

Foundation of Business Concept - Industry, Trade and Commerce - Classification of Industry, Types of trade and **Aids to trade** - Forms of Business enterprises Sole trader Partnership - Joint-stock Companies - Cooperative organisations - One man company. Factors to be considered while setting up of a business - Social Responsibility of business. (18 Hours, 15 marks)

CONCEPT OF BUSINESS

The term business is derived from the word **busy**. Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits.

CHARACTERISTICS OF BUSINESS ACTIVITIES

- (i) An economic activity: Business is considered to be an economic activity because it is undertaken with the object of earning money or livelihood and not because of love, affection, sympathy or any other sentimental reason.
- (ii) Production or procurement of goods and services: Before goods are offered to people for consumption, these must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or it acquires them from producers, to be further sold to consumers or users.
- (iii) Sale or exchange of goods and services: Directly or indirectly, business involves transfer or exchange of goods and services for value. If goods are produced not for the purpose of sale but say for personal consumption, it cannot be called a business activity.
- (iv) Dealings in goods and services on a regular basis: Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business. Thus, for example, if a person sells his/her domestic radio set even at a profit, it will not be considered a business activity.
- (v) Profit earning: One of the main purposes of business is to earn income by way of profit. No business can survive for long without earning profit. That is why businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.
- (vi) Uncertainty of return: Uncertainty of return refers to the lack of knowledge regarding the amount of money that the business is going to earn in a given

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production and the finished products from factories to the place of consumption.

2. **Banking and Finance:** Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance. Commercial banks generally lend money by providing overdraft and cash credit facilities, loans and advances. Banks also undertake collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders.

3. **Insurance:** Business is involved various types of risks. Factory building, machinery, furniture etc. must be protected against fire, theft and other risks. Materials and goods held in stock or in transit are subject to the risk of loss or damage. Employees are also required to be protected against the risks of accidental and occupational injuries. Insurance provides protection in all such cases. On payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.

4. **Warehousing:** Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. Special arrangement must be made for storage of goods to prevent loss or damage. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed.

5. **Advertising:** Advertising is one of the most important methods of promoting the sale of products, particularly, consumers goods like electronic goods, automobiles, soaps, detergents etc. Most of these goods are manufactured and supplied in the market by numerous firms big or small. It is practically impossible for producers and retailers to contact each other in all such cases. On payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.

Forms of Business enterprises

- (a) Sole proprietorship.
- (b) Partnership.

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agreement between the large partnership interests into place whereby they agree to carry out the business of the firm and share risks. There is no compulsion with respect to registration of the firm. Closure of the firm too is an easy task.

(ii) Balanced decision making: The partners can oversee different functions according to their areas of expertise. Because an individual is not forced to handle different activities, they not only reduce the burden of work but also lead to fewer errors in judgements. As a consequence, decisions are likely to be more balanced.

(iii) More funds: In a partnership, the capital is contributed by a number of partners. This makes it possible to raise larger amount of funds as compared to a sole proprietor and undertake additional operations when needed.

(iv) Sharing of risks: The risks involved in running a partnership firm are shared by all the partners. This reduces the anxiety, burden and stress on individual partners.

(v) Secrecy: A partnership firm is not legally required to publish its accounts and submit its reports. Hence it is able to maintain confidentiality of information relating to its operations.

LIMITATIONS

(i) Unlimited liability: Partners are liable to repay debts even from their personal resources in case the business assets are not sufficient to meet its debts. The liability of partners is both joint and several which may prove to be a drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.

(ii) Limited resources: There is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient to support large scale business operations. As a result, partnership firms face problems in expansion beyond a certain size.

(iii) Possibility of conflicts: Partnership is run by a group of persons wherein decision making authority is shared. Difference of opinion on some issues may lead to disputes between partners. Further, decisions of one partner are binding on other partners. Thus an unwise decision by some one may result in financial ruin for all others. In case a partner decides to leave the firm, this can result in termination of partnership as there is a restriction on transfer of ownership.

(iv) Lack of continuity: Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. It may result in lack of continuity. However, the remaining partners can enter into a fresh agreement and continue to run the business.

(v) Lack of public confidence: A partnership firm is not legally required to publish its financial reports or make other related information public. It is, therefore, difficult for any member of the public to ascertain the true financial status of a partnership firm. As a

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Merits

The company form of organisation offers a multitude of advantages,

(i) Limited liability: The shareholders are liable to the extent of the amount unpaid on the shares held by them. Also, only the assets of the company can be used to settle the debts leaving the owner's personal property free from any charge. This reduces the degree of risk borne by an investor.

(ii) Transfer of interest: The ease of transfer of ownership adds to the advantage of investing in a company as the share of a public limited company can be sold in the market and as such can be easily converted into cash in case the need arises. This avoids withdrawal of investment and presents the company as a favourable avenue for investment purposes.

(iii) Perpetual existence: Existence of a company is not affected by the death, retirement, resignation, insolvency or insanity of its members as it has a separate entity from its members. A company will continue to exist even if all the members die. It can be liquidated in only as per the provisions of the Companies Act.

(iv) Scope for expansion: As compared to the sole proprietorship and partnership forms of organisation, a company has large financial resources. Further, capital can be attracted from the public as well as through loans from TB Banks and financial institutions. Thus there is greater scope for expansion.

(v) Professional management: company can afford to pay higher salaries to specialists and professionals it can, therefore, employ people who are experts in their area of specialisations. The scale of operations in a company leads to division of work. Each departmental activity is performed by a specialist. This leads to a more efficient and balanced decision making as each person has greater efficiency in the company's operations.

Limitations

The major limitations of a company form of organisation are as follows:

(i) Complexity in formation: The formation of a company requires greater time, effort and knowledge of legal requirements and the procedures involved. As compared to sole proprietorship and partnership, form of organisations, formation of a company is more complex.

(ii) Lack of secrecy: The Companies Act requires each public company to provide from time-to-time a lot of information to the public of the registrar of companies. Such information is available to the general public also. It is, therefore, difficult to maintain complete secrecy about the operations of company.

(iii) Impersonal work environment: Separation of ownership and management leads to situations in which there is lack of effort as well as personal involvement on the part of the

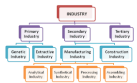
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period. Every business invests money (capital) to run its activities with the objective of earning profit.

Industry trade and commerce

Business activities may be broadly classified into two categories – industry and commerce. Industry is concerned with the processing of materials and production of goods, whereas commerce is concerned with the distribution of those materials and goods. **Aids to trade.** Trading is an activity of buying and selling.

INDUSTRY



Industry is concerned with the production or processing of goods and materials. It refers to economic activities, which are connected with **conversion of resources into useful goods.**

(A) PRIMARY INDUSTRIES

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- (c) Cooperative societies, and
- (d) Joint stock company.

1. Sole proprietorship

A sole proprietorship (also known as individual entrepreneurship, sole trader, or simply proprietorship) is a type of an unincorporated entity that is owned by one individual only. It is the **simplest** legal form of a business entity.

Features

- (i) Formation and closure: Hardly any legal formalities are required to start a sole proprietorship business, though in some cases one may require a license. There is no separate law that governs sole proprietorship. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.
- (ii) Liability: Sole proprietors have unlimited liability. This implies that the owner is personally responsible for payment of debts in case the assets of the business are not sufficient to meet all the debts. As such the owner's personal possessions such as his/her personal car and other assets could be sold for repaying the debt.
- (iii) Sole risk bearer and profit recipient: The risk of failure of business is borne all alone by the sole proprietor. However, if the business is successful, the proprietor enjoys all the benefits. He receives all the business profits which become a direct reward for his risk bearing.
- (iv) Control: The right to run the business and make all decisions lies absolutely with the sole proprietor. He can carry out his plans without any interference from others.
- (v) No separate entity: In the eyes of the law, no distinction is made between the sole trader and his business, as business does not have an identity separate from the owner
- (vi) Lack of business continuity: Since the owner and business are one and the same entity, death, insanity, imprisonment, physical ailment or bankruptcy of the sole proprietor will have a direct and detrimental effect on the business and may even cause closure of the business.

Merits

Sole proprietorship offers many advantages. Some of the important ones are as follows:

- (i) Quick decision making: A sole proprietor enjoys considerable degree of freedom in making business decisions. Further the decision making is prompt because there is no need to consult others.

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result, the confidence of the public in partnership firms is generally low.

COOPERATIVE SOCIETY

The word cooperative means working together and with others for a common purpose. The cooperative society is a voluntary association of persons, who join together with the object of welfare of their members. The cooperative society is compulsorily required to be registered under the Cooperative Societies Act 1912. The process of setting up a cooperative society is simple enough and at the end what is required is the consent of at least ten adult persons of sound mind. The capital of a society is raised from its members through issue of shares.

FEATURES

- 1. Voluntary membership: The membership of a cooperative society is voluntary. A person is free to join a cooperative society, and can also leave anytime he desires. There cannot be any compulsion for him to join or quit a society.
- 2. Legal status: Registration of a cooperative society is compulsory. This makes a separate identity to the society which is distinct from its members. The society can enter into contracts and hold property in its name, sue and be sued by others. As a result of being a separate legal entity, it is not affected by the entry or exit of its members.
- 3. Limited liability: The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. This defines the maximum risk that a member can be asked to bear.
- 4. Control: In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. The right to vote gives the members a chance to choose the members who will constitute the managing committee and this lends the cooperative society a democratic character.
- 5. Service motive: The cooperative society works towards its purpose lays emphasis on the values of mutual help and welfare. Hence, the motive of service dominates its working.

MERITS

- (i) Equality in voting status: The principle of 'one man one vote' governs the cooperative society. Irrespective of the amount of capital contribution by a member, each member is entitled to equal voting rights.

officers of a company. The large size of a company further makes it difficult for the owners and top management to maintain personal contact with the employees, customers and creditors.

(v) Numerous regulations: The functioning of a company is subject to many legal provisions and compulsions. A company is burdened with numerous restrictions in respect of aspects including audit, voting, filing of reports and preparation of documents, and is required to obtain various certificates from different agencies, viz., registrar, SEBI, etc. This reduces the freedom of operations of a company and takes away a lot of time, effort and money.

(vi) Delay in decision making: Companies are democratically managed through the Board of Directors which is followed by the top management, middle management and lower level management. Communication as well as approval of various proposals may cause delays not only in taking decisions but also in acting upon them.

(vii) Oligarchic management: In theory, a company is a democratic institution wherein the Board of Directors are representatives of the shareholders who are the owners. In practice, however, in large sized organisations having a multitude of shareholders, the owners have minimal influence in terms of controlling or running the business.

Factors to be considered while setting up of a business

Selection of line of business: The first thing to be decided by any entrepreneur of a new business is the nature and type of business to be undertaken. He will obviously like to enter that branch of industry and commerce, which has the possibility of greater amount of profits. The decision will be influenced by the customer requirements in the market and also the kind of technical knowledge and interest the entrepreneur has for producing a particular product

(ii) Size of the firm: The size of the firm or scale of its operation is another important decision to be taken at the start of the business. The large firms favour a large size whereas others tend to restrict the scale of operation. If the entrepreneur is confident that the demand for the proposed product is likely to be good over time and he can arrange the necessary capital for business, he will start the operation at a large scale. If the market conditions are uncertain and risks are high, a small size business would be better

(iii) Choice of form of ownership: With respect to ownership, the business organisation may take the form of a sole proprietorship, partnership, or a joint stock company. Each form has its own merits and demerits. The choice of the suitable form of ownership will depend on such factors as the line of business, capital requirements, liability of owners, division of profit, legal formalities, continuity of business, transferability of interest and so on.

Connected with the extraction and production of natural resources and reproduction and development of living organisms, plants etc. Primary industries are subdivided into:

- 1. **Extractive Industries:** These industries extract or draw out products from natural resources. They supply some basic raw materials that are mostly products of the soil. Products of these industries are usually transformed into many other useful goods by manufacturing industries. Important extractive industries include farming, mining, lumbering, hunting and fishing operations.
- 2. **Genetic Industries:** These industries remain engaged in breeding plants and animals for their use in further production. Examples seeds and nursery companies, cattle breeding farms, poultry farms, and fish hatchery etc.

(B) SECONDARY INDUSTRIES

These industries process materials produced by primary industries to produce goods for final consumption or for further processing by other industrial units.

For example, the mining of an iron ore is a primary industry, but manufacturing of steel is a secondary industry. Secondary industries may be further divided as follows:

- 1. **Manufacturing industries:** Engaged in producing goods through processing of raw materials and thus creating **form utility**. Manufacturing industries may be further divided into four categories on the basis of method of operation for production
 - a. **Analytical industry** which analyses and separates different elements from the same materials, as in the case of oil refinery.
 - b. **Synthetic industry** which combines various ingredients into a new product, as in the case of cement, cosmetics etc.
 - c. **Processing industry** which involves successive stages for manufacturing finished products, as in the case of sugar and paper.
 - d. **Assembling industry** which assembles different component parts to make a new product, as in the case of television, car, computer, etc.
- 2. **Construction Industries:** These industries are involved in the construction of buildings, dams, bridges and canals. Engineering and architectural skills are an important part in construction industries.

(C) TERTIARY INDUSTRIES

These industries provide service facilities and support services to primary and secondary industries. They may also be considered as a part of Commerce as they assist the activity of trade. Included in this category are transport, banking, insurance, warehousing, communication, packaging and advertising.

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- (i) Confidentiality of information: Sole decision making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy. A sole trader is also not bound by law to publish firm's accounts.

- (ii) Direct incentive: A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profit. The need to share profits does not arise as he/she is the single owner. This provides maximum incentive to the sole trader to work hard.

- (iv) Sense of accomplishment: There is a personal satisfaction involved in working for oneself. The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also instils in the individual a sense of accomplishment and confidence in one's abilities.

- (v) Ease of formation and closure: An important merit of sole proprietorship is the possibility of entering into business with minimal legal formalities. There is no separate law that governs sole proprietorship. As sole proprietorship is the most regulated form of business, it is easy to start and close the business as per the wish of the owner.

Limitations

- (i) Limited resources: Resources of a sole proprietor are limited to his/her personal savings and borrowings from others. Banks and other lending institutions may hesitate to extend a long term loan to a sole proprietor. Lack of resources is one of the major reasons why the size of the business rarely grows much and generally remains small.
- (ii) Limited life of a business concern: In the eyes of the law the proprietorship and the owner are considered one and the same. Death, insolvency or illness of a proprietor affects the business and can lead to its closure.
- (iii) Unlimited liability: A major disadvantage of sole proprietorship is that the owner has unlimited liability. If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor. A poor decision or an unfavourable circumstance can create serious financial burden on the owners. That is why a sole proprietor is less inclined to take risks in the form of innovation or expansion.
- (iv) Limited managerial ability: The owner has to assume the responsibility of varied

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- (ii) Limited liability: The liability of members of a cooperative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.

- (iii) Stable existence: Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society. A society, therefore, operates unaffected by any change in the membership.

- (iv) Economy in operations: The members generally offer honorary services to the society. As there is no elimination of middlemen, this helps in reducing costs. The customers or producers themselves are members of the society, and hence the risk of bad debts is lower.

- (v) Support from government: The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.

- (vi) Ease of formation: The cooperative society can be started with a minimum of 10 MEMBERS. The registration process is simple involving a few legal formalities. Its formation is governed by the provisions of Cooperative Societies Act 1912.

LIMITATIONS

The cooperative form of organisation suffers from the following limitations:

- (i) Limited resources: Resources of a cooperative society consists of capital contributions of the members with limited means. The low rate of dividend offered on investment also acts as a deterrent in attracting membership or more capital from the members.
- (ii) Inefficiency in management: Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries. The members who offer honorary services on a voluntary basis are generally not professionally equipped to handle the management functions effectively.
- (iii) Lack of secrecy: As a result of open discussions in the meetings of members as well as disclosure obligations as per the Societies Act (7), it is difficult to maintain secrecy about the operations of a cooperative society.
- (iv) Government control: In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc.
- (v) Differences of opinion: Internal quarrels arising as a result of contrary view points may lead to difficulties in decision making.

JOINT STOCK COMPANY

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- (iv) Location of business enterprise: An important factor to be considered at the start of the business is the place where the enterprise will be located. Any mistake in this regard can result in a high cost of production, inconvenience in getting right kind of production inputs or serving the customers in the best possible way. Availability of raw materials and labour, power supply and services like banking, transportation, communication, warehousing, etc., are important factors while making a choice of location.
- (v) Financing the proposition: Financing is concerned with providing the necessary capital for starting as well as for continuing the proposed business. Capital is required for investment in fixed assets like land, building, machinery and equipment. Capital is also required for meeting day-to-day expenses. Proper financial planning must be done to determine (a) the requirement of capital, (b) source from which capital will be raised and (c) the best ways of utilising the capital in the firm.

- (vi) Physical facilities: Availability of physical facilities including machines and equipment, building and supportive services is a very important factor to be considered at the start of the business. The decision relating to this factor will depend on the nature and size of business, availability of funds and the process of production.
- (vii) Plant layout: Once the requirement of physical facilities has been determined, the entrepreneur should draw a layout plan showing the arrangement of these facilities. Layout means the physical arrangement of machines and equipment needed to manufacture a product.
- (viii) Competent and committed workforce: Every enterprise needs competent and committed work force to perform various activities so that physical and financial resources are converted into desired outputs. Since no individual entrepreneur can do everything himself, he must identify the requirement of skilled and unskilled workers and managerial staff. Plans should also be made about how the employees will be trained and motivated to give their best performance.

- (ix) Tax planning: Tax planning has become necessary these days because at there are a number of tax laws in the of country and they influence almost every aspect of the functioning of modern business. The founder of the business has to consider in advance the tax liability under various tax laws and its impact on business decisions.
- (x) Launching the enterprise: After the decisions relating to the above mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise which would mean mobilising various resources, fulfilling necessary legal formalities, starting the production process and initiating the sales promotion campaign.

Social responsibility of business

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TRADE

Trade is an essential part of commerce. It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to ultimate consumers or users. Businessmen are engaged in trading activities as middlemen to make the goods available to consumers in different markets. In the absence of trade, it would not be possible to undertake production activities on a large scale.

- Trade may be classified into two broad categories internal and external.
- Internal, domestic or home trade is concerned with the buying and selling of goods and services within the geographical boundaries of a country.
- This may further be divided into wholesale and retail trade.
- When goods are purchased and sold in bulk, it is known as wholesale trade.
- When goods are purchased and sold in comparatively smaller quantities, for final consumption it is referred to as retail trade.
- External or foreign trade consists of the exchange of goods and services between persons or organisations operating in two or more countries.
- If goods are purchased from another country, it is called import trade.
- If they are sold to other countries, it is known as export trade.
- When goods are imported for export to other countries, it is known as entrepot trade.

Auxiliaries to Trade

Activities which are meant for assisting trade are known as auxiliaries to trade. These activities are generally referred to as services because these are in the nature of facilitating the activities relating to industry and trade.

Transport, banking, insurance, warehousing, and advertising are regarded as auxiliaries to trade, i.e., activities playing a supportive role.

- 1. **Transport and Communication:** Production of goods generally takes place in particular locations. For instance, tea is mainly produced in Assam, cotton in Gujarat and Maharashtra; jute in West Bengal and Orissa, sugar in U.P, Bihar and Maharashtra and so on. But these goods are required for consumption in different parts of the country. The obstacle of place is removed by transport through rail or coastal shipping. Transport facilitates movement of raw material to the place of

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managerial tasks such as purchasing, selling, financing, etc. It is rare to find an individual who excels in all these areas. Thus decision making must not be balanced in all the cases. Also, due to limited resources, sole proprietor may not be able to employ and retain talented and ambitious employees.

PARTNERSHIP

The Indian Partnership Act, 1932 defines partnership as "the relation between persons who have agreed to share the profit of the business. Carried on by all or any one of them acting for all."

- (i) Formation: The partnership form of business organisation is governed by the Indian Partnership Act, 1932.
- (ii) Liability: The partners of a firm have unlimited liability. Personal assets may be used for repaying debts in case the business assets are insufficient.
- (iii) Risk bearing: The partners bear the risks involved in running a business as a team. The reward comes in the form of profits which are shared by the partners in an agreed ratio. However, they also share losses in the same ratio in the event of the firm incurring losses.
- (iv) Decision making and control: The partners share amongst themselves the responsibility of (decision making and control of day to day activities) Decisions are generally taken with mutual consent. Thus, the activities of a partnership firm are managed through the joint efforts of all the partners.
- (v) Continuity: Partnership is characterised by lack of continuity of business since the death, retirement, insolvency or insanity of any partner can bring an end to the business. However, the remaining partners may if they so desire continue the business on the basis of a new agreement.
- (vi) Membership: The minimum number of members needed to start a partnership firm is two, while the maximum number, in case of banking industry is ten and in case of other businesses it is twenty.
- (vii) Mutual agency: The definition of partnership highlights the fact that it is a business carried on by all or any one of the partners acting for all. In other words, every partner is both an agent and a principal. He is an agent of other partners as he represents them and thereby binds them through his acts. He is a principal as he too can be bound by the acts of other partners.

MERITS

- (i) Ease of formation and closure: A partnership firm can be formed easily by putting an

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A company is an association of persons formed for carrying out business activities and has a legal status independent of its members. The company form of organisation is governed by The Companies Act, 1956. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal.

FEATURES

The definition of a joint stock company highlights the following features of a company.

- (i) Artificial person: A company is a creation of law and exists independent of its members. Like natural persons, a company can own property, incur debts, borrow money, enter into contracts and sue and be sued. It can breathe, eat, talk, run and so on. It is, therefore, called an artificial person.
- (ii) Separate legal entity: By the act of its incorporation, a company acquires an identity, distinct from its members. Its assets and liabilities are separate from those of its owners. The law does not recognise the business and owners to be one and the same.
- (iii) Formation: The formation of a company is a time consuming, expensive and complicated process.
- (iv) Perpetual succession: A company being a creation of law, can be brought to an end only by law. It will only cease to exist when a specific procedure for its closure, called winding up, is completed.
- (v) Control: The management and control of the affairs of the company is undertaken by the Board of Directors, which appoints top management officials for running the business. The directors hold a position of immense significance as they are directly accountable to the shareholders for the working of the company. The shareholders, however, do not have the right to be involved in the day-to-day running of the business.
- (vi) Liability: The liability of the members is limited to the extent of the capital contributed by them in a company. The creditors can use only the assets of the company to settle their claims since it is the company and not the members that own the debts. The members can be asked to contribute to the loss only to the extent of the unpaid amount of share held by them.
- (vii) Common seal: The company being an artificial person acts through as a Board of Directors. The Board of Directors enters into an agreement with others by indicating the company's pre approval through a common seal.
- (viii) Risk bearing: The risk of losses in a company is borne by all the share holders. This is unlike the case of sole proprietorship or partnership firm where one or few persons respectively bear the losses. In the face of financial difficulties, all shareholders in a company have to contribute to the debts to the extent of their shares in the company's capital. The risk of loss thus gets spread over a large number of shareholders.

CONCEPT OF SOCIAL RESPONSIBILITY: A business is a part of society. So, a business enterprise should do business and earn money in ways that fulfill the aspirations of the society. Thus social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the welfare of the society. The businessmen make use of resources of society and earn money from the members of society so they must do something for the society.

Arguments in Support of Social Responsibility: Business for Existence and Growth:

- 1. **Justification for Existence and Growth:** Business is the creation of society therefore it should respond according to the demands of the society. To survive and grow in society for long run the business must provide continuous services to the society.
- 2. **Long term interest of the firm:** A firm can improve its image and build goodwill in the long run when it is highest goal is to serve the society. If it indulges in unfair Trade Practices e.g., adulteration, hoarding, black marketing, it may not be able to exist for long.

- 3. **Avoidance of government regulations:** Business can avoid the problem of government regulations by voluntarily assuming social responsibilities.
- 4. **Availability of resources with business:** Business has abundant financial and human resources which can be effectively used for solving problems of the society.

- 5. **Better environment for doing business:** It is the social responsibility of business enterprise to provide better Quality of life and standard of living to people. So, business will get better community to conduct business.

- 6. **Contribution to social problems:** Some of the social problems have been created by business firms themselves such as pollution, creation of unsafe workplaces, discrimination etc., Therefore, it is the moral obligation of business to solve such social problems.

Arguments Against Social Responsibility Major arguments against social responsibility are:

- 1. **Profit Motive:** A business is an economic entity that is guided by profit motive. It should not waste its energies and resources in fulfilling social responsibilities.
- 2. **Burden on consumers:** Involvement of business in social responsibilities involve a lot of expenditure which will ultimately be borne by the customers.
- 3. **Lack of Social Skills:** The business firms and managers have the skills to handle business operation. They are not expert to tackle the social problems like poverty, over population etc. Therefore, social problems must be tackled by social experts.
- 4. **Lack of public support:** Business has no public support in involvement in social problems. Therefore, business cannot fulfill social responsibility because of lack of public confidence & cooperation.

SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

Business has interaction with several interest groups such as shareholders, workers, consumers, government and community. Business is responsible to all these groups.

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Organizational Structure

Planning

Staffing

Controlling

Directing

Co-ordinating

Human Resources

Finance

Marketing

Production

Research and Development

1. Responsibility towards shareholders:

- (i) To ensure a fair and regular return on the investment of shareholders.
- (ii) To ensure the safety of their investment
- (iii) To strengthen financial position of the company.
- (iv) To safeguard the assets of the business
- (v) To protect the interest of all types of investors in the business.

2. Responsibility Towards workers:

- (i) Providing fair compensation and benefits,
- (ii) Providing good and safe Working conditions,
- (iii) To develop a sense of belongingness.

3. Responsibility toward consumers:

- (i) To supply right quality of goods & services at reasonable prices.
- (ii) To ensure regular and adequate supply of products.
- (iii) To inform them about new products and new uses of existing products.
- (iv) To handle the customers grievance promptly.

4. Responsibility Towards Government –

- (i) To pay taxes honestly
- (ii) To observe rules laid down by the government,
- (iii) to avoid corrupting government employees.

5. Responsibility towards community:

- i) To make available opportunities for employment,
- ii) To avoid polluting the environment,
- iii) To up lift the weaker sections of society

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Science comprises of exact principles which can be verified and it can establish cause and effect relations.

Main characteristics/features of science are:
1. Systematic body of knowledge:
In science organized and systematic study material is available which is used to acquire the knowledge of science. Like science in management also there is availability of systematic and organized study material. So first feature of science is present in management.

2. Scientific principles are derived on the basis of logical and scientific observations:
The scientists perform logical observation before deriving any principle or theory. They are very objective while doing the observations. But when managers are observing they have to observe human beings and observation of human beings covers purely logical and objective. Some kind of subjectivity enters in the observations so this feature of science is not present in management. All the scientific principles have same effect, wherever we see their whereas effect of management principles varies from one situation to other.

3. Principles are based on repeated experiments:
Before developing scientific principles scientists test these principles under different conditions and places. Similarly, managers also test and experiment management principles under different conditions in different organizations. So this feature of science is present in management.

4. Universal Validity:
Scientific principles have universal application and validity. Management principles are not exact like scientific principles so their application and use is not universal. They have to be modified according to the given situation. So this feature of science is not present in management

5. Replication to be possible:
In science replication is possible as when two scientists are undertaking the same investigation working independently and testing the same data under the same conditions may desire or obtain the identical or exactly same result.

But in management managers have to conduct research or experiments on human beings. So if two managers are investigating same data, on different sets of human beings they will not get identical or same result because human beings never respond in exactly identical manner. So this feature of science is also not present in management.

Management as an Art:
Management is a systematic body of knowledge which requires skill, creativity and practice to get perfection

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ensure that the right person is appointed to the right job.

- Directing :** It is the task of the manager to guide, supervise, lead and motivate the subordinates, to ensure that they work in the right direction, so far as the objectives of the organization are concerned.

- Controlling:** The controlling function of management involves a number of steps to be taken to make sure that the performance of the employees is as per the plans. It involves establishing performance standards and comparing them with the actual performance. In case of any variation necessary steps are to be taken for rectification.

Coordination is an important feature of management which makes the integration of the activities, processes and operations of the organization and synchronisation of efforts, to ensure that every element of the organization contributes to its success

14 Management Principles by Henri Fayol

Henri Fayol, also known as the 'father of modern management theory' gave a new perception of the concept of management. He introduced a general theory that can be applied to all levels of management and every department. The Fayol theory is practised by the managers to organize and regulate the internal activities of an organization. He concentrated on accomplishing management objectives. The fourteen principles of management created by Henri Fayol are explained below:

- 1. Division of Work:** Henri believed that segregating work in the workforce amongst the worker will enhance the quality of the product. Similarly, he also concluded that the division of work improves the productivity, efficiency, accuracy and speed of the workers. This principle is appropriate for both the managerial as well as a technical work level.
- 2. Authority and Responsibility:** These are the two key aspects of management. Authority facilitates the management to work efficiently and responsibility makes them responsible for the work done under their guidance or leadership.
- 3. Discipline:** Without discipline, nothing can be accomplished. It is the core value for any project or any management. Good performance and sensible interrelation make the management job easy and comprehensive. Employees good behaviour also helps them smoothly build and progress in their professional careers.
- 4. Unity of Command:** This means an employee should have only one boss and follow his command. If an employee has to follow more than one boss, there begins a conflict of interest and can create confusion.
- 5. Unity of Direction:** Whoever is engaged in the same activity should have a unified goal. This means all the person working in a company should have one goal and motive which will make the work easier and achieve the set goal easily.
- 6. Subordination of Individual Interest:** This indicates a company should work unitedly towards the interest of a company rather than

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Planning reduces wasteful activities. Planning serves as the basis of co-ordinating the activities and efforts of different departments and individuals. It helps to eliminate useless and redundant activities.

Planning promotes innovative ideas: Since planning is thinking in advance, there is scope for finding better and different methods to achieve the desired objectives.

Planning facilitates decision making: Planning helps in decision making by selecting the best alternative among the various alternatives.

Facilitates control: Planning provides the basis for control. Planning specifies the standard with which the actual performance is compared to find out deviation and taking corrective action.

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Limitations of Planning

- Planning makes the activities rigid.
- Long term plans are insignificant in the rapidly changing business environment.
- It reduces creativity.
- It involves cost.
- It involves a lot of time.
- Planning does not guarantee success.

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Organizing
Organizing is one of the most important functions of management, which includes

- 1. Identifying and grouping the work to be performed.
- 2. Defining and delegating authority and responsibility.
- 3. Establishing relationships for the purpose of accomplishing objectives.

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Step in the Process of Organizing

- 1) Division of Work: The first step in the process of organising involves identifying and dividing the work that has to be done. Division of work leads to specialization.
- 2) Departmentation: The second step is to group similar or related jobs into larger units, called departments. The groups created are known as departmentation.
- 3) Assignment of duties: The next step is to allocate the work to various employees according to their ability and competencies.
- 4) Establishing authority – responsibility relationship: The last step is creation of authority – responsibility relationship among the job positions. It helps in the smooth functioning of the organization.

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Importance of Organizing

- Specialization: Since the activities are divided into convenient jobs, and are assigned to a particular employee, it leads to specialization, more productivity and efficiency.
- Clarity in working relationship: It helps in creating well defined jobs and also clarifying authority – responsibility relationship between the superior and subordinates.
- Optimum utilization of resources: The proper assignment of jobs avoids overlapping of

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Module III

Management Concepts: Meaning - Nature and characteristics of management Management, as science, art and profession Levels of management -Henry Fayol's Principles of management- Functions of Management Planning - Steps in planning - Organising- Types of organisation - Line, Staff and Functional- Centralisation Vs decentralisation - Authority Vs responsibility Staffing- Elements of Staffing Defining Leadership- Leadership styles - Controlling - Steps in controlling

Management Concepts

"Management is the art of getting things done through others."

Management is the art of getting things done through and with people in formally organized groups."

George R. Terry: "Management is a distinct process consisting of activities of planning, organizing, actuating and controlling, performed to determine and accomplish stated objectives with the use of human beings and other resources."

1. Functional concept: (as a process)

- Management is a distinct process.
- It consists of planning, organizing, command, co-ordination and control.
- The above functions are performed to determine and accomplish objectives.

2. Human relation concept

- Management is the art of getting things done through people.
- The efforts of the people are co-ordinated and directed to achieve the objectives.

3. Decision making concept

- The main functions of management are decision making.
- It is a function of executive leadership. That means people are led to achieve organisation objectives.

4. Productivity Concept

- according to F. W. Taylor, "management is the art of "knowing what you want to do" and then seeing that it is done in the best and cheapest way".

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The main features of art are:
1. Systematic body of knowledge/Evidence of theoretical knowledge:
In every art there is systematic and organized study material available to acquire theoretical knowledge of the art. For example, various books on different ragas are available in music. In management also there is systematic and organised body of knowledge available which can help in acquiring managerial studies. So this feature of art is present in management also.

2. Personalized application:
In the field of art only theoretical knowledge is not enough. Every artist must have personal skill and creativity to apply that knowledge. For example, all musicians learn same ragas but they apply these ragas according to their personal skill and creativity which makes them different. In management also all managers learn same management theories and principles. But their efficiency depends on how well they use these principles under different situations by applying personal skills and creativity so this feature of art is also present in management.

3. Based on Practice and creativity:
The artist requires regular practice of art to become more fine and perfect. Without practice artists lose their perfection. Art requires creative practice, i.e. artist must add his creativity to the theoretical knowledge he has learned. Same way with experience managers also improves their managerial skills and efficiency. So this feature of art is also present in management.

Management: Both Science and Art:
Management is both science as well as art. Like science it has systematic and well-organised body of knowledge and like art it requires personal skill, creativity and practice to apply such knowledge in the best possible way. Science and art are not in contrast to each other, both exist together in every function of management.

Management as a Profession:
Profession can be defined as an occupation backed by specialised knowledge and training, in which entry is restricted.

The main features of profession are:
1. Well defined body of knowledge:
For every profession there is a set of ethical code of systematic body of knowledge which helps the professionals to gain specialised knowledge of that profession. In case of management also there is availability of systematic body of knowledge.

There are large numbers of books available on management studies. Scholars are studying various business situations and are trying to develop new principles to tackle these situations. So presently this feature of profession is present in management also.

2. Restricted Entry:

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personal interest. Be subordinate to the purposes of an organization. This refers to the whole chain of command in a company.

7. Remuneration-
This plays an important role in motivating the workers of a company. Remuneration can be monetary or non-monetary. However, it should be according to an individual's efforts they have made.

8. Centralization-
In any company, the management or any authority responsible for the decision-making process should be neutral. However, this depends on the size of an organization. Henri Fayol stressed on the fact that there should be a balance between the hierarchy and division of power.

9. Scalar Chain:
Fayol on this principle highlights that the hierarchy steps should be from the top to the lowest. This is necessary so that every employee knows their immediate senior also they should be able to contact any, if needed.

10. Order-
A company should maintain a well-defined work order to have a favourable work culture. The positive atmosphere in the workplace will boost more positive productivity.

11. Equity-
All employees should be treated equally and respectfully. It's the responsibility of a manager that no employees face discrimination.

12. Stability-
An employee delivers the best if they feel secure in their job. It is the duty of the management to offer job security to their employees.

The management should support and encourage the employees to take initiatives in an organization. It will help them to increase their interest and make them work.

14. Spirit of Corps-
It is the responsibility of the management to motivate their employees and be supportive of each other regularly. Developing trust and mutual understanding will lead to a positive outcome and work environment.

PLANNING
Planning is the first managerial function to be performed in the process of management. It is concerned with deciding in advance what is to be done, where, when, how and by whom it is to be done.
Thus, it is a pre-determined course of action to achieve a specified aim or goal.

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work and also makes possible the best use of resources.

• Adaptation of change : It allows a business enterprise to adapt itself according to changes in the business environment

• Effective administration: Clarity in working relationships enables proper execution of work and brings effectiveness in administration.

• Development of personnel: Organizing stimulates creativity amongst the managers and subordinates

• Expansion and growth: Organising helps in the growth and diversification of an enterprise by adding more job positions, departments and product lines.

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1. Line Structure Organization
Meaning of Line Structure Organization – Line structure organization is the **simplest and oldest form** of organization structure. It is called as a scalar type of military or divisional or organization. Under this system, authority flows directly and vertically downward from the top of the managerial hierarchy to different levels of managers and subordinates, and down to the operative level of workers. It is also known as the chain of command or scalar principle.

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Advantages of Line Structure Organization –

- Simple to understand and simple to operate,
- Communication is fast and easy,
- Feedback can be acted upon faster,
- Responsibility is fixed and unified, each level and authority and accountability are clear-cut, hence each individual knows to whom he is responsible and who is in turn responsible to him.
- Expansion and growth: Organising helps in the growth and diversification of an enterprise by adding more job positions, departments and product lines.

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Disadvantages of Line Structure Organization –

- It is a rigid and inflexible form of organization.
- Line authority has a tendency to become dictatorial.
- It overloads the executive with suppressive activities so that long-range planning and policy making are often neglected.
- A line organization can suffer from a lack of specialization. This is because each department manager is concerned only with the activities of his own department.
- Different departments may be more interested in their interests rather than overall organizational interests and welfare.
- This is likely to encourage nepotism.

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The entry to a profession is restricted through an examination or degree. For example a person can practice as Doctor only if he is having MBBS degree.

Whereas there is no legal restriction on appointment of a manager, anyone can become a manager irrespective of the educational qualification. But now many companies prefer to appoint managers only with MBA degree. So presently this feature of profession is not present in management but very soon it will be included with statutory backing.

3. Presence of professional associations:
For all the professions, special associations are established and every professional has to get himself registered with his association before practising that profession. For example, doctors have to get themselves registered with Medical Council of India, lawyers with Bar Council of India etc.

In case of management various management associations are set up at national and international levels which have some membership rules and set of ethical codes, for example, AIMA in New Delhi, National Institute of Personal Management at Calcutta etc, but legality it is not compulsory for managers to become a part of these organisations by registration

4. Existence of ethical codes:
For every profession there is a set of ethical codes fixed by professional organisations and are binding on all the professionals of that profession. In case of management there is growing emphasis on ethical behaviour of managers. All India Management Association (AIMA) has devised a code of conduct for Indian managers. But legally it is not compulsory for all the managers to get registered with AIMA and abide by the ethical codes.

5. Service Motive:
The basic motive of every profession is to serve the clients with dedication. Whereas basic purpose of management is achievement of management goal, for example for a business organisation the goal can be profit maximisation.

But nowadays only profit maximisation cannot be the sole goal of an enterprise. To survive in market for a long period of time, a businessman must give due importance to social objectives along with economic objectives.

Planning – Characteristics and Features
1. Primary Function of Management: Planning is the first function of management. All other functions follow planning, if planning goes wrong, organization structure would be faulty, people will carry out the plan, planning and leadership policies will be ineffective and controls will also aim to achieve faulty plans. This will result in huge losses for the organisation and managers will have to re-plan their activities and spend of time, money and energy to avoid liquidation of business firms.

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2. Adaptive to Environment: Planning is a continuous process. It helps organisations to survive in the ever-changing environment. Changes in environment like competitors' policies, increasing competition, consumer tastes, economic policies, value system of the society have to be incorporated in the plans and planning is, thus, adaptive to environment. It takes care of both environmental threats and opportunities.

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4. Future Oriented: Planning is looking ahead. It strengthens organisations to meet future challenges and opportunities. Future being uncertain, managers adopt scientific methods of forecasting. They anticipate future and incorporate changes in their activities to achieve organisational goals effectively.

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5. Goal Oriented: Planning aims to achieve the desired goals. Planning is, thus, goal oriented. It clearly lays down the goals and ways to achieve those goals. It synthesises conflicting opinions of organisational members regarding what should be the goals and how they should be achieved.

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6. Persuasive: Planning is a persuasive function. It is done for all organisations – business and non-business, profitable and non-profitable, small and big. In a business organisation, it is done at each level of the organization: top, middle and low. Top level managers make long-term plans, middle level managers make departmental plans and lower level managers make operating plans.

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7. Intellectual Process: Managers bring along into consideration the firm's past, present and future. Analysis of future is difficult as future is uncertain and keeps changing. Managers have to be conceptually and analytically efficient in making plans that can be implemented. They should have the judgment, intuition, foresightness and imagination to make good plans. Planning, thus, cannot be done in a day or in a technical process.

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8. Flexible: Planning relates to future. Future being uncertain, plans will fail to achieve the objectives if unexpected changes take place in future. Managers have to be quick in changing the plans so that future changes do not fail the plans. Planning is, thus, a flexible activity.

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STEPS IN PLANNING

- It might stop progress and prevent the unit to work effectively.
- It does not provide any means by which a good worker can be rewarded and a bad one can be punished.

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2. Line and Staff Organization

Meanings of Line and Staff Organization – Line and staff organization, in management, approach authorities (For example – managers) establish goals and instructions that are then met by employees and other workers. A line and staff organizations attempt to present a large and complex enterprise in a more flexible way without sacrificing managerial authority. Staff groups support those who are engaged in the central productive activity of the enterprise. They back up their work. Staff groups help the organization in analysing, researching, counselling, monitoring, and in evaluating activities.

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Advantages of Line and Staff Organization –

- Line officers can mainly focus on the task as planning and checking is done by the employees.
- Specialization provides expert advice and guidance in making decisions.
- Since the organization includes line and staff functions, decisions can be made easily.
- Staff officers provide complete factual data to line officers covering activity within and without their units. This will help to create more coordination.
- Since the organization includes line and staff functions, decisions can be made easily.
- Staff services provide a training ground for various positions.
- This arrangement is flexible for newcomers in that employees can be forced to make early adjustments to the line arrangement.
- Staff experts are ideologically oriented to look forward and have time to undertake program and strategic planning and analyse the potential impacts of future potential events.

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Disadvantages of Line and Staff Organization –

- Confusion and conflict may arise between the line and the staff. Because the allocation of authority and responsibility is not clear and the lower level employees may be confused with various line orders and staff advice.
- The staff usually advises the line, but the line makes decisions and tasks. So employees often feel powerless.
- Too much reliance on staff officers may not be beneficial to the business as line officers may have to lose a lot about their own decisions and duplication.
- Since staff specialists demand carry out pay, it is expensive.
- Employees are unable to carry out his plan or recommendations due to lack of authority. So they sometimes become ineffective, this will make them careless and indifferent to their jobs.
- As the line is performed, with advice provided by employees, if things go right, the employee will credit and if things go wrong, the line gets the blame for it.

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3. Functional Structure Organization

Meaning of Functional Structure Organization – Functional Structure Organization is one of the most common structures of organization. They are grouped based on their specific skills and knowledge. Under this structure, the employees are divided into groups by the organization according to a particular group or group of tasks. Where functional structures operate well in stable environments, where business strategies have little inclination for change or mobility, the level of bureaucracy makes it difficult for organizations to react quickly to market changes.

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Advantages of Functional Structure Organization:
The executive or the team leader has the knowledge and experience of that particular field. For

activities aim at achieving goals or tasks to be accomplished

i. Management of people: People refer to Human resources and Human resources are the most important assets of an organisation Management has to get task accomplished through people only

ii. Management of operations: Management of operations concentrates on mixing management of work with management of people. I.e., deciding what work has to be done, how it has to be done and who will do it.

4. Management is a continuous process: Management is a continuous or never ending function. All the functions of management are performed continuously, for example planning, organising, staffing, directing and controlling are performed by the managers all the time. Sometimes, they are doing planning, then staffing or organising etc. Managers perform ongoing series of functions continuously in the organisation.

6. Management is a group activity: Management always refers to a group of people involved in managerial activities. The management functions cannot be performed in isolation. Each individual performs his/her role at his/her status and department, and then only management function can be executed

6. Management is a dynamic function: Management has to make changes in goal, objectives and other activities according to changes taking place in the environment. The external environment such as social, economical, technical and political environment has great influence over the management

7. Intangible: Management function cannot be physically seen but its presence can be felt. The presence of management can be felt, for example planning, organising, staffing, directing and controlling. It is easier to feel the presence of management as it leads to chaos and confusion in the organisation

Management: Management as a science, arts and professional
Some authors regard management as science because there are well tested and experimented principles of management, some authors describe management as an art because more practice is required in management and some authors consider that management is going towards the path of profession.

Management as a Science: Science can be defined as a systematic and organised body of knowledge based on logically observed findings, facts and events.

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Top Level Management

Middle Level Management

Lower Level Management

1. **Top-Level Management:** This is the highest level in the organizational hierarchy, which includes: **Board of Directors** and **Chief Executive**. They are responsible for defining the objectives, formulating plans, strategies, and policies, and overseeing the entire organization.

2. **Middle-Level Management:** It is the second and most important level in the corporate ladder, as it creates a link between the top and lower-level management. It includes **departmental and division heads and managers** who are responsible for implementing and controlling plans and strategies which are formulated by the top executives.

3. **Lower Level Management:** Otherwise called as functional or operational level management. It includes **first-line managers, foremen, supervisors** As lower-level management directly interacts with the workers, it plays a crucial role in the organization because it helps in reducing wastage and idle time of the workers, improving the quality and quantity of output.

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Planning : It is the first and foremost function of management, i.e. to decide beforehand what is to be done in future. It encompasses formulating policies, establishing targets, scheduling actions and so forth.

Organizing: Once the plans are formulated, the next step is to organise the activities and resources, as in identifying the tasks, classifying them, assigning duties to subordinates and allocating the resources.

Staffing: It involves hiring personnel for carrying out various activities of the organization. It is to

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Types of Plans

- 1) Single use plan: A single use plan is developed for a one-time event or project. Such plans are not to be repeated in future. E.g. budgets, programmes, projects, etc.
- 2) Standing plan: A standing plan is used for activities that occur regularly over a period of time. E.g. policies, procedures, methods and rules.

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Plans can be classified as Objective, Strategy, Policy, Procedure, Method, Rule, Programme and Budget.

- Objectives: Objectives are the ends, towards which activity is aimed or for the accomplishment of organisational goals. Objectives should be measurable and quantifiable.
- Strategy: Strategy is a comprehensive plan for accomplishing an organization objectives. This comprehensive plan will include determining long term objectives, adopting a particular course of action and allocating resources.
- Policy: Policy is a broad statement formulated to provide guidelines in decision making.
- Procedure: Procedure is a chronological sequence of steps to be undertaken to enforce a policy.
- Method: Methods provide detailed and specific guidance for day-to-day action.
- Rule: Rules are prescribed guidelines for conducting an action.
- Programme: Programme involves a series of activities necessary for achieving a given objective.
- Budgets: are the combination of goals, policies, procedures and rules.
- Programme: A budget is a statement of expected results expressed in numerical terms.

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Importance of Planning

- Planning provides directions: By stating in advance how work is to be done planning provides direction for all actions.

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example, the person heading the IT department will have the education and skill necessary to shoulder this responsibility and successfully run his team.

Because the employees have expertise in that particular field, the work is more efficient and precise. There are fewer mistakes. This also helps with the motivation of the employees of the company.

Since all team members come from similar backgrounds it allows them to share ideas and come up with solutions. There is a sharing of knowledge, which is always beneficial.

The close relationship also has a clear idea of the hierarchy of the firm. They need not report to anyone or several managers.

Also, the employees feel secure in their work. They see that their work and efforts is not going unnoticed. This sense of security is a great motivator.

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Disadvantages of Functional Structure Organization –

- The work can be quite one dimensional. After a while, the employees may start feeling monotony or boredom. The lack of new challenges can make them unenthusiastic for the job at hand.
- In this structure, the manager must take care of the appraisal system. If the correct approach is not taken then conflicts may arise between the employees regarding promotions or appraisals.
- It is impersonal – Does not take into consideration emotional aspect of employees.
- It clearly defines the authority and responsibility of every individual.
- The principle of scalar chain is followed in formal organisation.

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Advantages:

- It is easier to fix responsibility since mutual relationships are clearly defined.
- Clear determination of duties, authorities and responsibilities. It helps in avoiding duplication of effort.
- Unity of command is maintained through an established chain of command.
- It provides stability to the organisation.
- Co-ordination and control become easy.

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Disadvantages:

- While following scalar chain and chain of command, actions get delayed in formal structure
- Formal organisational structure does not give importance to psychol and social need of employees.

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Formal organisation structure is very rigid. It reduces the creativity of employees in the organisation

Informal Organisation
Informal Organisation refers to relationship between individuals in the organisation based on interest, personal affinity, emotions, likes, dislikes etc. The network of social groups based on friendship is called informal organisation.

Features:

- It originates from within the formal organisation as a result of personal interaction among employees.
 - It has no written rules and procedures.
 - It does not have fixed lines of communication.
 - It is not deliberately created by the management.
 - It has no definite structure.
- Advantages:

- There can be faster spread of communication.
- It helps to fulfil the social needs of the members and this enhances their job satisfaction.
- Top level managers can know the real feedback of employees on various policies and plans.

- Disadvantages:
- It spreads rumour.
 - If informal organisation opposes the policies and changes of management, then it becomes very difficult to implement them in organisation.
 - Informal organizations tend to conflicts among employees

Difference Between Formal Organisation and Informal Organisation

Formal organisation	Informal organisation
1) It is deliberately created by top level management.	1) It arises automatically as a result of social interaction among the employees.
2) It has pre-determined purpose.	2) It has no pre-determined purpose.
3) It is highly rigid.	3) It is more flexible.
4) Communication is allowed through the scalar chain.	4) Communication is allowed through all channels/networks.
5) Managers are leaders.	5) Leaders are chosen voluntarily by the members.
6) It is based on authority and responsibility.	6) There is no authority and responsibility relationship.

Meaning of Centralization.

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Centralization is a form of organizational structure where the decision making capability rests with the top management. A couple of hand-picked members are entitled to create strategies, determine the goals and objectives based on which organisation will function.

In a centralized organization, the top management sets rules and procedures which are then communicated to the lower-level employees, who are expected to carry out the same without questioning the authority.

The advantage of such a structure is, it allows employees to have a well-defined framework within which all work needs to carried out.

The disadvantage of such a structure is that it increases the time taken to arrive at a decision. As decision-making authority lies with selected people from top management, it may result in biased decision making.

Meaning of Decentralization

Decentralization is another form of organizational structure that functions by delegating decision-making capabilities to multiple teams across geographies.

In such an organization, most of the planning, strategy and decision to implement them are taken by the people in the middle and lower level of management.

The advantage of decentralization is that the employees are empowered to make their own decisions that will benefit the organization, which results in a high level of employee satisfaction and boosts the productivity of an organization.

Decentralization enables low-level employees to gain leadership skills, which can contribute to the growth of the organization in the long run.

Decentralization	Centralization
Definition Decision-making capabilities delegated across multiple levels	Decision-making capability rests with the top management
Flow of Information Open and free	Vertical
Ideal for Decentralization is ideal for large-sized organizations	Centralization is ideal for small-sized organizations
Decision-making speed Significantly faster	Comparatively slow
People Involved In decentralization, a higher number of people from each level are involved in the decision	In centralization, only a few handpicked people are involved in the decision

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the organisation to achieve its objectives.

Features

- Directing initiation action
- Directing takes place at every level of management
- Directing is a continuous process
- Directing flows from top to bottom

Importance of Directing

1. Directing helps to initiate action by people in the organisation towards attainment of desired objectives.
2. Directing integrates employees efforts in the organisation in such a way that every individual effort contributes to the organizational performance.
3. Directing guides employees to fully realise their potential and capabilities by motivating and providing effective leadership.
4. Directing facilitates introduction of needed changes in the organization.
5. Effective directing helps to bring stability and balance in the organization.

Elements of Direction

1. Supervision
2. Motivation
3. Leadership
4. Communication

Supervision

Supervision means overseeing the subordinates at work. Supervision is instructing, guiding and controlling the workforce with a view to see that they are working according to plans, policies, programmes and instructions.

Importance of Supervision:

- A good supervisor acts as a guide, friend and philosopher to the workers.,
- Supervisor acts as a link between workers and management. It helps to avoid misunderstandings and conflicts among the management and workers.
- Supervisor provides good On the Job training to the workers and employees.
- A supervisor with good leadership qualities can build up high morale among workers.
- A good supervisor analyses the work performed and gives feedback to the workers.
- Supervisors help to maintain harmony among workers.

Motivation

Motivation is the process of stimulating people to action to accomplish desired goals. Motivation depends upon satisfying needs of people.

Features of Motivation:

- Motivation is an internal feeling
- Motivation produces goal directed behaviour.
- Motivation can be either positive or negative.
- It is a complex and difficult process.

Importance of Motivation:

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reliable manner.

3. Comparing Actual Performance with Standards: This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results.
4. Analysing Deviations: The deviations from the standards are assessed and analysed to identify causes of deviations.
5. Taking Corrective Action: The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within the acceptable limits.

Entrepreneurship: Concept of entrepreneur - Characteristics of entrepreneur - Functions of an entrepreneur - Difference between entrepreneur and manager - Micro, Small and Medium Enterprises, Definition, Registration procedure of Sole proprietorship and partnership units.

Entrepreneur An entrepreneur ordinary called a businessman. He is a person who combines four factors production such as land, labour, capital & organization for the purpose of production. He organizes & manages a business unit assuming the risk for profits.

The entrepreneur is defined as someone who has the ability and desire to establish, administer and succeed in a start-up venture along with risk entitled to it, to make profits. The best example of entrepreneurship is the starting of a new business venture.

DEFINITION

According to J.B Say "an entrepreneur is one who brings the factors of production and combines them into a product."

Characteristics of Entrepreneurship

Not all entrepreneurs are successful; there are definite characteristics that make entrepreneurship successful. A few of them are mentioned below:

• Ability to take a risk- Starting any new venture involves a considerable amount of failure risk. Therefore, an entrepreneur needs to be courageous and able to evaluate and take risks, which is an essential part of being an entrepreneur.

• Innovation- It should be highly innovative to generate new ideas, start a company and earn profits out of it. Change can be the launching of a new product that is new to the market or a process that does the same thing but in a more efficient and economical way.

• Visionary and Leadership quality- To be successful, the entrepreneur should have a clear vision of his new venture. However, to turn the idea into reality, a lot of resources and employees are required. Here, leadership quality is paramount because leaders impart and guide their employees towards the right path of success.

• Open-Minded- In a business, every circumstance can be an opportunity and used for the benefit of a company. For example, Paytm recognised the gravity of demonetization and acknowledged the need for online transactions would be more, so it utilised the situation and expanded massively during this time.

• Flexible- An entrepreneur should be flexible and open to change according to the situation. To be on the top, a businessperson should be equipped to embrace change in a product and service, as and when needed.

• Know your Product- A company owner should know the product offerings and also be

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5 Crores. A medium enterprise is one in which the investment is more than 5 Crores but does not exceed 10 Crores.

In case of service enterprise

A micro enterprise is one in which the investment does not exceed Rs 10 lakhs. A small enterprise is one in which the investment is more than Rs. 10 lakhs but does not exceed 2 Crores. A medium enterprise is one in which the investment is more than 2 Crores but does not exceed 5 Crores

Features of MSMEs
Following are some of the essential elements of MSMEs –

1. MSMEs work for the welfare of the workers and artisans. They help them by giving employment and by providing loans and other services.
2. MSMEs provide credit limit/ funding support to banks.
3. They promote the development of entrepreneurship as well as up-gradation of skills by launching specialized training centres for the same.
4. They support the up-grading of developmental technology, infrastructure development, and the modernization of the sector as a whole
5. MSMEs are known to provide reasonable assistance for improved access to the domestic as well as export markets.
6. They also offer modern testing facilities and quality certification services.
7. Following the recent trends, MSMEs now support product development, design innovation, intervention, and packaging

Registration of Sole Proprietorship

The procedure for incorporating a sole proprietorship firm is

1. Applying for PAN Card.
2. After obtaining a PAN card, or if the proprietor already has a PAN card, the next step is to keep a name for the sole proprietorship business.
3. The next step is to open a bank account in the name of the business. All the transactions of the business will be through this bank account.
4. Though no specific registration is required for starting a sole proprietorship firm, certain basic registrations are required to be obtained by a sole proprietorship firm for doing business.

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making process	making process
Employee Motivation	
Highly motivated employee	Demotivated employee
Conflict in Decision	
Most likely to occur	Least likely to occur
Burden	
The burden gets shared among the members	Only one group is carrying the burden
Stability	
Prone to instability due to multiple conflicting decisions	Relatively stable as decisions are made by a central authority sharing a common ideology

BASIS FOR COMPARISON	AUTHORITY	RESPONSIBILITY
Meaning	Authority refers to the power or right, attached to a particular job or designation, to give orders, enforce rules, make decisions and ensure exact compliance.	Responsibility denotes duty or obligation to undertake or accomplish a task successfully, assigned by one's own commitment or circumstances.
What is it?	Legal right to issue orders	Corollary of authority.
Results from	Formal position in an organization	Superior-subordinate relationship
Task of manager	Delegation of authority	Assumption of responsibility
Requires	Ability to give orders.	Ability to follow orders.
Flow	Downward	Upward

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- organisational objective.
- Effective leadership helps to achieve a harmonious relation between the management and subordinates.
- Leadership helps to create job satisfaction among employees by providing good working condition.
- A good leader persuades the people to accept 1 and carry out the desired change.
- A leader handles conflicts effectively.
- Leader provides training to his subordinates.
- Effective leadership helps to increase efficiency and productivity.

Leadership Style:

1. Autocratic or Authoritarian Leader: An autocratic leader gives orders and expects his subordinates to obey those orders. Here communication is only one-way with the subordinate.
2. Democratic or Participative Leader: A democratic leader encourages subordinates to participate in decision-making. They respect the other's opinion and support subordinates to perform their duties.
3. Laissez-Faire or Free- rein Leader: Here the followers are given a high degree of independence to formulate their own objectives and ways to achieve them.

Communication

Communication may be defined as an exchange of facts, ideas, opinions or emotions between two or more persons to create mutual understanding.

Elements of Communication Process:

- Sender: The sender is the person who sends message or idea to the receiver.
- Message: Message is the subject matter of communication.
- Encoding: It is converting the message into communication symbols such as words, pictures, etc.
- Media: It is the path through which encoded message is transmitted to receiver.
- Decoding: It is the process of converting encoded symbols of the sender.
- Receiver: Receiver is the person who receives the message.
- Feedback: It includes all those actions or record indicating that he has received and understood message of sender.
- Noise: Noise means some obstruction or hindrance to communication.

Importance of Communication:

- Acts as basis of co-ordination: Communication acts as the basis of co-ordination.
- Helps in smooth working of an enterprise: It is only communication, which makes smooth working of an enterprise possible.
- Acts as basis of decision making: Communication provides needed information for decision making.
- Increases managerial efficiency: Communication lubricates the entire organisation and keeps the organisation at work with efficiency.
- Promotes co-operation and industrial peace: Communication promotes co-operation and mutual understanding between the management and workers.
- Establishes effective leadership: Communication is the basis of leadership. Effective

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aware of the latest trend in the market. It is essential to know if the available product or service meets the demands of the current market, or whether it's time to tweak it a little. Being able to be accountable and then alter as needed is a vital part of entrepreneurship

FUNCTIONS OF ENTREPRENEUR

- Planning the project
- Organizing–
- Risk taking–
- Management–
- Decision making–
- Search for market–
- Distribution of income–
- Innovation–
- Liaison with government–
- Project implantation–

Importance of Entrepreneurship:

- Creation of Employment- Entrepreneurship generates employment. It provides an entry-level job, required for gaining experience and training for unskilled workers.
- Innovation- It is the hub of innovation that provides new product ventures, market, technology and quality of goods, etc., and increase the standard of living of people.
- Impact on Society and Community Development- A society becomes greater if the employment base is large and diversified. It brings about changes in society and promotes facilities like higher expenditure on education, better sanitation, fewer slums, a higher level of homeownership. Therefore, entrepreneurship assists the organisation towards a more stable and high quality of community life.
- Increase Standard of Living- Entrepreneurship helps to improve the standard of living of a person by increasing the income. The standard of living means, increase in the consumption of various goods and services by a household for a particular period.
- Supports research and development- New products and services need to be researched and tested before launching in the market. Therefore, an entrepreneur also dispenses finance for research and development with research institutions and universities. This promotes research, general construction, and development in the economy.

Difference between Entrepreneur and manager

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- The duration of the firm.
- Step 2: Selection of Name of the Partnership Firm Any name can be given to a partnership firm. But certain conditions need to be followed while selecting the name:
 - The name should not be too similar or identical to an existing firm doing the same business.
 - The name should not contain words like emperor, crown, express, empire or any other words which show sanction or approval of the government.

Step 3: Certificate of Registration If the Registrar is satisfied with the registration application and the documents, he will register the firm in the Register of Firms and issue the Registration Certificate.

The Register of Firms contains up-to-date information on all firms, and anybody can view it upon payment of certain fees. An application form along with fees is to be submitted to the Registrar of Firms of the State in which the firm is situated. The application has to be signed by all partners or their agents.

Documents for Registration of Partnership The documents required to be submitted to Registrar for registration of a Partnership Firm are:

- Application for registration of partnership (Form 1)
- Certified original copy of Partnership Deed.
- Specimen of an affidavit certifying all the details mentioned in the partnership deed and documents are correct.
- PAN Card and address proof of the partners.
- Proof of principal place of business of the firm (ownership documents or rental/lease agreement).

BASIS FOR COMPARISON	AUTHORITY	RESPONSIBILITY
Objective	To make decisions and implement it	To execute duties, assigned by superior.
Duration	Continues for long period.	Ends, as soon as the task is accomplished.

Staffing

Meaning

Staffing is concerned with determining the manpower requirement of enterprise and includes functions like recruitment, selection, placement, promotion, training, growth and development and performance appraisal of employees in the organization.

Importance of Staffing

- Helps in discovering and obtaining competent personnel for various jobs.
- Makes for higher performance, by putting right person on the right job.
- Ensures continuous survival and growth of the enterprise.
- Helps to ensure optimum utilization of the human resources.
- Improves job satisfaction and morale of employees.

Staffing Process

- 1) Manpower planning: It is concerned with forecasting the future manpower needs of the organisation, i.e. finding out number and type of employees need by the organisation in future.
- 2) Recruitment: Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
- 3) Selection: Selection is the process of selecting the most suitable candidates from a large number of applicants.
- 4) Placement and Orientation: Placement refers to putting the right person on the right job. Orientation is introducing the selected employees to other employees and familiarising him with the rules and policies of the organisation.
- 5) Training and Development: The process of training helps to improve the job knowledge and skill of the employees. It motivates the employees and improve their efficiency.
- 6) Performance Appraisal: Performance appraisal means evaluating an employee's current and performance as against certain predetermined standards.
- 7) Promotion and Career Planning: Promotion means movement of an employee from his present job to a higher level job.
- 8) Compensation: Compensation refers to all forms of pay or rewards given to employees. It may be in the form of direct financial payments like wages, salaries, commissions and indirect payments like employer paid insurance and vacation.

Directing

Meaning

Directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation.

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- communication helps to influence subordinates.
- Boosts morale and provides motivation: An efficient system of communication enables management to motivate, influence and satisfy the subordinates. It helps to boost morale of employees and managers.

Controlling

Meaning

Controlling is the process of ensuring that actual performance conform to planned performance. It also ensures that an organisation's resources are being used effectively for the achievement of predetermined goals. So controlling is a goal oriented function. The controlling functions measure actual performance against standard, find out the deviations, analyse the causes of such deviations and take corrective actions.

Importance of Controlling

1. Accomplishing organisational goals: The controlling function measures progress towards the organisational goals and brings to light the deviations, if any, and indicates corrective action.
2. Judging accuracy of standards: A good control system enables management to verify whether the standards set are accurate
3. Making efficient use of resources: By exercising control, a manager seeks to reduce wastage of resources.
4. Improving employee motivation: A good control system motivates the employees and helps them to give better performance.
5. Ensuring order and discipline: Controlling creates an atmosphere of order and discipline in the organisation.
6. Facilitating co-ordination: An efficient system of control helps to co-ordinate all the activities in the organisation.

Limitations of Controlling

- Difficulty in setting quantitative standards: Control system loses some of its effectiveness when standards cannot be defined in quantitative terms.
- Little control on external factors: Generally an enterprise cannot control external factors such as government policies, technological changes, competition, etc.
- Resistance from employees: Control is often resisted by employees. They see it as a restriction on their freedom.
- Costly affair: Control is a costly affair as it involves a lot of expenditure, time and effort.

Controlling Process

Controlling is a systematic process involving the following steps:

1. Setting performance standards
2. Measurement of actual performance
3. Comparison of actual performance with standards
4. Analysing deviations
5. Taking corrective action
1. Setting Performance Standards: Standards are the criteria against which actual performance would be measured. Standards can be set in both quantitative as well as qualitative terms.
2. Measurement of Actual Performance: After establishing standards, the next step is measurement of actual performance. Performance should be measured in an objective and

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Entrepreneur	Manager
Entrepreneur starts a business	Manager render his services to the enterprises
Owner of the business	Employee of the business
Bear all risks	Neither share risk
He receive profit	He receive salary
Introduce innovations	Execute the plans
Responsibility is high	Responsibility is low
Self-motivated person	Motivated by power

Functions of an Entrepreneur

1. Decision Making: The primary task of an entrepreneur is to decide the policy of production. An entrepreneur is to determine what to produce, how much to produce, how to produce, where to produce, how to sell and so forth. Moreover, he is to decide the scale of production and the proportion in which he combines the different factors he employs. In brief, he is to make vital business decisions relating to the purchase of productive factors and to the sale of the finished goods or services.

2. Management Control: Management and control of the business are conducted by the entrepreneur himself. So, the latter must possess a high degree of management ability to select the right type of persons to work with him. But the importance of this function has declined, as business nowadays is managed more and more by paid managers.

3. Division of Income: The next major function of the entrepreneur is to make necessary arrangement for the division of total income among the different factors of production employed by him. Even if there is a loss in the business, he is to pay rent, interest, wages and other contractual incomes out of the realised sale proceeds.

4. Risk-Taking and Uncertainty-Bearing: Risk-taking is perhaps the most important function of an entrepreneur. Modern production is very risky as an entrepreneur is required to produce goods or services in anticipation of their future demand.

5. Innovation: Another distinguishing function of the entrepreneur, as emphasised by Schumpeter, is to make frequent inventions – invention of new products, new techniques and discovering new markets – to improve his competitive position, and to increase earnings

-Micro, Small and Medium Enterprises(MSME)

In case of manufacturing enterprise

A micro enterprise is one in which the investment does not exceed Rs 25 lakhs. A small enterprise is one in which the investment is more than Rs. 25 lakhs but does not exceed

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