Unit 1

General Management and Business Environment

What is Business Environment? The Word business means the state in which a person remains busy is known as Business. The word Business in its economic sense means human activities like production, extraction or purchase or sales of goods that are performed for earning profits.

The word 'Environment' refers to the aspects of surroundings. Therefore, Business Environment may be defined as a set of conditions – Social, Legal, Economical, Political or Institutional that are uncontrollable in nature and affects the functioning of organization. Business Environment has two components:

1. Internal Environment
2. External Environment

Internal Environment

It is the environment which prevails within the organization. Business have control over them. That is why Internal environmental factors are also known as controllable factors.

It includes 5 Ms i.e. man, material, money, machinery and management, usually within the control of business. Business can make changes in these factors according to the change in the functioning of enterprise.

External Environment These factors are beyond the control of business that is why these factors are also known as uncontrollable factors. It means business will have to change their decision as per the prevailing conditions of outside environment. These factors can be divided into two constituents:

1. Micro Environmental Factors
2. Macro Environmental factors

Micro Environment The environment which is close to business and affects its capacity to work is known as Micro or Operating Environment. It relates to the combination of all those factors which influence all the firms of a particular industry in a different manner. The major constituents of Micro Environment are:

1. Supplier 2. Customer 3. Market Intermediaries 4. Competitors 5. Public

Micro Environment: Supplier They are the persons who supply raw material and required components to the company. They must be reliable and business must have multiple suppliers i.e. they should not depend upon only one supplier. Supplier problem can seriously affect a company's marketing strategy. So market mangers of all successful and market leaders companies like Pepsi & Co and Toyota always have some precautionary measure on suppliers. They always watch supply availability, supply shortages or delays, labour strikes, and other factors related with supply of material.

Micro Environment: Customers Customers are those peoples who buy goods and services produced by a particular company. There is a purchase chain in which different people are involved and play significant roles before a purchase decision is made. The choice of the customer segment should be made by considering number of factors like relative profitability, dependability, stability of demand, growth prospects and extent of competition. Type of Customers are:

1. Individual Customer 2. Wholesalers 3. Retailers 4. Industries 5. Government Institutions

The critical factor here is that needs and wants of customers are changing rapidly. The changes in the preferences of the customers create opportunities as well as threats for a company. Only good knowledge of consumer's behaviour facilitates the design and production of goods and services that the customers need and want.

Micro Environment: Market Intermediaries Marketing intermediaries is that element of micro environment which also plays a vital role for a company to accomplish its marketing strategy. These are the firms and people that help the company to promote, sell and distribute its goods to final customers, which affect the business in term of bring cash. Most of the companies find, it is too difficult to reach the consumers. In such a cases the agents and distribution firms help to reach the product to the consumer. The examples of marketing intermediaries are whole sellers, retailers, marketing services agencies and financial intermediaries.

Company must take into active consideration, the following aspects:

a. The company has also to constantly review the performance of both middlemen and others helping its efforts periodically. If necessary, it may take recourse to replacement of those who no longer perform at the expected level. υ It is advantageous and also efficient to work through the established Marketing channels instead of creating one and thus going for experiments.
b. The manufacturer has to decide the most cost-effective method of intermediaries to reach the product to consumer that will help to increase the profit.

Micro Environment: Competitors A competitor is a company or firm operating in the same industry or market. Marketing concepts tells us that a successful company must provide better and greater value and satisfaction than its competitors. Every move of the competitors affects the business. Business has to adjust itself according to the strategies of the Competitors. So all successful companies focus on strategic advantages by positioning product or offering in the mind of their customers better than its competitors. Companies also have an eye on their competitor's strategies and policies.

A firm's competitors include not only the other firms which market the same product but also all those who compete for the discretionary income. This completion is describes as desired competition. This is generally high in countries having limited disposable income. If the customer decides to spend his discretionary income on recreational item then number of alternatives are available. The competition among such alternative is called as generic competition. If he decide to buy go for T.V. then many alternates are there this is known as Product form of competition.

Micro Environment: Public This is the last component of company's micro environment. Public includes all those groups that have actual or potential interest and impact on an organizational ability to achieve its Goal & Objectives. The five major types of public which influence the company ability to serve its customers are as under:

1 Financial publics influence the company ability to obtain funds

2 Media publics carry news and other features about company products

3 Government publics concern with rules and regulation issues

4 Internal publics include workers, mangers and board of directors

5 General publics shows their attitude towards company products & services

The company has a duty to satisfy the people at large along with competitors and the consumers. It is an exercise which has a larger impact on the well-being of the company for tomorrow stay and growth. Create goodwill among public, help to get a favourable response for a company. Kotler in this regard has viewed that. Companies must put their primary energy into effectively managing their relationships with their customers, distributors and suppliers. Their overall success will be affected by how other publics in the society view their activity. Companies would be wise to spend time monitoring all their public understanding their needs and opinions and dealing with then constructively.

Macro Environment When a firm operates in an economy and a society, there are factors in its environment that it has no control over. These are elements of its macro environment or its general external environment. It is a combination of all those factors which leaves almost same effect on all the firms of a particular industry. The Macro Environment consists of 6 different forces. These are:

1 Demographic

2 Economic

3 Socio-Cultural

4 Technological forces

5 Ecological

6 Political

7 International

This can easily be remembered: the DESTEP model, also called DEPEST model, helps to consider the different factors of the Macro Environment.

Macro Environment: Demographic It refers to the study of human populations. This includes size, density, age, gender, occupation and other statistics. Why are people important? Because, on the whole, their needs is the reason for businesses to exist. In other words, people are the driving force for the development of markets. The large and diverse demographics both offer opportunities but also challenges for businesses.

The crucial variables include:

υ How income variables influence business

υ Age variables that affect business

υ Geographic Region Variables

υ Education Level as a Variable

Changing age structure: In the future, there will be countries with far more favourable age structures than others. For example, India has one of the youngest populations on earth and is expected to keep that status. In contrast, the countries of the European Union and the USA have to face an aging population already today. This may lead to harmful reductions in dynamism and challenges regarding the supply of young workers who, at the same time, have to support a growing population of elderly people.

Changing family structures: Also, families are changing which means that the marketing strategies aimed at them must undergo an adjustment. For example, new household formats start emerging in many countries. While in traditional western countries a typical household consisted of husband, wife and children, nowadays there are more married couples without children, as well as single parent and single households. Another factor comes from the growing number of women working full time, particularly in European nations. Together with further forces, changing family structures require the marketing strategy to be changed.

Geographic shifts in population: One – and the most important – element of geographic shifts is migration. By 2050, global migration is expected to double. This has a major impact on both the location and the nature of demand for products and services. The reason is that the place people can be reached has changed, as have their needs because of the new situations. Other important factors are the ethnic diversity that provides new opportunities, as well as urbanisation.

Macro Environment: Economic The Economic forces relate to factors that affect consumer purchasing power and spending patterns. For instance, a company should never start exporting to a country before having examined how much people will be able to spend. Important criteria are:

¬ The Growth rate of economy

¬ Banking Facilities

¬ Currency Exchange Rates

¬ Inflation ¬ Recession

¬ Demand & Supply

MACRO ENVIRONMENT: Banking Facilities Banking facilitates affect business and the economic environment also the consumers of business. Money in circulation dictates the demand of the consumers. On the contrary, banking facility dictates the borrowing capacity of individuals as well as the business. Banking polices play a crucial role in affecting the prices of goods and interest rates together with assets prices and investments. The economic environment activities and inflation are influenced by the monetary policies of a particular country. This whole dynamic situation is also known as monetary policy transmission mechanism.

MACRO ENVIRONMENT: Currency Exchange rates A currency's level directly impacts the economy in the following ways:

υ *Merchandise Trade* This refers to a nation's imports and exports. In general, a weaker currency makes imports more expensive, while stimulating exports by making them cheaper for overseas customers to buy. A weak or strong currency can contribute to a nation's

υ *Economic Growth* The basic formula for an economy's GDP is: $GDP=C+I+G+(X−M)$

From this equation, it is clear that the higher the value of net exports, the higher a nation's GDP. As discussed earlier, net exports have an inverse correlation with the strength of the domestic currency.

Macro Environment: Economic-Inflation Inflation usually occurs when the supply of money is too much in the economic environment market while not equally supported by a similar availably of goods and services. Now, there is a lot floating around in this situation. The prices of goods have to increase one way or the other, in order to sustain the businesses. And so there is an increase in the cost of raw materials needed for production. This upsurge in the cost of raw materials obviously translates to the retail price.

The buying power of consumers decreases, their incomes remain constant, but the prices of products and services shoots up. This will definitely affect the businesses in that, the demand for the goods is directly dependent on its availability and its price.

Macro Environment: Economic- Recession Companies usually make great losses and face dips in sales and profits during recession. And in order to reduce their costs most of them usually resort to staff cuts, retrenchment and firing, reducing capital expenditure, advertising budgets, research and development activities, and so on. Of course this affects companies and organizations of all sizes regardless of the economic environments they are in.

Macro Environment: Economic- Demand & Supply There are two great economic factors affecting business models work – demand and supply. Demand is how willing and able a consumer is to purchasing what a business offers and supply is how able the business is to make available what the consumer needs. For example, when a mobile phone infused with the latest technology is introduced to the market, it fetches a higher price due to the high demand in markets, and the prices remain high if the demand is more than the supply.

Macro Environment: Socio Cultural The Socio-Cultural forces link to factors that affect society's basic values, preferences and behaviour. The basis for these factors is formed by the fact that people are part of a society and cultural group that shape their beliefs and values. Many cultural blunders occur due to the failure of businesses in understanding foreign cultures. For instance, symbols may carry a negative meaning in another culture. Below is a list of social factors which impact customer needs and size of markets:

υ Lifestyles

υ Buying habits

υ Education level

υ Emphasis on safety

υ Religion and beliefs

υ Health consciousness

υ Average disposable income level

υ Social classes

υ Family size and structure

υ Attitudes toward saving and investing

υ Attitudes toward green or ecological products

υ Attitudes toward for renewable energy

υ Immigration and emigration rates

υ Age distribution and life expectancy rates

υ Attitudes toward imported products and services

Organizations should be able to offer products and services which aim to benefit people's lifestyle. The offerings should complement customers' behavior. Not reacting to changes in the society can be a costly mistake. They might lose market share. Demand for their products and services will fall.

Macro Environment: Technological A systematic application of scientific knowledge to practical task is known as technology. Everyday there has been vast changes in products, services, lifestyles and living conditions, these changes must be analysed by every business unit and should adapt these changes. Technology does not only confine to computers and IT services. It includes products, manufacturing processes, techniques etc. The technological developments can be a huge advantage for a firm. But at the same time of the technology used by the firm becomes obsolete due to such developments, then it can also be a threat to the firm.

Macro Environment: Ecological Ecological, or natural forces in the Macro Environment are important since they are about the natural resources which are needed as inputs by marketers or which are affected by their marketing activities. Also, environmental concerns have grown strongly in recent years, which makes the ecological force a crucial factor to consider. For instance, world, air and water pollution are headlines every marketer should be aware of. In other words, you should keep track of the trends in the ecological environment. Important trends in the ecological environment are the growing shortage of raw materials and the care for renewable resources. In addition, increased pollution, but also increased intervention of government in natural resource management is an issue. Because of all these concerns and the increased involvement of society in ecological issues, companies more than ever before need to consider and implement environmental sustainability. This means that they should contribute to supporting the environment, for instance by using renewable energy sources. Thereby, businesses do not only support the maintenance of a green planet, but also respond to consumer demands for environmentally friendly and responsible products.

Macro Environment: Political Every business is limited by the political environment. This involves laws, government agencies and pressure groups. These influence and restrict organisations and individuals in a society. Therefore, marketing decisions are strongly influenced and affected by developments in the political environment. Before entering a new market in a foreign country, the company should know everything about the legal and political environment. How will the legislation affect the business? What rules does it need to obey? What laws may limit the company's ability to be successful? For example, laws covering issues such as environmental protection, product safety regulations, competition, pricing etc. might require the firm to adapt certain aspects and strategies to the new market.

The market develops according to the political and legal environment in various areas. This means that every business needs to be up to date with such forces worldwide in order to be able to make the right decisions. Political factors in the macro environment include taxation, tariffs, trade agreements, labor regulations, and environmental regulations.

Components of Political Environment:

♣ Political belief of the government

♣ Political strength of the company

♣ Relation withy other countries

- ♣ Centre state relationship in he country
- ♣ Government stability

Summary After going thorough all the constituents of business environment it can be interpreted that no business exist in vacuum. There are certain surroundings which impact the functioning of business. Business need to make strategies after considering all the environmental factors viz. Internal environment and External environment. The analysis of all the environmental factors is known as environmental Analysis (EA). Without taking account the impact of these constituents business can not survive for long run.

The concept of Corporate Social Responsibility (CSR) is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society. Traditional views about competitiveness, survival and profitability are being swept away.

Corporate Social Responsibility (CSR) is a concept whereby companies not only consider their profitability and growth, but also the interests of society and the environment by taking responsibility for the impact of their activities on stakeholders, environment, consumers, employees, communities, and all other members of the public sphere.

Why CSR Business cannot exist in isolation; business cannot be oblivious to societal development.

• CSR creates a favourable public image, which attracts customers. Reputation or brand equity of the products of a company which understands and demonstrates its social responsibilities is very high. Customers trust the products of such a company and are willing to pay a premium on its products. Organizations that perform well with regard to CSR can build reputation, while those that perform poorly can damage brand and company value when exposed. Brand equity, is founded on values such as trust, credibility, reliability, quality and consistency. build a positive synergy between the two.

• Corporate Social Responsibility (CSR) activities have its advantages. It builds up a positive image encouraging social involvement of employees, which in turn develops a sense of loyalty towards the organization, helping in creating a dedicated workforce proud of its company. Employees like to contribute to the cause of creating a better society. Employees become champions of a company for which they are proud to work.

• Society gains through better neighbourhoods and employment opportunities, while the organization benefits from a better community, which is the main source of its workforce and the consumer of its products.

• Public needs have changed leading to changed expectations from consumers. The industry/ business owes its very existence to society and has to respond to needs of the society.

• The company's social involvement discourages excessive regulation or intervention from the Government or statutory bodies, and hence gives greater freedom and flexibility in decision-making.

• The internal activities of the organisation have an impact on the external environment, since the society is an interdependent system.

• The good public image secured by one organisation by their social responsiveness encourages other organizations in the neighbourhood or in the professional group to adapt themselves to achieve their social responsiveness.

• The atmosphere of social responsiveness encourages co-operative attitude between groups of companies. One company can advise or solve social problems that other organizations could not solve.

• Companies can better address the grievances of its employees and create employment opportunities for the unemployed.

Responsibility towards Different Interest Groups After getting some idea about the concept and importance of social responsibility of business let us look into the various responsibilities that a business has towards different groups with whom it interacts. The business generally interacts with owners, investors, employees, suppliers, customers, competitors, government and society. They are called interest groups because, by every activity of a business, the interest of these groups is affected directly or indirectly.

Responsibility Towards Owners Owners are the persons who own the business. They contribute capital and bear the business risks. The primary responsibilities of business towards its owners are to:

• Run the business efficiently.

• To earn sufficient profit through proper means.

• To enhance his ability through training and experience

• To enter into new markets.

• Proper utilization of capital and other resources.

Responsibility Towards Investors Investors are those who provide finance by way of investment in debentures, bonds, deposits, etc. Banks, financial institutions, and investing public are all included in this category. The responsibilities of business towards its investors are:

• Ensuring the safety of their investment,

• Regular payment of interest & dividend.

• Timely repayment of the principal amount.

• To inform about progress of the organization by presenting correct accounts

Responsibility Towards Employees Business needs employees or workers to work for it. These employees put their best effort for the benefit of the business. So it is the prime responsibility of every business to take care of the interest of its employees. If the employees are satisfied and efficient, then the only business can be successful. The responsibilities of business towards its employees include:

• Timely and regular payment of wages and salaries.

• Proper working conditions and welfare amenities.

• Opportunity for better career prospects.

• Job security as well as social security like facilities of provident fund, group insurance, pension, retirement benefits, etc.

• Better living conditions like housing, transport, canteen, crèches, etc.

• Timely training and development.

• Solving labour problems in time.

• Proper recognition, appreciation and encouragement

• Giving participation in management.

• Providing opportunities for promotion and development.

Responsibility Towards Suppliers Suppliers are businessmen who supply raw materials and other items required by manufacturers and traders. Certain suppliers, called distributors, supply finished products to the consumers. The responsibilities of business towards these suppliers are:

• Timely payment of dues.

• Giving appropriate price for the materials supplied.

• Giving regular orders for the purchase of goods.

• Dealing with fair terms and conditions.

• Informing them about the future plans.

Responsibility Towards Customers • Products and services must be able to take care of the needs of the customers.

• Products and services must be qualitative.

• There must be regularity in the supply of goods and services.

• To make available goods & services as per the taste of customers.

• The price of goods and services should be reasonable and affordable.

• All the advantages and disadvantages of the product, as well as the procedure to use the products, must be informed do the customers.

• To make available goods & services to customers at the nearest point.

• There must be proper after-sales service.

• Grievances of the consumers, if any, must be settled quickly.

• Unfair means like under weighing the product, adulteration, etc. must be avoided.

• Avoid misleading the customers by improper advertisements.

Responsibility Towards Competitors Competitors are the other businessmen or organizations involved in a similar type of business. The existence of competition helps the business in becoming more dynamic and innovative to make itself better than its competitors. It also sometimes encourages the business to indulge in negative activities like resorting to unfair trade practices. The responsibilities of business towards its competitors are:

• not to offer exceptionally high sales commission to distributors, agents, etc.

• not to offer to customers heavy discounts and /or free products in every sale.

• not to defame competitors through false or ambiguous advertisements.

Responsibility Towards Government Business activities are governed by the rules and regulations framed by the government. The various responsibilities of business towards government are:

• Setting up units as per guidelines of the government.

• Payment of fees, duties, and taxes regularly as well as honestly.

• Not to indulge in monopolistic and restrictive trade practice.

• Conforming to pollution control norms set up by the government.

• Not to indulge in corruption through bribing and other unlawful activities.

Responsibility Towards Society A society consists of individuals, groups, organizations, families, etc. They all are members of the society. They interact with each other and are also dependent on each other in almost all activities. There exists a relationship between them, which may be direct or indirect. Business, being a part of the society, also maintains its relationship with all other members of the society. Thus, it has certain responsibilities towards society, which may be as follows:

• to help the weaker and backward sections of the society

• to preserve and promote social and cultural values

•to generate employment

•to protect the environment

•to conserve natural resources and wildlife

•to promote sports and culture

•to assist in the field of developmental research on education, medical science, technology, etc.

CSR ACT 2013 India The rules, effective April 2014, embrace both private and public firms, and spell out a range of activities for companies to undertake in order to meet their obligations. The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014.

Applicability of CSR Provisions: With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities.

The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered for computing CSR expenditure.

CSR Committee: To formulate and monitor the CSR policy of a company, a CSR Committee of the Board needs to be constituted. Section 135 of the 2013 Act requires the CSR Committee to consist of at least three directors, including an independent director.

Companies can also collaborate with each other for jointly undertaking CSR activities, provided that each of the companies are able individually report on such projects. A company can build CSR capabilities of its personnel or implementation agencies through institutions with established track records of at least three years, provided that the expenditure for such activities does not exceed 5% of the total CSR expenditure of the company in a single financial year.

Activities which may be included by companies in their CSR Policies relating to:

• Eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swatch Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.

• Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.

• Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.

• Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga.

• Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts;

• Measures for the benefit of armed forces veterans, war widows and their dependents;

• Training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports

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• Contribution to the Prime Minister's national relief fund or any other fund set up by the central govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women;

• Contributions or funds provided to technology incubators located within academic institutions which are approved by the central govt.

• Rural development projects

• Slum area development.

<u>Eligible CSR spends</u> The following activities cannot be included as part of a company's eligible CSR spend:

• Activities which are undertaken in the normal course of business of a company, or those benefitting only its employees.

• Political contributions.

• Sponsorship activities.

• Fulfilment of statutory obligations and activities undertaken outside India (except for training of sports personnel representing a state or country at the national or international level).

New Amendments in CSR Act Activities that can now be included as CSR COVID-19-related activity in the normal course of business: This covers companies undertaking research and development into vaccines, medical devices, and drugs related to COVID-19, even if such activity is in their normal course of business. This exemption is allowed up to the financial year 2022-2023.

Concept of Management Management is a very popular term and has been used extensively for all types of activities and mainly for taking charge of different activities in any enterprise. A business develops in course of time with complexities. With increasing complexities managing the business has become a difficult task. The need of existence of management has increased tremendously. Management is essential not only for business concerns but also for banks, schools, colleges, hospitals, hotels, religious bodies, charitable trusts etc. Every business unit has some objectives of its own. These objectives can be achieved with the coordinated efforts of several personnel. Management is essential wherever human efforts are to be undertaken collectively to satisfy wants through some productive activity, occupation or profession.13

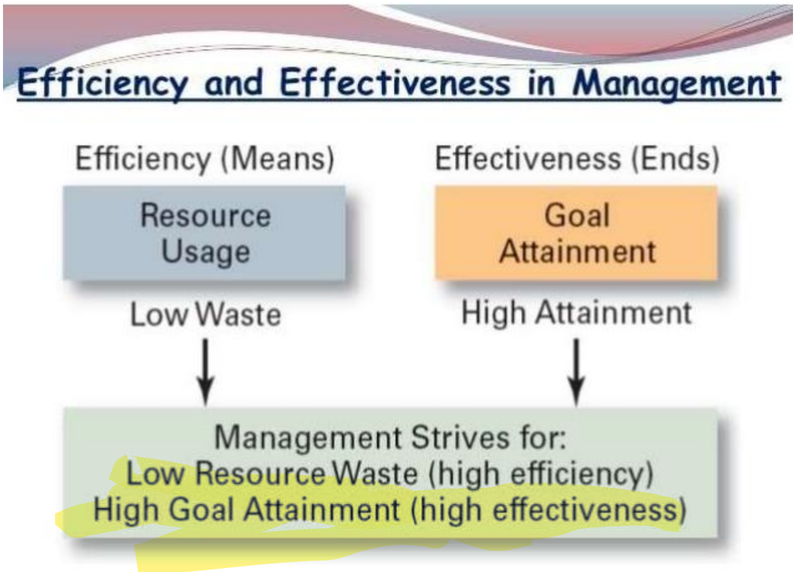
The manager of today must integrate management skills with new approaches that emphasize the human touch, enhance flexibility & involves employees. Management is needed in all types of organization, at all levels of organization, in all organization work areas throughout the world.

Management=Manage+men+t(tactfully).

Efficiency vs. Effectiveness in Management

Efficiency: "Doing things right" -Getting the most output for the least input.

Effectiveness: "Doing the right things"- Attaining Organizational Goals.



Management as a process – Management is considered as process as it comprises of series of interrelated functions which lead to achievement of organization goals. Concept of Management contd.

3. Management as an academic discipline – Management has emerged as a specialized branch of knowledge. It comprises principles & practices for effective management of organization. There are many management institutes imparting education in various fields of management.

4. Management as a group – The term management is frequently used to devote a group of managerial personnel. All the managers i.e. Chief executive, departmental heads, supervisors are collectively called Management. So, management is concerned with all those who manage the affairs of an organization.

Definitions of Management Although management as a discipline is many years old, there is no common agreement among its experts and practitioners about its precise definition. In fact, this is so in case of all social sciences like psychology, sociology, anthropology, economics, political science etc. As a result of unprecedented and breath-taking technological developments, business organizations have grown in size and complexity, causing consequential changes in the practice of management. Changes in management styles and practices have led to changes in management thought.

Moreover, management being interdisciplinary in nature has undergone changes because of the developments in behavioural sciences, quantitative techniques, engineering and technology, etc. 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:

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

Ralph C. Davis has defined Management as, *"Management is the function of executive leadership anywhere."*

According to Mc Farland*, "Management is defined for conceptual, theoretical and analytical purposes as that process by which managers create, direct, maintain and operate purposive organization through systematic, co-ordinated co-operative human effort."*

Henry Fayol, *"To mange 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."14*

E.F.L. Brech, *"Management is concerned with seeing that the job gets done, its tasks all centre on planning and guiding the operations that are going on in the enterprise."*

Koontz and O'Donnel, *"Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups, can perform efficiently and effectively toward the attainment of group goals. It is the art of getting the work done through and with people in formally organized groups."*

J.N. Schulze, *"Management is the force which leads guides and directs an organization in the accomplishment of a pre-determined object."*

Keith and Gubellini, *"Management is the force that integrates men and physical plant into an effective operating unit."*

Ordway Tead*, "Management is the process and agency which directs and guides the operations of an organization in the realizing of established aims."14*

Mary Parker Follett defines management as *the "art of getting things done through people"*. This definition calls attention to the fundamental difference between a manager and other personnel of an organization. A manager is one who contributes to the organization's goals indirectly by directing the efforts of others – not by performing the task himself. On the other hand, a person who is not a manager makes his contribution to the organization's goals directly by performing the task himself.

R. Terry. defines management as a process "*consisting of planning, organizing, actuating and controlling, performed to determine and accomplish the objectives by the use of people and other resources".*

To conclude, Management is set of activities (including planning, decision making, organizing, leading, and controlling) directed towards at organizational resources (human, financial, physical & information) with the aim of achieving organizational goals in an efficient manner.

Nature of Management

1. • Universal process: - Management is universal in nature; it is applied in all types of process like commercial, social or political. Management exists everywhere in universe. The basic principles of management can be applied everywhere, whether they are business or non-business organization.

2. • Continuous Process: - Management is a never ending process. Management is a continuous process because it always carries the past decisions for the future course of action to achieve organization goals.

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• Multi-disciplinary method: - Management is basically multi-disciplinary; it depends on the proper knowledge and skill of various disciplines such as economics statistics, anthropology, psychology, sociology etc.

• Group activity: - Management requires the use of group-efforts to achieve their goal. Management is a vital part of group activities. Management unites with their goal what they cannot achieve individually.

• Intangible force: - Management is intangible. It is an unseen force, but its presents seem in the form of results.

• Social Management: - Management is a social process in nature, it essentially involves managing people, it concern to developing, retaining and motivating people at work place and also care of their satisfaction.

• Coordinating force: - Management cannot do anything by them. They should get their work done by organization's member. In the any organization, management coordinates the efforts of human recourse through orderly.

• Goal oriented: - Management is a goal oriented in nature. It works only to achieve particular goal which decide by the organization.

• Relative, not absolute principles: - Management principles are relative not absolute, because they should be applied according to need and condition of the organization.

• An integrative method: - Management integrated the living and non-living resources to achieve the desired goal.

• Dynamic Function:-Management should be equipped to face the changes in the business environment brought about by economic, social, political, technological or human factors. They must be adequate training so that they can enable them to perform well even in critical situations.15

• Management is all Pervasive: Management is required in all types of organizations whether it is political, social, cultural or business because it helps and directs various efforts towards a definite purpose. Thus clubs, hospitals, political parties, colleges, hospitals, business firms all require management. When ever more than one person is engaged in working for a common goal, management is necessary. Whether it is a small business firm which may be engaged in trading or a large firm like Tata Iron & Steel, management is required everywhere irrespective of size or type of activity.15

• Management Art or Science or both?

Management as Art--- With management as art, there is an effective use of personal talents which will produce creativity that profits a business. It is understood that managing is doing things artistically in light of the realities of a situation. Elements of art in management Practical Knowledge, Personal Skill, Creativity, Perfection through practice, Goal-Oriented.15

Management as Science— Science is obtaining information about a particular object by a systematic pattern of observation, study, practice, experiments, and investigation. The management process also follows the same pattern. Gathering data and facts, analysing them and making a decision based on analysis. Elements of Science in Managing Concepts Methods and principles Theories Organized knowledge Practice.

Functions of Management Management is a set of principles relating to the functions of planning, organizing, directing, and controlling, and the applications of these principles in harnessing physical, financial, human, and informational resources efficiently and effectively to achieve organizational goals in efficient manner. There are basically five primary functions of management. These are:

1. Planning 2. Organizing 3. Staffing 4. Directing 5. Controlling

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Planning is an activity. It can be considered as consisting of a process. It is a process involves the determination of future course of action, that is why an action, what action, how to take action and when to take action. Why- It has some objectives What- It specifies activities to be taken How & When- generate various policies, programs and procedures.

Plan is commitment to a particular course of action. Planning is future-oriented and determines an organization's direction. It is a rational and systematic way of making decisions today that will affect the future of the company. It is a kind of organized foresight as well as corrective hindsight. It involves predicting of the future as well as attempting to control the events. It involves the ability to foresee the effects of current actions in the long run in the future.

Peter Drucker has defined planning as follows: *"Planning is the continuous process of making present entrepreneurial decisions systematically and with best possible knowledge of their futurity, organizing systematically the efforts needed to carry out these decisions and measuring the results of these decisions against the expectations through organized and systematic feedback"*.

Nature of Planning • A Rational Approach

• Open System approach- Managers have to take into account the dynamic features of environment.
• Pervasive approach

Types of Planning

• Corporate vs. Functional Panning: Corporate planning deals with planning activates at top level. It determines the long term objectives and generate plans to achieve these objectives. Functional Planning: it is segmental planning and it is undertaken for major functional departments of the organization like production, marketing, finance, human resource department etc.

• Strategic Planning vs. Operational Planning Strategic planning involves the analysis of various environmental factors. It focuses on external environment. Operational Planning is a short term planning usually covers one year or so. It is undertaken out of strategic planning. It focuses on internal environment. Types of Plans

• Standing Plans and Single use plansStanding plans provide guidelines for further course of action and are used over a period of time. Once formulated these plans are used for a long period. For example- Organization's mission, Vision and long term objectives. Single use plans- are relevant for a specified time and after the lapse of the time these plans are formulated again for next period. For example- Projects, budgets, targets etc.

Importance of Planning

1 *Planning increase efficiency* –Planning makes optimum utilization of all available resources. It helps to reduce wastage and avoids duplication of work.

2 *Planning reduces business related risks*- Planning helps to forecast the business related risk and also helps to take necessary precautions to avoid these risks and prepare for future uncertainties

3 Planning provides direction – Direction means to give proper information, accurate instructions and guidance to the subordinates. Planning tells us what to do, how to do and when to do . It help the organization to achieve the goals through systematic coordination of the employees.

4 Planning helps in motivation

5 Planning helps in decision making – A manager makes many different plans. Then they evaluate every course of action and choose the best strategy. So decision making is facilitated by planning.

6 Planning helps to achieve objectives- Without Planning each and every activity will be based on trial and error which will give rise to confusion Every organization has certain targets. Planning helps an organization to achieve their aims by avoiding overlapping, confusion and misunderstanding.

7 Planning provides basis of control-Planning is the first function of management. The other functions like organising, staffing, directing and controlling etc. are organized for implementing plans. Controlling records the actual performance and compares it with standards set. In case the performance is less than the standards set then deviations are ascertained and proper corrective measures are taken to improve the performance in future. Planning and controlling both are dependent on each other. Planning establishes standards for controlling. Therefore, Planning is necessary for effective and efficient functioning of every organisation irrespective of its size, type and objectives.

Steps in Planning Process

• Establishing verifiable goals- The first step in planning is to determine the enterprise objectives. These are more often set by upper level managers. The objective may vary from a desired sales volume or growth rate to development of a new product.

• Establishing Planning Premises- Plans are made to operate in the future. The second step in planning is to establish planning premises i.e. assumption on the basis of which plans will be ultimately formulated. Planning premises are vital to the success of planning as they supply important facts and information related to future like population trends, economic condition, production cost, government control etc.

• Deciding the Planning Period –The next task is to decide the period of the plan whether it's a yearly plan or a plan which is spread over for longer span of time. Choice of planning period is decided based on time required in development of new product, time required to recover capital investment and length of commitments already made.

• Finding alternative course of action – The next in planning is to search for and examine alternative course of action. For Ex-Products may be sold directly to the consumers by the company's salesman or through exclusive agencies. • Evaluating and selecting a course of action- Having searched the alternative courses, the next step is to evaluate and analyse them in the light of premises and goals and select the best alternative. This is done with the help of quantitative techniques and operations research.

• Implementing the Plan- The best possible course of action has now to be implemented i.e. putting the plan into action . For this the managers have to develop derivative plans for each department. A draft version of the action plan should be communicated to inform those directly affected and gain their cooperation.

• Measuring and Controlling the Programme –The process of controlling is a critical part of any plan. Managers need to check the progress of their plans i.e. follow up, so that they can take remedial action if the plan is not working as per schedule or change the original plan if it is unrealistic.

Organizing After planning the next function of management is organising. Organising involves division of work among people whose efforts must be coordinated to achieve specific objectives and to implement pre-determined strategies. It is the backbone of management. After the objectives of an enterprise are determined and the plan is prepared, the next step in the management process is to organize the activities of the enterprise. According to Louis Allen "Organising is the process of identifying and grouping the work to be performed defining and delegating responsibility and authority, and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives."

Importance of Organizing

• It facilitates efficient management - Organising is necessary for the performance of other functions of management .Poor organisation may result in duplication of work and efforts.

• It facilitates coordination and communication - Organisation creates a clear cut relationships between the departments and helps in laying down balanced emphasis on various activities. It also provides channels of communication and coordination of activities of different departments.

• It facilitates growth and diversification- Sound organization helps in the growth and expansion of the enterprise by facilitating its efficient management .It also increases the capacity of the enterprise to undertake more activities.

• It ensures optimum use of resources -Organising leads to the optimum use of all material, financial and human resources. It matches the jobs with the individuals and vice versa and ensures that job position is clearly defined. It minimizes confusion and wastage of resources.

• It provides for optimum use of technological innovations-Sound organisation structure is not rigid. It is flexible and provides adequate scope for adoption of new technology.

• It facilitates specialization- Organising provides a great scope for bringing specialization in every department of an enterprise through proper allocation of jobs among the employees. • Organising thus can be understood in two ways: • 1. Organising as a process • 2. Organising as a structure

Organizing as a Process It refers to the way in which the work of a group is arranged and distributed among members to efficiently achieve the objectives. It creates a relationship of one job to another and lays down the scope of authority and responsibility. The duties are fixed in such a manner so that the work is performed with speed, accuracy and economy.

Steps in the Process of Organizing • Determination of objectives - The purpose of the organisation must be identified. Objectives determine resources and various activities which should be done to achieve the organisational goals.

• Identification and grouping of activities- If group members are to pool their efforts successfully, there must be proper division of the major activities. Each job should be accurately classified and grouped. This will avoid duplication of work.

• Assignment of duties- After grouping the activities into various jobs, as per the nature of work, Similar activities should be placed under one department . Each individual should be given a particular task according to his ability and skills.

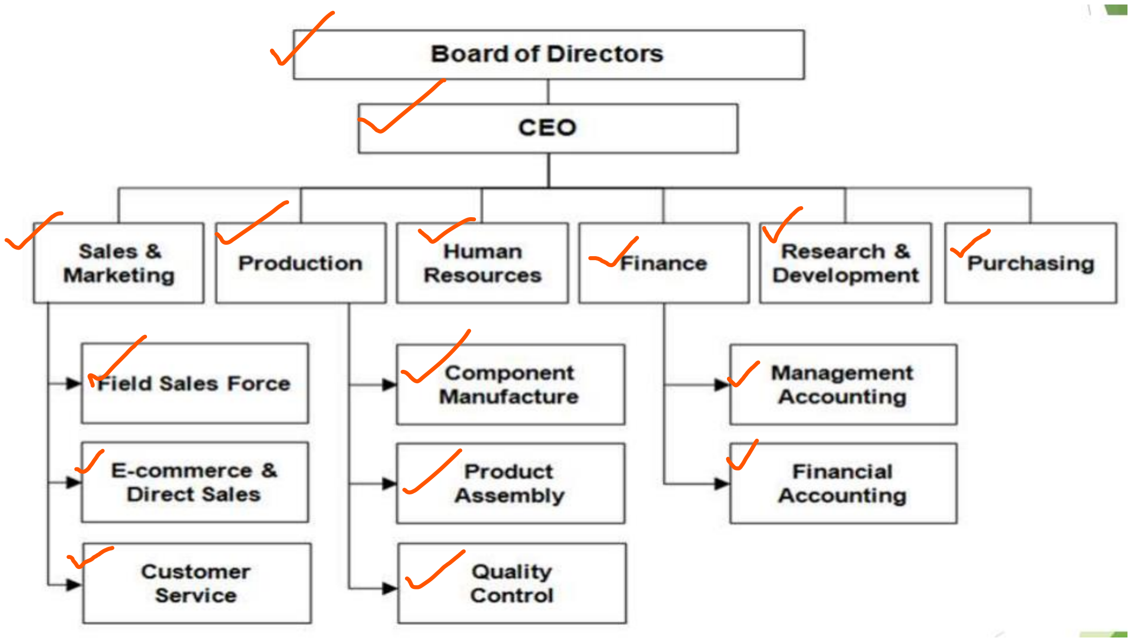
• Establishing relationship among individuals and group- The activities which are performed by person holding different positions must be related. Every person in the organisation should know about his responsibility, authority and accountability so that there is coordination, among individuals and departments. The organizing process results in organization structure with precisely defined authority and responsibilities.

Organisation Structure An Organisation Structure shows the authority responsibility relationship between the various positions in the organization by showing who reports whom, It lays down the pattern of communication and coordination in the enterprise. It facilitates growth of the enterprise by increasing capacity to handle diversified situations. Organisation structure is usually shown on an organisation chart. There are basically 2 types of organization structure.

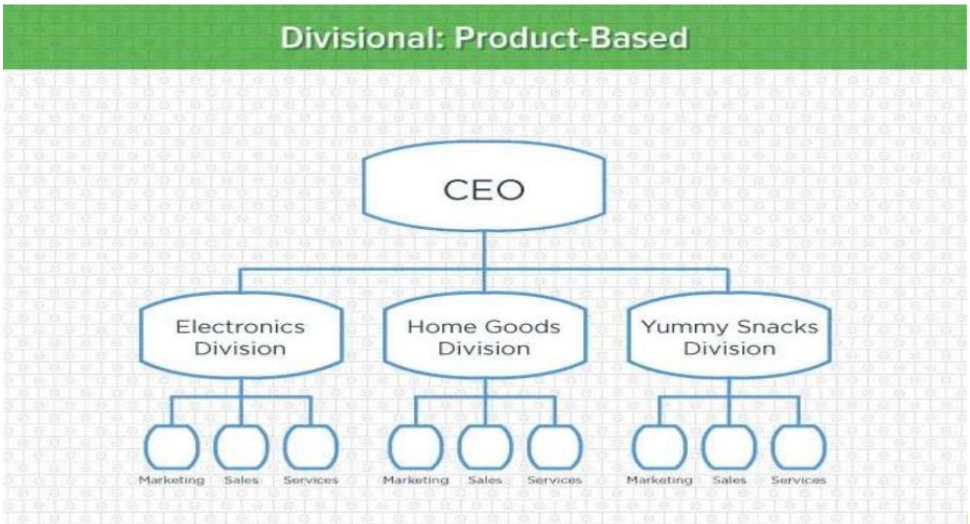
1. Functional Structure

2. Divisional Structure Functional Structure

Functional structure- This type of organization structure is formed by grouping together all activities into functional department and putting each department under one head. Functional structure leads to specialization. It promotes efficiency and results in increased profits. Its suitable to organization where operations require high degree of specialization . For example –A steel manufacturing Company has divided its structure into Manufacturing, Finance, Marketing Personnel, Research and Development, as it has diversified activities and its operation require a high degree of specialization.



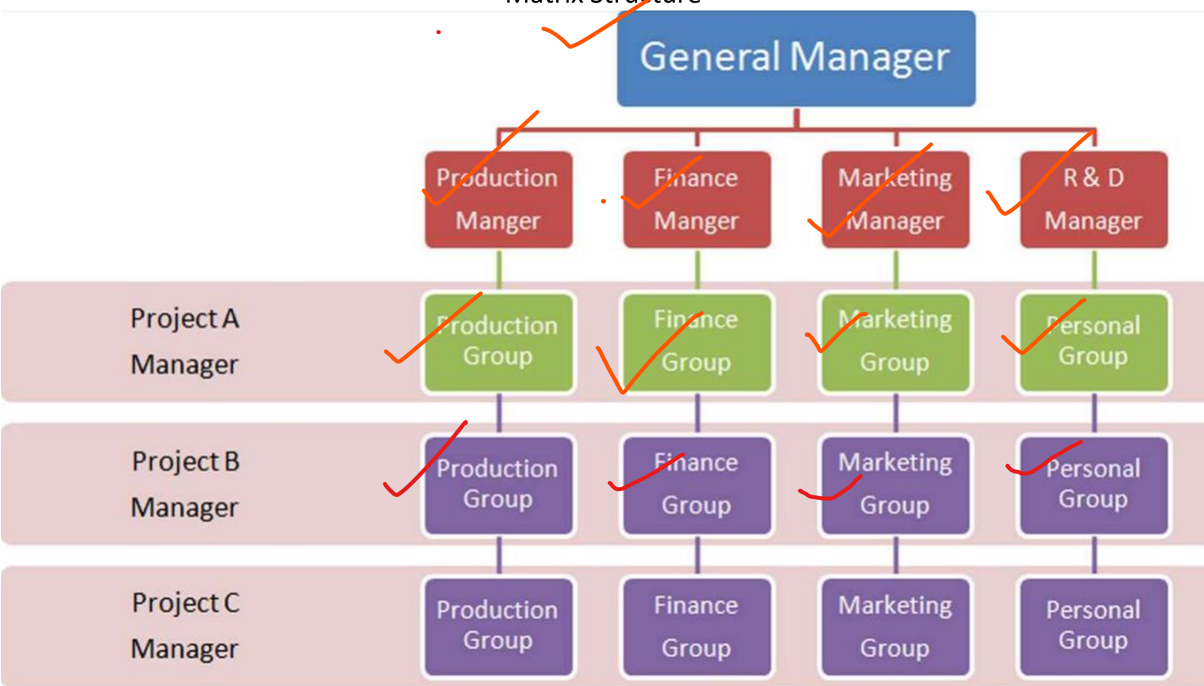
Divisional Structure- Large Companies often find it to operate as one large unit under a functional organizational structure. The size of the company makes it difficult for managers to oversee operations and screen customers. To overcome this problem, most large companies are now structured as divisional organisations. Each division functions relatively autonomously because it contains most of the functional expertise under each unit. Division can be formed according to product, customers, processes or geographical division. One example of this is a company like General Electric. GE has many different divisions including aviation, transportation, currents, digital and renewable energy, among others. Under this structure, each division essentially operates as its own company, controlling its own resources and how much money it spends on certain projects or aspects of the division.



Matrix Structure A hybrid organizational structure, the matrix structure is a blend of the functional organizational structure and the projectized organizational structure. In the matrix structure, employees may report to two or more bosses depending on the situation or project. For example, under normal functional circumstances, an engineer at a large engineering firm could work for one boss, but a new project may arise where that engineer's expertise is needed. For the duration of that project, the employee would also report to that project's manager, as well as his or her boss for all other daily tasks. The matrix structure is challenging because it can be tough reporting to multiple bosses and knowing what to communicate to them. That's why it's very important for the employees to know their roles, responsibilities and work priorities.

Advantages of this structure is that employees can share their knowledge across the different functional divisions, allowing for better communication and understanding of each function's role. And by working across functions, employees can broaden their skills and knowledge, leading to professional growth within the company.

Matrix Structure



Virtual Organizational Structure Is also known as digital organisation, network organisation or modular organisation. Simply speaking, a virtual organisation is a network of cooperation made possible by, what is called ICT, i.e. Information and Communication Technology, which is flexible and comes to meet the dynamics of the market. Alternatively speaking, the virtual organisation is a social network in which all the horizontal and vertical boundaries are removed. In this sense, it is a boundary less organisation. It consists of individual's working out of physically dispersed work places, or even individuals working from mobile devices and not tied to any particular workspace. The ICT is the backbone of virtual organisation. Virtual Organizational Structure contd. Organisations may have several options like flexi-time, part-time work, job-sharing, and home-based working.

Types of Virtual Organizations

• Telecommuters

• Outsourcing employees/competencies

• Completely virtual

Telecommuters: These companies have employees who work from their homes.

Outsourcing Employees/Competencies: These companies are characterised by the outsourcing of all/most core competencies. Areas for outsourcing include marketing and sales, human resources, finance, research and development, engineering, manufacturing, information system, etc.

Completely Virtual: These companies metaphorically described as companies without walls that are tightly linked to a large network of suppliers, distributors, retailers and customers

Staffing

After planning and organizing the next function of management is 'Staffing' .It is important to have a good organization structure, but it is even more important to fill the jobs with the right people. Filling and keeping the position provided for by the organization structure with right people at the right place is the staffing phase of the management function. All the managers have a responsibility for staffing. The staffing function deals with the human elements of management. The staffing function has assumed great importance these days because of rapid advancement of technology, increasing size of organizations and complex behaviour of human beings.

According to Koontz and O'Donnell, "Staffing involves manning the organization structure through proper and effective selection appraisal and development of personal to fill the roles designed into the structure."

Staffing Process

• Manpower planning- Estimation of manpower requirements in the future is the first stage in the staffing process. It is known as manpower or human resources planning. Its purpose is to make right kind of personnel available so that there is no surplus or shortage of people in any department. To determine the qualifications needed to meet the requirements of jobs, the organisation first of all has to analyse the jobs, write the jobs description and prepare job specifications.

• Recruitment - Once the requirement of manpower is known, the process of recruitment starts. It is the process of identifying the sources for prospective candidates and to stimulate them to apply for the jobs. It is a positive process as it attracts suitable candidates to apply for available jobs. The process of recruitment and the cost involved in it depends on the size of the undertaking and the type of persons to be recruited. The sources of recruitment can be a) Internal sources (recruitment from within the enterprise) b) External Sources(recruitment from outside) Sources of Recruitment

• Selection -The process of selection leads to employment of persons who possess the ability and qualifications to perform the jobs which have fallen vacant in the organisation. Selection is frequently described as a negative process as it eliminates all the candidates those who do not match up to the requirements of the job offered. As the employees are placed in the jobs for which they are best suited, they derive maximum job satisfaction reducing the labour turnover and increasing the overall efficiency of the organization. The candidates have to go through the whole selection process of an organization i.e. interviews, tests, medical examination etc.

• Placement- The candidate selected for appointment are to be offered specific jobs. A personnel should be placed on a position where there is full use of his strength and capabilities. Proper placement reduces absenteeism and turnover.

• Induction and Orientation-Induction is the process of familiarizing a new employee to the new workplace, surroundings, company's rule and regulations. Induction programme is generally informal in case of small organization. But in large organization the orientation or induction is carried on formally so that the new employee develops a favourable attitude towards the company.

• Training and Development- Training is an organized activity for increasing the knowledge and skills of people for a definite purpose .Its purpose is to achieve a change in the behaviour of the employees and to enable them to do their jobs better. The initiative for training usually comes from the management. Development emphasizes on growth of an individual. It's a continuous process Development helps in overall growth of the employee.

• Performance Appraisal- It refers to all the formal procedures used in an organization to evaluate the employees and their contributions. It also reveals as to how efficiently the subordinate is performing his job and to know his aptitudes and other qualities necessary for performing the job assigned to him.

• Promotion and Transfers- Promotion refers to being placed at a higher job position with more salary, job satisfaction and responsibility. On the basis of feedback report of employees performance they are given promotion and other opportunities Transfer means shifting of an employees from one job to another or one department to other. Transfer may take place due to change in organization structure or changes in the volume of work.

Directing Directing is concerned with the initiation of organized action and stimulating people to work. It involves issuance of orders, instructions and leading and motivating the employees to execute them. Directing is the inter-personal aspect of management which deals directly with influencing, guiding, supervising and motivating the subordinates for the accomplishment of pre-determined objectives. Planning, organizing, staffing are merely preparations for doing the work but the work actually initiates through directing function. The manager must stimulate action by giving direction to his subordinates through orders and also supervise their work to ensure that the plans and policies achieve the desired actions and results.

<u>Elements of Directing</u> Directing deals with inter-personal relations. It is the doing or implementing phase of management. Hence it is also called management-in-action. All the activities related to directing can be categorized into 4 different elements of directing. They are:

• Supervision • Motivation • Communication • Leadership.

<u>Supervision</u> It refers to the process where the activities of workers are guided towards the predetermined objectives. It involves directly overseeing the work of workers. It ensures that work is carried out efficiently and towards the desired objectives through effective supervision. Good supervision helps in maintaining harmony and unity among workers.

Highly Closed Supervision

Less Closed Supervision

Role of Supervisor

• Plays the role of a guide, friend and philosopher to workers.

• Guides workers and provides them support. He ensures that workers work with harmony and unity. In case of internal differences, the manager tries to sort it out and bring about a feasible solution.

• Serves as the link of communication between the manager and workers. While on one hand, he communicates the information and ideas of the management to workers, on the other hand, he communicates the problems of workers to managers. In other words, the management and workers communicate through the supervisor.

• Responsibility of the supervisor to ensure that the work is carried out efficiently and smoothly and that the set targets are met.

• The knowledge or skill along with on-job training as required by workers for various activities is provided by the supervisor.

• A good supervisor successfully influences employees and sets a high standard of morale among workers.

Motivation

Motivation means incitement or inducement to act or move. In the context of an organisation, it means the process of making subordinates to act in a desired manner to achieve certain organisational goals.

Features of Motivation:

• Motivation is an invisible force: Motivation is an internal feeling. It cannot be seen or touched. This internal feeling urges employees to behave in a particular manner. Its results can clearly be felt among employees through their performance. For example, a desire (internal feeling) to buy a new car, recognition in the company etc.

• Motivation helps in achieving goals: Motivation directs an employee towards goals. It is a positive awakening force which increases the productivity and quality standards of work done by employees.

• Motivation can also be negative: Positive motivation can take the form of appraisal or promotion. On the other hand, negative motivation can take the form of pay-cut and demotion. Both these types of motivation help to make employees work in the desired way.

• Motivation is not a simple process: Different individuals have different needs and expectations. Hence, all employees get motivated for different reasons at different times. Some employees get motivated by appreciation, whereas some employees get motivated by appraisals.

• Motivation Can be financial and non financial

Maslow's Need Hierarchy Theory of Motivation

• Maslow's hierarchy of needs helps in understanding the phenomenon of motivation.

• According to Maslow, the needs of an individual can be classified into five categories which can be arranged in a hierarchical order.

• With the knowledge of these needs, a manager can better understand the behaviour of employees in the organisation and accordingly provide appropriate motivation.

Hierarchy of needs as given by Maslow

1. Basic Physiological Needs: These needs are the most basic needs in the need hierarchy. It comprises needs which are essential for survival and sustenance. For example, the need for food, clothing and shelter. In terms of an organisation, the requirement of a basic salary is a basic physiological need.

2. Security Needs: An individual requires physical as well as emotional security. For example, an employee wishes for job security and stability in income.

3. Belonging Needs: It refers to the social needs of an individual in terms of affection, friendship and acceptance. In other words, it refers to a feeling of belongingness to society.

4. Esteem Needs: It comprises elements such as respect, dignity and recognition in the peer group.

5. Self-Actualisation Needs: Every individual wishes to achieve what he aims or aspires. For an employee, it includes factors such as recognition of work, autonomy and growth. It must however be noted that it may happen that the needs of an individual are not in the exact order of the hierarchy. Nevertheless, a good understanding of needs helps managers in using effective motivation

Communication It is the process of passing information, view point, facts, ideas , opinion and understanding from one person to another .It is a two way process and is complete when there is some response from the receiver of information. Communication may take several forms like order, instructions, report, suggestion etc. Communication plays key role in the success of a manager. How much professional knowledge and intelligence a manager possesses becomes immaterial if he is not able to communicate effectively with his subordinates and create understanding in them. Directing abilities of a manager mainly depend upon his communication skills. That is why organisation always emphasise on improving communication skills of managers as well as employees.

Importance of Communication

• Acts as basis of coordination: Communication acts as basis of coordination. It provides coordination among departments, activities and persons in the organisation.

• Helps in smooth working of an enterprise: Communication makes possible for the smooth and unrestricted working of the enterprise. All organisational interactions depend on communications.

• Acts as basis of decision making: Communication provides needed information for decision making. In its absence, it may not be possible for the managers to take any meaningful decision.

• Increases managerial efficiency: Communication is essential for quick and effective performance of managerial functions. The management conveys the goals and targets, issues instructions, allocates jobs and responsibilities and looks after the performance of subordinates.

• Promotes cooperation and industrial peace: Efficient operation is the aim of all prudent management. It may be possible only when there is industrial peace in the factory and mutual cooperation between management and workers. The two way communication promotes cooperation and mutual understanding between the management and workers.

• Boosts morale and provides motivation: An efficient system of communication enables management to motivate, influence and satisfy the subordinates. Good communication assists the workers in their adjustment with the physical and social aspect of work. It improves good human relations in industry.

Formal Communication Formal communication flows through official channels designed in the organisation chart. This communication may take place between a superior and subordinate, a subordinate and superior or among same cadre employees or managers. The communications may be oral or written but generally recorded and filed in the office. Formal communication may be further classified as – Vertical and Horizontal

1 Vertical communication flows vertically i.e., upwards or downwards through formal channels. Upward communication refer to flow of communication from subordinate to superior whereas downward communication indicates communication from a superior to subordinate. The examples of upward communication are – application for grant of leave, submission of progress report, request for grants etc. Similarly, the examples of downward communication include – sending notice to employees to attend a meeting, ordering subordinates to complete an assigned work, passing on guidelines framed by top management to the subordinates etc.

2 Horizontal or lateral communication takes place between one division and another. For example, a production manager may contact marketing manager to discuss about schedule of product delivery, product design, quality etc.

Informal Communication Communication that takes place without following the formal lines of communication is said to be informal communication. Informal system of communication is generally referred to as the 'grapevine' because it spreads throughout the organisation with its branches going out in all directions in utter disregard to the levels of authority.

Barriers to Effective Communication

• Semantic barriers: Semantics is the branch of linguistics dealing with the meaning of words and sentences. Such barriers result on account of use of wrong words, faulty translations, different interpretations etc.

• Psychological barriers: Emotional or psychological factors acts as barriers to communicators. For example, a worried person cannot communicate properly and an angry receiver cannot understand the real meaning of message. The state of mind of both sender and receiver of communication reflects in the effective communication. Some of the psychological barriers are:

i. Premature evaluation: Some times people evaluate the meaning of message before the sender completes his message. Such premature evaluation may be due to pre-conceived notions or prejudices

ii. ii. Lack of attention: The preoccupied mind of receiver and the resultant non-listening of message acts as a major psychological barrier. For instance, an employee explains about his problems to the boss who is pre-occupied with an important file before him. The boss does not grasp the message and the employee is disappointed. Barriers to Effective Communication contd.

iii. Loss by transmission and poor retention: When communication passes through various levels, successive transmissions of the message results in loss of, or transmission of inaccurate information. This is more so in case of oral communication. Poor retention is another problem.

iv. Distrust: Distrust between communicator and communicate acts as a barrier. If the parties do not believe each other, they can not understand each others message in its original sense.

• Organizational Barriers: The factors related to organisation structure, authority relationships, rules and regulations may, sometimes, act as barriers to effective communication. Some of these barriers are:

(i) Organisational policy: If the organisational policy, explicit or implicit, is not supportive to free flow of communication, it may hamper effectiveness of communications. For example, in an organisation with highly centralised pattern, people may not be encouraged to have free communication. Barriers to Effective Communication contd.

(ii) Rules and regulations: Rigid rules and cumbersome procedures may be a hurdle to communication. Similarly, communications through prescribed channel may result in delays.

(iii) Status: Status of superior may create psychological distance between him and his subordinates. A status conscious manager also may not allow his subordinates to express their feelings freely.

(iv) Complexity in organisation structure: In an organisation where there are number of managerial levels, communication gets delayed and distorted. Barriers to Effective Communication contd.

• Personal Barriers: the personal factors of both sender and receiver may exert influence on effective communication. Some of the personal barriers of superiors and subordinates are mentioned below:

1. Fear of challenge to authority: If a superior perceives that a particular communication may adversely affect his authority, he or she may withhold or suppress such communication.
2. Lack of confidence of superior on his subordinates: If superiors do not have confidence on the competency of their subordinates, they may not seek their advice or opinions.
3. Unwillingness to communicate: Sometimes, subordinates may not be prepared to communicate with their superiors, if they perceive that it may adversely affect their interests. Barriers to Effective Communication contd.
4. Lack of proper incentives: If there is no motivation or incentive for communication, subordinates may not take initiative to communicate. For example, if there is no reward or appreciation for a good suggestion, the subordinates may not be willing to offer useful suggestions

Improving Communication Effectiveness

• Clarify the ideas before communication: The problem to be communicated to subordinates should be clear in all its perspective to the executive himself. The entire problem should be studied in depth, analysed and stated in such a manner that is clearly conveyed to subordinates.

• Communicate according to the needs of receiver: The level of understanding of receiver should be crystal clear to the communicator. Manager should adjust his communication according to the education and understanding levels of subordinates.

• Consult others before communicating: Before actually communicating the message, it is better to involve others in developing a plan for communication. Participation and involvement of subordinates may help to gain ready acceptance and willing cooperation of subordinates. Improving Communication Effectiveness contd.

• Be aware of languages, tone and content of message: The contents of the message, tone, language used, manner in which the message is to be communicated are the important aspects of effective communication. The language used should be understandable to the receiver and should not offend the sentiments of listeners.

• Convey things of help and value to listeners: While conveying message to others, it is better to know the interests and needs of the people with whom you are communicating.

• Ensure proper feedback: The communicator may ensure the success of communication by asking questions regarding the message conveyed. The receiver of communication may also be encouraged to respond to communication.

• Be a good listener: Manager should be a good listener. Patient and attentive listening solves half of the problems.

Leadership Leadership may be defined as the process by which a manager guides and influences the work of his subordinates. The success of every enterprise is dependent upon the quality of its leadership. The importance of leadership:

(i) Leadership influences the behaviour of people and makes them to positively contribute their energies for the benefit of the organisation.
(ii) A leader maintains personal relations and helps followers in fulfilling their needs. He provides needed confidence, support and encouragement and thereby creates congenial work environment.
(iii) Leader plays a key role in introducing required changes in the organisation. He persuades, clarifies and inspires people to accept changes whole-heartedly. (iv) A leader handles conflicts effectively and does not allow adverse effects resulting from the conflicts.

Qualities of Good Leaders

(i) Physical features: Physical features like height, weight, health, appearance determine the physical personality of an individual. It is believed that good physical features attract people.
(ii) Knowledge: A good leader should have required knowledge and competence. Only such person can instruct subordinates correctly and influence them.
(iii) Integrity: A leader should posses high level of integrity and honesty. He should be a role model to others regarding the ethics and values.
(iv) Initiative: A leader should have courage and initiative. He should not wait for opportunities come to his way, rather he should grab the opportunity and use it to the advantage of organisation.
(v) Communication skills: A leader should be a good communicator. He should have the capacity to clearly explain his ideas and make the people to understand his ideas. He should be not only good speaker but a good listener, teacher, counsellor and persuader.
(vi) Motivation skills: A leader should be an effective motivator. He should understand the needs of people and motivate them through satisfying their needs.

(vii) Self Confidence: A leader should have high level of self confidence. He should not loose his confidence even in most difficult times. In fact, if the leader lacks self confidence, he can not provide confidence to his followers.

(viii) Decisiveness: Leader should be decisive in managing the work. Once he is convinced about a fact, he should be firm and should not change opinions frequently.

(ix) Social skills: A leader should be sociable and friendly with his colleagues and followers. He should understand people and maintain good human relations with them.

Leadership Styles There are several bases for classifying leadership styles. The most popular classification of leadership styles is based on the use of authority. Depending on the use of authority, there are three basic styles of leadership: (i) Autocratic (ii) Democratic, and (iii) Laissez-faire

(i) Autocratic or Authoritarian leader An autocratic leader gives orders and expects his subordinates to obey those orders. If a manager is following this style, then communication is only one-way with the subordinate only acting according to the command given by the manager. This leader is dogmatic i.e., does not change or wish to be contradicted. His following is based on the assumption that reward or punishment both can be given depending upon the result. This leadership style is effective in getting productivity in many situations like in a factory where the supervisor is responsible for production on time and has to ensure labour productivity. Quick decision-making is also facilitated Types of Autocratic Leadership

υ Strict Autocrats-negative
υ Benevolent Autocrats-positive
υ Incompetent Autocrats Leadership Styles contd..

(ii) Democratic or Participative leader A democratic leader will develop action plans and makes decisions in consultation with his subordinates. He will encourage them to participate in decision-making. This kind of leadership style is more common now-a days, since leaders also recognise that people perform best if they have set their own objectives. They also need to respect the other's opinion and support subordinates to perform their duties and accomplish organisational objectives. They exercise more control by using forces within the group.

(iii) Laissez faire or Free-rein leader Such a leader does not believe in the use of power unless it is absolutely essential. The followers are given a high degree of independence to formulate their own objectives and ways to achieve them. The group members work on their own tasks resolving issues themselves. The manager is there only to support them and supply them the required information to complete the task assigned. At the same time, the subordinate assumes responsibility for the work to be performed. Depending upon the situation a leader may choose to exercise a combination of these styles when required. Even a laissez faire leader would have certain rules to be followed.

<u>Leadership Theories</u>

υ The great man theory- The great man theory of leadership states that excellent leaders are born, not developed. A popular concept in the 19th century, this theory states that leadership is an inherent quality. This type of leader often possesses the natural attributes of intelligence, courage, confidence, intuition and charm, among others.

υ The trait theory-assume that people inherit certain qualities and traits that make them better suited to leadership. For example, traits like extroversion, self-confidence, and courage are all traits that could potentially be linked to great leaders.

υ The behavioural theory-Behavioral theories of leadership are based upon the belief that great leaders are made, not born. Consider it the flip-side of the Great Man theories. This leadership theory focuses on the actions of leaders, not on mental qualities or internal states. According to this theory, people can learn to become leaders through teaching and observation. Leadership Theories contd.

ʋ Situational Theory- It propose that leaders choose the best course of action based upon situational variables. Different styles of leadership may be more appropriate for certain types of decision-making. For example, in a situation where the leader is the most knowledgeable and experienced member of a group, an authoritarian style might be most appropriate. In other instances where group members are skilled experts, a democratic style would be more effective.

ʋ Contingency theory- According to this theory, good leaders are able to assess the needs of their followers, take stock of the situation, and then adjust their behaviours accordingly. This style is best in all situations.

ʋ The transactional theory or management theory- These theories are based on a system of rewards and punishments. Managerial theories are often used in business; when employees are successful, they are rewarded and when they fail, they are reprimanded or punished.

ʋ The transformational theory-The transformational theory of leadership, also called the relationship theory. This theory is as the result of a positive relationship between leaders and team members. Transformational leaders motivate and inspire through their enthusiasm and passion. They are a model for their teams, and they hold themselves to the same standard they expect of others.

Importance of Directing

• Initiates action: Direction initiates action that motivates people to convert the resources into productive outputs. It gives substance to managerial function of planning, Organising, Staffing and controlling. People learn to manage the resources in the most effective way that results in their optimum utilization.

• It integrates employees efforts: many employees work in organization. The activities of all are related. If any one of the employees in the employee chain does not perform up to the mark then it will adversely affect the performance of remaining employees.

• It is the means of motivation and developing managers: Managers who are personally motivated to work can also direct others to work. Managers develop their skills and competence. Motivation, leadership and communication help in bringing people together. This is beneficial for both the employees and organisation. Direction, thus, prepares future managers

• Behavioural satisfaction: Since direction involves human behaviour and psychology, employees feel behaviourally satisfied and personally inspired to achieve organizational goals.

• Increase in productivity: Personally satisfied employees contribute towards output and efficiency of the organisation. Direction gets maximum out of subordinates by exploiting their potential and increasing their capabilities to work.

• Facilitates control: Coordination brings actual performance in conformity with planned performance. The controlling function is, thus, facilitated through effective direction.

• Facilitates change: Direction helps in introducing change in the organization structure and adapting the organization structure to external environment. People are not easily receptive to changes. Direction helps in changing attitude of people in a positive way. Managers through effective direction makes them a part of change process.

• Facilitates growth: Organisation open to change is responsive to growth. Direction harmonizes physical, financial and human resources, balances various parts of the organization and creates commitment amongst people to raise their standards of performance.

Controlling

• Controlling is seeing that actual performance is guided towards expected performance .All other functions of management cannot be completed effectively without performance of the control function. It implies measurement of accomplishment against the standards and correction of deviation, if any, to ensure achievement of organizational goals. The efficient system of control helps to predict deviation before they actually occur.

• Controlling ensures that there is effective and efficient utilization of organisational resources so as to achieve the organisational goals.

θ Open loop Control System- no feedback

θ Closed Loop Control System- feedback

Importance of Controlling

• 1) Basis of future action- Control provides the basis for future actions. It will reduce the chances of mistakes being repeated in future by suggesting preventive steps.

• 2) Facilitates decision making- The process of control is complete only when corrective measures have been taken. This requires taking a right decision as to what type of follow up action is to be taken.

• 3) Facilitates discipline and order – The existence of control system has a positive impact on the behaviour of the employees. They are cautious while performing their duties as they know they are being observed by their superiors.

• 4) Facilitates Coordination- Control helps in Coordination of the activities of various departments of the enterprise. It provides them unity of direction.

• 5) Facilitates motivation – A control system is most effective when it motivates people to high performance. Since most people respond to a challenge, successfully meeting a tough standard may provide a greater sense of accomplishment.

Controlling Process

• 1) Establishment of standards- Standards are the plans or the targets which have to be achieved in the course of business function. It acts as a basis of evaluations of actual performance. Standards can be set in quantitative or qualitative terms. Quantitative or measurable standards can be inform of cost, output, time, profit etc. Qualitative or no measurable standards can be in form of performance of a manager, attitude of worker improving motivational level of employees. Standards should be flexible i.e. capable of being changed according to the circumstances.

• 2) Measurement of Performance –This step involves measuring of actual performance of various individuals, group or units. Measurement of tangible standards is easy as it can be expressed in quantitative terms. Frequency of measurement depends on the nature of task being controlled Qualitative.

• 3) Comparison of Actual and Standard Performance-Comparison of actual performance with the planned targets is very important. Deviations can be defined as the gap between actual performance and the standards laid down. The manager has to find out extent of deviation and cause of deviation. The manager has to exercise control by exception. He has to target those deviation which are critical and important for business.

• 4) Taking remedial action-Once the causes and extent of deviation are known, the manager has to detect those errors and take remedial measures so that these deviations don't occur again. Remedial or corrective actions can be re planning of standards, classification of duties, training of workers etc.

Stages of Control

υ Feedforward Control- It monitors input into a process to determine whether the inputs are as planned.

υ Con-Current Control- It is exercised during the operation of a program. It provides basis for making adjustments while the programme is still in operation.

υ Feedback Control- It is based on the measurement of the results of an action.

Henri Fayol was born in Istanbul in 1841. When he was 19, he began working as an engineer at a large mining company in France. He eventually became the director, at a time when the mining company employed more than 1,000 people.

Through the years, Fayol began to develop what he considered to be the 14 most important principles of management. Essentially, these explained how managers should organize and interact with staff.

In 1916, two years before he stepped down as director, he published his "14 Principles of Management" in the book "Administration Industrielle et Générale." Fayol also created a list of the six primary functions of management, which go hand in hand with the Principles

1. Division of Work Work is divided into small tasks/jobs. A trained specialist who is competent is required to perform each job. Thus, division of work leads to specialisation. According to Fayol, "The intent of division of work is to produce more and better work for the same effort. Specialisation is the most efficient way to use human effort." In business work can be performed more efficiently if it is divided into specialised tasks; each performed by a specialist or trained employee. This results in efficient and effective output. Thus, in a company we have separate departments for finance, marketing, production and human resource development etc.

2. Authority and Responsibility The authority and responsibility are related to each other. Authority means the right to give orders while the responsibility means being accountable. Thus, to whomsoever the authority is given to exact obedience must be held accountable for anything that goes wrong. There should be a balance between authority and responsibility. An organisation should build safeguards against abuse of managerial power. At the same time a manager should have necessary authority to carry out his responsibility. A manager should have the right to punish a subordinate for wilfully not obeying a legitimate order but only after sufficient opportunity has been given to a subordinate for presenting her/his case.

3. Discipline Discipline is the obedience to organisational rules and employment agreement which are necessary for the working of the organisation. According to Fayol, discipline requires good superiors at all levels, clear and fair agreements and judicious application of penalties. No slacking or bending of rules, not allowed in any organization. The works must respect the rules that run the organization. To establish discipline, good supervision and impartial judgment are needed. It is applicable to every level of employees in the organization. Managers can set an example by disciplining themselves.

4. Unity of Command According to Fayol there should be one and only one boss for every individual employee. If an employee gets orders from two superiors at the same time the principle of unity of command is violated. Each participant in a formal organisation should receive orders from and be responsible to only one superior. Dual subordination should be avoided. This is to prevent confusion regarding tasks to be done. Suppose a sales person is asked to clinch a deal with a buyer and is allowed to give 10% discount by the marketing manager. But finance department tells her/him not to offer more than 5% discount. Now there is no unity of command. This can be avoided if there is coordination between various departments.

5. Unity of Direction This principle states 'One Head One Plan'. It means that all the employees having same objective must be directed towards the achievement of the common goal and thus must have one head and one plan. This principle makes it necessary that there should be unity of action. The application of this principle helps in establishing co-ordination and uniformity in the activities as well as in the organization. It also reduces the duplication of activities in the organization and thus helps in minimizing the wastage of resources.

Difference between Unity of Command & Unity of Direction

Unity of Command

× One subordinate should receive orders from and should be responsible to only one superior. × It prevents dual subordination. × It affects an individual employee.

Unity of Direction

× Each group of activities having same objective must have one head and one plan. × It prevents overlapping of activities. × It affects the entire organisation.

6. Priority to the General Interest over of Individual Interest The interests of an organisation should take priority over the interests of any one individual employee according to Fayol. Every worker has some individual interest for working in a company. The company has got its own objectives. For example, the company would want to get maximum output from its employees at a competitive cost (salary). On the other hand, an employee may want to get maximum salary while working the least. In another situation an individual employee may demand some concession, which is not admissible to any other employee like working for less time. In all the situations the interests of the group/company will supersede the interest of any one individual. This is so because larger interests of the workers and stakeholders are more important than the interest of any one person.

7. Fair Remuneration to Employees The overall pay and compensation should be fair to both employees and the organisation. The employees should be paid fair wages, which should give them at least a reasonable standard of living. At the same time it should be within the paying capacity of the company. In other words, remuneration should be just and equitable. This will ensure congenial atmosphere and good relations between workers and management. Consequently, the working of the company would be smooth.

8. Effective Centralisation The concentration of decision-making authority is called centralisation whereas its dispersal among more than one person is known as decentralisation. According to Fayol, "There is a need to balance subordinate involvement through decentralisation with managers' retention of final authority through centralisation." The degree of centralisation will depend upon the circumstances in which the company is working. In general large organisations have more decentralisation than small organisations.

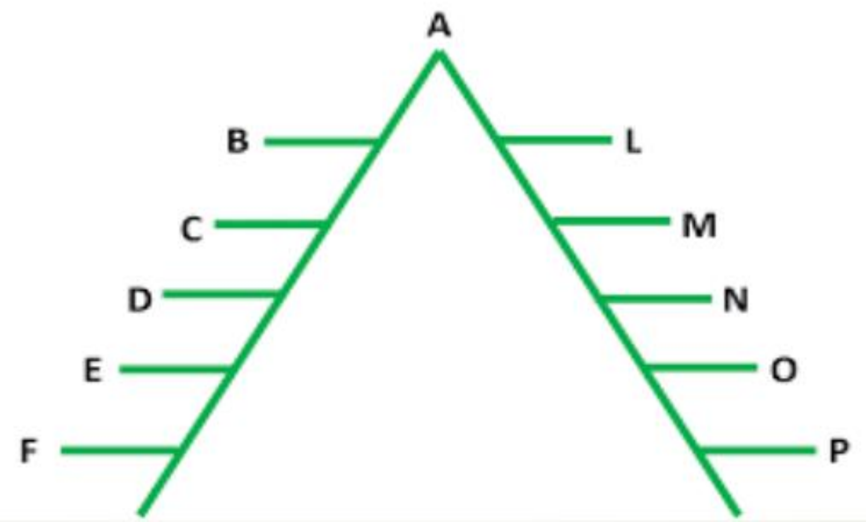
9. Order According to Fayol, "People and materials must be in suitable places at appropriate time for maximum efficiency." The principle of order states that 'A place for everything (everyone) and everything (everyone) in its (her/his) place'. Essentially it means orderliness. If there is a fixed place for everything and it is present there, then there will be no hindrance in the activities of business/ factory. This will lead to increased productivity and efficiency.

10. Equity All the employees in the organization must be treated equally with respect to the justice and kindliness. This will ensure loyalty and devotion. Fayol does not rule out use of force sometimes. Rather he says that lazy personnel should be dealt with sternly to send the message that everyone is equal in the eyes of the management. There should be no discrimination against anyone on account of sex, religion, language, caste, belief or nationality etc.

11. Stability of Personnel "Employee turnover should be minimised to maintain organisational efficiency", according to Fayol. Personnel should be selected and appointed after due and rigorous procedure. But once selected they should be kept at their post/position for a minimum fixed tenure. They should have stability of tenure. They should be given reasonable time to show results. Any adhocism in this regard will create instability/insecurity among employees. They would tend to leave the organisation. Recruitment, selection and training cost will be high. So stability in tenure of personnel is good for the business.

12. Initiative Workers should be encouraged to develop and carry out their plans for improvements according to Fayol. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan. t is one of the traits of an intelligent person. Initiative should be encouraged. But it does not mean going against the established practices of the company for the sake of being different. A good company should have an employee suggestion system whereby initiative/suggestions which result in substantial cost/time reduction should be rewarded.

13. Scalar Chain An organisation consists of superiors and subordinates. The formal lines of authority from highest to lowest ranks are known as scalar chain. According to Fayol, “Organisations should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates.” Let us consider a situation where there is one head ‘A’ who has two lines of authority under her/him. One line consists of B-C-D-E-F. Another line of authority under ‘A’ is L-M-N-O-P. f ‘E’ has to communicate with ‘O’ who is at the same level of authority then she/he has to traverse the route E-D-C-B-A-L-M-N-O. This is due to the principle of scalar chain being followed in this situation. According to Fayol, this chain should not be violated in the normal course of formal communication. However, if there is an emergency then ‘E’ can directly contact ‘O’ through ‘Gang Plank’.



14. Esprit De Corps Management should promote a team spirit of unity and harmony among employees, according to Fayol. Management should promote teamwork especially in large organisations because otherwise objectives would be difficult to realise. It will also result in a loss of coordination. A manager should replace ‘I’ with ‘We’ in all his conversations with workers to foster team spirit. This will give rise to a spirit of mutual trust and belongingness among team members. It will also minimise the need for using penalties

Unit 3

Evolution of Human Resource Management

HRM means the art of procuring, developing, motivation and maintaining competent workforce to achieve organizational goals efficiently. It is a process of bringing people and organizations together so that goals of each are met.

It is a part of management process which is concerned with the management of human resources in an organization. "HRM is concerned with the most effective use of people to achieve organizational and individual goals" - Infancies and Glueck Evolution of HRM

Historical Review of HRM When we study HRM history we may identify many stages that show many development and shifts in thinking that have conspired to bring about the evolution of HRM. Pre and post Industrial Age The earliest forms Human Resource Management were the working arrangements struck between craftsman and their apprentices during the pre-industrial cotton-base guild system. The apprentice lived in the workplace or home of his master and the master took care of his health and welfare. After the industrial revolution in 18th century the small cotton-based guild manufacturing converted into large factories and more people employed to produce through machines. The unhygienic and arduous work in factories led to many labour riots and the government stepped in to provide basic rights and protections for workers. The need comply with such statutory regulations forced factory owners to set up a formal mechanism to redress issues concerning labour.

From industrial revolution era to the present era

• Industrial revolution era— 19th century

• Trade union movement era — close to the 19th century

• Scientific management era— 1900-1920s

• Human relations era— 1930s-1950s

• Behavioural science era— 1950s-1960s

• Human resource management era — 1980 onwards

Industrial Revolution The industrial revolution consisted, essentially, the development of machinery, the use of mechanical energy in production processes, and consequently the emergence of the concept of factory with large number of workforce working together. The factory system replaced the old cottage system. Industrial revolution brought out a number of changes like centralized work locations with large number of workers working together, mechanized production process, migration of workers from their place of origin, and indirect contact between factory owners and workers. In order to manage people in the factory system of industrial revolution, three systems of HRM were developed- recruitment of workers, training for workers, and control of workers. However, the basic philosophy of managing workers revolved around master-servant relationship.

Trade Union Movement Era Shortly after the emergence of factory system, workers started to organize themselves based on their common interests to form workers' associations which were subsequently known as trade unions. The basic objectives of these associations were to safeguard interest of their members and to sort out their problems which arose primarily because of employment of child labour, long hours of work, and poor working conditions. Later, other aspects of work such as economic problems and wages, employee benefits and services, etc. also became issues. These trade unions started such weapons as strikes, slowdowns, walkouts, boycotts, etc., for the acceptance of their demands. These activities of the trade unions forced owners and managers to adopt employee grievance handling systems, arbitration as a means of resolving conflicts between owners/managers and workers, disciplinary practice, expansion of employee benefit programmes, holiday and vacation time, clear definition of job duties, job rights through seniority, and installation of rational and defensible wage structures.

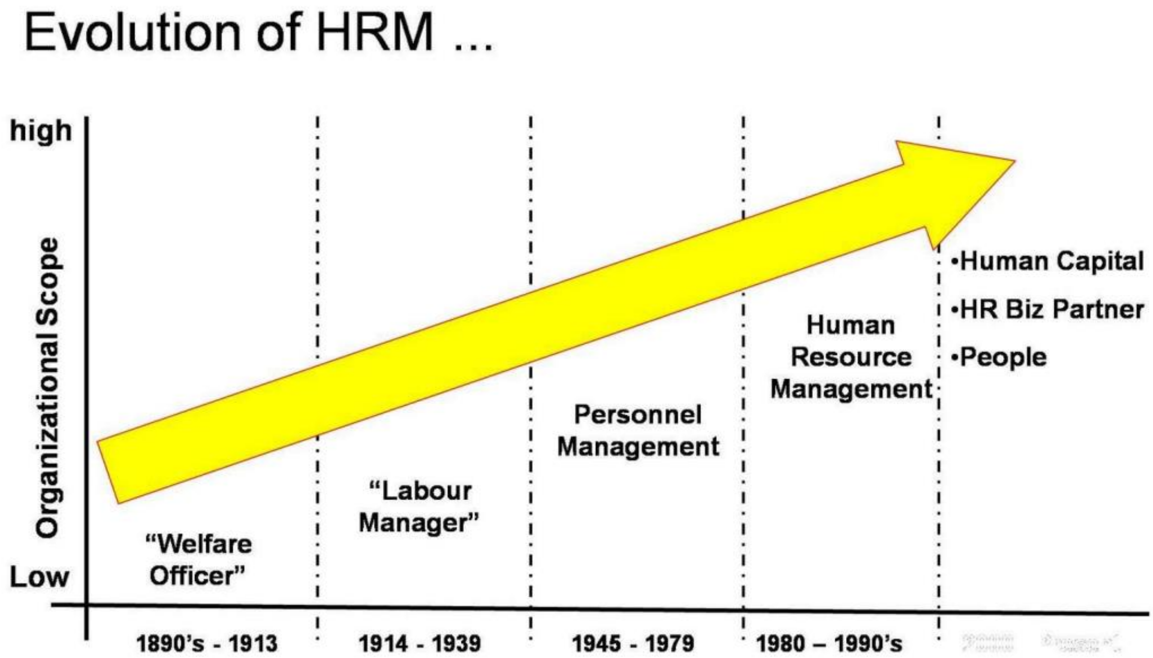
Scientific Management Era Around the beginning of 20th century, Taylor started to find out 'one best way of doing thing' based on time and motion studies. On the basis of his experiments, he was able to increase workers' productivity considerably. The main principles of scientific management are: (i) Replacing rule of thumb with science, (ii) harmony, not conflict, (iii) cooperation, not individualism, and (iv) development of each and every person. Scientific management techniques relevant to management of workers are- functional foremanship, standardization and simplification of work, and differential piece wage system.

Human Relations Era Around 1920s, management researchers gave a close look at the human factor at work and the variables that affected people's behaviour. Elton Mayo, the father of human relation, had conducted his famous Hawthorne Studies (1924- 1932) and concluded that human factors or non-monetary rewards were more important than physical factors or monetary rewards in motivating employees. Trade unions now began to challenge the fairness of Tailors scientific management theories, forcing employers to take a more behavioural-oriented approach.

Behavioural Science Era In contrast to human relations which assume that happy workers are productive workers, the behavioural scientists have been goal and efficiency- oriented and consider understanding of human behaviour to be the major means to that end. Major conclusions of the contributions made by behaviourists are as follows: People do not dislike work. If they have been helped to establish objectives, they will want to achieve them. In fact, job itself is a source of motivation and satisfaction to employees. Most people can exercise a great deal of self-direction and self-control and generate more creativity than required in their current job. Therefore, their untapped potential remains unutilized. Manager should create a healthy environment wherein all persons can contribute to the best of their capacity. The environment should provide a healthy, safe, comfortable, and convenient place to work. Managers should provide opportunity for self-direction by their subordinates and they must be encouraged to participate fully in all important matters.

Human Resource Management Era This group of mangers emphasized the relationship between employers and employees rather than scientific management. Programs to increase wages and fringe benefits continued to be developed. New studies linked greater productivity to management philosophies that encouraged worker ideas and initiatives. Occupational Safety and Health Act (1970), and the Employee Retirement Income Security Act (1974) manifested. The need to comply with such legislation increased the importance of the human resource function. In 1981 Harvard Business School first introduced HRM course and then spread Europe and other part of the world.

Strategic Human Resource Management (21st Century) The new business environment combined with the technological revolution which changed the business ways and workforce management was not immune to the change. The increase in service industries, the infusion of more and more women into the workforce and other changes all made obsolete the traditional paradigms of people management. Employees become the major source of competitive advantage for firms. The human resource department tries to retain such knowledgeable worker by facilitating conducive work environment, enriching the work, communication objective clearly, encouraging innovation and many other behavioural interventions. In modern business the human resource management is complex and such has resulted in the formation of human resource department/ division in companies to handle this function. The function is diverse and covers many facts including Manpower planning, recruitment and selection, employee motivation, performance monitoring and appraisal, industrial relations provision management of employee benefits and employee education, training and development.

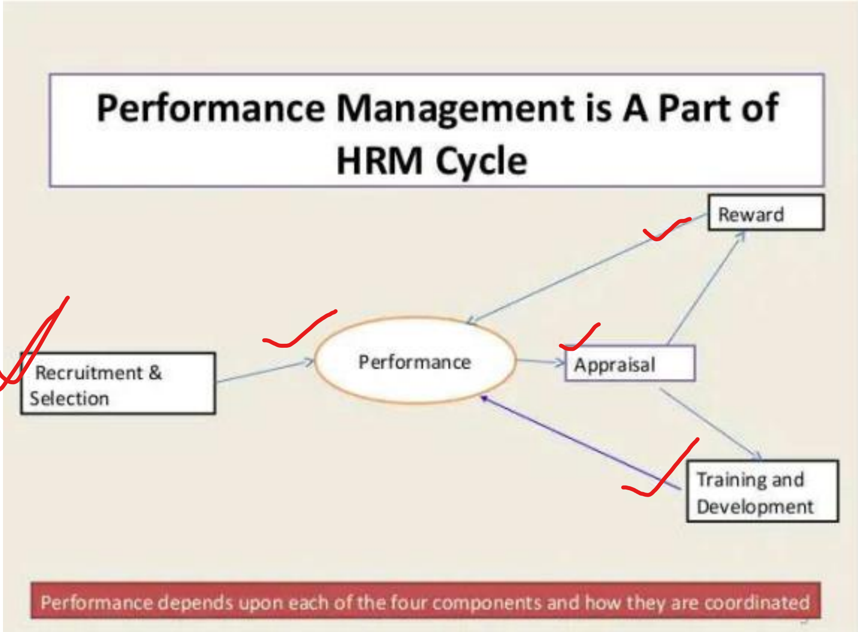


Performance Appraisal

Performance Appraisal (PA) is the process which an individual'' s behaviour and achievements for a fixed period are measured and evaluated. It is an objective method of judging the relative worth or ability of an individual employee in performing his task. Performance appraisal is a systematic evaluation of the employee's present job capabilities and also his potential for growth and development by his superiors. It can be either informal or formal.

As per the views of C. Heyel (1973), "performance appraisal is the process of evaluating the performance and qualifications of the employees in terms of the requirements of the job for which he is employed, for the purposes of administration including placement, selection for promotions, providing financial rewards and other actions which require differential treatment among the members of a group as distinguished from actions affecting all members equally".

Performance Management- A process to establish a shared understanding about what is to be achieved, and an approach to manage and develop people to achieve it. Getting better results for the organization via the measurement of individual performance.



Performance Appraisal Methods

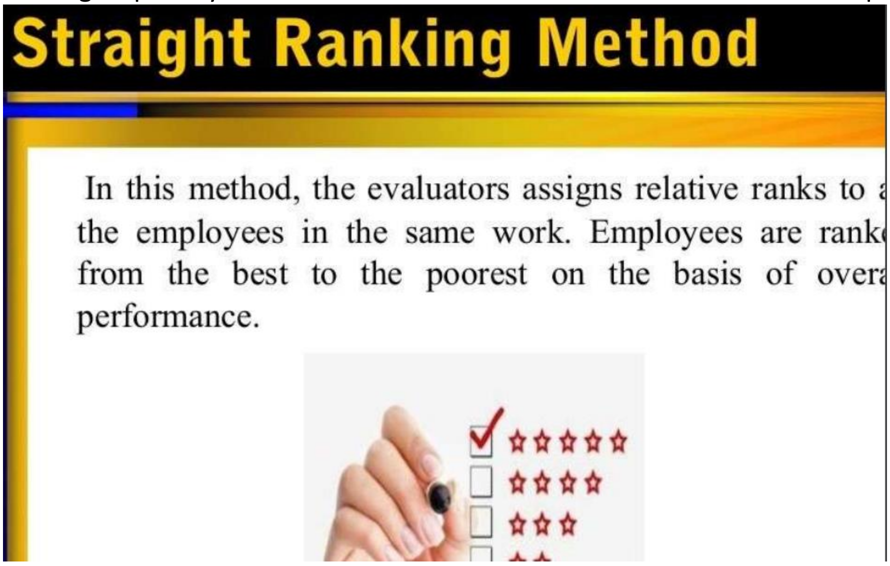
1. Confidential Report
2. Essay Method
3. Ranking method Graphic
4. Rating Scale Method Critical Incident Method
5. 360° Feedback Appraisal

Confidential Report- it is report prepared by the employee's immediate supervisor. It covers strengths and weakness, main achievement and failure and behaviour of the employee.

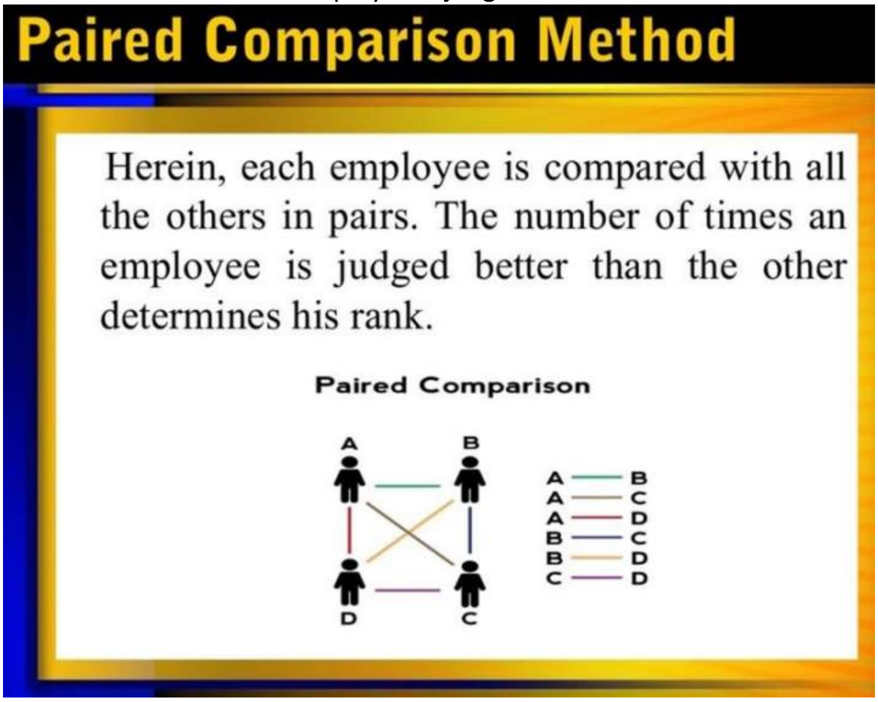
Essay Method- under this method the evaluator writes a short easy on employee's performance on the basis of overall impression.

Ranking Method: This method requires the evaluator to list all employees in order of their performance, beginning with the top performer. A number of ranking methods are used for conducting the performance appraisal of employees. Some of the important ones are listed as under:

(I) Simple Ranking Method: In this method all the employees are rated on the same set of factors and ranks as given to them on the basis of their performance in relation to others in the group. They are all rated from the first to the last in order of their performance.



(II) Paired Comparison Method: Here each employee is compared with all others in pairs. The number of times an employee is judged better than the other determines his rank.



Forced Distribution Method: It is a method to evaluate employee performance according to a predetermined distribution scale. Generally the organisations use five grade scales where one end of the scale represents the best job performance and the other represents the poorest job performance. All the employees are rated somewhere on the scale according to their level of performance in comparison to other employees

Graphic Rating Scale Method: Graphic rating scale method identifies specific desired traits, behaviour factors or performance criteria, such as, quality and quantity of work, cooperativeness, analytical ability, decisiveness, initiative, emotional stability, etc. Employees are rated on a scale based on the extent to which they exhibit the desired behaviour or the extent to which they meet the desired performance criteria. The rating for each factor will be done on the basis of numbers (1, 2, 3, 4, and 5) or descriptions (excellent, very good, average, poor, etc.) The central idea behind using rating scales is to provide the appraiser with a continuous representation of various degrees of particular qualities or characteristics being present in employees.

The total of the points obtained by an employee on all the rating factors constitutes the overall ratings score of that employee in comparison to other employees in the organisation.

GRAPHIC SCALE RATING

Employee Name ....

Department ____________________

Job Title ....

Performance Level / Work Dimension	Poor	Fairly Poor	Fairly Good	Good	Excellent
Attendance			✓		
Behavior towards Subordinates			✓		
Sincerity				✓	
Dependability					✓

Critical Incident Method- Under this method the immediate supervisor tries to make a continuous record of all the good or bad incidents of a person's work-related behaviour. Whenever employees are found doing something good or positive which contribute towards increasing the overall productivity of the organisation or creating a healthy work atmosphere it is recorded as their positive contribution. At the same time whenever they commit a mistake, a blunder or an error because of which damage has been incurred to machinery or the overall productivity of the organisation gets adversely affected it adds to their negative contributions. At the end of the rating period, these recorded critical incidents whether positive or negative are used in the evaluation of the employee's performance. Performance

90 Degree Appraisal - This the most basic form of performance appraisal. Under this method, the employee receives feedback from his / her manager / supervisor. There is no self - assessment.

180 Degree Appraisal - This appraisal method includes a self assessment i.e the employee will also provide feedback for himself / herself along with managers feedback.

270 Degree Appraisal - 270 Degree appraisal includes three stakeholders - Manager, Self and peer / subordinates. 360 Degree Feedback Survey –

360 degree feedback survey often called a multi - rater feedback survey, provides employee with feedback from their direct reports/subordinates, managers, peers/colleagues, and external

stakeholders (clients, customers, etc.) along with self assessment. The primary reason to do this full circle confidential review is to provide information about ones performance from multiple perspectives, areas of strength as well as areas of improvement.

720 Degree Appraisal - Simply put, 720 degree feedback is 360 degree appraisal conducted twice. Its a pre and a post intervention exercise conducted to carry out a comparative analysis and evaluation of employee performance aiming at further improvement. After the first round of 360 survey, reports are analysed and targets are set for future, development initiatives (TNAs. etc) are taken up by the management to improve employee competence levels, this is then followed by the second round (held after some time interval) where the results are compared against the first 360 appraisal, indicating the amount of improvement achieved. A 720 degree appraisal thus involves 2 rounds of a 360 degree feedback - providing performance feedback to employees & helping them improve and achieve goals set for them

WORKFORCE DIVERSITY MANAGEMENT

Workforce diversity means similarities and differences among employees in terms of age, cultural background, physical abilities and disabilities, race, religion, gender, and sexual orientation. People are different in not only gender, culture, race, social and psychological characteristics but also in their perspectives and prejudices.

Workforce Diversity means that the organizations are becoming more heterogeneous mix of people in terms of gender, age, ethnicity and sexual orientation. In current scenario, employing diversified workforce is a necessity for every organization but to manage such diversified workforce is also a big challenge for management.

DIMENSIONS OF DIVERSITY

The primary dimensions of diversity are those that are either inborn or exert extraordinary influence on early socialization; dimensions of this type are age, ethnicity, gender, physical or mental abilities, race, and sexual orientation.

Secondary dimensions of diversity include factors that are important to us as individuals and to some extent define us to others but which are less permanent and can be adapted or changed: educational background, geographic location, income, marital status, military experience, parental status, religious beliefs, and work experience.

BENEFITS OF WORKPLACE DIVERSITY

Increased Adaptability-employing a diverse workforce can supply a great variety of solutions to the problem.

Broader Service Range- A diverse collection of skills and experience allows a company to provide services to the customers on global basis.

Variety of Viewpoints- A diverse workforce that feels comfortable communicating varying point of view provides a larger pool of ideas and experiences.

Increased Productivity

Getting Competitive advantage

CHALLENGES OF DIVERSITY

Communication :Perceptual, cultural and language barriers need to be overcome. Ineffective communication of key objectives, results in confusion, lack of teamwork, and low morale.

Resistance to change- There are always employees who will refuse to accept the fact that the social and cultural makeup of their workplace is changing. The phrase "we've always done it this way" mentality silences new ideas and prevents progress.

MANAGING DIVERSITY The term managing diversity is commonly used to refer to ways in which organizations seek to ensure that members of diverse groups are valued and treated fairly within organizations in all areas including hiring, compensation, performance evaluation, and customer service activities. The term valuing diversity is often used to reflect ways in which organizations show appreciation for diversity among job applicants, employees, and customers.

INDIVIDUAL STRATEGIES TO MANAGING DIVERSITY

Understanding: one must be clear on the nature and meaning of diversity.

Empathy: in an organization, one should try to understand the perspectives of others.

Tolerance: in an organization, one should be willing to tolerate cultural differences.

Communication: it can only work if it is two-way.

ORGANIZATIONAL STRATEGIES FOR MANAGING DIVERSITY

Gender: as more and more females have entered the workforce, organizations have subsequently experienced changes in the relative proportion of male and female employees.

The glass ceiling describes a barrier that keeps many females from advancing to top management positions in many organizations.

Managing Differently able people-

Age Diversity: First generations are the Baby Boomers, born roughly between 1943 and 1960. Next, there is Generation X, born between 1961 and 1981, followed by Generation Y, more commonly known as Millennials, who were born between 1982 and 1994. Last, the youngest generation that is entering the workplace at the moment is Generation Z, born roughly between 1995 and 2010. Generation Z has grown up in an era when being your own boss, moving between jobs and having a certain control over your own work are classic traits.

Each generation brings something special and this can result overall in:

•Better range of skills and experience for dealing with customers

•Better creativity and innovation

•Decisions based on multiple perspectives

•Create a mentoring environment (I'll talk more about mentoring below)

Prioritize Communication To manage a diverse workplace, organizations need to ensure that they effectively communicate with employees. Policies, procedures, safety rules and other important information should be designed to overcome language and cultural barriers by translating materials and using pictures and symbols whenever applicable.

Treat Each Employee As An Individual Avoid making assumptions about employees from different backgrounds. Instead, look at each employee as an individual and judge successes and failures on the individual's merit rather than attributing actions to their background.

Encourage Employees To Work In Diverse Groups Diverse work teams let employees get to know and value one another on an individual basis and can help break down preconceived notions and cultural misunderstandings.

Hiring To build a diverse workplace, it is crucial to recruit and hire talent from a variety of backgrounds. This requires leadership and others who make hiring decisions to overcome bias in interviewing and assessing talent. If organizations can break through bias and hire the most qualified people, those with the right education, credentials, experience and skill sets, a diverse workplace should be the natural result.

Policies and Practices Organizations that embrace diversity also need to ensure that there are policies and practices in place to protect employees' rights and stay compliant with government regulations.

Zero-tolerance Policy Having a diverse workplace means that off-color jokes about ethnicity, gender, sexual orientation or religion need to be met with zero-tolerance enforcement. Slurs, name-calling and bullying employees for any reason has no place in today's workplace.

Stay Abreast Of Diversity Laws Managing diversity in the workplace means that businesses need to keep abreast of changing employer-related laws and trends, especially diversity-related changes. Organizations should regularly review internal policies, especially those around harassment and equal opportunity, and make sure they reflect the most current laws and regulations.

Documentation Of Policies And Procedure

Code of conduct should outline the company's policy toward diversity

Non-discrimination policy lets employees know about diversity

Compensation and benefits policy

Employment conditions and termination

Base Standards On Objective Criteria Set one standard of rules for all groups of employees regardless of background. Ensure that all employment actions, including discipline, follow this standardized criteria to make sure each employee is treated the same.

Be Open-minded Recognize, and encourage employees to recognize, that one's own experience, background, and culture are not the only with value to the organization. Look for ways to incorporate a diverse range of perspectives and talents into efforts to achieve organizational goals.

Avoid Stereotyping

Talent Management

A conscious deliberate approach undertaken to attract, develop and retain people with aptitudes and abilities to meet current and future organizational needs.

TALENT= Competence + Commitment + Contribution

TM aims to identify, obtain, keep and develop talented people.

To understand TM: • What is Talent • War of Talent • People involved in TM

Defining Talent Talent consists of those individuals who can make a difference to organizational performance, either through their immediate contribution or in longer term by demonstrating the highest level of potential.

According to Mckinsey, talent is sum of

• a person's abilities

• his or her intrinsic gifts

• Skill, knowledge, experience, intelligence

• Judgement, attitude, character, drive

• His or her ability to learn and grow

War of Talent The process of TM is based on the proposition that " those with the best people win". Michaels et al. (2001) identified certain imperatives that companies need to act on if they have to win.

• Creating a winning employee value proposition.

• Moving beyond recruiting.

• Using coaching, mentoring & to cultivate potentials in managers.

• Strengthening the talent pool by investing in ‘A’ players, developing ‘B’ players & acting decisively on ‘C’ players.

• Central to this approach is a pervasive mind-set that competitive advantage comes from having better talent at all levels.

People Involved Iles & Preece (2010) have identified 3 main perspectives:

1. Exclusive People- people with high performance irrespective of position.

2. Exclusive Position- right people in strategically critical jobs

3. Inclusive People- everyone in the organization is seen as actually or potentially talented, given opportunity and direction.

Purpose of TM

• To Compete effectively in complex and dynamic environment to achieve sustainable growth.

• To develop leaders for tomorrow form within an organization.

• To maximize employees 'performance as a unique source of competitive advantage.

• Reduce the cost of constantly hiring new people to retain.

• Cut down on high turnover rates.

Benefits of TM

Right Person in the right job- Through a proper ascertainment of people skills and strengths people decision take a strategic agenda.

Retaining the top talent- Attrition is a major problem. Retaining top talent is important to leadership and growth in the marketplace.

Better Hiring- The quality of the organization is the quality of its workforce. The best way to have talent at the top to have talent at the bottom.

Understanding employees better- Employees assessment gives deep insights to management about their employees. Their development needs, career aspirations, strengths, weakness, abilities. It is easier therefore to determine what motivates them.

Better professional development decisions- when an organization gets to know who has high potential, it becomes easier to invest in their professional development.

TM Process

• Talent Planning- the process of establishing how many or what sort of talented people are needed now and in the future. It uses the technique of workforce planning.

• Resourcing- obtaining people from within or outside the organization (internal or external recruiting)

- Talent Identification- the use of talent audits to establish who is eligible to become a part of talent pool & to benefit form learning & development & career management programmes.

- Talent Relationship Management- building effective relationships with people in their roles. It is better to build on existing relationship rather than try to create a new one .

- Talent Development- Learning & development programmes are key components of TM. They aim to ensure that people acquire & enhance the skills. TM

- Talent Retention- the implementation of policies designed to ensure that talented people remain as engaged & committed members of the organization.

- Career Management- it is concerned with the provision of opportunities for people to develop their abilities & their careers so that the organization has the flow of talent it needs.

- Succession Planning- as the organization evolves and changes there is continuous need to move people into new positions. Succession planning enables managers to identify the right candidate for position. Succession planning is a strategy for passing on leadership roles—often the ownership of a company—to an employee or group of employees. Also known as "replacement planning," it ensures that businesses continue to run smoothly after a company's most important people move on to new opportunities, retire, or pass away. TM

- Talent Pipeline- the process of resourcing, talent development & career planning that maintain flow of talent needed to create a talent pool required by the organization.

- Talent Pool- the resources of talent available to an organization.

TALENT PROGRAMMES OF TCS

TATA CONSU

- ILP-Initial learning programme
- CLP-Continuous learning programme
- LDP-Leadership developing programme
- FLI-Foreign language initiative workplace learning .

An organization would follow it in three main steps:

1. Finding the right talent
2. Hiring that particular talent
3. Making sure that hired talent stays for a longer period of time

Unit 2

Financial Management

-Concept

-Definition

-Finance Function

-Scope of Finance Function

-Organization of Finance Function

-Duties/Functions of Finance Manager

Concept

♣ Finance may be defined as the art and science of managing money.

♣ The major areas of finance are:

 Financial Services

 Managerial Finance/Corporate Finance/Financial Management.

♣ Financial services is concerned with the design and delivery of advice financial products to individuals, businesses and governments within the areas of banking and related institutions, personal financial planning, investments, real estate, insurance and so on.

♣ Financial management is concerned with duties of the financial managers in the business firm.

♣ Financial managers actively manage the financial affairs of any type of business, namely, financial and non-financial, private and public, large and small, profit-seeking and not-for-profit.

Definition

• Weston & Brigham, "Financial management is an area of financial decision-making, harmonizing individual motives and organizational or enterprise goals."

• Guthman & Daugall, "Business finance can be broadly defined as the activity concerned with the planning, raising, controlling, administering of funds used in the business."

• J.L. Massie, "Financial management is the operational activities of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations."

• Thus, in simple words, "Financial management is mainly concerned with raising of funds, using these funds profitably, controlling current performance and future development. It guides investment where opportunity is the greatest and achieving adequate rate of return on investment".

Finance Function

• Financial management provides a normative, conceptual and analytical framework for financial decision making. The finance function covers both acquisition of funds as well as their allocations.

• Thus, apart from the issues involved in acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses.

• The financial management framework is an analytical way of viewing the financial problems of a firm. The main contents of this approach are:

- *What is the total volume of funds an enterprise should commit?*
- *What specific assets should an enterprise acquire?*
- *How should the funds required be financed*?

• Alternatively, the principal contents of the modern approach to financial management can be said to be:

- *How large should an enterprise be and how fast should it grow?*
- *In what form should it hold assets?*
- *What should be the composition of its liabilities?*

• The three questions posed above cover between them the major financial problems of a firm.

• In other words, the financial management, according to the new approach, is concerned with the solution of three major problems relating to the financial operations of a firm, corresponding to the three questions of investment, financing and dividend decisions.

• Thus, financial management, in the modern sense of the term, can be broken down into three major decisions as functions of finance:

- *The Investment Decision*
- *The Financing Decision*
- *The Dividend Policy Decision.*

Investment Decision

• The investment decision relates to the selection of assets in which funds will be invested by a firm. The assets which can be acquired fall into two broad groups:

• Long-term Assets which yield a return over a period of time in future (Capital Budgeting)

• Short-term or Current Assets, defined as those assets which in the normal course of business are convertible into cash, usually within a year (Working Capital Management).

Financing Decision

• The second major decision involved in financial management is the financing decision.

• The investment decision is broadly concerned with the asset-mix or the composition of the assets of a firm. The concern of the financing decision is with the financing-mix or capital structure or leverage.

• The term capital structure refers to the proportion of debt (fixed-interest sources of financing) and equity capital (variable-dividend securities/source of funds).

• The financing decision of a firm relates to the choice of the proportion of these sources to finance the investment requirements.

• Financing decision relates to the choice of the proportion of debt and equity sources of financing.

Dividend Policy Decision

• The third major decision area of financial management is the decision relating to the dividend policy.

• The dividend decision should be analyzed in relation to the financing decision of a firm. Two alternatives are available in dealing with the profits of a firm: they can be distributed to the shareholders in the form of dividends or they can be retained in the business itself.

• The decision as to which course should be followed depends largely on a significant element in the dividend decision, the dividend-pay out ratio, that is, what proportion of net profits should be paid out to the shareholders.

• The final decision will depend upon the preference of the shareholders and investment opportunities available within the firm.

• The second major aspect of the dividend decision is the factors determining dividend policy of a firm in practice.

Scope of Finance Function

¬Estimating Financial Requirements

¬Deciding Capital Structure

¬Selecting a Pattern of Investment   ED SC FU

¬Cash Management

¬Financial Control

¬Use of Surplus

Organization of Finance Function

♣ The responsibilities for financial management are spread throughout the organization in the sense that financial management is, to an extent, an integral part of the job for the managers involved in planning, allocation of resources and control.

♣ For instance, the production manager (engineer) shapes the investment policy (proposal of a new plant), the marketing manager/analyst provides inputs in forecasting and planning, the purchase manager influences the level of investment in inventories and the sales manager has a say in the determination of receivables policy.

♣ Nevertheless, financial management is highly specialized in nature and is handled by specialists.

♣ Financial decisions are of crucial importance. It is, therefore, essential to set up an efficient organization for financial management functions.

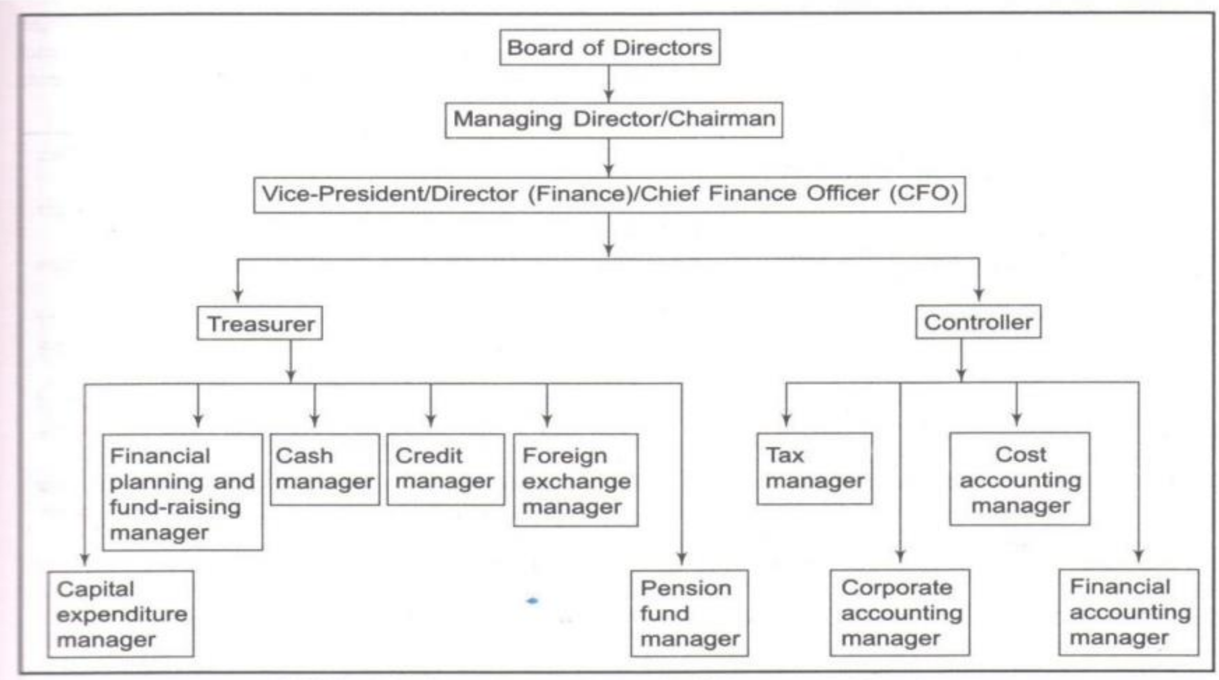


FIGURE 1.2 Organisation of Financial Management Function

Duties/Functions of Finance Manager

¬Analysis of Requirement of Funds/Forecasting of Financial Needs

¬Sources of Funds/Raising of Funds

¬Availability of Funds/Procurement of Funds

¬Allocation and Effective Utilization of Funds

FATDASA

¬Disposal of Profits or Surplus

¬Financial Control

¬To Maintain Proper Level of Liquidity

Management of Working Capital Contents

¬Introduction

¬Meaning and Definition

¬Concepts of Working Capital

¬Types/Kinds of Working Capital

¬Importance of Working Capital

¬Factors affecting Requirements of Working Capital

Introduction

• The Capital is of two types, viz., Fixed Capital and Working Capital.

• Fixed capital or long-term capital decisions are known as Capital Budgeting Decisions and decisions about current assets or short-term assets are called as Management of Working Capital.

• The success or failure of a business revolves around the efficient management of working capital.

• Working capital of a company can be regarded as a blood in human body. As the running of blood in human body is necessary for life, similarly the working capital is necessary for smooth running of a business.

• There is no business which can be run without sufficient availability of working capital.

Meaning and Definition

• Working capital indicates the circular flow of funds in day-to-day or routine activities of the business.

• Working Capital is basically an indicator of the short-term financial position of an organization and is also a measure of its overall efficiency.

• Working capital is a measure of a company's liquidity, operational efficiency and its short-term financial health.

• Weston and Brigham, "Working capital refers to a firm's investment in short-term assets, cash, short-term securities, account receivables and inventories."

• J.S. Mill, "The sum of current assets is the working capital of a business."

• C.W. Gerstenberg, "It has ordinarily been defined as the excess of current assets over current liabilities."

Concepts of Working Capital

Gross Concept

♣ According to Gross Concept, the working capital denotes the total of current assets. So, as per this concept:

• **Gross Working Capital = Total of Current Assets**

Net Concept

♣ According to Net Concept, net working capital is the excess of current assets over current liabilities. As per this concept:

• **Net Working Capital = Current Assets - Current Liabilities**

• Thus, it can be said that there is no difference in the above viewpoints over the true concept of working capital. The difference is on its quantity.

• Husband and Dockery has rightly commented, "As a matter of fact, the concept of gross working capital is a financial concept where as that of net concept is an accounting concept. "

• Gross working capital concept is a broader application and it takes into consideration all the current resources of the enterprise and their application to the current and future activities of the enterprise.

• Whereas in the net concept, the relationship between current assets and current liabilities is established or their liquidity is determined

Types of Working Capital

θPermanent or Fixed Working Capital

θTemporary or Variable Working Capital

Permanent or Fixed Working Capital

• It is that minimum amount of working capital that always remain invested in various current assets like inventory, debtors, bills receivables, cash and bank balance, etc. to carry out the normal business operations in an smooth manner.

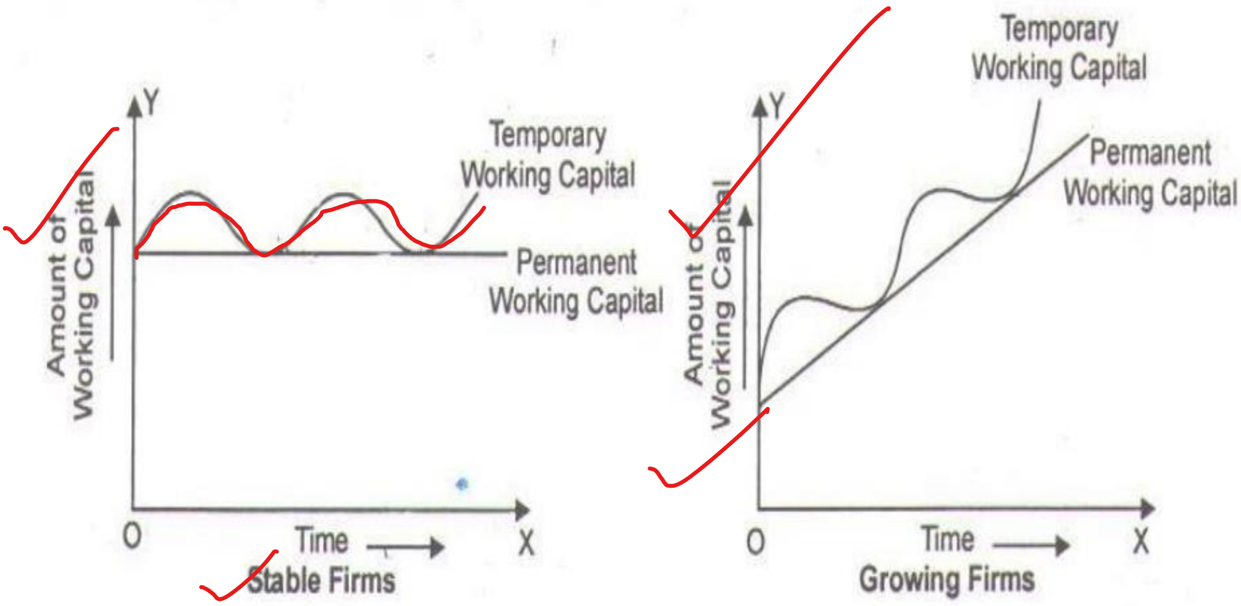
• This investment is of a regular or permanent type and that is why it is known as permanent working capital. The size of working capital increases with the increase in the size of the business. Tandon Committee has referred to this type of working capital as "hard core working capital."

Temporary or Variable Working Capital

• This is the amount of additional capital is required over and above the permanent working capital to meet out the extra demands arising out due to various reasons. It keeps on fluctuating from time to time on the basis of business activities and that is why it is called as variable working capital.

• It may be sub-divided in seasonal and special working capital.

• Seasonal working capital is required to meet the seasonal demands occurring at stated intervals. On the other hand, Special working capital is required to meet extra-ordinary needs for contingencies, e.g. strike, lockout, fire etc.



Importance of Working Capital

• Working Capital is an important metric for all businesses, regardless of their size. WC is a signal of a company's operating liquidity. Having enough WC means that the company should be able to pay for all of its short-term expenses and liabilities.

• The importance of sufficient working capital in any business concern can never be overemphasized. A concern requires adequate working capital to carry on its day-to-day operations smoothly and efficiently.

• Lack of adequate working capital not only impairs firm’s profitability but also results in stoppage in production and efficiency in payment of its current obligations.

• No business can run successfully without an adequate amount of working capital.

1. Increase in Liquidity and Solvency Position

2. Goodwill

3. Easy Loans

4. Cash Discounts

5. Regular Supply of Raw Materials

6. Regular Payment of Salaries and Wages

7. Efficient Use of Fixed Assets

8. Exploitation of favourable market condition

9. Ability to Meet Contingencies/Face Crisis

10. Quick and Regular Return on Investments

11. Timely Payment of Dividends

12. High Morale

Factors affecting Requirements of Working Capital

¬Nature of Business

¬Production Policies

¬Production Cycle

¬Growth and Expansion

¬Credit Policy

¬Business Fluctuations

¬Dividend Policy

¬Availability of Raw Material

¬Availability of Credit

¬Depreciation Policy

Magnitude of Profit

Level of Taxes

Operating Efficiency

Working Capital Cycle or Operating Cycle

Capital Structure

debt equity

Concept

• Capital Structure is defined as the mix of debt and equity or any other long term sources of funds used to finance a firm's investment and operating activities.

• The capital structure of a given firm reflects its financing decisions and also the modes of financing.

• Capital Structure relates to all those means by which a firm finances its operations i.e. procures funds.

• A firm can finance its operations through various sources like common equity, preferred equity, retained earnings, debt and so on. Generally, all firms use a combination of various available financing instruments.

• The relative proportion of various sources of funds used in a business is termed as financial structure.

• Capital structure is a part of the financial structure and refers to the proportion of the various long-term sources of financing. It is concerned with making the array of the sources of the funds in a proper manner, which is in relative magnitude and proportion.

• The proportion of various sources of funds depends upon their cost structure, their availability and the amount of funds required by the firm.

• Generally speaking, Capital Structure of a firm denotes its mix of debt and equity ratio i.e. how much debt and how much equity the firm uses.

• The choice of a firm's capital structure is a marketing problem. It is essentially concerned with how the firm decides to divide its cash flow into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders.

Definition

• Capital structure is the mix of the long-term sources of funds used by a firm. It is made up of debt and equity securities and refers to permanent financing of a firm. It is composed of long-term debt, preference share capital and shareholders' funds.

• According to P. Chandra, 'Capital Structure is essentially concerned with how the firm decides to divide its cash flows into two broad components, a fixed component that is earmarked to meet the obligations toward debt capital and a residual component that belongs to equity shareholders'.

Importance of Capital Structure

• Corporate capital structure decisions are important as they maximize the value of the firm by optimizing its cost of capital. It enhances the competency of the firm and its ability to deal with its competitive environment.

• An appropriate capital structure is a critical decision for any business organization.

• The corporate capital structure decisions are important as they cater to the needs of various investors of the firm. They tend to lower the cost of capital of the firm and maximize the value of the investors.

• As capital structure decisions decide the level of debt and equity of a firm, they tend to affect the firm's leverage, which, in turn, affects the expected return and risk facing owners and creditors of the firm.

• Capital Structure decisions influence the risk and return of the investors. Hence, optimal capital structure not only minimizes the cost of capital for the firm but also maximizes the market price of its share.

• Thus, firms take a lot of precaution while designing their capital structure in a dynamic environment and while raising additional funds for taking up new projects and new activities.

• Capital structures are peculiar to specific industries. They differ from industry to industry but exhibit homogenous pattern in similar industry.

• Various studies of capital structure debate the impact of capital structure on a firm's value. However, the decision regarding how and how much capital is to be raised from investors and the decisions dealing with balancing the investors' interests with the interest of the firm's managers and employees are critical for the value of any business.

• Thus, capital structures are important and will continue to be so in the real world.

Ideal or Optimal Capital Structure

• The Ideal or Optimal Capital Structure may be defined as the capital structure or combination of debt and equity that leads to maximum value of the firm.

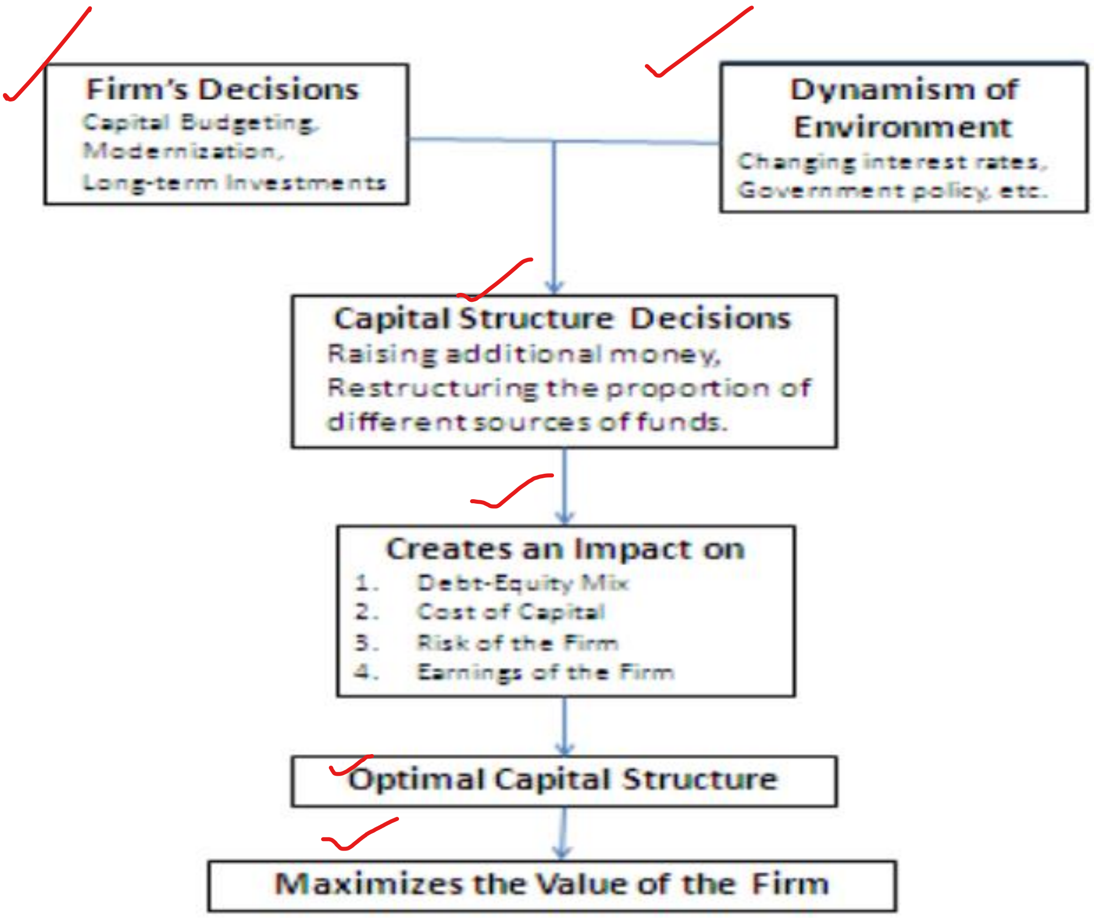
• The objective of capital structure decision is the judicious mix of different sources of long term funds in such a way that the overall cost of capital of the firm is optimized, thereby maximizing the value of the firm and its shareholders.

• In other words, by capital structure decisions, firms aim at minimizing their cost of capital. The capital structure at which the overall cost of capital of the firm is minimum is known as Optimal Capital Structure.

• According to Prof Ezra Solomon, 'Optimal capital structure is that mix of debt and equity which will maximize the market value of a company'.

• Hence there should be a judicious combination of the various sources of long-term funds which provides a lower overall cost of capital and so a higher total market value for the capital structure.

• Optimal capital structure may thus be defined as, the mixing of the permanent sources of funds used by the firm in a manner that will maximize the company's common stock price by minimizing the firm's composite cost of capital.



The Capital Structure decision in a firm's decision making chain

Objectives of an Ideal Capital Structure

- Maximization of Value of the Firm
- Minimization of Cost of Capital
- Minimization of Risk
- Safety of Control

Factors determining Capital Structure

- Risk in variation of Earnings
- Cost of Capital
- Control
- Trading on Equity
- Government Policy
- Favourable Financial Leverage

- Size of the Company
- Raising Capital at the Proper Time
- Corporate Taxation
- Nature of Business
- Prevailing Market Conditions
- Provision for Future

Sources of Finance

Contents

- Patterns of Financing
- Few Terms
- Sources of Long Term Finance
- Sources of Short Term Finance

Patterns of Financing

¬Long Term Financing

¬Short Term Financing

Few Terms

• Authorised Capital: The amount of capital that a company can potentially issue, as per its memorandum, represents the Authorised Capital.

• Issued Capital: The amount offered by the company to the investors is called the Issued Capital.

• Subscribed Capital: That part of issued capital, which has been subscribed to by the investors represents the Subscribed Capital.

• Paid-up Capital: The actual amount paid up by the investors is called the Paid-up Capital. However, typically the issued, subscribed, and paid-up capital are the same.

♣ Par Value: The par value of an equity share is the value stated in the memorandum and written on the share scrip. The par value of equity shares is generally Rs. 1, Rs. 2, Rs. 5, or Rs. 10. m. c

♣ Issue Price: The issue price is the price at which the equity share is issued. Often, the issue price is higher than the par value. When the issue price exceeds the par value, the difference is referred to as the share premium. It may be noted that the issue price cannot be, as per law, lower than the par value.

♣ Book Value: The book value of an equity share $= \dfrac{\text{Paid-up equity capital + Reserves and surplus}}{\text{Number of outstanding equity shares}}$

• Quite naturally, the book value of an equity share tends to increase as the ratio of reserves and surplus to paid-up equity capital increases.

♣ Market Value: The market value of an equity share is the price at which it is traded in the market. This price can be easily established for a company, which is listed on the stock market and actively traded. For a company, which is listed on the stock market but traded very infrequently, it is difficult to obtain a reliable market quotation.

• The market price is determined by a variety of factors like current earnings, growth prospects, risk, and company size.

Sources of Long Term Finance

¬Equity Shares

¬Preference Shares

¬Debentures

SR DEPT

¬Term Loans

¬Retained Earnings

¬Special Financial Institutions

Equity Shares

♣ Equity or ordinary shareholders are the real owners of the company. Equity capital represents ownership capital, as equity shareholders collectively own the company. They enjoy the rewards and bear the risks of ownership.

♣ The shareholders can participate in the management of the company. They also have residual claim on the income/assets of the company. The rate of dividend is determined by directors on the basis of annual profits.

Characteristics of Equity Shares

Residual Claim on Income

Right in Liquidation

Limited Liability

Pre-emptive Rights

Right to Control

Residual Claim on Income Equity shareholders have a residual claim on the income of the company. They have the claim on income only after the payment of preference dividend. If the profits are insufficient to pay the dividends, the directors may skip the equity dividend.

Right in Liquidation As in the case of income, equity shareholders have a residual claim over the assets of the firm in the event of liquidation. Claims of all others debenture holders, secured lenders, unsecured lenders, other creditors, and preferred shareholders are prior to the claim of equity shareholders. More often than not, equity shareholders do not get anything in the event of liquidation because the liquidation value of assets is not adequate to meet fully the claims of others.

Limited Liability The liability of the equity shareholders is limited to the amount of shares they have purchased. In case of liquidation, they have the liability to pay if the shares are partly paid-up. If the shares are fully paid-up, they are not liable to pay anything. This provides them a facility to enjoy ownership without unlimited liability.

Pre-emptive Rights

• Equity shareholders are provided with pre-emptive rights. Pre-emptive right means the right to purchase new shares issued by the company.

• As per Section 81 of the Companies Act, 1956, whenever a company proposes to increase its share capital by further issue of shares, it must offer such shares to holders of existing equity shares in proportion of existing shareholding.

• Such shares are called as right shares and such right of shareholders is known as pre-emptive right. It protects shareholders from dilution of their financial interest in the company.

Right to Control

• The equity shareholders have full right to control the company as owners to the company. They enjoy voting rights in the meetings of the company.

• Equity shareholders, as owners of the firm, elect the board of directors and enjoy voting rights at the meetings of the company in person or by proxy (except in a poll) or by postal ballot.

• The board of directors, in turn, selects the management which controls the operations of the firm. Hence, equity shareholders, in theory, exercise an indirect control over the operations of the firm.

Preference Shares

• Preference shares are those shares on which shareholders enjoy two preferences over the equity shareholders. These preferences are:

— Payment of dividend out of profits

— Repayment of capital in case of liquidation

• The preference shareholders do not have any right to participate in the management of the company. All preference shares are redeemable within 10 years.

• A fixed rate of dividend is paid on these shares. These shareholders do not have any voting right. However, they get the right to vote if their interest is affected by any decision of the company.

• Preference capital represents a hybrid form of financing — it partakes some characteristics of equity and some attributes of debentures.

• It resembles equity in the following ways:

1. Preference dividend is payable only out of distributable profits

2. Preference dividend is not an obligatory payment (the payment of preference dividend is entirely within the discretion of directors)

3. Preference dividend is not a tax-deductible payment

• Preference capital is similar to debentures in several ways:

1. The dividend rate of preference capital is fixed — since preference shares in India usually carry a cumulative feature with respect to dividends, unpaid dividends are carried forward and payable when the dividend is restored

2. The claim of preference shareholders is prior to the claim of equity shareholders

3. Preference shareholders do not normally enjoy the right to vote

4. Preference capital is typically repayable

Types of Preference Shares

Cumulative and Non-Cumulative Preference Shares

• Under cumulative preference shares, the shareholders have the right to recover the arrears of dividend in the years in which the company has the sufficient profits.

• On the other hand, the holders for non-cumulative preference shares do not have any right to recover the arrears of dividend in next years.

• Redeemable and Non-redeemable Preference Shares

• If the preference shares can be redeemed at the option of the company after a fixed period of time, then these shares are called as redeemable preference shares.

• On the opposite side, if the amount of preference shares is not to be paid back to the shareholders in the lifetime of the company, such shares are called as non-redeemable preference shares.

Participating and Non-participating Preference Shares

• If the shareholders of preference shares have the right to participate in the additional profits in addition to the fixed rate dividend, such shares are called as participating preference shares. In such case, firstly the dividend to preference shareholders will be paid at a fixed rate and the equity shareholders will be paid at a reasonable rate. If still any balance of profit remains, then these shareholders will get some more part of profits as dividend. The rate of the additional dividend is determined at the time of issuing these shares.

• On the other hand, if the preference shareholders do not have any right to participate in the additional profits, such shares are known as nonparticipating preference shares.

Convertible and Non-convertible Preference Shares

• If the shareholders have the right to get their shares converted into equity shares after a certain period of time, then these shares are called as convertible preference shares. The period and conversion ratio must be made clear in the Articles of Association or under the terms of issue.

• On the other hand, if the preference shares are not to be converted into equity shares, then these shares are called as non-convertible preference shares.

Debentures

• A debenture is a type of loan acknowledgement, which is taken by the company from the public. A company can issue various types of debentures.

• Debenture holders are the creditors of company. The obligation of a company toward its debenture holders is similar to that of a borrower who promises to pay interest and principal at specified times.

• Debentures often provide more flexibility than term loans as they offer greater variety of choices with respect to maturity, interest rate, security, repayment, and special features.

• A debenture issued by a company is usually in the form of a certificate, given under the seal of the company which contains the terms of the repayment of the principal sum at a specified date and the terms of payment of interest at a fixed percent.

• According to Section 2 (12) of the Companies Act, "Debenture includes debenture stock, bonds and any other securities of a company, whether constituting a charge on the assets of the company or not.

Types of Debentures

Secured and Unsecured Debentures

• Secured debentures are those which are secured either on particular assets of the company called fixed charge or on all assets of the company in general, called a floating charge. In India, debentures have necessarily to be secured.

• Unsecured debentures are those which are not given any security. The holders of such debentures are treated as unsecured creditors at the time of liquidation of the company.

Registered Debentures

• Registered debentures are those which are payable only to those holders whose names and addresses are recorded in a register of the company called, "Register of Debentures holders".

Bearer Debentures

• Bearer debentures are those which are payable to the bearer or holder of the debenture. These are transferable by mere delivery and the company does not keep any record of names and addresses of debenture holders.

Redeemable and Irredeemable or Perpetual Debentures

• Redeemable debentures are those debentures, which will be repaid by the company at the end of a specified period or by instalments during the life of the company.

• Irredeemable debentures are those debentures, which are not repayable by the company during its lifetime. These debentures are repayable only at the time of liquidation of the company.

Convertible and Non-convertible Debentures

• Convertible debenture holders are given an option to convert them into equity or preference shares at a stated rate of exchange after a certain period.

• Non-convertible debentures are those debentures that cannot be converted into equity or stocks of the company. NCDs have a fixed maturity date and the interest can be paid along with the principal amount.

• They offer relatively higher interest rates when compared to convertible debentures.

Term Loans

• Term loans, also referred to as term finance, represent a source of debt finance which is generally repayable in less than 10 years.

• A term loan is a monetary loan that is repaid in regular payments over a set period of time. Term loans usually last between one and ten years, but may last as long as 30 years in some cases.

• A term loan is a type of advance that comes with a fixed duration for repayment, a fixed amount as loan, a repayment schedule as well as a pre-determined interest rate. A borrower can opt for a fixed or floating rate of interest for repayment of the advance.

• Term loan is a medium to long-term source financed primarily by banks and financial institutions.

• They are mainly employed to finance acquisition of fixed assets and working capital margin. They are also used for financing of expansion, diversification and modernization of projects.

• Term loans differ from short-term bank loans which are employed to finance short-term working capital need and tend to be self-liquidating over a period of time, usually less than one year.

Retained Earnings

• Retained Earnings are the portion of a business's profits that are not distributed as dividends to shareholders but instead are reserved for reinvestment back into the business.

• Retained earnings are that portion of equity earnings (profit after tax less preference dividends) which are ploughed back in the firm. Because retained earnings are the sacrifice made by equity shareholders, they are referred to as internal equity.

• Companies normally retain 30 percent to 80 percent of profit after tax for financing growth.

• A Balance Sheet figure shown under the heading retained earnings is the sum of all profits retained since the company's inception.

• If you look at a sample of corporate balance sheets you will find that reserves and surplus (other than share premium reserve and revaluation reserve), which essentially represent accumulated retained earnings and are often the dominant source of long-term finance.

Special Financial Institutions

• Soon after independence, it was felt that fast industrial growth in the country cannot take place without cheapening and widening channels of industrial finance. A notable step towards this was the establishment of special financial institutions both at the national and state level.

• National level institutions includes the Industrial Finance Corporation of India, the Industrial Credit and Investment Corporation of India, Industrial Development Corporation of India, Industrial Development Bank of India and Industrial Reconstruction Corporation of India.

• State level institutions include the State Financial Corporations and State Industrial Development Corporations.

• These institutions are, mainly financing agencies, providing medium and long- term capital, generally to the private sector. Their operations also include conducting of market surveys, preparation of project report, provision of technical advice & management services and establishment and management of industrial units.

• They help in the development of the capital market by providing direct financial assistance to industrial enterprises and by helping them to raise long-term loans from the market. They underwrite the new issues of industrial securities and also subscribe to them.

• They are working as an instrument of balanced economic development by focusing their efforts on less developed industries and backward regions of the country.

Sources of Short Term Finance

¬Trade Credit

¬Accrued Expenses or Outstanding Expenses

¬Commercial Paper

TACo PWD

¬Working Capital Advance by Commercial Banks

¬Public Deposits

¬Deferred Incomes

¬Working Capital finance by Financial Institutions

Trade Credit

• Trade credit represents the credit extended by the suppliers of goods and services. It is a spontaneous source of finance in the sense that it arises in the normal transactions of the firm without specific negotiations, provided the firm is considered creditworthy by its supplier. It is an important source of finance representing 25 percent to 50 percent of shortterm financing.

• In the normal course of business, the goods or raw materials arc purchased from suppliers on credit. How much time is available for payment depends upon the agreement between the two parties and varies with industry to industry practice.

• How much credit will be available depends upon the credit worthiness of the firm and the confidence of suppliers in the firm.

Accrued Expenses or Outstanding Expenses

• Accrued expenses arc those expenses which are not paid but the benefit of which has been taken. This is simply a liability. Wages, salaries, interest, etc. are the examples of accrued expenses.

• Generally, employees and workers are paid after a week or fortnight or month for the services they have provided. Similarly, the interest is paid after a specified period of time. Greater the period, greater will he the amount as accrued expenses.

• Thus, accrued expenses become a short-term source of finance. The level of accruals changes with the change in the level of activity of a firm. It is a free source of short-term finance as no amount of interest is to be paid on accruals.

Commercial Paper

• Commercial paper represents short-term unsecured promissory notes issued by firms, which enjoy a fairly high credit rating. Generally, large firms with considerable financial strength are able to issue commercial paper. The important features of commercial paper are as follows:

The maturity period of commercial paper ranges from 90 to 180 days.

Commercial paper is sold at a discount from its face value and redeemed at its face value. Hence the implicit interest rate is a function of the size of the discount and the period of maturity.

Commercial paper is generally placed with investors who intend holding it till its maturity. Hence there is no well developed secondary market for commercial paper.

• Commercial paper is a new instrument in money market. These were introduced to enable highly rated corporate borrowers to diversify their sources of short-term borrowings and provide an additional instrument to the investor. RBI has issued the guidelines to regulate the issue of commercial paper.

Working Capital Advance by Commercial Banks

• Working capital advance by commercial banks represents the most important source for financing current assets.

• The commercial banks collect the money from the public in the form of saving account, current accounts and term deposits and out of this collection, they finance the working capital requirements of corporate.

• The commercial banks were meeting the short-term requirements of industry and were accepting the deposits traditionally. However, since the introduction of economic reforms, the banks are also meeting the long-term requirements of funds.

• The commercial banks are providing funds to industry in a number of ways. These include Loans, Cash Credit, Bank Overdraft etc.

Public Deposits

• Many firms, large and small, have solicited unsecured deposits from the public in recent years, mainly to finance their working capital requirements.

• The interest rate payable on public deposits was subject to a ceiling till mid-1990s. Just before the ceiling was withdrawn, it was 15 percent. Companies typically offer an interest rate varying between 8 to 12 or even more percent depending on the tenor of the deposit.

• The regulation of public deposits underwent an overhaul with the introduction of stringent regulations under The Companies Act 2013.

Deferred Incomes

• Deferred incomes are the incomes received in advance for which services are to be rendered or goods are to be supplied. It is also a free short-term source of finance.

• But this source is available to only those firms whose products and services are in great demand and can demand for advance amount.

Working Capital finance by Financial Institutions

• Financial institutions extend working capital finance on a very selective basis to borrowers enjoying credit limits with banks, whether under a consortium or under multiple banking arrangement, when the banks are not in a position to meet the credit requirements of the borrowers concerned because of temporary liquidity constraints.

Green Marketing

Everything you need to know about green marketing. The term green marketing came into prominence in the late 1980s and early 1990s.
The American Marketing Association (AMA) held the first workshop on "Ecological Marketing" in 1975. The proceedings of this workshop resulted in one of the first books on green marketing entitled "Ecological Marketing".
Thus green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising.

In simple terms green marketing refers to the process of selling products and/or services based on their environmental benefits. Such a product or service may be environmentally friendly in itself or produced and/or packaged in an environmentally friendly way.
Learn about:-

1. Introduction to Green Marketing 2. Meaning of Green Marketing 3. Golden Laws 4. Concept 5. Importance 6. Examples 7. Elements
8. Green Marketing Mix 9. Present Trends 10. Role of Information Technology 11. Attributes of the Green Consumers 12. Adoption of Green Marketing by Firms 13. Benefits 14. Challenges.

Green Marketing – Introduction to Green Marketing

According to the American Marketing Association, green marketing is the marketing of products that are presumed to be environmentally safe. Thus green marketing incorporates a broad range of activities, including-

1. Product modification,
2. Changes to the production process,

3. Packaging changes, as well as
4. Modifying advertising.

The term green marketing came into prominence in the late 1980s and early 1990s. The American Marketing Association (AMA) held the first workshop on "Ecological Marketing" in 1975. The proceedings of this workshop resulted in one of the first books on green marketing entitled "Ecological Marketing".
Thus green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising.

In simple terms green marketing refers to the process of selling products and/or services based on their environmental benefits. Such a product or service may be environmentally friendly in itself or produced and/or packaged in an environmentally friendly way.
The obvious assumption of green marketing is that potential consumers will view a product or service's "greenness" as a benefit and base their buying decision accordingly. The not-so-

obvious assumption of green marketing is that consumers will be willing to pay more for green products than they would for a less-green comparable alternative product an assumption that has not been proven conclusively, specially the mild effect which it had had on consumers has washed away by the present recession (2008-09) only.

Green or Environmental Marketing satisfies human needs with minimal detrimental impact on the national environment. Green marketing not only includes consumer goods and industrial goods but also the services sector. In the process of distribution of goods and services, both the manufacturing and the services balance contribute towards the ecological imbalance and loss of the ozone layer.

However, the role of the manufacturing sector in this regard is more significant. The process of manufacturing and selling goods and services with the least threat to the environment is a big issue before the business houses. Green marketing requires awareness not only from the consumers but also from the manufacturers of such goods.

Ultimately green marketing requires extra cost but the stakeholders should be ready to bear that cost. Business firms have also started responding to environmental challenges by adopting and practicing green marketing strategies.

The most important advantage of green marketing is that eco-friendly goods have a competitive advantage over other firms selling non-eco-featured goods. At the same time, it should be noted that in the era of green marketing, each and every shareholder should take part in this process as a social responsibility.

It is a fact that the natural environment is the basis of all activity. Natural environment and ecosystem services provide us with food, water and material for living. Since the economic activities directly depend upon the natural resources and the environment, the protection of natural environment is the duty of all stakeholders.

He should take utmost care to protect both the renewable and non-renewable energy sources. If we fail to manage the ecosystem and environmental resources in a proper way, the future generations will face severe imbalances in climate and availability of water, food, good air, etc.

It is needless to say that the major reason behind the imbalance in the ecosystem is the improper management of resources and the population explosion. Hence, the process of selling goods and services in an eco-friendly way is a big issue before the business houses across the globe.

Moreover, keeping eco-friendly goods in the hands of the ultimate users is the social responsibility of the manufacturer as the role of wealth creators has been more in damaging the ecosystem rather than preserving it.

In our days the environmental problems seem to concern all active citizens, enterprise, and institutions all over the world much more than it did 30 years ago. International researches show that consumers worry about the environment and change their behaviour gradually. Thus a new market for viable or sustainable product emerges, which is further strengthened by active consumers since it is a way to contribute to the protection of the environment. The enterprises gradually recognize the various competitive advantages and the enterprising opportunities that arise from this ecological consuming approach, entering the word “green” in many of their activities. Thus, in parallel with the concept of corporate social responsibility of “green marketing” has also been cultivated with sufficiently effective practices.

The term green marketing refers to the planning, development and promotion of products or services that satisfy the needs of consumers for quality, output, prices and services without a negative effect on the environment with regard to the use of raw material, the consumption of energy, etc.
According to Kingis, green marketing must be more than a green way of marketing of the so-called green products. Green has to refer both to the method and to the product. This is why the very idea of green marketing needs considerable development and analysis, with rules and integrity in economic, scientific, academic and ethical terms.
The environmental parameter has been included in the strategy of marketing from the beginning of 1990s.
It is reported that in the USA, the green market counts about $250 billion, which 63 million of consumers are directed to the products that either protect the environment contrary to the conventional ones or have been produced with processes that respect the society and the environment.
The same consumers are prone to spend an additional 7 to 20% in order to buy pure green products and reject the non-viable alternatives, offered to them by conventional market.
According to a recent research, at a world level the supportive fame of a company about its environmental responsibility is determined by the 53% of consumers as a decisive reason that makes them buy and use its products.
Green marketing is a relatively new focus in business endeavours and came into prominence only in the late 1980s. Since the mid-nineties, environmental legislation has increased leading to a high level of awareness of environmental issues in the business domain and many corporations being required to consider the issues in their strategic planning in order to meet stricter environmental change that is far easier said than done. The so called "green consumer" movement in the USA has struggled to keep afloat by not quite being able to reach critical mass not being at the very forefront of shopper's minds.

In the fast moving period, there is a huge requirement of standard entity wealth as well as fresh environment. It is the primary responsibility of the public and private sector enterprises to provide the essentials of a life and the maintenance of the demands of the environment. In green marketing, products are offered to satisfy the customers with special consideration on environment.

Green Marketing – Meaning According to American Marketing Association, Polonsky and Investopedia

According to American Marketing Association – "Green marketing is the marketing of products that are presumed to be environmentally safe."
According to Polonsky, 1994 – "Green or Environmental Marketing consists of all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental impact on the natural environment.
Green marketing refers to the process of selling products and/or services based on their environmental benefits. Such a product or service may be environmentally friendly in itself or produced and/or packaged in an environmentally friendly way. The assumption of green

marketing is that potential consumers will view a product or service's "greenness" as a benefit and base their buying decision accordingly. The consumers may be willing to pay more for green products than they would for a less-green product.
Green Marketing incorporates broad range of activities including product modification, changes to the production process, packaging changes, and modifying advertising. The focus of Green Marketing is on satisfaction of customers' needs and wants with no or minimum harm to the natural environment.
Marketing products and services based on environmental factors or awareness. Companies involved in green marketing make decisions relating to the entire process of the company's products, such as – methods of processing, packaging and distribution. Investopedia explains 'Green Marketing' as the companies seek to go above and beyond traditional marketing by promoting environmental core values in the hope that consumers will associate these values with their company or brand.

Engaging in these sustainable activities can lead to creating a new product line that caters to a new target market, also known as sustainable marketing, environmental marketing or ecological marketing.
According to the American Marketing Association, green or Environmental Marketing consists of all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental input on the national environment.
Green Marketing has progressed over a period of time. There are three phases in the evolution process of Green Marketing. First phase was ecological green marketing where environmental problems and remedies for environmental problems were mainly focused. Environmental green marketing was the second phase; the major focus was on clean technology and designing of innovative new products, which can control pollution and waste issues. Third phase was "sustainable green marketing". This phase gained popularity in the late 1990s and early 2000.
A variety of jargons are used in this area, like Green Marketing, Ecological Marketing and Environmental Marketing. The term Green Marketing came into regulation in the late 1980s and early 1990s.

Green Marketing – 5 Important Golden Laws: Customers should be Aware, Reassure the Buyers, Transparency, Consider Pricing and Customer Participation

The important golden laws of Green Marketing are as follows:

1. Customers should be Aware:

If a company needs to sell the products, it should make sure that the customers are better aware of the benefits of "green" products and their growing necessity. The customer should know the main reason behind the issue of the products that are eco-friendly.

2. Reassure the Buyers:

Marketer should understand that they need to convince the customers by promoting the true quality and ethically show the performance of the product, because it would be very difficult to sell the products to customers only on the lines that they are eco-friendly.

3. Transparency:

Marketers should be ethical in claiming their products as eco-friendly. They should be genuine and transparent about their claims. The business policies should also go with it.

4. Consider Pricing:

It is possible that marketers charge a greater price for their "green" products because of their high cost of production and use of higher-quality ingredients. Many customers might not afford these high prices, so company needs to consider a reasonable price and target the appropriate audience effectively.

5. Customer Participation:

The marketer should involve the customers in the initiative of green marketing. Once the customer is a part of this cause, he or she will understand the concept better and the issues of pricing etc. can be resolved.

Green Marketing – Importance: Environmental Advantages, Economic Advantages, Sustainability, Efficient Use of Resources, Planned Techniques and a Few Others

It is well known that increasing production and business activities are polluting the natural environment. The damages to people, crops, and wildlife are reported in different parts of the world. As resources are limited and human wants are unlimited, it is necessary for marketers to use resources efficiently, so that organisational objectives are achieved without waste of resources. So green marketing is inevitable.

There is growing interest among people around the world regarding protection of natural environment. People are getting more concerned for environment and changing their behaviour for the protection of environment. As a result of this, the term "Green Marketing" has emerged. Hence, marketers are feeling their responsibility towards environment and giving importance to green marketing.

Not only marketers but consumers are also concerned about the environment, and consumers are also changing their behaviour pattern. Now, individual as well as industrial consumers are becoming more concerned about environment-friendly products.

Importance # 1. Environmental Advantages:

Going green is an environmentally responsible choice. It is estimated that 40 percent of all greenhouse gases in the United States comes from energy production that businesses use to heat, cool and light workplaces. Reducing these energy needs reduces carbon dioxide output, helping to control global warming. As businesses use more natural resources than individual consumers, recycling business materials and conserving water contribute to conservation on a larger scale.

Importance # 2. Economic Advantages:

The reduction in waste equals lower operating costs and more savings. Eco-friendly business equipment and practices such as – low-wattage or LED lights, use of natural lighting, water conservation policies, mandatory recycling and hybrid company vehicles save money on utilities, fuel and office supplies. This generates instant cash flow. Further going green puts a business in a positive light in the eyes of customers, potential investors, distributors, activists, watchdog groups, communities and prospective employees.

Importance # 3. Sustainability:

Going green is about sustainability; this sustainability translates to sustainable profits in green sectors with secure futures. The future-safe markets include biomaterials, green buildings, personal transportation, smart grids, mobile applications and water filtration.

Importance # 4. Efficient Use of Resources:

Today, human demands and needs are unlimited but resources are short enough that cannot fulfill the human needs. Markets need to facilitate the consumers by utilizing resources efficiently.

Importance # 5. Planned Techniques:

It needs to develop well planned techniques and innovative policies to achieve the organizational goals effectively without any wastage of time and other resources. Green marketing examples of different products and services develops a growing interest among customers throughout the world.

Importance # 6. Consumer Attraction:

Green marketing examples of different products attracts the consumers regarding environment protection. People are so much conscious about their environment and variations in behavior. Green marketing is considered as growing marketing that helps to design socially and sustainable products.

Importance # 7. Innovation:

Green marketing helps to design such kinds of products that are economically affordable and satisfy the human needs efficiently. It produces innovative green products that consume less resource.

Importance # 8. Competitive Advantage:

Companies enjoy competitive advantage over other companies in the market through green marketing examples. Today, companies which adopt green marketing techniques gain more competitive advantage over other companies which are not conscious about such techniques and environment. Companies which develop innovative products and services with innovative qualities at affordable rates are successful in the market.

Green marketing is a group of activities that are designed to meet the consumer's demands and needs at affordable price range.

Green Marketing – 5 Main Examples: Maruti Suzuki, Bharat Petroleum, Hindustan Petroleum, Proctor & Gamble and ITC

Corporate are going green from the grassroots level to sustain and win the customers' expectations. The environment is becoming increasingly an important part of the corporate reputations and they are actively participating in greening the corporate strategy. Companies have converted almost all the products to make them eco-friendly products. Following are the recent environment friendly initiatives taken by the companies.

Example # 1. Maruti Suzuki:

The company has been promoting 3 R since its inception. As a result the company has not only been able to recycle 100% of treated waste water but also reduced fresh water consumption. The company has implemented rain water harvesting to recharge the aquifers. Also, recyclable packing for bought out components is being actively promoted.

The country's largest car manufacturer had managed to slash energy consumption per car at its Gurgaon factory by 26 per cent over the past six years, while its carbon dioxide (CO_2)

emissions during car manufacturing processes has come down 39 per cent in the past five years. The model with gas as fuel was adopted by Maruti Suzuki India Limited as their Green Marketing practices.

Example # 2. Bharat Petroleum:

Bharat Petroleum launched a programme to cut production of greenhouse gases by 10% across its units worldwide and achieved it much ahead of schedule. Cleaner fuels such as Greener Diesel (ultra low sulphur content) and BP Autogas were developed. Almost all of its plants are ISO 14001 certified. Currently it is running a programme to contain its net emissions at current levels for ten years.

Example # 3. Hindustan Petroleum:

Hindustan Petroleum owns a massive e-waste recycling plant, where enormous shredders and granulators reduce four million pounds of computer detritus each month to bite-sized chunks the first step in reclaiming not just steel and plastic but also toxic chemicals like mercury and even some precious metals. HP will take back any brand of equipment; its own machines are 100 percent recyclable. It has promised to cut energy consumption by 20 percent by 2010.

Example # 4. Proctor & Gamble:

Laundry detergents are also touting energy savings. Proctor & Gamble's (P&G) newest market entry, Tide Coldwater, is designed to clean clothes effectively in cold water. About 80 to 85 percent of the energy used to wash clothes from heating water.

Example # 5. ITC:

ITC has been 'Carbon Positive' for three years in a row sequestering/ storing twice the amount of CO_2 than the Company emits. It has been 'Water Positive' six years in a row creating three times more Rainwater Harvesting potential than ITC's net consumption. It has obtained close to 100% solid waste recycling. All Environment, Health and Safety Management Systems in ITC conform to the best international standards. ITC's businesses generate livelihoods for over 5 million people.

ITC's globally recognized e-Choupal initiative is the world's largest rural digital infrastructure benefiting over 4 million farming families. ITC's Watershed Development Initiative brings precious water to nearly 35,000 hectares of dry lands and moisture-stressed areas. ITC's Sustainable Community Development initiatives include women empowerment, supplementary education, integrated animal husbandry programmes.

Green Marketing Mix – 4 Ps of Green Marketing Mix: Green Products, Green Price, Green Place and Green Promotion

Marketers need to define and design the 4 Ps of marketing mix from the viewpoint of environmental preservation. The green marketing mix elements address the key environmental issues appropriately and effectively.

Element # 1. Green Products:

Consider products that consume more energy, use toxic chemicals, cannot be recycled, and use extensive packaging. Such products are a threat to the environment as they lead to environmental degradation and pollution. On the other hand, products that help in saving energy, use natural ingredients, are recycled, or use reduced packaging make contributions to the environment. Therefore, those products that are produced in harmony with the environment are known as 'green products'.

Production of green products is based on green technology. Green products help in saving natural resources and subscribe towards sustainable future.
Organizations should produce environment-friendly products as they help in saving energy resources and do not affect the environment adversely. The various stages involved in the production of environment-friendly products are efficient in terms of environment protection and conservation.
Environment-friendly products use natural and organic ingredients that are sourced from local suppliers and its manufacturing and circulation is done in a manner that has least or no impact on environment. Different governing organizations and certification systems certify the product as green after assessing it against environmental performance criterion.

Element # 2. Green Price:

Production of green products requires modification in the production processes and this necessitates expenditure. Cost increase results in increased price point of green products that makes acceptability of the product in the market difficult. The high price may act as a deterrent as consumers may be either unwilling or unable to pay this green premium.
The gap between the price of a green product and a non-green product is known as 'pricing gap'. Price impediments can be tackled either by lowering the price point of green products to make it contiguous with the prevailing products in the market or by enhancing the perceived value of the green products in the eyes of the customer (by adding to the benefits derived such as improved packaging, improved attributes, and making the product specific to customers' needs).

Element # 3. Green Place:

Green place relates to the distribution of green products without doing any harm to the environment. This is achieved through efficient utilization of fuel and energy and arranging for logistics with the least emissions.
Transportation costs constitute a major part of business costs and resources spend in distribution can be saved through local production. This decreases transportation costs and also reduces carbon footprint. Selling over the Internet as compared to a shop also saves business resources.

Element # 4. Green Promotion:

Consumers need to be made aware about green products and motivated to purchase them. Therefore, huge amount of money and resources are spent by companies nowadays on advertising and promotion of green products. Green promotion entails increasing the sensitivity of consumers towards green products as well as promoting the products in an environment-friendly manner like using social networking sites to post profiles related to green marketing.
Recently, Nike with its 'Better World' campaign launched its first 100 per cent recycled television advertisement, which was recycled by reusing and remixing film of its earlier campaigns.

Green Marketing Mix – 4 Major Elements of Marketing Mix: Product, Price, Place and Promotion

1. Product:

Entrepreneurs wanting to exploit emerging green markets either- Identify customers' environmental needs and develop products to address these needs or will develop environmentally responsible products to have less impact than competitors.

2. Price:
Pricing is the critical element of the marketing mix. Most customers will only be prepared to pay a premium if there is a perception of additional product value. This value may be improved performance, function, design, visual appeal or taste. Environmental benefits will be often be the deciding factor between products of equal value or quality.
3. Place:
The choice of where and when to make products available will have significant impact or the customers you attract. Very few customers go out of their way to buy green products merely for the sake of it. Marketers looking to successfully introduce new green products should position them broadly in the marketplace so they are not just appealing to a small green niche market.
4. Promotion:
Promoting products and services to target markets include paid advertising, public relations, sales promotions, direct marketing and on- site promotions. Smart green marketers will be able to reinforce environmental credibility by using sustainable marketing and communication tools and practices.
For example- many companies in the financial industry are providing electronic statements by email; e-marketing is rapidly replacing more traditional marketing methods and printed materials can be produced using recycled materials and efficient processes such as waterless printing.
Moving towards Green Marketing:
The era of green marketing has begun. It has already been granted wide acceptance by all stakeholders. However, there is a need to lay down the standards and practices, in order to bring in objectivity in the judgment of various national and international agencies. This will not only encourage the activities of green marketing but shall also provide the much needed level playing fields to all.

Green Marketing – 5 Important Present Trends in India

1. Organizations perceive environmental marketing to be an opportunity that can be used to achieve its objectives.
2. Organizations believe they have a moral obligation to be more socially responsible.
3. Governmental bodies are forcing firms to become more responsible.
4. Competitors' environmental activities pressure firms to change their environmental marketing activities.
5. Cost factors associated with waste disposal or reductions in material usage forces firms to modify their behaviour.

Green Warming – Proposed Solution:
The solution to this problem lies in "Going Green" in our thoughts, behaviour and actions. The consumers and corporations need to focus on clean and environment friendly products and services.
To elaborate on the "Green" Terminology:
1. "Green Product" is non-toxic and is made from recycled material. There is no absolute green product. However the products, which consume less energy, cause less pollution and are biodegradable, belong to this category. Thus "Green" is a relative term.
2. "Green Service" fulfills the philosophy of sustainable development, improving and maintaining the quality of life for people without compromising the environment.

3. "Green Washing" is the process of making products and services "Green" in all respects.
To make products and services green the businesses need to focus on bringing the green in various aspects such as:
i. Supply Chain
ii. Packaging
iii. Raw Material
iv. Product Innovations

Green Marketing – Role of Information Technology

IT departments are under increasing scrutiny and pressure to deliver environmentally sound solutions. Large data centre are one of the most significant energy consumers in an organization's IT infrastructure, so any measures that the organization can take to reduce this consumption (and therefore also carbon dioxide emissions) will have a positive impact on the organization's environmental footprint.
A green data centre is defined as one in which the mechanical, lighting, electrical and computer systems are designed for maximum energy efficiency and minimum environmental impact. The construction and operation of a green data centre are involved in advanced technologies and strategies.
Some examples include:
i. Reducing the power consumption of the data centre.
ii. Using low-emission building materials, carpets and paints.
iii. The consumption of energy is considered the dominant and often the only factor in defining whether or not a facility is green.

Green Marketing – Attributes of the Green Consumers

To take the advantage of the emerging green market, it is important to understand who green customers are and the factors influencing their purchasing decisions and behaviour.
What Drives Environmentally Conscious Consumer Behaviour?
The proposed framework presents Environmentally Consciousness Consumer Behaviour (ECCB) as a process involving consumer environment, constructs, mediators and outcomes. The underlying influencers of ECCB are complex and different approaches to consumer motivation account for them in various ways.
Apart from this Natural Marketing Institute (NMI) divides the market into following categories:
1. Lohas – Very progressive on environment and society, looking for ways to do more; not too concerned about price.
2. Naturalites – Primarily concerned about personal health and wellness, and use many natural products; would like to do more to protect the environment.
3. Conventional – Practical, like to see the results of what they do; interested in green products that make sense in the long run.
4. Drifters – Not too concerned about the environment, figuring we've got time to fix the environmental problems; don't necessarily buy a lot of green products.
5. Unconcerned – Have other priorities, not really sure what green products are available and probably wouldn't be interested anyway; they buy products strictly on price, value, quality and convenience.
Towards a Green Marketing Partnership – ICT and Cost Management is the Key.

Worldwide evidence indicates people are concerned about the environment and are changing their behaviour accordingly. As a result there is a growing market for sustainable and socially responsible products and services.
The types of businesses that exist, the products that they produce and their approaches to marketing are changing. Successful green marketers will reap the rewards of healthy profits and improved shareholder value and help in making the world a better place for future generations.
Identify and close the Green Gap.
Right now, gaps exist on both sides of the market, between where customers are today and the preferences that will help sustain a future market. There is also a gap between today's products and green designs of tomorrow.

Green Marketing – 5 Main Reasons for Adoption of Green Marketing by the Firms: Opportunities, Competitive Pressure, Social Responsibility and Cost or Profit Issues

Green marketing has been widely adopted by the firms worldwide and the following are the possible reasons cited for this wide adoption:

1. Opportunities:
As demands change, many firms see these changes as an opportunity to be exploited and have a competitive advantage over firms marketing non-environmentally responsible alternatives.
Some examples of firms who have strived to become more environmentally responsible, in an attempt to better satisfy their consumer needs are:
I. McDonald replaced its clam shell packaging with waxed paper because of increased consumer concern relating to polystyrene production and ozone depletion.
II. Tuna manufacturers modified their fishing techniques because of the increased concern over driftnet fishing, and the resulting death of dolphins.
III. Xerox introduced a "high quality" recycled photocopier paper in an attempt to satisfy the demands of firms for less environmentally harmful products.

2. Governmental Pressure:
As with all marketing related activities, governments want to "protect" consumers and society; this protection has significant green marketing implications.
Governmental regulations relating to environmental marketing are designed to protect consumers in several way:
I. Reduce production of harmful goods or by-products.
II. Modify consumer and industry's use and/or consumption of harmful goods.
III. Ensure that all types of consumers have the ability to evaluate the environmental composition of goods.
Governments establish regulations designed to control the amount of hazardous wastes produced by firms.

3. Competitive Pressure:
Another major force in the environmental marketing area has been firms' desire to maintain their competitive position. In many cases firms observe competitors promoting their environmental behaviours and attempt to emulate this behaviour. In some instances this competitive pressure has caused an entire industry to modify and thus reduce its detrimental environmental behaviour.

For example- it could be argued that Xerox's "Revive 100% Recycled paper" was introduced a few years ago in an attempt to address the introduction of recycled photocopier paper by other manufacturers. In another example when one tuna manufacturer stopped using driftnets the others followed suit.

4. Social Responsibility:

Many firms are beginning to realize that they are members of the wider community and therefore must behave in an environmentally responsible fashion. This translates into firms that believe they must achieve environmental objectives as well as profit related objectives. This results in environmental issues being integrated into the firm's corporate culture. There are examples of firms adopting both strategies. Organizations like the Body Shop heavily promote the fact that they are environmentally responsible. While this behaviour is a competitive advantage, the firm was established specifically to offer consumers environmentally responsible alternatives to conventional cosmetic products.

5. Cost or Profit Issues:

Firms may also use green marketing in an attempt to address cost or profit related issues. Disposing of environmentally harmful by-products, such as polychlorinated biphenyl (PCB) contaminated oil are becoming increasingly costly and in some cases difficult. Therefore firms that can reduce harmful wastes may incur substantial cost savings. When attempting to minimize waste, firms are often forced to re-examine their production processes. In these cases they often develop more effective production processes that not only reduce waste, but reduce the need for some raw materials. This serves as a double cost savings, since both waste and raw material are reduced.

Green Marketing – 4 Benefits and Advantages

Today's consumers are becoming more and more conscious about the environment and are also becoming socially responsible. Therefore, more companies are responsible to consumers' aspirations for environmentally less damaging or neutral products. Many companies want to have an early mover advantage as they have to eventually move towards becoming green.

Some of the advantages of green marketing are:

i. It ensures sustained long term growth along with profitability.

ii. It saves money in the long run, though initially the cost is more.

iii. It helps the companies market their products and services keeping the environment aspects in mind. It helps in accessing the new markets and enjoying the competitive advantage.

iv. Most of the employees also feel proud and responsible to be working for an environmentally responsible company.

Green Marketing – 4 Popular Challenges: Need for Standardization, New Concept, Patience and Perseverance and Avoiding Green Myopia

Challenge # 1. Need for Standardization:

It is found that only 5% of the marketing messages from "Green" campaigns are entirely true and there is a lack of standardization to authenticate these claims. There is no standardization currently in place to certify a product as organic. Unless some regulatory bodies are involved in providing the certifications there will not be any verifiable means. A standard quality control board needs to be in place for such labelling and licensing.

Challenge # 2. New Concept:

Indian literate and urban consumer is getting more aware about the merits of green products. But it is still a new concept for the masses. The consumer needs to be educated and made aware of the environmental threats. The new green movements need to reach the masses and that will take a lot of time and effort.

By India's ayurvedic heritage, Indian consumers do appreciate the importance of using natural and herbal beauty products. Indian consumer is exposed to healthy living lifestyles such as yoga and natural food consumption. In these aspects the consumer is already aware and will be inclined to accept the green products.

Challenge # 3. Patience and Perseverance:

The investors and corporate need to view the environment as a major long-term investment opportunity, the marketers need to look at the long- term benefits from this new green movement. It will require a lot of patience and no immediate results. Since it is a new concept and idea, it will have its own acceptance period.

Challenge # 4. Avoiding Green Myopia:

The first rule of green marketing is focusing on customer benefits i.e. the primary reason why consumers buy certain products in the first place. Do this right motivate consumers to switch brands or even pay a premium for the greener alternative. It is not going to help if a product is developed which is absolutely green in various aspects but does not pass the customer satisfaction criteria. This will lead to green myopia. Also if the green products are priced very high then again it will lose its market acceptability.