidate has cleared all the hurdles in the selection procedure, he is formally appointed by issuing him an appointment letter or by concluding with him a service agreement. The appointment letter contains the terms and conditions of employment and pay scale and other benefits associated with the job.

11. What are the different roles performed by a manager?

Role Performed by Managers

1. Interpersonal Roles

Figurehead: In this role, every manager has to perform some duties of a ceremonial nature, such as greeting the touring dignitaries, attending the wedding of an employee, taking an important customer to lunch and so on.

Leader: As a leader, every manager must motivate and encourage his employees. He must also try to reconcile their individual needs with the goals of the organization.

Liaison: In this role of liaison, every manager must cultivate contacts outside his vertical chain of command to collect information useful for his organization.

2. Informational Roles

Monitor: As monitor, the manager has to perpetually scan his environment for information, interrogate his liaison contacts and his subordinates, and receive unsolicited information, much of it as result of the network of personal contacts he has developed.

Disseminator: In the role of a disseminator, the manager passes some of his privileged information directly to his subordinates who would otherwise have no access to it.

Spokesman: In this role, the manager informs and satisfies various groups and people who influence his organization. Thus, he advises shareholders about financial performance, assures consumer groups that the organization is fulfilling its social responsibilities and satisfies government that the origination is abiding by the law.

3. Decisional Roles

Entrepreneur: In this role, the manager constantly looks out for new ideas and seeks to improve his unit by adapting it to changing conditions in the environment.

Disturbance Handler: In this role, the manager has to work like a fire fighter. He must seek solutions of various unanticipated problems – a strike may loom large a major customer may go bankrupt; a supplier may renege on his contract, and so on.

Resource Allocator: In this role, the manager must divide work and delegate authority among his subordinates. He must decide who will get what.

Negotiator: The manager has to spend considerable time in negotiations. Thus, the chairman of a company may negotiate with the union leaders a new strike issue, the foreman may negotiate with

the workers a grievance problem, and so on.

12. What is Training? What are its benefits?

Training is the act of enhancing the knowledge and skills of an employee for performing a particular job. The main objective of training is to achieve a change in the behaviour of the trainees.

BENEFITS OF TRAINING

1. Quick learning: Training helps to reduce the learning time to reach the acceptable level of performance. The employees need not learn by observing others and waste a long time if the formal training programme exists in the organization. The qualified instructors will help the new employees to acquire the skills and knowledge to do particular jobs within a short interval of time.

2. Higher production: Training increases the skills of the employee in the performance of a particular job. An increase in skills usually helps increase in both quality and quality of output. Training is also of great help to the existing employees. It helps them to increase their level of performance on their present job assignments.

3. Standardization of procedures: With the help of training, the best available methods of performing the work can be standardized and taught to all employees. Standardization will make high levels of performance rule rather than the exception. Employees will work intelligently and make fewer mistakes when they possess the required know-how and have an understanding of their jobs and of the interdependence of one job on another.

4. Less Supervision: If the employees are given adequate training, the need of supervision is lessened. Training does not eliminate the need for supervision, but it reduces the need for detailed and constant supervision. A well-trained employee is self-reliant in his work because he knows what to do and how to do. Under such situations, close supervision is ordinarily not mandatory.

5. Economical operations: Trained personnel will be able to make better and economical use of materials and equipment. Wastage will also be low. In addition, the rate of accidents and damage to

machinery and equipment will be kept to the minimum by the well trained employees. These will lead to less cost of production per unit.

6. Higher morale: The morale of employees is increased if they are given proper training. A common objective of training programme will mould employees' attitudes to achieve support for organizational activities and to obtain better cooperation and greater loyalty. With the help of training, dissatisfaction, complaints, absenteeism and turnover can also be reduced among the employees. Thus, training helps in building an efficient and cooperative workforce.

13. Explain the different methods of training.

1. On the Job Training

Under this method an employee is instructed by some experienced employee, a special instructor or supervisor. The success of this type of training mainly depends on the qualified trainers. Usually training in crafts, trades, technical areas etc., is given by keeping the unskilled or semi-skilled

worker under the guidance of some skilled workers.

2. Apprentice Training

In many industries such as metal, printing and building construction, this system of training is widely in use. The apprentice training may last for four to five years. The worker is usually absorbed by the concerned industry after training period is over. They get practical knowledge on the job and theoretical knowledge in the classroom lecture. The workers get some stipend during their training period. It is the oldest and most common method of training in creates, trades and technical areas.

3. Vestibule Training (Training Centre Training)

Vestibule means a passage or room between the outer door and the interior of a building. In order to reach the inner of a house, one must pass from vestibule. Under vestibule training, workers are trained on special machines in a separate location i.e. classrooms. The vestibule school is run by the

personnel department. Training is given in artificial conditions which are just like the real life situations.

4. Internship Training

In this method of training students get practical training while they study. A proper liaison is established between the technical institutions and business houses where students are sent during their vacations. Thus, there is a balance between theory and practice and students get practical knowledge while studying.

5. Learner Training

Learners are those persons who are selected for semi-skilled jobs and lack even the basic knowledge of industrial engineering. These learners are first given education in vocational schools where they get knowledge of arithmetic, workshop mathematics and learn the operation of machines. They can be assigned regular jobs after training.

14. What is the difference between Training and Development.

The terms 'training' and 'development' appear to be synonymous. But there are some differences in the content and techniques of employee training and development. According to Edwin B. Flippo, "Training is the act of increasing the knowledge and skills of an employee for doing a particular

job, management development includes the process by which managers and executives acquire not only skills and competence in their present jobs, but also capacities for future managerial tasks of increasing difficulty and scope".

Training is the act of enhancing the knowledge and skills of an employee for doing a particular job. It imparts specific skills for specific purposes. It is mainly job-oriented. Training is given to both new and old employees throughout their stay in the organization. In contrast, management development includes the process by which managers and executives acquire not only skills and competence in their present jobs but also capacities for future managerial positions.

It may be noted here that the term 'training' refers to the programmes that facilitate the learning process which results in development (consequence of training). Hence the terms 'training' and 'development' are applicable to both managers, executives and non-managerial personnel.

The points of distinction between the two are given below:

1. Training is the act of learning basic skills and knowledge necessary for a particular job or a group of jobs. Development, on the other hand, means growth of the individual in all respects. An organization works for the development of its executives in order to enable them to gain advanced knowledge and competence.
2. The term 'training' is used in the context of imparting skills to operative workers. But the term development is used in the context of management development.
3. Training programmes are directed towards maintaining and improving current job performance, while development programmes seek to develop skills and competence for future jobs.

**SECTION B**

15. What Are The Main Elements Of Production Planning & Control?

Main elements of Production Planning & Control:

The following are main elements of Production Planning and Control.

1. Routing
2. Loading
3. Scheduling
4. Dispatching
5. Follow up
6. Inspection
7. Corrective

Routing: It is about selection of path or route through which raw materials pass in order to make it into a finished product. The points to be noted while routing process are – full capacity of machines, economical and short route and availability of alternate routing. Setting up time for the process for each stage of route is to be fixed. Once overall sequence are fixed, then the standard time of operations are noted using work measurement technique.

|  |
| --- |
| Loading and scheduling:  Loading and Scheduling are concerned with preparation of workloads and fixing of starting and completing date of each operation. On the basis of the performance of each machine, loading and scheduling tasks are completed. According to Kimball and Kimball, scheduling is defined as the determination of the time that should be required to perform the entire series as routed, making allowance for all factors concerned. |
| Dispatching: Dispatching is the routine of setting productive activities in motion through the release of orders and instructions, in accordance with previously planned time and sequence, embodied in route sheet and schedule charts. It is here the orders are released. |
| Expediting / Follow-up:  It is a control tool which brings an idea on breaking up, delay, rectifying error etc., during the progress of work. |
| Inspection: Inspection is to find out the quality of executed work process. |
| Corrective: At evaluation process, a thorough analysis is done and corrective measures are taken in the weaker spots. |

16. What Are The Types Of Production Systems?

Types of Production Systems: A production system can be defined as a transformation system in which a saleable product or service is created by working upon a set of inputs. Inputs are usually in the form of men, machine, money, materials etc. Production systems are usually classified on the basis of the following:

* Type of product,
* Type of production line,
* Rate of production,
* Equipment used etc

They are broadly classified into three categories:

1. Job shop production.
2. Batch production.
3. Mass production.

17. What is Job Production?

Job Production:

In this system products are made to satisfy a specific order. However that order may be produced-

* only once
* or at irregular time intervals as and when new order arrives
* or at regular time intervals to satisfy a continuous demand

The following are the important characteristics of job shop type production system:

* Machines and methods employed should be general purpose as product changes are quite frequent.
* Planning and control system should be flexible enough to deal with the frequent changes in product requirements.
* Man power should be skilled enough to deal with changing work conditions.
* Schedules are actually non existent in this system as no definite data is available on the product.
* In process inventory will usually be high as accurate plans and schedules do not exist.
* Product cost is normally high because of high material and labor costs.
* Grouping of machines is done on functional basis (i.e. as lathe section, milling section etc.)
* This system is very flexible as management has to manufacture varying product types.
* Material handling systems are also flexible to meet changing product requirements.

18. Explain Mass Production?

In mass production, same type of product is manufactured to meet the continuous demand of the product. Usually demand of the product is very high and market is going to sustain same demand for sufficiently long time.

The following are the important characteristics of mass production system:

* As same product is manufactured for sufficiently long time, machines can be laid down in order of processing sequence. Product type layout is most appropriate for mass production system.
* Standard methods and machines are used during part manufacture.
* Most of the equipments are semi automatic or automatic in nature.
* Material handling is also automatic (such as conveyors).
* Semi skilled workers are normally employed as most of the facilities are automatic.
* As product flows along a pre defined line, planning and control of the system is much easier.
* Cost of production is low owing to the high rate of production.
* In process inventories are low as production scheduling is simple and can be implemented with ease.

19. What is Product Design? What are different types of Production System?

Product design is a strategic decision as the image and profit earning capacity of a small firm depends largely on product design. Once the product to be produced is decided by the entrepreneur the next step is to prepare its design. Product design consists of form and function. The form designing includes decisions regarding its shape, size, color and appearance of the product. The functional design involves the working conditions of the product. Once a product is designed, it prevails for a long time therefore various factors are to be considered before designing it. These factors are listed below:

(a) Standardization

(b) Reliability

(c) Maintainability

(d) Servicing

(e) Reproducibility

(f) Sustainability

(g) Product simplification

(h) Quality Commensuration with cost

(i) Product value

(j) Consumer quality

(k) Needs and tastes of consumers.

TYPES OF PRODUCTION SYSTEM

Broadly one can think of three types of production systems which are mentioned here under:

(a)Continuous production

(b)Job or unit production

(c)Intermittent production

(a)Continuous production: -It refers to the production of standardized products with a standard

Set of process and operation sequence in anticipation of demand. It is also known as mass flow

production or assembly line production. This system ensures less work in process inventory and high product quality but involves large investment in machinery and equipment. The system is suitable in plants involving large volume and small variety of output e.g. oil refineries reform cement manufacturing etc.

(b)Job or Unit production: -It involves production as per customer's specification each batch or order consists of a small lot of identical products and is different from other batches. The system requires comparatively smaller investment in machines and equipment. It is flexible and can be adapted to changes in product design and order size without much inconvenience. This system is most suitable where heterogeneous products are produced against specific orders.

(c)Intermittent Production: Under this system the goods are produced partly for inventory and partly for customer's orders. E.g. components are made for inventory but they are combined differently for different customers. . Automobile plants, printing presses, electrical goods plant are examples of this type of manufacturing.

20. What is Inventory? Why it is maintained?

Introduction

The amount of material, a company has in stock at a specific time is known as inventory or in terms of money it can be defined as the total capital investment over all the materials stocked in the company at any specific time. Inventory may be in the form of:

raw material inventory

in process inventory

finished goods inventory

spare parts inventory

office stationary etc.

As a lot of money is engaged in the inventories along with their high carrying costs, companies cannot afford to have any money tied in excess inventories. Any excessive investment in inventories may prove to be a serious drag on the successful working of an organization. Thus there

is a need to manage our inventories more effectively to free the excessive amount of capital engaged in the materials.

Why Inventories?

Inventories are needed because demand and supply cannot be matched for physical and economical reasons. There are several other reasons for carrying inventories in any organization. To safe guard against the uncertainties in price fluctuations, supply conditions, demand conditions, lead times, transport contingencies etc.

To reduce machine idle times by providing enough in-process inventories at appropriate locations.

To take advantages of quantity discounts, economy of scale in transportation etc.

To decouple operations i.e. to make one operation's supply independent of another's supply. This helps in minimizing the impact of break downs, shortages etc. on the performance of the downstream operations. Moreover operations can be scheduled independent of each other if operations are decoupled.

To reduce the material handling cost of semi-finished products by moving them in large quantities between operations.

To reduce clerical cost associated with order preparation, order procurement etc.

Inventory Costs

In order to control inventories appropriately, one has to consider all cost elements that are associated with the inventories. There are four such cost elements, which do affect cost of inventory.

Unit cost: it is usually the purchase price of the item under consideration. If unit cost is related with the purchase quantity, it is called as discount price.

Procurement costs: This includes the cost of order preparation, tender placement, cost of postages, telephone costs, receiving costs, set up cost etc.

Carrying costs: This represents the cost of maintaining inventories in the plant. It includes the cost of insurance, security, warehouse rent, taxes, interest on capital engaged, spoilage, breakage etc.

Stockout costs: This represents the cost of loss of demand due to shortage in supplies. This includes cost of loss of profit, loss of customer, loss of goodwill, penalty etc.

21. Explain in detail material and resource requirement planning.

Material requirement planning is an information system for production planning based on inventory management. The basic components of material planning are:

* Material planning provides information that all the required raw material and products are available for production.
* Material planning ensures that inventory level are maintained at its minimum levels. But also ensures that material and product are available whenever production is scheduled, therefore, helping in matching demand and supply.
* Material planning provides information of production planning and scheduling but also provides information around dispatch and stocking.

### Objective of Material Requirement Planning

Material requirement planning is processed which production planning and inventory control system, and its three objectives are as follows:

* Primary objective is to ensure that material and components are available for production, and final products are ready for dispatch.
* Another primary objective is not only to maintain minimum inventory but also ensure right quantity of material is available at the right time to produce right quantity of final products.
* Another primary objective is to ensure planning of all manufacturing processes, this scheduling of different job works as to minimize or remove any kind of idle time for machine and workers.

### Advantages and Disadvantages of Material Resource Planning

As with every system based process, material resource planning also has its advantages and disadvantages, and they are as follows:

### Advantages of Material Resource Planning

* It helps in maintain minimum inventory levels.
* With minimum inventory levels, material planning also reduces associated costs.
* Material tracking becomes easy and ensures that economic order quantity is achieved for all lot orders.
* Material planning smoothens capacity utilization and allocates correct time to products as per demand forecast.

### Disadvantages of Material Resource Planning

* Material planning is highly dependent on inputs it receives from other systems or department. If input information is not correct than output for material planning will also be incorrect.
* Material planning requires maintenance of robust database with all information pertaining inventory records, production schedule, etc. without which output again would be incorrect.
* Material planning system requires proper training for end users, as to get maximum out of the system.
* Material resource planning system requires substantial investment of time and capital.

### Material Resource Planning - Inter dependency of Business Function

Material planning not only benefits operation department but is also beneficial to the other department of organization. They are as follows:

* Material planning is useful in determining cash flow requirement based on material requirements and final dispatch schedules.
* It helps procurement team in scheduling purchase of necessary material.
* It helps the sales team in determining delivery dates for final products.

### Implementation of Material Resource Planning

Implementation and success of material resource planning dependent on following factors:

* Acceptability of by top management about advantages and benefits
* Proper training and participation of all workers and personnel
* Precision and accuracy of input data for accurate and reliable results

22. What are the factors influencing facility location?

Facility location determination is a business critical strategic decision. There are several factors, which determine the location of facility among them competition, cost and corresponding associated effects. Facility location is a scientific process utilizing various techniques.

### Location Selection Factors

For a company which operates in a global environment; cost, available infrastructure, labor skill, government policies and environment are very important factors. A right location provides adequate access to customers, skilled labors, transportation, etc. A right location ensures success of the organization in current global competitive environment.

### Industrialization

A geographic area becomes a focal point for various facility locations based on many factors, parameters and issues. These factors are can be divided into primary factors and secondary factors. A primary factor which leads to industrialization of a particular area for particular manufacturing of products is material, labor and presence of similar manufacturing facilities. Secondary factors are available of credit finance, communication infrastructure and insurance.

### Errors in Location Selection

Facility location is critical for business continuity and success of the organization. So it is important to avoid mistakes while making selection for a location. Errors in selection can be divided into two broad categories behavioral and non-behavioral. Behavioral errors are decision made by executives of the company where personal factors are considered before success of location, for example, movement of personal establishment from hometown to new location facility. Non-behavioral errors include lack of proper investigative practice and analysis, ignoring critical factors and characteristics of the industry.

### Location Strategy

The goal of an organization is customer delight for that it needs access to the customers at minimum possible cost. This is achieved by developing location strategy. Location strategy helps the company in determining product offering, market, demand forecast in different markets, best location to access customers and best manufacturing and service location.

### Factors Influencing Facility Location

If the organization can configure the right location for the manufacturing facility, it will have sufficient access to the customers, workers, transportation, etc. For commercial success, and competitive advantage following are the critical factors:

Customer Proximity: Facility locations are selected closer to the customer as to reduce transportation cost and decrease time in reaching the customer.

Business Area: Presence of other similar manufacturing units around makes business area conducive for facility establishment.

Availability of Skill Labor: Education, experience and skill of available labor are another important, which determines facility location.

Free Trade Zone/Agreement: Free-trade zones promote the establishment of manufacturing facility by providing incentives in custom duties and levies. On another hand free trade agreement is among countries providing an incentive to establish business, in particular, country.

Suppliers: Continuous and quality supply of the raw materials is another critical factor in determining the location of manufacturing facility.

Environmental Policy: In current globalized world pollution, control is very important, therefore understanding of environmental policy for the facility location is another critical factor.

23. Explain in detail Facility Layout along with its objectives.

An effective facility layout ensures that there is a smooth and steady flow of production material, equipment and manpower at minimum cost. Facility layout looks at physical allocation of space for economic activity in the plant. Therefore, main objective of the facility layout planning is to design effective workflow as to make equipment and workers more productive.

### Facility Layout Objective

A model facility layout should be able to provide an ideal relationship between raw material, equipment, manpower and final product at minimal cost under safe and comfortable environment. An efficient and effective facility layout can cover following objectives:

* To provide optimum space to organize equipment and facilitate movement of goods and to create safe and comfortable work environment.
* To promote order in production towards a single objective
* To reduce movement of workers, raw material and equipment
* To promote safety of plant as well as its workers
* To facilitate extension or change in the layout to accommodate new product line or technology upgradation
* To increase production capacity of the organization

An organization can achieve the above-mentioned objective by ensuring the following:

* Better training of the workers and supervisors.
* Creating awareness about of health hazard and safety standards
* Optimum utilization of workforce and equipment
* Encouraging empowerment and reducing administrative and other indirect work

### Factors affecting Facility Layout

Facility layout designing and implementation is influenced by various factors. These factors vary from industry to industry but influence facility layout. These factors are as follows:

* The design of the facility layout should consider overall objectives set by the organization.
* Optimum space needs to be allocated for process and technology.
* A proper safety measure as to avoid mishaps.
* Overall management policies and future direction of the organization

### Design of Facility Layout

Principles which drive design of the facility layout need to take into the consideration objective of facility layout, factors influencing facility layout and constraints of facility layout. These principles are as follows:

* Flexibility: Facility layout should provide flexibility for expansion or modification.
* Space Utilization: Optimum space utilization reduces the time in material and people movement and promotes safety.
* Capital: Capital investment should be minimal when finalizing different models of facility layout.

### Design Layout Techniques

There are three techniques of design layout, and they are as follows:

1. Two or Three Dimensional Templates: This technique utilizes development of a scaled-down model based on approved drawings.
2. Sequence Analysis: This technique utilizes computer technology in designing the facility layout by sequencing out all activities and then arranging them in circular or in a straight line.
3. Line Balancing: This kind of technique is used for assembly line.

### Types of Facility Layout

There are six types of facility layout, and they are as follows:

* Line Layout
* Functional Layout
* Fixed Position Layout
* Cellular Technology Layout
* Combined Layout, and
* Computerized Relative Allocation of Facility Technique

24. Explain in detail Capacity Planning.

Capacity is defined as the ability to achieve, store or produce. For an organization, capacity would be the ability of a given system to produce output within the specific time period. In operations, management capacity is referred as an amount of the input resources available to produce relative output over period of time.

In general, terms capacity is referred as maximum production capacity, which can be attained within a normal working schedule.

Capacity planning is essential to be determining optimum utilization of resource and plays an important role decision-making process, for example, extension of existing operations, modification to product lines, starting new products, etc.

### Strategic Capacity Planning

A technique used to identify and measure overall capacity of production is referred to as strategic capacity planning. Strategic capacity planning is utilized for capital intensive resource like plant, machinery, labor, etc.

Strategic capacity planning is essential as it helps the organization in meeting the future requirements of the organization. Planning ensures that operating cost are maintained at a minimum possible level without affecting the quality. It ensures the organization remain competitive and can achieve the long-term growth plan.

### Capacity Planning Classification

Capacity planning based on the timeline is classified into three main categories long range, medium range and short range.

Long Term Capacity: Long range capacity of an organization is dependent on various other capacities like design capacity, production capacity, sustainable capacity and effective capacity. Design capacity is the maximum output possible as indicated by equipment manufacturer under ideal working condition.

Production capacity is the maximum output possible from equipment under normal working condition or day.

Sustainable capacity is the maximum production level achievable in realistic work condition and considering normal machine breakdown, maintenance, etc.

Effective capacity is the optimum production level under pre-defined job and work-schedules, normal machine breakdown, maintenance, etc.

Medium Term Capacity: The strategic capacity planning undertaken by organization for 2 to 3 years of a time frame is referred to as medium term capacity planning.

Short Term Capacity: The strategic planning undertaken by organization for a daily weekly or quarterly time frame is referred to as short term capacity planning.

### Goal of Capacity Planning

The ultimate goal of capacity planning is to meet the current and future level of the requirement at a minimal wastage. The three types of capacity planning based on goal are lead capacity planning, lag strategy planning and match strategy planning.

### Factors Affecting Capacity Planning

Effective capacity planning is dependent upon factors like production facility (layout, design, and location), product line or matrix, production technology, human capital (job design, compensation), operational structure (scheduling, quality assurance) and external structure ( policy, safety regulations)

### Forecasting v/s Capacity Planning

There would be a scenario where capacity planning done on a basis of forecasting may not exactly match. For example, there could be a scenario where demand is more than production capacity; in this situation, a company needs to fulfill its requirement by buying from outside. If demand is equal to production capacity; company is in a position to use its production capacity to the fullest. If the demand is less than the production capacity, company can choose to reduce the production or share it output with other manufacturers.

25. Explain the term Production Planning and Control.

For efficient, effective and economical operation in a manufacturing unit of an organization, it is essential to integrate the production planning and control system. Production planning and subsequent production control follow adaption of product design and finalization of a production process.

Production planning and control address a fundamental problem of low productivity, inventory management and resource utilization.

Production planning is required for scheduling, dispatch, inspection, quality management, inventory management, supply management and equipment management. Production control ensures that production team can achieve required production target, optimum utilization of resources, quality management and cost savings.

Planning and control are an essential ingredient for success of an operation unit. The benefits of production planning and control are as follows:

* It ensures that optimum utilization of production capacity is achieved, by proper scheduling of the machine items which reduces the idle time as well as over use.
* It ensures that inventory level are maintained at optimum levels at all time, i.e. there is no over-stocking or under-stocking.
* It also ensures that production time is kept at optimum level and thereby increasing the turnover time.
* Since it overlooks all aspects of production, quality of final product is always maintained.

### Production Planning

Production planning is one part of production planning and control dealing with basic concepts of what to produce, when to produce, how much to produce, etc. It involves taking a long-term view at overall production planning. Therefore, objectives of production planning are as follows:

* To ensure right quantity and quality of raw material, equipment, etc. are available during times of production.
* To ensure capacity utilization is in tune with forecast demand at all the time.

A well thought production planning ensures that overall production process is streamlined providing following benefits:

* Organization can deliver a product in a timely and regular manner.
* Supplier are informed will in advance for the requirement of raw materials.
* It reduces investment in inventory.
* It reduces overall production cost by driving in efficiency.

Production planning takes care of two basic strategies’ product planning and process planning. Production planning is done at three different time dependent levels i.e. long-range planning dealing with facility planning, capital investment, location planning, etc.; medium-range planning deals with demand forecast and capacity planning and lastly short term planning dealing with day to day operations.

### Production Control

Production control looks to utilize different type of control techniques to achieve optimum performance out of the production system as to achieve overall production planning targets. Therefore, objectives of production control are as follows:

* Regulate inventory management
* Organize the production schedules
* Optimum utilization of resources and production process

The advantages of robust production control are as follows:

* Ensure a smooth flow of all production processes
* Ensure production cost savings thereby improving the bottom line
* Control wastage of resources
* It maintains standard of quality through the production life cycle.

Production control cannot be same across all the organization. Production control is dependent upon the following factors:

* Nature of production( job oriented, service oriented, etc.)
* Nature of operation
* Size of operation

Production planning and control are essential for customer delight and overall success of an organization.

26. What is Material Handling? What are its Principles?

### Introduction

Raw materials form a critical part of manufacturing as well as service organization. In any organization, a considerable amount of material handling is done in one form or the other. This movement is either done manually or through an automated process. Throughout material, handling processes significant safety and health; challenges are presented to workers as well as management. Therefore, manual material handing is of prime concern for health and safety professional, and they must determine practical ways of reducing health risk to the workers.

### Material Handling

Manual material handling ranges from movement of raw material, work in progress, finished goods, rejected, scraps, packing material, etc. These materials are of different shape and sizes as well as weight. Material handling is a systematic and scientific method of moving, packing and storing of material in appropriate and suitable location. The main objectives of material handling are as follows:

* It should be able determine appropriate distance to be covered.
* Facilitate the reduction in material damage as to improve quality.
* Reducing overall manufacturing time by designing efficient material movement
* Improve material flow control
* Creation and encouragement of safe and hazard-free work condition
* Improve productivity and efficiency
* Better utilization of time and equipment

It is critical for manufacturing organization to identify importance of material handling principle as the critical step in promoting the job improvement process. Manual material handling significantly increases health hazard for the workers in from lower back injuries.

In the current competitive and globalized environment, it is important to control cost and reduce time in material handling. An efficient material handling process promotes:

* Design of proper facility layout
* Promotes development of method which improves and simplifies the work process
* It improves overall production activity.
* Efficient material handling reduces total cost of production.

### Principles of Material Handling

Material handling principles are as follows:

* Orientation Principle: It encourages study of all available system relationships before moving towards preliminary planning. The study includes looking at existing methods, problems, etc.
* Planning Principle: It establishes a plan which includes basic requirements, desirable alternates and planning for contingency.
* Systems Principle: It integrates handling and storage activities, which is cost effective into integrated system design.
* Unit Load Principle: Handle product in a unit load as large as possible
* Space Utilization Principle: Encourage effective utilization of all the space available
* Standardization Principle: It encourages standardization of handling methods and equipment.
* Ergonomic Principle: It recognizes human capabilities and limitation by design effective handling equipment.
* Energy Principle: It considers consumption of energy during material handling.
* Ecology Principle: It encourages minimum impact upon the environment during material handling.
* Mechanization Principle: It encourages mechanization of handling process wherever possible as to encourage efficiency.
* Flexibility Principle: Encourages of methods and equipment which are possible to utilize in all types of condition.
* Simplification Principle: Encourage simplification of methods and process by removing unnecessary movements
* Gravity Principle: Encourages usage of gravity principle in movement of goods.
* Safety Principle: Encourages provision for safe handling equipment according to safety rules and regulation
* Computerization Principle: Encourages of computerization of material handling and storage systems
* System Flow Principle: Encourages integration of data flow with physical material flow
* Layout Principle: Encourages preparation of operational sequence of all systems available
* Cost Principle: Encourages cost benefit analysis of all solutions available
* Maintenance Principle: Encourages preparation of plan for preventive maintenance and scheduled repairs
* Obsolescence Principle: Encourage preparation of equipment policy as to enjoy appropriate economic advantage.

Material handling operations are designed based upon principles as discussed above. Material handling equipment consists of cranes, conveyors and industrial trucks.

27. What is Aggregate Planning? Explain its strategies.

An organization can finalize its business plans on the recommendation of demand forecast. Once business plans are ready, an organization can do backward working from the final sales unit to raw materials required. Thus annual and quarterly plans are broken down into labor, raw material, working capital, etc. requirements over a medium-range period (6 months to 18 months). This process of working out production requirements for a medium range is called aggregate planning.

### Factors Affecting Aggregate Planning

Aggregate planning is an operational activity critical to the organization as it looks to balance long-term strategic planning with short term production success. Following factors are critical before an aggregate planning process can actually start;

* A complete information is required about available production facility and raw materials.
* A solid demand forecast covering the medium-range period
* Financial planning surrounding the production cost which includes raw material, labor, inventory planning, etc.
* Organization policy around labor management, quality management, etc.

For aggregate planning to be a success, following inputs are required;

* An aggregate demand forecast for the relevant period
* Evaluation of all the available means to manage capacity planning like sub-contracting, outsourcing, etc.
* Existing operational status of workforce (number, skill set, etc.), inventory level and production efficiency

Aggregate planning will ensure that organization can plan for workforce level, inventory level and production rate in line with its strategic goal and objective.

### Aggregate planning as an Operational Tool

Aggregate planning helps achieve balance between operation goal, financial goal and overall strategic objective of the organization. It serves as a platform to manage capacity and demand planning.

In a scenario where demand is not matching the capacity, an organization can try to balance both by pricing, promotion, order management and new demand creation.

In scenario where capacity is not matching demand, an organization can try to balance the both by various alternatives such as.

* Laying off/hiring excess/inadequate excess/inadequate excess/inadequate workforce until demand decrease/increase.
* Including overtime as part of scheduling there by creating additional capacity.
* Hiring a temporary workforce for a fix period or outsourcing activity to a sub-contrator.

### Importance of Aggregate Planning

Aggregate planning plays an important part in achieving long-term objectives of the organization. Aggregate planning helps in:

* Achieving financial goals by reducing overall variable cost and improving the bottom line
* Maximum utilization of the available production facility
* Provide customer delight by matching demand and reducing wait time for customers
* Reduce investment in inventory stocking
* Able to meet scheduling goals there by creating a happy and satisfied work force

### Aggregate Planning Strategies

There are three types of aggregate planning strategies available for organization to choose from. They are as follows.

1. Level Strategy

As the name suggests, level strategy looks to maintain a steady production rate and workforce level. In this strategy, organization requires a robust forecast demand as to increase or decrease production in anticipation of lower or higher customer demand. Advantage of level strategy is steady workforce. Disadvantage of level strategy is high inventory and increase back logs.

1. Chase Strategy

As the name suggests, chase strategy looks to dynamically match demand with production. Advantage of chase strategy is lower inventory levels and back logs. Disadvantage is lower productivity, quality and depressed work force.

1. Hybrid Strategy

As the name suggests, hybrid strategy looks to balance between level strategy and chase strategy.

28. What is Inventory Management? Explain JIT.

[Supply-chain management](http://www.managementstudyguide.com/supply-chain-management-definition.htm) plays a pivotal role in ensuring goods, and services are delivered on time to customers. Within supply-chain management, inventory management plays a central role. Inventory involves various cost, investment, space management, etc. Also there are chances that stored inventory may get damaged or get stolen adding to extra cost to the company. Therefore, it is important to have a robust inventory management for an organization.

### Inventory Holding

For an organization, it becomes important to hold inventory for the following reason:

* Inventory holding ensures that operation delay do not impact delivery to customers.
* It also ensures that company can meet spikes or fluctuation in product demand.
* It ensures that there is flexibility in production.
* It ensures that any delay by suppliers do not affect working of the company.

Considering the above inventory holding objectives, next step for the company is to make inventory related decision. Inventory decision involves two major considerations, first is the order quantity of the raw material and second is timing for placing those orders.

### Inventory Models

Inventory management is based upon two basic models i.e independent demand inventory model and dependent demand inventory model.

* Independent Demand Inventory Model talks about raw material demand which is dependent upon prevailing market conditions and is not correlated to any raw material currently used by the organization. Finished goods is an appropriate example for independent demand inventory model.
* Dependent Demand Inventory Model talks about raw material demand which are integral parts of production and form important part of material resource planning. For example, demand for raw material can be established as the basis of demand of finished products.

### Inventory Costs

There are three broad categories of cost associated with inventory; holding cost, ordering cost and set up cost.

* Holding costs are carrying cost associated with inventory over a period of time. They include insurance, warehousing, interest, extra head-count, etc.
* Ordering costs are cost associated with purchasing of raw material and receiving raw materials. They include forms, order processing, office maintenance supplies and staff associated with ordering.
* Set Up Cost are cost associated with installation of machine for production. They include clean- up cost, re-tooling cost and adjustment cost.

Inventory management ensures that organizations are able to minimize cost and maximize profit.

### Just In Time (JIT)

Just In Time is set of strategic activities, which are formulated to achieve maximum production with minimal maintenance of inventory. JIT as philosophy is applicable to various types of organization but on implement side it is more relevant with manufacturing operations.

For JIT system to be successful, there are two critical elements, attitude of workers/management and practice.

### Fundamentals of JIT

JIT is based on the following fundamentals:

* JIT manufacturing and ordering
* Elimination of waste
* Lean management
* Signal System (Kanban)
* Push-Pull System

With the above fundamentals in place, JIT delivers the following:

* Continuous improvement of production and order processing.
* Elimination of non-value added activities and procedures.
* Simplification and advancement of the existing systems.
* Creation of safety environment and ensuring total quality management.
* Creation crossed skilled workers.

29. Explain in detail material resource planning.

Success of an operation department of any organization is dependent upon an efficient production plan. One of the key essential of a production plan is material and manufacturing planning system. Material requirement planning plays a pivotal role in assembly-line production. Material requirement planning is a system based approach, which organizes all required production material.

Material requirement planning is an information system for production planning based on inventory management. The basic components of material planning are:

* Material planning provides information that all the required raw material and products are available for production.
* Material planning ensures that inventory level are maintained at its minimum levels. But also ensures that material and product are available whenever production is scheduled, therefore, helping in matching demand and supply.
* Material planning provides information of production planning and scheduling but also provides information around dispatch and stocking.

### Objective of Material Requirement Planning

Material requirement planning is processed which production planning and inventory control system, and its three objectives are as follows:

* Primary objective is to ensure that material and components are available for production, and final products are ready for dispatch.
* Another primary objective is not only to maintain minimum inventory but also ensure right quantity of material is available at the right time to produce right quantity of final products.
* Another primary objective is to ensure planning of all manufacturing processes, this scheduling of different job works as to minimize or remove any kind of idle time for machine and workers.

### Advantages and Disadvantages of Material Resource Planning

As with every system based process, material resource planning also has its advantages and disadvantages, and they are as follows:

### Advantages of Material Resource Planning

* It helps in maintain minimum inventory levels.
* With minimum inventory levels, material planning also reduces associated costs.
* Material tracking becomes easy and ensures that economic order quantity is achieved for all lot orders.
* Material planning smoothens capacity utilization and allocates correct time to products as per demand forecast.

### Disadvantages of Material Resource Planning

* Material planning is highly dependent on inputs it receives from other systems or department. If input information is not correct than output for material planning will also be incorrect.
* Material planning requires maintenance of robust database with all information pertaining inventory records, production schedule, etc. without which output again would be incorrect.
* Material planning system requires proper training for end users, as to get maximum out of the system.
* Material resource planning system requires substantial investment of time and capital.

### Material Resource Planning - Inter dependency of Business Function

Material planning not only benefits operation department but is also beneficial to the other department of organization. They are as follows:

* Material planning is useful in determining cash flow requirement based on material requirements and final dispatch schedules.
* It helps procurement team in scheduling purchase of necessary material.
* It helps the sales team in determining delivery dates for final products.

### Implementation of Material Resource Planning

Implementation and success of material resource planning dependent on following factors:

* Acceptability of by top management about advantages and benefits
* Proper training and participation of all workers and personnel
* Precision and accuracy of input data for accurate and reliable results

30. Explain in detail Quality Control Techniques.

Quality of product and services determines success or failure of the organization. Consumers expect the company to maintain high-level of quality and consider it an important aspect of satisfaction. Quality management, therefore, becomes very important as far as any organization is concerned. Quality management can be accomplished through various quality control techniques. Quality assurance and quality control are objective oriented and can be achieved through statistical quality control.

Statistical quality control requires usage of acceptance sampling and process control techniques. Statistical quality control extensively uses chart to measure the acceptance level of the product samples. Objective is to ensure that products fall within pre-decided upper control and lower control limits. Any sample falling outside the limits is inspected further for corrective action.

### Quality Control

The quality of product or service is ensuring if proper designing process is followed. This designing process needs to be backed by appropriate process design supported by a suitable technology which confirms to requirements of customers. Quality control ensures that defects and errors are prevented and finally removed from the process or product. Therefore, quality control should include; planning, designing, implementation, gaps identification and improvisation. If organization can implement a stringent quality control than following benefits are possible:

* Reducing product defects lead to less variable cost associated with labor and material.
* Reduction in wastage, scrap and pollution.
* Ability to produce quality products over longer period of time
* With quality maintenance needs for inspection reduces leading to decrease in maintenance cost
* Large pool of satisfied customers.
* Increase in employee motivation and awareness of quality.
* Increase in productivity and overall efficiency.

Above mentioned points are relevant not only for production stage but are equally important for input material, manufacturing process, delivery process, etc.

### Statistical Quality Control

Quality control techniques require extensive usage of statistical methods. The advantages of the statistical analysis are as follows:

* Statistical Tools are automated and therefore, require less manual intervention, leading cost reduction
* Statistical tools work on a model thus are very useful where testing requires destruction of products.

Statistical Quality tools can broadly be classified into following categories:

* Acceptance sampling is an important part of quality control wherein quality of products is assessed post production.
* Statistical process control helps in confirming whether the current process is falling within pre-determined parameters.

### Acceptance Sampling

Acceptance sampling is done on sample’s post production to check for quality parameters as decided by the organization covering both attributes as well as variables. If the sample does not meet the required parameters of quality than that given lot is rejected, and further analysis is done to identify the source and rectify the defects. Acceptance sampling is done on the basis of inspection, which includes physical verification of color, size, shape, etc.

The major objectives of inspection are:

* To detect and prevent defects in products and process.
* To identify defected parts or product and prevent it from further consumption or usage.
* To highlight the product or process defect to appropriate authorities for necessary and corrective actions.

Scope of inspection covers input materials, finished material, plant, machinery etc.

To sustain quality of product and services it is important to have in place robust quality control techniques.

**SECTION C**

31. What is Marketing? What are the factors influencing marketing environment?

Marketing is art of developing, advertising and distributing goods and services to consumer as well as business. However, marketing is not just limited to goods and services it is extended to everything from places to ideas and in between. This brings forth many challenges within which marketing people have to take strategy decisions. And answer to these challenges depends on the market the company is catering to, for consumer market decision are with respect to product, packaging and distribution channel.

Factors influencing the market can be categorized under 6 different titles, demographic, economic, ecology, technology, regulatory-political and society-culture.

1. Demographic factors: are associated with changing nature and volume of population. It follows how people are conducting themselves in the new world, increasing per capita income, urban migration, ethnically diverse cities and mega cities. These are some demographic factors companies are monitoring. For example, a country like India and China are showing highest concentration of youth population where as Japan is showing high number of retired workers. Therefore, demand and consumption of product will also be different.
2. Economic factors: deals with function like purchasing power parity, income level, savings level and interest rates among many other. For example, countries with a high income level are more likely to afford luxury items compare to a low income level country. Savings level and interest rate determine the borrowing power as well as spending power of consumer.
3. Ecological factors: consist of natural resource composition in a given county. For example, demand for fossil fuel has sky rocketed in recent years there by increasing general price level in the market. Companies, therefore, are looking forward to designing products which eco-friendly design that is they are less fuel dependent and give out less pollution.
4. Technology factors: like internet and connectivity are changing the face of business. More and more people are doing business online. Science and medicine are also part of technology factors. Challenge for the company is to keep up with innovation and offer products, which are not obsolete.
5. Political environment: is also changing with more and more market based system rather than the socialist system. Furthermore, regulatory requirements like competition policy, investment policy, tax policy, etc. companies should investigate before taking their business to a particular country.
6. Culture environment: deals with factors like opinion people have towards themselves, others, organization and society in general. People have become more eco conscious, contributing one or many causes they can relate to, want organization to be responsible for their action and are looking to open society with meaningful co-existence.

All this 6 factors define any market environment and companies must understand them before developing their business plan.

32. Explain in detail Product Development Process.

Companies first find the target market than segment and then customers. After these companies go about developing products, which may be product modification or it may be a completely new product. Product offerings are increasing every year as consumers are looking for more and more variety of products. Companies which are unable to churn out new products fall back on competition and suffer the consequences. Companies face danger not just from competitors but consumer needs, technology, and product life cycle. New product development has its share of challenges. Research shows that 95 percent of new products fail in USA and in Europe failure rate is 90 percent.

Organizational set up has to be conducive to support new product development. Foremost companies must allocate funds for research and development, the conventional way is the percent of sales technique. Others chose to allow employees dedicate a certain amount of work time on new product development. Companies next have to organize the process of development. This can be done by product managers with new product development experience or by cross functional team with members chosen from various departments having the knack of developing new products.

Nowadays, companies are following stage process for product development.

1. The 1st stage is idea generation that is the search for new products. Companies pay a particular focus on customer needs and demands to decide on the new product. Idea generation can also be done by studying competitor’s product. Companies try to learn why competitor’s product ticks with consumer or what more customers want from that product. Companies also look at top management for idea generation. For example, Steve Jobs of Apple is known to participate actively in an idea generation. Research groups comprising of scientist, patent holders, colleges and universities also serve as the base for idea generation.
2. The 2nd stage is idea screening. Not all new ideas proposed can be converted into products. Companies list ideas into three categories promising ideas, marginal ideas and rejects. Promising ideas are further process by screening committee to be ready for the next stage. Screening should avoid the error where good ideas are dropped due to bias towards the idea generator. Another commonly occurring error is encouragement to a commercially unviable idea. Therefore, extra precautions are necessary during the screening process.
3. The 3rd stage begins when ideas move into the development process. Here a product idea is converted into several product concepts. Out of several product concepts, the one which looks fit is then placed against competitors to finalize marketing and positioning strategy. Product concept is introduced to a focus group of customer in a form of proto-type to understand their reaction.
4. The 4th stage involves developing of marketing strategy for new product. The marketing strategy involves evaluation of market size, product demand, growth potential, profit estimate in first few years. Further marketing strategy plan is developed with the launch of product, selection of distribution channel and budgetary requirements for the 1st year.
5. The 5th stage involves the development of the business model around the new product. Business models start with estimation of sales, frequency of purchase, and nature of business. Next estimation of cost and expense involve in production and distribution of new product. In that basis profit estimations are reached. Discounted cash flow and other methods are used to understand feasibility of new product.
6. The 6th stage involves the actual production of new product. Here more than one possible product are created, from proto-type to finalized products are produced. Decisions are taken from operation point of view whether is technically and commercially feasible to continue production. If analysis is showing cost not within the estimate then project is abandoned.
7. The 7th stage involves market testing of new product. The new product is ready with brand name, packaging, price to capture space in consumer’s mind.
8. The 8th stage involves launching of product across target market backed by a proper marketing and strategy plan. This stage is called commercialization phase.

Introduction of new product is part of survival technique for any firm. And with very high failure rate companies have to follow a scientific process to create new market offerings.

33. Define Marketing Research.Explain its scope.

ccording to *American Marketing Association*, “Marketing Research is the function that links the consumer, customer and public to the marketer through information-information used to identify and define marketing opportunities and problems, generate, refine and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process.”

Marketing Research is systematic problem analysis, model building and fact finding for the purpose of important decision making and control in the marketing of goods and services.

Marketing Research is a well-planned, systematic process which implies that it needs planning at all the stages. It uses scientific method. It is an objective process as it attempts to provide accurate authentic information. Marketing Research is sometimes defined as the application of scientific method in the solution of marketing problems.

Marketing Research plays a very significant role in identifying the needs of customers and meeting them in best possible way. The main task of Marketing Research is systematic gathering and analysis of information.

Before we proceed further, it is essential to clarify the relationship and difference between Marketing Research and Marketing Information System (MIS). Whatever information are generated by Marketing Research from internal sources, external sources, marketing intelligence agencies-consist the part of MIS.

MIS is a set of formalized procedures for generating, analyzing, storing and distributing information to marketing decision makers on an ongoing basis.

1. While Marketing Research is done with a specific purpose in mind with information being generated when it is conducted, MIS information is generated continuously.
2. MIS is continuous entity while Marketing Research is a ad-hoc system.
3. While in Marketing Research information is for specific purpose, so it is not rigid; in MIS information is more rigid and structured.

Marketing Research is essential for strategic market planning and decision making. It helps a firm in identifying what are the market opportunities and constraints, in developing and implementing market strategies, and in evaluating the effectiveness of marketing plans.

Marketing Research is a growing and widely used business activity as the sellers need to know more about their final consumers but are generally widely separated from those consumers. Marketing Research is a necessary link between marketing decision makers and the markets in which they operate.

Marketing Research includes various important principles for generating information which is useful to managers. These principles relate to the timeliness and importance of data, the significance of defining objectives cautiously and clearly, and the need to avoid conducting research to support decisions already made.

### Marketing Research is of use to the following:-

1. Producers
   1. To know about his product potential in the market vis-à-vis the total product;
   2. New Products;
   3. Various brands;
   4. Pricing;
   5. Market Structures and selection of product strategy, etc.
2. Business and Government

Marketing Research helps businesses and government in focusing attention on the complex nature of problems faced by them. For example:

* 1. Determination of Gross National Product; Price indices, and per capita income;
  2. Expenditure levels and budgeting;
  3. Agricultural Pricing;
  4. The economic policies of Government; and
  5. Operational and planning problems of business and industry.

1. Market Research Agencies

Marketing Research is being used extensively by professionals to help conducting various studies in Marketing Research. Most prominent agencies being:-

* 1. Linta India Ltd;
  2. British Market Research Bureau (BMRB);
  3. Hindustan Thompson Associate Ltd;
  4. eSurveysPro.com;
  5. MARG

34. What are the different modes of advertising?

Advertising is the promotion of a company’s products and services though different mediums to increase the sales of the product and services. It works by making the customer aware of the product and by focusing on customer’s need to buy the product. Globally, advertising has become an essential part of the corporate world. Therefore, companies allot a huge part of their revenues to the advertising budget. Advertising also serves to build a brand of the product which goes a long way to make effective sales.

There are several branches or types of advertising which can be used by the companies. Let us discuss them in detail.

[Print Advertising](http://www.managementstudyguide.com/print-advertising.htm) - The print media has been used for advertising since long. The newspapers and magazines are quite popular modes of advertising for different companies all over the world. Using the print media, the companies can also promote their products through brochures and fliers. The newspaper and magazines sell the advertising space and the cost depends on several factors. The quantity of space, the page of the publication, and the type of paper decide the cost of the advertisement. So an ad on the front page would be costlier than on inside pages. Similarly an ad in the glossy supplement of the paper would be more expensive than in a mediocre quality paper.

1. [Broadcast Advertising](http://www.managementstudyguide.com/broadcast-advertising.htm) - This type of advertising is very popular all around the world. It consists of television, radio, or Internet advertising. The ads on the television have a large audience and are very popular. The cost of the advertisement depends on the length of the ad and the time at which the ad would be appearing. For example, the prime time ads would be more costly than the regular ones. Radio advertising is not what it used to be after the advent of television and Internet, but still there is specific audience for the radio ads too. The radio jingles are quite popular in sections of society and help to sell the products.
2. [Outdoor Advertising](http://www.managementstudyguide.com/outdoor-advertising.htm) - Outdoor advertising makes use of different tools to gain customer’s attention. The billboards, kiosks, and events and tradeshows are an effective way to convey the message of the company. The billboards are present all around the city but the content should be such that it attracts the attention of the customer. The kiosks are an easy outlet of the products and serve as information outlets for the people too. Organizing events such as trade fairs and exhibitions for promotion of the product or service also in a way advertises the product. Therefore, outdoor advertising is an effective advertising tool.
3. [Covert Advertising](http://www.managementstudyguide.com/covert-and-public-service-advertising.htm) - This is a unique way of advertising in which the product or the message is subtly included in a movie or TV serial. There is no actual ad, just the mention of the product in the movie. For example, Tom Cruise used the Nokia phone in the movie Minority Report.
4. [Public Service Advertising](http://www.managementstudyguide.com/covert-and-public-service-advertising.htm) - As evident from the title itself, such advertising is for the public causes. There are a host of important matters such as AIDS, political integrity, energy conservation, illiteracy, poverty and so on all of which need more awareness as far as general public is concerned. This type of advertising has gained much importance in recent times and is an effective tool to convey the message.

35. Explain the objective and importance of advertising.

Advertising is the best way to communicate to the customers. Advertising helps informs the customers about the brands available in the market and the variety of products useful to them. Advertising is for everybody including kids, young and old. It is done using various media types, with different techniques and methods most suited.

Let us take a look on the main objectives and importance of advertising.

### Objectives of Advertising

Four main Objectives of advertising are:

1. Trial
2. Continuity
3. Brand switch
4. Switching back

Let’s take a look on these various types of objectives.

1. Trial: the companies which are in their introduction stage generally work for this objective. The trial objective is the one which involves convincing the customers to buy the new product introduced in the market. Here, the advertisers use flashy and attractive ads to make customers take a look on the products and purchase for trials.
2. Continuity: this objective is concerned about keeping the existing customers to stick on to the product. The advertisers here generally keep on bringing something new in the product and the advertisement so that the existing customers keep buying their products.
3. Brand switch: this objective is basically for those companies who want to attract the customers of the competitors. Here, the advertisers try to convince the customers to switch from the existing brand they are using to their product.
4. Switching back: this objective is for the companies who want their previous customers back, who have switched to their competitors. The advertisers use different ways to attract the customers back like discount sale, new advertise, some reworking done on packaging, etc.

Basically, advertising is a very artistic way of communicating with the customers. The main characteristics one should have to get on their objectives are great communication skills and very good convincing power.

### Importance of Advertising

Advertising plays a very important role in today’s age of competition. Advertising is one thing which has become a necessity for everybody in today’s day to day life, be it the producer, the traders, or the customer. Advertising is an important part. Lets have a look on how and where is advertising important:

1. Advertising is important for the customers

Just imagine television or a newspaper or a radio channel without an advertisement! No, no one can any day imagine this. Advertising plays a very important role in customers life. Customers are the people who buy the product only after they are made aware of the products available in the market. If the product is not advertised, no customer will come to know what products are available and will not buy the product even if the product was for their benefit. One more thing is that advertising helps people find the best products for themselves, their kids, and their family. When they come to know about the range of products, they are able to compare the products and buy so that they get what they desire after spending their valuable money. Thus, advertising is important for the customers.

1. Advertising is important for the seller and companies producing the products

Yes, advertising plays very important role for the producers and the sellers of the products, because

* + Advertising helps increasing sales
  + Advertising helps producers or the companies to know their competitors and plan accordingly to meet up the level of competition.
  + If any company wants to introduce or launch a new product in the market, advertising will make a ground for the product. Advertising helps making people aware of the new product so that the consumers come and try the product.
  + Advertising helps creating goodwill for the company and gains customer loyalty after reaching a mature age.
  + The demand for the product keeps on coming with the help of advertising and demand and supply become a never ending process.

1. Advertising is important for the society

Advertising helps educating people. There are some social issues also which advertising deals with like child labour, liquor consumption, girl child killing, smoking, family planning education, etc. thus, advertising plays a very important role in society.

36. What are the different steps involved in advertising process?

“Mass demand has been created almost entirely through the development of Advertising”

*Calvin Coolidge in the New York Public Library*.

For the development of advertising and to get best results one need to follow the advertising process step by step.

The following are the steps involved in the process of advertising:

1. Step 1 - Briefing: the advertiser needs to brief about the product or the service which has to be advertised and doing the [SWOT analysis of the company and the product](http://www.managementstudyguide.com/swot-analysis.htm).
2. Step 2 - Knowing the Objective: one should first know the objective or the purpose of advertising. i.e. what message is to be delivered to the audience?
3. Step 3 - Research: this step involves finding out the market behavior, knowing the competitors, what type of advertising they are using, what is the response of the consumers, availability of the resources needed in the process, etc.
4. Step 4 - Target Audience: the next step is to identify the target consumers most likely to buy the product. The target should be appropriately identified without any confusion. For e.g. if the product is a health drink for growing kids, then the target customers will be the parents who are going to buy it and not the kids who are going to drink it.
5. Step 5 - Media Selection: now that the target audience is identified, one should select an appropriate media for advertising so that the customers who are to be informed about the product and are willing to buy are successfully reached.
6. Step 6 - Setting the Budget: then the advertising budget has to be planned so that there is no short of funds or excess of funds during the process of advertising and also there are no losses to the company.
7. Step 7 - Designing and Creating the Ad: first the design that is the outline of ad on papers is made by the copywriters of the agency, then the actual creation of ad is done with help of the art directors and the creative personnel of the agency.
8. Step 8 - Perfection: then the created ad is re-examined and the ad is redefined to make it perfect to enter the market.
9. Step 9 - Place and Time of Ad: the next step is to decide where and when the ad will be shown.

The place will be decided according to the target customers where the ad is most visible clearly to them. The finalization of time on which the ad will be telecasted or shown on the selected media will be done by the traffic department of the agency.

1. Step 10 - Execution: finally the advertise is released with perfect creation, perfect placement and perfect timing in the market.
2. Step 11 - Performance: the last step is to judge the performance of the ad in terms of the response from the customers, whether they are satisfied with the ad and the product, did the ad reached all the targeted people, was the advertise capable enough to compete with the other players, etc. Every point is studied properly and changes are made, if any.

If these steps are followed properly then there has to be a successful beginning for the product in the market.

37. What is Brand? What are the features of a good brand name?

Brand name is one of the brand elements which helps the customers to identify and differentiate one product from another. It should be chosen very carefully as it captures the key theme of a product in an efficient and economical manner. It can easily be noticed and its meaning can be stored and triggered in the memory instantly. Choice of a brand name requires a lot of research. Brand names are not necessarily associated with the product. For instance, brand names can be based on places (Air India, British Airways), animals or birds (Dove soap, Puma), people (Louise Phillips, Allen Solly). In some instances, the company name is used for all products (General Electric, LG).

### Features of a Good Brand Name

A good brand name should have following characteristics:

1. It should be unique / distinctive (for instance- Kodak, Mustang)
2. It should be extendable.
3. It should be easy to pronounce, identified and memorized. (For instance-Tide)
4. It should give an idea about product’s qualities and benefits (For instance- Swift, Quickfix, Lipguard).
5. It should be easily convertible into foreign languages.
6. It should be capable of legal protection and registration.
7. It should suggest product/service category (For instance Newsweek).
8. It should indicate concrete qualities (For instance Firebird).
9. It should not portray bad/wrong meanings in other categories. (For instance NOVA is a poor name for a car to be sold in Spanish country, because in Spanish it means “doesn’t go”).

### Process of Selecting a renowned and successful Brand Name

1. Define the objectives of branding in terms of six criterions - descriptive, suggestive, compound, classical, arbitrary and fanciful. It Is essential to recognize the role of brand within the corporate branding strategy and the relation of brand to other brand and products. It is also essential to understand the role of brand within entire marketing program as well as a detailed description of niche market must be considered.
2. Generation of multiple names - Any potential source of names can be used; organization, management and employees, current or potential customers, agencies and professional consultants.
3. Screening of names on the basis of branding objectives and marketing considerations so as to have a more synchronized list - The brand names must not have connotations, should be easily pronounceable, should meet the legal requirements etc.
4. Gathering more extensive details on each of the finalized names - There should be extensive international legal search done. These searches are at times done on a sequential basis because of the expense involved.
5. Conducting consumer research - Consumer research is often conducted so as to confirm management expectations as to the remembrance and meaningfulness of the brand names. The features of the product, its price and promotion may be shown to the consumers so that they understand the purpose of the brand name and the manner in which it will be used. Consumers can be shown actual 3-D packages as well as animated advertising or boards. Several samples of consumers must be surveyed depending on the niche market involved.
6. On the basis of the above steps, management can finalize the brand name that maximizes the organization’s branding and marketing objectives and then formally register the brand na

38. What is market? What are the different types of market?

A set up where two or more parties engage in exchange of goods, services and information is called a market. Ideally a market is a place where two or more parties are involved in buying and selling.

The two parties involved in a transaction are called seller and buyer.

The seller sells goods and services to the buyer in exchange of money. There has to be more than one buyer and seller for the market to be competitive.

Monopoly - Monopoly is a condition where there is a single seller and many buyers at the market place. In such a condition, the seller has a monopoly with no competition from others and has complete control over the products and services.

In a monopoly market, the seller decides the price of the product or service and can change it on his own.

Monopoly - A market form where there are many sellers but a single buyer is called monopolly. In such a set up, since there is a single buyer against many sellers; the buyer can exert his control on the sellers. The buyer in such a form has an upper edge over the sellers.

### Types of Markets

1. Physical Markets - Physical market is a set up where buyers can physically meet the sellers and purchase the desired merchandise from them in exchange of money. Shopping malls, department stores, retail stores are examples of physical markets.
2. Non Physical Markets/Virtual markets - In such markets, buyers purchase goods and services through internet. In such a market the buyers and sellers do not meet or interact physically, instead the transaction is done through internet. Examples - Rediff shopping, eBay etc.
3. Auction Market - In an auction market the seller sells his goods to one who is the highest bidder.
4. Market for Intermediate Goods - Such markets sell raw materials (goods) required for the final production of other goods.
5. Black Market - A black market is a setup where illegal goods like drugs and weapons are sold.
6. Knowledge Market - Knowledge market is a set up which deals in the exchange of information and knowledge based products.
7. Financial Market - Market dealing with the exchange of liquid assets (money) is called a financial market.

Financial markets are of following types:

1. Stock Market - A form of market where sellers and buyers exchange shares is called a stock market.
2. Bond Market - A market place where buyers and sellers are engaged in the exchange of debt securities, usually in the form of bonds is called a bond market. A bond is a contract signed by both the parties where one party promises to return money with interest at fixed intervals.
3. Foreign Exchange Market - In such type of market, parties are involved in trading of currency. In a foreign exchange market (also called currency market), one party exchanges one country’s currency with equivalent quantity of another currency.
4. Predictive Markets - Predictive market is a set up where exchange of good or service takes place for future. The buyer benefits when the market goes up and is at a loss when the market crashes.

### Market Size

The market size is directly proportional to two factors:

* Number of sellers and Buyers
* Total money involved annually

39. Explain in detail market segmentation.

Segmentation refers to a process of bifurcating or dividing a large unit into various small units which have more or less similar or related characteristics.

### Market Segmentation

* Market segmentation is a marketing concept which divides the complete market set up into smaller subsets comprising of consumers with a similar taste, demand and preference.
* A market segment is a small unit within a large market comprising of like minded individuals.
* One market segment is totally distinct from the other segment.
* A market segment comprises of individuals who think on the same lines and have similar interests.
* The individuals from the same segment respond in a similar way to the fluctuations in the market.

### Basis of Market Segmentation

### Gender

The marketers divide the market into smaller segments based on gender. Both men and women have different interests and preferences, and thus the need for segmentation.

Organizations need to have different marketing strategies for men which would obviously not work in case of females.

A woman would not purchase a product meant for males and vice a versa.

The segmentation of the market as per the gender is important in many industries like cosmetics, footwear, jewellery and apparel industries.

### Age Group

Division on the basis of age group of the target audience is also one of the ways of market segmentation.

The products and marketing strategies for teenagers would obviously be different than kids.

Age group (0 - 10 years) - Toys, Nappies, Baby Food, Prams  
Age Group (10 - 20 years) - Toys, Apparels, Books, School Bags  
Age group (20 years and above) - Cosmetics, Anti-Ageing Products, Magazines, apparels and so on

### Income

Marketers divide the consumers into small segments as per their income. Individuals are classified into segments according to their monthly earnings.

The three categories are:

High income Group

Mid Income Group

Low Income Group

Stores catering to the higher income group would have different range of products and strategies as compared to stores which target the lower income group.

Pantaloon, Carrefour, Shopper’s stop target the high income group as compared to Vishal Retail, Reliance Retail or Big bazaar who cater to the individuals belonging to the lower income segment.

### Marital Status

Market segmentation can also be as per the marital status of the individuals. Travel agencies would not have similar holiday packages for bachelors and married couples.

### Occupation

Office goers would have different needs as compared to school / college students.

A beach house shirt or a funky T Shirt would have no takers in a Zodiac Store as it caters specifically to the professionals.

### Types of Market Segmentation

* Psychographic segmentation

The basis of such segmentation is the lifestyle of the individuals. The individual’s attitude, interest, value help the marketers to classify them into small groups.

* Behaviouralistic Segmentation

The loyalties of the customers towards a particular brand help the marketers to classify them into smaller groups, each group comprising of individuals loyal towards a particular brand.

* Geographic Segmentation

Geographic segmentation refers to the classification of market into various geographical areas. A marketer can’t have similar strategies for individuals living at different places.

Nestle promotes Nescafe all through the year in cold states of the country as compared to places which have well defined summer and winter season.

McDonald’s in India does not sell beef products as it is strictly against the religious beliefs of the countrymen, whereas McDonald’s in US freely sells and promotes beef products.

40. Explain the different steps involved in market segmentation.

Segmentation refers to the process of creating small segments within a broad market to select the right target market for various brands. Market segmentation helps the marketers to devise and implement relevant strategies to promote their products amongst the target market.

A market segment consists of individuals who have similar choices, interests and preferences. They generally think on the same lines and are inclined towards similar products. Once the organizations decide on their target market, they can easily formulate strategies and plans to make their brands popular amongst the consumers.

### Steps in Market Segmentation

### Identify the target market

The first and foremost step is to identify the target market. The marketers must be very clear about who all should be included in a common segment. Make sure the individuals have something in common. A male and a female can’t be included in one segment as they have different needs and expectations.

Burberry stocks separate merchandise for both men and women. The management is very clear on the target market and has separate strategies for product promotion amongst both the segments.

A Garnier men’s deodorant would obviously not sell if the company uses a female model to create awareness.

Segmentation helps the organizations decide on the marketing strategies and promotional schemes.

Maruti Suzuki has adopted a focused approach and wisely created segments within a large market to promote their cars.

Lower Income Group - Maruti 800, Alto  
Middle Income Group - Wagon R, Swift, Swift Dzire, Ritz  
High Income Group - Maruti Suzuki Kizashi, Suzuki Grand Vitara

Suzuki Grand Vitara would obviously have no takers amongst the lower income group.

The target market for Rado, Omega or Tag Heuer is the premium segment as compared to Maxima or a Sonata watch.

### Identify expectations of Target Audience

Once the target market is decided, it is essential to find out the needs of the target audience. The product must meet the expectations of the individuals. The marketer must interact with the target audience to know more about their interests and demands.

Kellogg’s K special was launched specifically for the individuals who wanted to cut down on their calorie intake.

Marketing professionals or individuals exposed to sun rays for a long duration need something which would protect their skin from the harmful effects of sun rays. Keeping this in mind, many organizations came with the concept of sunscreen lotions and creams with a sun protection factor especially for men.

### Create Subgroups

The organizations should ensure their target market is well defined. Create subgroups within groups for effective results.

Cosmetics for females now come in various categories.

* + Creams and Lotions for girls between 20-25 years would focus more on fairness.
  + Creams and lotions for girls between 25 to 35 years promise to reduce the signs of ageing.

### Review the needs of the target audience

It is essential for the marketer to review the needs and preferences of individuals belonging to each segment and sub-segment. The consumers of a particular segment must respond to similar fluctuations in the market and similar marketing strategies.

### Name your market Segment

Give an appropriate name to each segment. It makes implementation of strategies easier.

A kids section can have various segments namely new born, infants, toddlers and so on.

### Marketing Strategies

Devise relevant strategies to promote brands amongst each segment. Remember you can’t afford to have same strategies for all the segments. Make sure there is a connect between the product and the target audience. Advertisements promoting female toiletries can’t afford to have a male model, else the purpose gets nullified.

A model promoting a sunscreen lotion has to be shown roaming or working in sun for the desired impact.

### Review the behavior

Review the behavior of the target audience frequently. It is not necessary individuals would have the same requirement (demand) all through the year. Demands vary, perceptions change and interests differ. A detailed study of the target audience is essential.

### Size of the Target Market

It is essential to know the target market size. Collect necessary data for the same. It helps in sales planning and forecasting.

41. Explain the cocept of Marketing mix.

Neil Borden in the year 1953 introduced the term Marketing mix, an extension of the work done by one of his associates James Culliton in 1948.

Marketing Mix - A mixture of several ideas and plans followed by a marketing representative to promote a particular product or brand is called marketing mix. Several concepts and ideas combined together to formulate final strategies helpful in making a brand popular amongst the masses form marketing mix.

### Elements of Marketing Mix

The elements of marketing mix are often called the four P’s of marketing.

1. Product

Goods manufactured by organizations for the end-users are called products.

Products can be of two types - Tangible Product and Intangible Product (Services)

An individual can see, touch and feel tangible products as compared to intangible products.

A product in a market place is something which a seller sells to the buyers in exchange of money.

1. Price

The money which a buyer pays for a product is called as price of the product. The price of a product is indirectly proportional to its availability in the market. Lesser its availability, more would be its price and vice a versa.

Retail stores which stock unique products (not available at any other store) quote a higher price from the buyers.

1. Place

Place refers to the location where the products are available and can be sold or purchased. Buyers can purchase products either from physical markets or from virtual markets. In a physical market, buyers and sellers can physically meet and interact with each other whereas in a virtual market buyers and sellers meet through internet.

1. Promotion

Promotion refers to the various strategies and ideas implemented by the marketers to make the end - users aware of their brand. Promotion includes various techniques employed to promote and make a brand popular amongst the masses.

Promotion can be through any of the following ways:

* + Advertising

Print media, Television, radio are effective ways to entice customers and make them aware of the brand’s existence.

Billboards, hoardings, banners installed intelligently at strategic locations like heavy traffic areas, crossings, railway stations, bus stands attract the passing individuals towards a particular brand.

Taglines also increase the recall value of the brand amongst the customers.

* + Word of mouth

One satisfied customer brings ten more customers along with him whereas one dis-satisfied customer takes away ten more customers. That’s the importance of word of mouth. Positive word of mouth goes a long way in promoting brands amongst the customers.

Lately three more P’s have been added to the marketing mix. They are as follows:

* People - The individuals involved in the sale and purchase of products or services come under people.
* Process - Process includes the various mechanisms and procedures which help the product to finally reach its target market
* Physical Evidence - With the help of physical evidence, a marketer tries to communicate the USP’s and benefits of a product to the end users

### Four C’s of Marketing Mix

Now a days, organizations treat their customers like kings. In the current scenario, the four C’s has thus replaced the four P’s of marketing making it a more customer oriented model. Koichi Shimizu in the year 1973 proposed a four C’s classification.

* Commodity - (Replaces Products)
* Cost - (Replaces Price) involves manufacturing cost, buying cost and selling cost
* Channel - The various channels which help the product reach the target market.
* Communication - (Replaces Promotion)

Robert F. Lauterborn gave a modernized version of the four C’s model in the year 1993. According to him the four C’s of marketing are:

Consumer  
Cost  
Convenience  
Communication

**SECTION D**

42. Explain in detail the scope and functions of Financial Management.

### Meaning of Financial Management

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

### Scope/Elements

1. Investment decisions includes investment in fixed assets (called as capital budgeting). Investment in current assets are also a part of investment decisions called as working capital decisions.
2. Financial decisions - They relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby.
3. Dividend decision - The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:
   1. Dividend for shareholders- Dividend and the rate of it has to be decided.
   2. Retained profits- Amount of retained profits has to be finalized which will depend upon expansion and diversification plans of the enterprise.

### Objectives of Financial Management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
4. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
5. To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

### Functions of Financial Management

1. Estimation of capital requirements: A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programmes and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.
2. Determination of capital composition: Once the estimation have been made, the capital structure have to be decided. This involves short- term and long- term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised from outside parties.
3. Choice of sources of funds: For additional funds to be procured, a company has many choices like-
   1. Issue of shares and debentures
   2. Loans to be taken from banks and financial institutions
   3. Public deposits to be drawn like in form of bonds.

Choice of factor will depend on relative merits and demerits of each source and period of financing.

1. Investment of funds: The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.
2. Disposal of surplus: The net profits decision have to be made by the finance manager. This can be done in two ways:
   1. Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.
   2. Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.
3. Management of cash: Finance manager has to make decisions with regards to cash management. Cash is required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintainance of enough stock, purchase of raw materials, etc.
4. Financial controls: The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control, etc.

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43. What is Finanacial Planning? Explain its objectives and importance.

### Definition of Financial Planning

Financial Planning is the process of estimating the capital required and determining it’s competition. It is the process of framing financial policies in relation to procurement, investment and administration of funds of an enterprise.

### Objectives of Financial Planning

Financial Planning has got many objectives to look forward to:

1. Determining capital requirements- This will depend upon factors like cost of current and fixed assets, promotional expenses and long- range planning. Capital requirements have to be looked with both aspects: short- term and long- term requirements.
2. Determining capital structure- The capital structure is the composition of capital, i.e., the relative kind and proportion of capital required in the business. This includes decisions of debt- equity ratio- both short-term and long- term.
3. Framing financial policies with regards to cash control, lending, borrowings, etc.
4. A finance manager ensures that the scarce financial resources are maximally utilized in the best possible manner at least cost in order to get maximum returns on investment.

### Importance of Financial Planning

Financial Planning is process of framing objectives, policies, procedures, programmes and budgets regarding the financial activities of a concern. This ensures effective and adequate financial and investment policies. The importance can be outlined as-

1. Adequate funds have to be ensured.
2. Financial Planning helps in ensuring a reasonable balance between outflow and inflow of funds so that stability is maintained.
3. Financial Planning ensures that the suppliers of funds are easily investing in companies which exercise financial planning.
4. Financial Planning helps in making growth and expansion programmes which helps in long-run survival of the company.
5. Financial Planning reduces uncertainties with regards to changing market trends which can be faced easily through enough funds.
6. Financial Planning helps in reducing the uncertainties which can be a hindrance to growth of the company. This helps in ensuring stability an d profitability in concern.

44. What are the decisions involved in financial management.

The following explanation will help in understanding each finance function in detail

### Investment Decision

One of the most important finance functions is to intelligently allocate capital to long term assets. This activity is also known as capital budgeting. It is important to allocate capital in those long term assets so as to get maximum yield in future. Following are the two aspects of investment decision

1. Evaluation of new investment in terms of profitability
2. Comparison of cut off rate against new investment and prevailing investment.

Since the future is uncertain therefore there are difficulties in calculation of expected return. Along with uncertainty comes the risk factor which has to be taken into consideration. This risk factor plays a very significant role in calculating the expected return of the prospective investment. Therefore while considering investment proposal it is important to take into consideration both expected return and the risk involved.

Investment decision not only involves allocating capital to long term assets but also involves decisions of using funds which are obtained by selling those assets which become less profitable and less productive. It wise decisions to decompose depreciated assets which are not adding value and utilize those funds in securing other beneficial assets. An opportunity cost of capital needs to be calculating while dissolving such assets. The correct cut off rate is calculated by using this opportunity cost of the required rate of return (RRR)

### Financial Decision

Financial decision is yet another important function which a financial manger must perform. It is important to make wise decisions about when, where and how should a business acquire funds. Funds can be acquired through many ways and channels. Broadly speaking a correct ratio of an equity and debt has to be maintained. This mix of equity capital and debt is known as a firm’s capital structure.

A firm tends to benefit most when the market value of a company’s share maximizes this not only is a sign of growth for the firm but also maximizes shareholders wealth. On the other hand the use of debt affects the risk and return of a shareholder. It is more risky though it may increase the return on equity funds.

A sound financial structure is said to be one which aims at maximizing shareholders return with minimum risk. In such a scenario the market value of the firm will maximize and hence an optimum capital structure would be achieved. Other than equity and debt there are several other tools which are used in deciding a firm capital structure.

### Dividend Decision

Earning profit or a positive return is a common aim of all the businesses. But the key function a financial manger performs in case of profitability is to decide whether to distribute all the profits to the shareholder or retain all the profits or distribute part of the profits to the shareholder and retain the other half in the business.

It’s the financial manager’s responsibility to decide a optimum dividend policy which maximizes the market value of the firm. Hence an optimum dividend payout ratio is calculated. It is a common practice to pay regular dividends in case of profitability Another way is to issue bonus shares to existing shareholders.

### Liquidity Decision

It is very important to maintain a liquidity position of a firm to avoid insolvency. Firm’s profitability, liquidity and risk all are associated with the investment in current assets. In order to maintain a tradeoff between profitability and liquidity it is important to invest sufficient funds in current assets. But since current assets do not earn anything for business therefore a proper calculation must be done before investing in current assets.

Current assets should properly be valued and disposed of from time to time once they become non profitable. Currents assets must be used in times of liquidity problems and times of insolvency.

45. Explain the role of finanace manager.

Financial activities of a firm is one of the most important and complex activities of a firm. Therefore in order to take care of these activities a financial manager performs all the requisite financial activities.

A financial manger is a person who takes care of all the important financial functions of an organization. The person in charge should maintain a far sightedness in order to ensure that the funds are utilized in the most efficient manner. His actions directly affect the Profitability, growth and goodwill of the firm.

Following are the main functions of a Financial Manager:

### Raising of Funds

In order to meet the obligation of the business it is important to have enough cash and liquidity. A firm can raise funds by the way of equity and debt. It is the responsibility of a financial manager to decide the ratio between debt and equity. It is important to maintain a good balance between equity and debt.

### Allocation of Funds

Once the funds are raised through different channels the next important function is to allocate the funds. The funds should be allocated in such a manner that they are optimally used. In order to allocate funds in the best possible manner the following point must be considered

* + The size of the firm and its growth capability
  + Status of assets whether they are long-term or short-term
  + Mode by which the funds are raised

These financial decisions directly and indirectly influence other managerial activities. Hence formation of a good asset mix and proper allocation of funds is one of the most important activity

### Profit Planning

Profit earning is one of the prime functions of any business organization. Profit earning is important for survival and sustenance of any organization. Profit planning refers to proper usage of the profit generated by the firm.

Profit arises due to many factors such as pricing, industry competition, state of the economy, mechanism of demand and supply, cost and output. A healthy mix of variable and fixed factors of production can lead to an increase in the profitability of the firm.

Fixed costs are incurred by the use of fixed factors of production such as land and machinery. In order to maintain a tandem it is important to continuously value the depreciation cost of fixed cost of production. An opportunity cost must be calculated in order to replace those factors of production which has gone thrown wear and tear. If this is not noted then these fixed cost can cause huge fluctuations in profit.

### Understanding Capital Markets

Shares of a company are traded on stock exchange and there is a continuous sale and purchase of securities. Hence a clear understanding of capital market is an important function of a financial manager. When securities are traded on stock market there involves a huge amount of risk involved. Therefore a financial manger understands and calculates the risk involved in this trading of shares and debentures.

Its on the discretion of a financial manager as to how to distribute the profits. Many investors do not like the firm to distribute the profits amongst share holders as dividend instead invest in the business itself to enhance growth. The practices of a financial manager directly impact the operation in capital market.

46. What is Capital Structure? What are the factors determining capital structure?

### Meaning of Capital Structure

Capital Structure is referred to as the ratio of different kinds of securities raised by a firm as long-term finance. The capital structure involves two decisions-

1. Type of securities to be issued are equity shares, preference shares and long term borrowings (Debentures).
2. Relative ratio of securities can be determined by process of capital gearing. On this basis, the companies are divided into two-
   1. Highly geared companies - Those companies whose proportion of equity capitalization is small.
   2. Low geared companies - Those companies whose equity capital dominates total capitalization.

For instance - There are two companies A and B. Total capitalization amounts to be USD 200,000 in each case. The ratio of equity capital to total capitalization in company A is USD 50,000, while in company B, ratio of equity capital is USD 150,000 to total capitalization, i.e, in Company A, proportion is 25% and in company B, proportion is 75%. In such cases, company A is considered to be a highly geared company and company B is low geared company.

### Factors Determining Capital Structure

1. Trading on Equity- The word “equity” denotes the ownership of the company. Trading on equity means taking advantage of equity share capital to borrowed funds on reasonable basis. It refers to additional profits that equity shareholders earn because of issuance of debentures and preference shares. It is based on the thought that if the rate of dividend on preference capital and the rate of interest on borrowed capital is lower than the general rate of company’s earnings, equity shareholders are at advantage which means a company should go for a judicious blend of preference shares, equity shares as well as debentures. Trading on equity becomes more important when expectations of shareholders are high.
2. Degree of control- In a company, it is the directors who are so called elected representatives of equity shareholders. These members have got maximum voting rights in a concern as compared to the preference shareholders and debenture holders. Preference shareholders have reasonably less voting rights while debenture holders have no voting rights. If the company’s management policies are such that they want to retain their voting rights in their hands, the capital structure consists of debenture holders and loans rather than equity shares.
3. Flexibility of financial plan- In an enterprise, the capital structure should be such that there is both contractions as well as relaxation in plans. Debentures and loans can be refunded back as the time requires. While equity capital cannot be refunded at any point which provides rigidity to plans. Therefore, in order to make the capital structure possible, the company should go for issue of debentures and other loans.
4. Choice of investors- The company’s policy generally is to have different categories of investors for securities. Therefore, a capital structure should give enough choice to all kind of investors to invest. Bold and adventurous investors generally go for equity shares and loans and debentures are generally raised keeping into mind conscious investors.
5. Capital market condition- In the lifetime of the company, the market price of the shares has got an important influence. During the depression period, the company’s capital structure generally consists of debentures and loans. While in period of boons and inflation, the company’s capital should consist of share capital generally equity shares.
6. Period of financing- When company wants to raise finance for short period, it goes for loans from banks and other institutions; while for long period it goes for issue of shares and debentures.
7. Cost of financing- In a capital structure, the company has to look to the factor of cost when securities are raised. It is seen that debentures at the time of profit earning of company prove to be a cheaper source of finance as compared to equity shares where equity shareholders demand an extra share in profits.
8. Stability of sales- An established business which has a growing market and high sales turnover, the company is in position to meet fixed commitments. Interest on debentures has to be paid regardless of profit. Therefore, when sales are high, thereby the profits are high and company is in better position to meet such fixed commitments like interest on debentures and dividends on preference shares. If company is having unstable sales, then the company is not in position to meet fixed obligations. So, equity capital proves to be safe in such cases.

47. Explain the concept of under and over capitalisation.

### What is Capitalization

Capitalization comprises of share capital, debentures, loans, free reserves,etc. Capitalization represents permanent investment in companies excluding long-term loans. Capitalization can be distinguished from capital structure. Capital structure is a broad term and it deals with qualitative aspect of finance. While capitalization is a narrow term and it deals with the quantitative aspect.

Capitalization is generally found to be of following types-

* Normal
* Over
* Under

## Overcapitalization

Overcapitalization is a situation in which actual profits of a company are not sufficient enough to pay interest on debentures, on loans and pay dividends on shares over a period of time. This situation arises when the company raises more capital than required. A part of capital always remains idle. With a result, the rate of return shows a declining trend. The causes can be-

1. High promotion cost- When a company goes for high promotional expenditure, i.e., making contracts, canvassing, underwriting commission, drafting of documents, etc. and the actual returns are not adequate in proportion to high expenses, the company is over-capitalized in such cases.
2. Purchase of assets at higher prices- When a company purchases assets at an inflated rate, the result is that the book value of assets is more than the actual returns. This situation gives rise to over-capitalization of company.
3. A company’s floatation n boom period- At times company has to secure it’s solvency and thereby float in boom periods. That is the time when rate of returns are less as compared to capital employed. This results in actual earnings lowering down and earnings per share declining.
4. Inadequate provision for depreciation- If the finance manager is unable to provide an adequate rate of depreciation, the result is that inadequate funds are available when the assets have to be replaced or when they become obsolete. New assets have to be purchased at high prices which prove to be expensive.
5. Liberal dividend policy- When the directors of a company liberally divide the dividends into the shareholders, the result is inadequate retained profits which are very essential for high earnings of the company. The result is deficiency in company. To fill up the deficiency, fresh capital is raised which proves to be a costlier affair and leaves the company to be over- capitalized.
6. Over-estimation of earnings- When the promoters of the company overestimate the earnings due to inadequate financial planning, the result is that company goes for borrowings which cannot be easily met and capital is not profitably invested. This results in consequent decrease in earnings per share.

### Effects of Overcapitalization

1. On Shareholders- The over capitalized companies have following disadvantages to shareholders:
   1. Since the profitability decreases, the rate of earning of shareholders also decreases.
   2. The market price of shares goes down because of low profitability.
   3. The profitability going down has an effect on the shareholders. Their earnings become uncertain.
   4. With the decline in goodwill of the company, share prices decline. As a result shares cannot be marketed in capital market.
2. On Company-
   1. Because of low profitability, reputation of company is lowered.
   2. The company’s shares cannot be easily marketed.
   3. With the decline of earnings of company, goodwill of the company declines and the result is fresh borrowings are difficult to be made because of loss of credibility.
   4. In order to retain the company’s image, the company indulges in malpractices like manipulation of accounts to show high earnings.
   5. The company cuts down it’s expenditure on maintainance, replacement of assets, adequate depreciation, etc.
3. On Public- An overcapitalized company has got many adverse effects on the public:
   1. In order to cover up their earning capacity, the management indulges in tactics like increase in prices or decrease in quality.
   2. Return on capital employed is low. This gives an impression to the public that their financial resources are not utilized properly.
   3. Low earnings of the company affects the credibility of the company as the company is not able to pay it’s creditors on time.
   4. It also has an effect on working conditions and payment of wages and salaries also lessen.

## Undercapitalization

An undercapitalized company is one which incurs exceptionally high profits as compared to industry. An undercapitalized company situation arises when the estimated earnings are very low as compared to actual profits. This gives rise to additional funds, additional profits, high goodwill, high earnings and thus the return on capital shows an increasing trend. The causes can be-

1. Low promotion costs
2. Purchase of assets at deflated rates
3. Conservative dividend policy
4. Floatation of company in depression stage
5. High efficiency of directors
6. Adequate provision of depreciation
7. Large secret reserves are maintained.

### Efffects of Under Capitalization

1. On Shareholders
   1. Company’s profitability increases. As a result, rate of earnings go up.
   2. Market value of share rises.
   3. Financial reputation also increases.
   4. Shareholders can expect a high dividend.
2. On company
   1. With greater earnings, reputation becomes strong.
   2. Higher rate of earnings attract competition in market.
   3. Demand of workers may rise because of high profits.
   4. The high profitability situation affects consumer interest as they think that the company is overcharging on products.
3. On Society
   1. With high earnings, high profitability, high market price of shares, there can be unhealthy speculation in stock market.
   2. ‘Restlessness in general public is developed as they link high profits with high prices of product.
   3. Secret reserves are maintained by the company which can result in paying lower taxes to government.
   4. The general public inculcates high expectations of these companies as these companies can import innovations, high technology and thereby best quality of product.

48.What is Cost of Capital. Explain its significance.

## Meaning, Concept and Definition

The cost of capital of a firm is the minimum rate of return expected by its investors. It is the weighted average cost of various sources of finance used by a firm. The capital used by a firm may be in the form of debt, preference capital, retained earnings and equity shares. The concept of cost of capital is very important in the financial management. A decision to invest in a particular project depends upon the cost of capital of the firm or the cut off rate which is the minimum rate of return expected by the investors. In case a firm is not able to achieve even the cut off rate, the market value of its shares will fall. In fact cost of capital is the minimum rate of return expected by its investors which will maintain the market value of shares at its present level. Hence to achieve the objective of wealth maximisation, a firm must earn a rate of return more than its cost of capital. The cost of capital of a firm or the minimum rate of return expected by its investors has a direct relation with the risk involved in the firm. Generally, higher the risk involved in a firm, higher is the cost of capital.

According to Solomon Ezra Cost of capital is the minimum required rate of earnings or the cut-off rate of capital expenditures.

Thus, we can say that cost of capital is that minimum rate of return which a firm, and, is expected to earn on its investments so as to maintain the market value of its shares.

From the definitions given above we can conclude three basic aspects of the concept of cost of capital:

(i)Cost of capital is not a cost as such. In fact, it is the rate of return that a firm requires to earn from its projects.

(ii)               It is the minimum rate of return. Cost of capital of a firm is that minimum rate of return which will at least maintain the market value of the shares.

(iii)             It comprises of three components. As there is always some business and financial risk in investing funds in a firm, cost of capital comprises of three components:

(a)    the expected normal rate of return at zero risk level, say the rate of interest allowed by banks;

(b)  the premium for business risk; and

(c)  the premium for financial risk on account of pattern of capital structure.

#### Significance of the Cost of Capital

The concept of cost of capital is very important in the financial management. It plays a crucial role in both capital budgeting as well as decisions relating to planning of capital structure. Cost of capital concept can also be used as a basis for evaluating the performance of a firm and it further helps management in taking so many other financial decisions.

(*1)* *As an Acceptance Criterion in Capital Budgeting*: Capital budgeting decisions can be made by considering the cost of capital. According to the present value method of capital budgeting, if the present value of expected returns from investment is greater than or equal to the cost of investment, the project may be accepted; otherwise the project may be rejected. The present value of expected return is calculated by discounting the expected cash inflows at cut-off rate (which is the cost of capital). Hence, the concept of cost of capital is very useful in capital budgeting decision.

*(2)* *As a Determinant of Capital Mix in Capital Structure Decisions*: Financing the firm’s assets is a very crucial problem in every business and as a general rule there should be a proper mix of debt and equity capital in financing a firm’s assets. While designing an optimal capital structure, the management has to keep in mind the objective or maximising the value of the firm and minimising the cost of capital. Measurement of cost of capital from various sources is very essential in planning the capital structure of any firm.

*(3)* *As a basis for evaluating the Financial Performance*: The concept of cost of capital can be used to ‘evaluate the financial performance of top management’. The actual profitability of the project is compared to the projected overall cost of capital and the actual cost of capital of funds raised to finance the project. If the actual profitability of the project is more than the projected and the actual cost of capital, the performance may be said to be satisfactory.

*(4)* *As a Basis for taking other Financial Decisions*: The cost of capital is also used in making other financial decisions such as dividend policy, capitalisation of profits, making the rights issue and working capital.

49. What are the types of cost? What are the problems in determining cost of capital?

## Classification of Cost

*(1)* *Historical cost and Future Cost*: Historical costs are book costs which are related to the past. Future costs are estimated costs for the future. In financial decisions future costs are more relevant than the historical costs. However, historical costs act as guide for the estimation of future costs.

*(2)* *Specific Cost and Composite Cost*: Specific cost refers to the cost of a specific source of capital while composite cost is combined cost of various sources of capital. It is the weighted average cost of capital. In case more than one form of capital is used in the business, it is the composite cost which should be considered for decision-making and not the specific cost. But where only one type of capital is employed the specific cost of that type of capital may be considered.

*(3) Explicit* *Cost and Implicit Cost*: An explicit cost is the discount rate which equates the present value of cash inflows with the present of cash outflows. In other words it is the internal rate of return.

*(4)* *Average Cost and Marginal Cost*: An average cost refers to the combined cost of various sources of capital such as debentures, preference shares and equity shares. It is the weighted average cost of the costs of various sources of finance. Marginal cost of capital refers to the average cost of capital which has to be incurred to obtain additional funds required by a firm. In investment decisions, it is the marginal cost which should be taken into consideration.

#### Determination of Cost of Capital

It has already been stated that the cost of capital plays a crucial role in the decisions relating to financial management. However, the determination of the cost of capital of a firm is not an easy task because of both conceptual problems as well as uncertainties of proposed investments and the pattern of financing. The major problems concerning the determination of cost of capital are discussed as below:

Problems in determining Cost of Capital

*1. Conceptual controversies regarding the relationship between the cost of capital and the capital structure :* Different theories have been propounded by different authors explaining the relationship between capital structure, cost of capital and the value of the firm. This has resulted into various conceptual difficulties. According to the Net Income Approach and the traditional theories both the cost of capital as well the value of the firm have a direct relationship with the method and level of financing. In their opinion, a firm can minimise the weighted average cost of capital and increase the value of the firm by using debt financing. On the other hand, Net Operating Income and Modigliani and Miller Approach prove that the cost of capital is not affected by changes in the capital structure or say that debt equity mix is irrelevant in determination of cost of capital structure determination of cost of capital and the value of a firm. However, the M and M approach is based upon certain unrealistic assumptions such as, there is a perfect market or the expected earnings of all the firms have identical risk characteristic, etc.

*2. Problems in computation of cost of equity:* The computation of cost of equity capital depends upon the expected rate of return by its investors. But the quantification of the expectations of equity shareholders is a very difficult task because there are many factors which influence their valuation about a firm.

*3. Problems in computation of cost of retained earnings:* It is sometimes argued that retained earnings do not involve any cost but in reality, it is the opportunity cost of dividends foregone by its shareholders. Since different shareholders may have different opportunities for investing their dividends, it becomes very difficult to compute the cost of retained earnings.

*4. Problems in assigning weights:* For determining the weighted average cost of capital, weights have to be assigned to the specific cost of individual source of finance. The choice of using the book value of the source or the market value of the source poses another problem in the determination of capital.

50. Explain in detail the sources of finance.

Financing is a very important part of every business. Firms often need financing to pay for their assets, equipment, and other important items. Financing can be either long-term or short-term. As is obvious, long-term financing is more expensive as compared to short-term financing.

There are different vehicles through which long-term and short-term financing is made available. This chapter deals with the major vehicles of both types of financing.

The common sources of financing are capital that is generated by the firm itself and sometimes, it is capital from external funders, which is usually obtained after issuance of new debt and equity.

A firm’s management is responsible for matching the long-term or short-term financing mix. This mix is applicable to the assets that are to be financed as closely as possible, regarding timing and cash flows.

## Long-Term Financing

Long-term financing is usually needed for acquiring new equipment, R&D, cash flow enhancement, and company expansion. Some of the major methods for long-term financing are discussed below.

### Equity Financing

Equity financing includes preferred stocks and common stocks. This method is less risky in respect to cash flow commitments. However, equity financing often results in dissolution of share ownership and it also decreases earnings.

The cost associated with equity is generally higher than the cost associated with debt, which is again a deductible expense. Therefore, equity financing can also result in an enhanced hurdle rate that may cancel any reduction in the cash flow risk.

### Corporate Bond

A corporate bond is a special kind of bond issued by any corporation to collect money effectively in an aim to expand its business. This tern is usually used for long-term debt instruments that generally have a maturity date after one year after their issue date at the minimum.

Some corporate bonds may have an associated call option that permits the issuer to redeem it before it reaches the maturity. All other types of bonds that are known as convertible bonds that offer investors the option to convert the bond to equity.

### Capital Notes

Capital notes are a type of convertible security that are exercisable into shares. They are one type of equity vehicle. Capital notes resemble warrants, except the fact that they usually don’t have the expiry date or an exercise price. That is why the entire consideration the company aims to receive, for the future issuance of the shares, is generally paid at the time of issuance of capital notes.

Many times, capital notes are issued with a debt-for-equity swap restructuring. Instead of offering the shares (that replace debt) in the present, the company provides its creditors with convertible securities – the capital notes – and hence the dilution occurs later.

## Short-Term Financing

Short-term financing with a time duration of up to one year is used to help corporations increase inventory orders, payrolls, and daily supplies. Short-term financing can be done using the following financial instruments −

### Commercial Paper

Commercial Paper is an unsecured promissory note with a pre-noted maturity time of 1 to 364 days in the global money market. Originally, it is issued by large corporations to raise money to meet the short-term debt obligations.

It is backed by the bank that issues it or by the corporation that promises to pay the face value on maturity. Firms with excellent credit ratings can sell their commercial papers at a good price.

Asset-backed commercial paper (ABCP) is collateralized by other financial assets. ABCP is a very short-term instrument with 1 and 180 days’ maturity from issuance. ACBCP is typically issued by a bank or other financial institution.

### Promissory Note

It is a negotiable instrument where the maker or issuer makes an issue-less promise in writing to pay back a pre-decided sum of money to the payee at a fixed maturity date or on demand of the payee, under specific terms.

### Asset-based Loan

It is a type of loan, which is often short term, and is secured by a company's assets. Real estate, accounts receivable (A/R), inventory and equipment are the most common assets used to back the loan. The given loan is either backed by a single category of assets or by a combination of assets.

### Repurchase Agreements

Repurchase agreements are extremely short-term loans. They usually have a maturity of less than two weeks and most frequently they have a maturity of just one day! Repurchase agreements are arranged by selling securities with an agreement to purchase them back at a fixed cost on a given date.

### Letter of Credit

A financial institution or a similar party issues this document to a seller of goods or services. The seller provides that the issuer will definitely pay the seller for goods or services delivered to a third-party buyer.

The issuer then seeks reimbursement to be met by the buyer or by the buyer's bank. The document is in fact a guarantee offered to the seller that it will be paid on time by the issuer of the letter of credit, even if the buyer fails to pay.