

**STUDY MATERIAL**

**FOUNDATION PROGRAMME**

**BUSINESS MANAGEMENT**

**ETHICS &**

**ENTREPRENEURSHIP**

**PAPER 2**



**THE INSTITUTE OF  
Company Secretaries of India**

**IN PURSUIT OF PROFESSIONAL EXCELLENCE**

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Laser Typesetting by AAruhi Graphics, Prashant Vihar, New Delhi, and  
Printed at MP Printers/July 2017

## **FOUNDATION PROGRAMME – IMPORTANT NOTE**

The study material has been written in lucid and simple language and conscious efforts have been made to acquaint students with basic principles of management, ethics and communication skills applied in business environment. This study material has been divided into four main parts—

Part-A Business Management,

Part-B Business Ethics,

Part-C Business Communication and

Part-D Entrepreneurship

There is Computer based examinations for Foundation Programme of CS Course. Students are advised to go through instruction regarding Computer based examinations available at ICSI website [www.icsi.edu](http://www.icsi.edu).

For supplementing the information contained in the study material, students may refer to the economic and financial dailies, commercial, legal and management journals, Economic Survey (latest), CS updatation Course Bulletin, Suggested Readings and References mentioned in the study material and relevant websites.

The objective of the study material is to provide students with the learning material according to the syllabus of the subject of the Foundation Programme. In the event of any doubt, students may write to the Directorate of Academics in the Institute for clarification at [academics@icsi.edu](mailto:academics@icsi.edu).

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Should there be any discrepancy, error or omission noted in the study material, the Institute shall be obliged if the same are brought to its notice for issue of corrigendum in the e-bulletin CS Foundation Course Bulletin.

# **SYLLABUS**

## **PAPER 2: BUSINESS MANAGEMENT, ETHICS & ENTREPRENEURSHIP**

**Level of Knowledge:** Basic Knowledge

**Objective:** To acquaint with the basic principles of management, ethics, communication techniques and entrepreneurship.

### **PART A: BUSINESS MANAGEMENT (40 Marks)**

#### **Nature of Management and its Process**

Meaning, Objectives, Importance; Nature of Management- Science, Art, Profession; Evolution of Management; Management Functions- Planning, Organising, Personnel Management, Directing and Control; Principles of Management- Fayol and Taylor Principles; Managerial Skills; Task and Responsibilities of Professional Manager

##### **1. Planning**

Concept, Features, Importance, Limitations; Planning process; Types of Plans Objectives, Strategy, Policy, Procedures, Method, Rule, Budget; Plan vs. Programme Policies and Procedures; Decision making

##### **2. Organizing**

Concept, Features, Importance, Limitations; Organising process; Types of Organisation; Structure of Organisation; Centralisation and De-Centralisation; Delegation; Growth in Organisation

##### **3. Human Resource Management**

Concept, Features, Importance, Limitations; Recruitment process- Selection; Training and Development-Methods; Functions of Personnel Manager; Performance Management; Appraisal Methods; Human Resource Planning,; Talent Management; Organization Development

##### **4. Direction and Co-ordination**

Direction: Concept, Features, Importance, Limitations; Elements of Directing Supervision, Motivation, Leadership, Communication; Co-Ordination-Concept, Features, Importance, Limitations; Co-Ordination Types- Internal and External; Coordination- the Essence of Management

##### **5. Controlling**

Concept, Features, Importance, Limitations; Control process; Essentials of a Good Control System; Techniques of Control-Traditional and Non-Traditional Control devices; Relationship between Planning and Controlling

##### **6. Recent Trends in Management**

Change Management; Crisis Management; Total Quality Management; Risk Management; Global Practices

### **PART B: BUSINESS ETHICS (10 MARKS)**

##### **7. Business Ethics**

Overview of Ethics in Business; Elements; Ethical principles in Business- Indian and Ancient Indian Perspective

### **PART C: BUSINESS COMMUNICATION (25 MARKS)**

##### **8. Business Communication**

Concept, features, importance, limitations; means of Communication- Written, Oral, Visual, Audio Visual; Principles and Essentials of Business Communication; Process of Communication; Barriers to Communication

## **9. Essentials of Good English**

Grammar and Usage; enriching vocabulary, words- multiple meaning, single word for a group of words, choice of words, words frequently misspelt, punctuations, prefix and suffix, parts of speech, articles; synonyms and antonyms, tenses, idioms and phrases; foreign words and phrases commonly used; abbreviations and numerals; pronunciation, Latin, French and Roman words used in abbreviated form; Legal Terminologies- idioms and phrases

## **10. Business Correspondence**

Introduction; Meaning of Business Correspondence; Importance of Business Correspondence; Essential Qualities of a Good Business Letter; Parts of a Business Letter; Types of Business Letters; Human Resource; Purchase; Sales; Accounts

## **11. Interdepartmental Communication**

Internal memos; messages through Electronic Media; Public Notices and Invitations; Representations to Trade Associations, Chambers of Commerce and Public Authorities.

## **12. E Correspondence**

Concept of E-Correspondence: Web, Internet; Concept of e-mail- History of E-mail, Features; Electronic Mail System- optimizing personal e-mail use, proper E-mail Correspondence, E-Mail Etiquette; Advantages and Disadvantages of E-mail; Intranet- Benefits of Intranet, Purpose of Intranet

## **PART D: ENTREPRENEURSHIP (25 MARKS)**

### **13. Entrepreneurship**

Four Key elements of Entrepreneurship; Traits of an Entrepreneur; Characteristics of an Entrepreneur; Who is an Entrepreneur; Why Entrepreneurship; Types of Entrepreneur

### **14. Entrepreneurship-Creativity and Innovation**

Creativity and Innovation in an Entrepreneurial organisation; Tools for Environment Scanning- SWOT Analysis, PESTLE Analysis, Porters approach to Industry Analysis; Environmental Scanning Process; Types of Environmental Scanning; Market Assessment; Assessment of Business Opportunities- Developing Effective Business Plans, identification and evaluation of the opportunity, Determination of the required Resources, management of the resulting enterprise

### **15. Growth and Challenges of Entrepreneurial Ventures**

Entrepreneurial opportunities in contemporary business environment; Strategic Planning for emerging venture- Financing the entrepreneurial Business, Resource Assessment- Financial and Non-Financial; Fixed and Working Capital Requirement; Funds flow; Sources and means of Finance; Managing the growing Business Effecting Change, Modernization, Expansion and Diversification

### **16. Social Entrepreneurship**

Introduction; Definition of Social Entrepreneurship; Who is a Social Entrepreneur; how to identify a Social Entrepreneurship Opportunity; Creating a social business model; Funding social ventures; Strategies for success; Challenges for the Indian Social Enterprise Sector

### **17. Government Initiatives for Business Development**

Skill India; Ease of Business; Start Up India; Stand Up India

## **LIST OF RECOMMENDED BOOKS\***

### **PAPER 2 : BUSINESS MANAGEMENT, ETHICS & ENTREPRENEURSHIP**

#### **Readings**

1. N.C. Jain, Saakhshi Management: Theory and Practice; A.I.T.B.S. Publishers, Delhi.
2. J.P. Mahajan Management – Theory and Practice; Ane Books Pvt. Ltd., Daryaganj, New Delhi-26
3. L.M. Prasad Principles and Practice of Management
4. T. Ramasamy Principles of Management; Himalaya Publishing House
5. M.C. Shukla Business Organisation & Management; Sultan Chand & Co., New Delhi.
6. Y.K. Bhushan Fundamentals of Business Organisation & Management; Sultan Chand & Co., New Delhi.
7. Singh & Chabra Business Organisation and Management; Kitab Mahal, Allahabad.
8. J.S. Chandan Management: Concepts and Strategies; Vikas Publishing House Pvt. Ltd., New Delhi.
9. George IT Milkovich Human Resource Management and Jahri W. Boudreau, Chicago
10. LanBreadwell and Human Resource Management; Macmillan, New Delhi. Lan Holden
11. C.S. Venkataratnam Personnel Management and Human Resources; Tata McGraw Hill, New Delhi. and B. K. Srivastava
12. K. Dayal Management Training in Organizations; Prentice Hall of India, New Delhi.
13. Daryl Koehn The Ground of Professional Ethics
14. Robert Almeder, Business Ethics – Revised Edition – Corporate Values and Society James Humber
15. Robert E. Frederick Companion to Business Ethics; Blackwell Publishers Limited, UK
16. Ashok K. Nadhani Business Ethics and Business Communications; Taxmann Publications Pvt. Ltd., New Delhi.
17. S. Balachandran, Ethics, Indian Ethos and Management; Shroff Publication. Raja, Nair
18. Vikas Publishing Modern Grammar with Practical Exercises. House Pvt. Ltd.
19. Rodney Huddleston English Grammar - An Outline; Low Price Editions, Cambridge University Press.
20. G.S. Mudambadithaya English Grammar and Composition; Vikas Publishing House Pvt. Ltd.
21. K. K. Sinha Business Communication Galgotia Publishing Company Ltd.
22. Varinder Kumar Business Communication &organisation management. and Bodh Raj
23. R.S.N. Pillai Commercial Correspondence and Office Management; S. Chand & Company and Bagavathi Ltd.

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\*This study material is sufficient from the point of view of syllabus. The students may refer these books for further knowledge and study of the subject.

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# PART A

## Business Management

### LESSONS

1.	Nature of Management and its Process
2.	Planning
3.	Organising
4.	Human Resource Management
5.	Direction and Co-ordination
6.	Controlling
7.	Recent Trends in Management

### LEARNING OBJECTIVES

Today, more students are studying Management in various professional courses than in the past. This trend reflects an increasing interest in management as a profession and the need for managerial competencies (knowledge, skills and values) to cope with the changing nature of work and people throughout the world.

Most of us will spend our working lives in organizations where we will be managed by others or we will manage others. In all, understanding management is relevant to everyone and studying management is a way of increasing our preparedness for employment as well as for life.



# Lesson 1

## Nature of Management and its Process

### LESSON OUTLINE

- Concept of Management
- Objectives of Management
- Importance of Management
- Management – Science or Art
  - Features of Management as Science
  - Features of Management as Art
- Management as Profession
  - Features of Management as Profession
- Schools of Management
- Management Functions
  - Planning
  - Organising
  - HRM/Staffing
  - Direction
  - Control
- Review Questions
- Innovation and a Manager
  - Goals of a Manager
- Coordination, the Essence of Management
  - Principles of Coordination
- Development of Management Theory
  - Principles of Management
    - Frederick Taylor
    - Henri Fayol
- Administration and Management
- Managerial Skills
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

We are all involved in management of somekind : managing our own self, managing social and economic activities, even managing society at large.

To understand this concept better, let's take a simple example. Suppose you have to appear for the CS examination in a few months. You have all four papers to clear. The objective is very clear that you have to pass the examination, but a good time plan and its proper implementation is what is required. Your success will depend on a lot of things like the study plan, the books to be referred to and also the discipline in adhering to the time plan.

All through this exercise, managing of affairs (time plan, books to be referred to and discipline) is the most important. Now this is what is called managing and all that is done in the process of managing is called management.

However, in business world, management is defined as the art of getting things done from others. In today's business environment, the professional manager is responsible for the activities carried out by the organization.

Thus, the objective of this unit is to enable the students to understand that management is the specific organ of a modern institution on which the very performance and survival of that institution depends. It is the function of management to use all resources available to their organization for the realization of results, so as to enable the firm to earn surplus funds to meet the growth and expansion of its needs.

Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall.

Stephen R. Covey

## CONCEPT OF MANAGEMENT

The word “management” has its origin in the Greek word ‘*nomos*’ which means ‘management’.

It is concerned with human beings whose behavior is highly unpredictable. Ever since people have begun forming groups to achieve individual goals, management has become the essence coordinating the individual efforts.

It involves not only a function but also the people who discharge it. A group of people, who accept the responsibility to run an organization and direct its activities, form the management of that organization.

Management denotes not only a special position and a rank but also a discipline and field of study. It is management that provides planning, organization and direction which are necessary for business operations. In a more important sense, management is a vital function concerned with all aspects of the working of an enterprise. Management, in this sense, may be defined as the art of getting things done.

Various economists have given different definitions of ‘Management’.

**Hick** defines management as “*the process of getting things done by the people and through the people*”.

**Koontz and O'Donnell** state that management means, “*Getting things done through and with people*”.

According to **Henry Fayol**, “*To Manage is to forecast, and to plan, to organize, to command and to coordinate.*”

**Haimann** observes, “*Management is the function of getting things done through people and directing the efforts of individuals towards a common objective*”.

The purpose of organisations (businesses and institutions) is to create wealth. If the basic purpose of the business or institution is to create wealth, then the primary role of the manager is to add value to this wealth-creating process.

## For-Profit Organisations (Businesses)

Since businesses tend to develop their employees (human assets) in the pursuit of financial goals (profit), they benefit society by creating both material and human wealth.

Material wealth is usually in the form of financial profit and human wealth through the professional development of their employees.

## Not-For-Profit Organisations (Institutions)

Not-for-profit businesses create both material and human wealth, but profits are used for charitable purposes. Typically, institutions such as charities, provide physical and emotional support for the disadvantaged and less fortunate members of society, by helping them manage their problems, creating learning opportunities, helping children grow and develop, healing the sick, providing stability and a sense of belonging.

## Adding Value

Managers may add value to the wealth-creating process of the business or institution by:

- Changing a part of the company's strategy,
- Finding a more effective way of marketing a product,
- Initiating the redesign of a manufacturing process,

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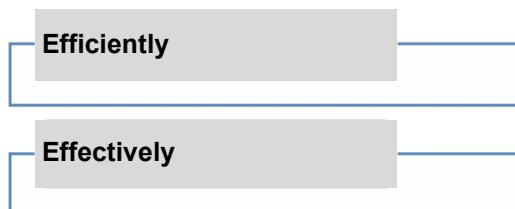
- Developing and implementing a more effective approach to customer service,
- Implementing a new organisation structure for the organisation and leading employees through the change process,
- Selecting and developing the most competent employees as part of a succession planning strategy, and so forth.

Ideally, effective managers should add value to every activity that they engage in i.e. through every conversation they have, day-to-day decisions and activities. Ineffective managers add cost rather than value. Managers are usually not neutral, they either add value or they add cost to the wealth-creating process of the business or institution.

### Management Performance

Management is the process of getting things done by coordinating the activities of people throughout an organisation.

The objective of management practice is to get things done efficiently and effectively.



**Figure 1.1 - The Objective of Management Practice**

- Efficiently (in the least time and at the least cost – usually measured as output divided by inputs; both inputs and output may be measured in units of quantity, money or time).
- Effectively (doing the right things to a required standard of quality).

The competent manager evaluates any completed or planned course of management action by asking the following questions:

- Has it or will it increased efficiency and effectiveness?
- Has it or will it added value?

Ultimately, the quality of management is reflected in measurable (quantitative) terms such as:

- Well-managed, for-profit organisations improve or maintain their share price,
- Well-managed, not-for-profit organisations improve or maintain their membership,
- Well-managed governments are re-elected by voters,
- Well-managed countries experience improved living standards.

However, it needs to be noted that an improvement in either efficiency or effectiveness does not automatically lead to an improvement in the other.

For example a car repair shop might reduce the time spent on repairing items but if the repairs are not done properly and the repairer gets a reputation for poor quality, the shop may quickly lose customers.

Similarly, a car manufacturer may be producing cars efficiently (at the right price), however if rising petrol prices cause consumers to want different types of cars, efficiency alone may not be enough for the manufacturer to remain profitable if its products (cars) are no longer seen to be effective in the eyes of consumers.

## OBJECTIVES OF MANAGEMENT

Every human being has the potential to do remarkable things. To enable every person to understand, develop and utilize his/her potential, management should provide an environment whereby maximum output can be extracted from an individual.

The following are the objectives of management:

**(i) Achieving Maximum Output with Minimum Efforts:** The main objective of management is to attain maximum results with minimum efforts and resources. Management is basically concerned with discovering and utilizing human, material and financial resources in such a manner that they result in best combination. This combination results in the reduction of various costs.

**(ii) Optimum Use of Resources:** Through proper utilization of various factors of production, their efficiency can be increased to a great extent which can be obtained by reducing spoilage, wastages and breakages of all kinds. This in turn leads to the saving of time, effort and money, which is essential for the growth and prosperity of any enterprise.

**(iii) Maximum Prosperity:** Management ensures smooth and coordinated functioning of the enterprise. This in turn helps in providing maximum benefits to the employees in the shape of good working conditions, suitable wage system, incentive plans on the one hand and higher profits to the employer on the other.

**(iv) Human Betterment & Social Justice:** Management serves as a tool for the upliftment as well as betterment of the society. Through increased productivity and employment, management ensures better standards of living for the society. It provides justice through its uniform policies.

## IMPORTANCE OF MANAGEMENT

To a very large extent the success of an organization is dependent on its management. Therefore, it is essential to understand the importance of management and its wider scope. This will also help us in understanding how good management helps in the growth and progress of an enterprise in the long run.

Importance of management is given hereunder:

**(i) Achieving Group Goals:** It arranges the factors of production, assembles and organizes the resources, integrates the resources in an effective manner to achieve the goals. It directs group efforts towards achievement of pre-determined goals. By defining the objectives of an organization clearly there would be no wastage of time, money and effort. Management converts disorganized resources of men, machines, money, etc. into useful enterprise. These resources are coordinated, directed and controlled in such a manner that the enterprise works towards the attainment of goals.

**(ii) Optimum Utilization of Resources:** Management utilizes all the physical and human resources productively. This leads to efficacy in management. Management provides maximum utilization of scarce resources by selecting its best possible alternate use in industry from out of various uses. It makes use of experts and professionals, their services and optimum use of their skills and knowledge, thus avoiding wastage of any kind. If employees and machines are producing their maximum, there would not be under employment of any resource.

**(iii) Reduces Costs:** It gets maximum results through minimum input by proper planning. Management uses physical, human and financial resources in such a manner that it results in best combination. This helps in cost reduction.

**(iv) Establishes Sound Organization:** To establish sound organizational structure is one of the objectives of management which should be in tune with the objectives of the organization. For the fulfillment of this, it establishes effective authority and responsibility relationship, i.e., who is accountable to whom, who can give instructions to whom, who are seniors and who are subordinates. Management fills up various positions with right persons with right skills, training and qualifications. All jobs should be clear to everyone.

(v) **Establishes Equilibrium:** Management enables the organization to survive in changing environment by keeping in touch with the changing environment. With the change in external environment, the initial coordination of their organization must be changed. Hence, it adapts the organization to the changing demand of market / changing needs of societies. It is responsible for the growth and survival of the organization.

(vi) **Prosperity of Society:** Efficient management leads to better economic production which in turn is beneficial for the welfare of the people. Good management makes a difficult task easier by avoiding wastage of scarce resources. It improves standard of living and increases the profit which is beneficial to business and society at large.

## MANAGEMENT – SCIENCE OR ART

Science may be defined as a body of knowledge systematized through application of scientific methods in any department of enquiry. Science is systematic in the sense that certain relationships, principles and their limitations have been discovered, tested and established into theories, laws and principles. But it does not mean that the principles and laws so established are immutable for all times to come. Discovery of new knowledge and phenomena can always change any principle, irrespective of its nature, standing and application.

Science includes **physical sciences**, such as physics, chemistry, mathematics (also known as exact sciences) and **social sciences**, such as economics, sociology, psychology (known as variable sciences) as they are based on human behaviour which is unpredictable.

Management can then well be described as a science, albeit a variable one, if compared to the nature of exact physical sciences.

Management has now a theoretical base with a number of principles relating to coordination, organization, decision-making and so on. It is true that we cannot have the same kind of experimentation in management as is possible in natural sciences. But same is the case with economics, political science, military science and a number of other sciences dealing with the complex structure of group-norms and behaviour. When there is no objection to use the term science for these disciplines, there should not be any controversy about its use to the activity described as management. It is better to emphasise here that management is still a growing science.

### Features of Management as a Science

The following features of management as a science are required to be properly understood:

- (a) Management is an inexact science because it deals with complex human phenomena about which knowledge is still limited;
- (b) Management is still a developing science; and
- (c) Management is an inter-disciplinary science-it draws freely from other disciplines, such as economics, sociology and psychology.

There should also be not much of dispute over describing *management as an art*. The function of art is to effect change or accomplish goals by deliberate efforts. Practical application of theoretical knowledge is reflected in art. In this sense, management is an art as well. Management principles have been evolved not for the sake of knowledge alone but for their application in concrete situations as well. In fact, skill in the application of principles to work situations is so important to the job of an executive that some authorities regard management to be essentially an art. The practicing manager can be compared to a carpenter who has to cut, refashion, and combine the pieces of wood to execute the order.

### Features of Management as an Art

Management is an art because of the following attributes:

1. The process of management involves the use of knowhow and skills;
2. The process of management is directed towards the accomplishment of concrete results;
3. It is creative in the sense that it is the function of creating productive situations needed for further improvements;
4. Management is personalized in the sense that every manager has his own approach to problems.

But it does not mean that science and art are mutually exclusive. The fact is that science is a body of knowledge, while art denotes the mode of practical application of knowledge. Evidently both are complementary to each other. Thus, theory and practice of management are mutually helpful and go side by side for the efficient functioning of any organization.

The most productive art is always based on an understanding of the science underlying it. Actually, managing, like all other arts, makes use of underlying organized knowledge-science-and applies it in the light of realities to gain a desired practical result.

## MANAGEMENT AS PROFESSION

Growing administrative complexities, emergence of the corporate form of organizations with separation of ownership from management and development of an organized body of systematic knowledge of management are factors of great importance responsible for raising management to the status of a distinct profession. But there are people who still do not agree to management being a profession. To comment on this issue, therefore, one has to be conversant with important features of a profession.

### Features of Management as Profession

A field is normally characterized as profession when the following special features are present in it:

- (i) Systematic body of knowledge;
- (ii) Need for learning and proper organization;
- (iii) Entry restricted on the basis of examination or education; and
- (iv) Dominance of service motive.

Except for restricted entry, management qualifies all other tests of a profession. It is now backed by a systematic body of knowledge. A number of management principles have been developed which need proper learning and education. Besides, in a number of countries management institutes, associations and universities are now imparting knowledge relating to management. Moreover, social and moral climate have thrown new challenges before management. Management of today must be creative rather than adaptive and conscious of its ethical and social responsibilities to the society. Another important development in the field of management has been that the professional management consultants are growing both in number and quality.

But management fails to qualify the test of professionalism relating to restricted entry. Though there is growing awareness in the society to employ properly educated and trained people for managing business enterprises, still self-made managers cannot altogether be eliminated. Thus, being different from the legal or medical professions, management in the strictest sense may fail to satisfy its standing as a profession. But professional overtones are very much present here.

## MANAGEMENT FUNCTIONS

**Henry Fayol**<sup>1</sup>, the French industrialist and popularly known as the '*founder of modern management theory*', divided all activities of industrial undertakings into six groups:

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- Technical
- Financial
- Accounting
- Commercial
- Security
- Managerial

Fayol distinguished between the principles and the elements of management. He said that the principles of management are used for formulating rules and guidelines, whereas the elements help in deciding its functions. He grouped these elements into five managerial functions such as:

- Planning
- Leading
- Controlling
- Organising
- Directing &Coordinating

Fayol's classification of managerial functions is widely acknowledged and acclaimed, though other classifications also exist.

For example, **Luther Gulick**<sup>2</sup> coined the word POSDCORB using the initial letters of management functions: planning (P), organising (O), staffing (S), directing (D), coordinating (CO), reporting (R), and budgeting (B). Reporting is a part of control function, while budgeting represents both planning and controlling.

Similarly, **Newmann and Summer** classified managing process as the functions of (i) organizing, (ii) planning, (iii) leading, and (iv) controlling.

### REVIEW QUESTIONS



#### Choose the correct option:

1. Which of the following word did Luther Gulick coin using the initial letters of management functions:

- (a) POSBRD
- (b) POSDCORB

#### State True or False:

2. Success on the part of the executives essentially calls for a capability to promote self-appraisal.

**Answers:** 1. (b) 2. False



**Figure 1.2 - Management Functions**

1. Henry Fayol, "General and Industrial Management".

2. Quoted by Earnest Dale in his work "Management Theory and Practice".

There are four main management functions that managers perform - planning, organizing, leading and controlling – all are crucial to the success of any manager. Managers do the same types of tasks in all businesses whether they manage a hair salon or a factory. Planning, organizing, leading and controlling are interrelated serving an important part in achieving management's vision.

## **Planning**

Planning involves defining the organization's goals, setting objectives for the goal and deciding on plans, actions and strategies to achieve these goals are two critical components of the planning function. For example, a manager of a new local restaurant will need to have a marketing plan, a hiring plan and a sales plan.

## **Organizing**

Organizing involves allocating and arranging resources, both human and non-human so plans can be successfully implemented. Organising allows managers to determine tasks to be done, how to combine them into specific jobs and how jobs can be grouped into units to form the organisation's structure. The manager of the new restaurant must know how many employees are needed for particular shifts. Provide the necessary resources to complete their jobs group employees into kitchen staff and front-end staff to provide an organisational structure to serve customers arriving to dine in the restaurant.

## **Leading**

A manager manages employees making sure that tasks are completed on time and policies are followed. Leading involves outlining a vision of what can be achieved, focusing on interpersonal relations by communicating with each employee, and motivating and inspiring people to perform better. By creating a positive working environment a leader can effectively help improve the employees' job performance and hence their morale and achieve required levels of change and innovation. For example, if the company has a goal of increasing sales by 5% over the next two months, the manager may check the progress toward the goal at the end of month one. An effective manager will share this information with his or her employees. This builds trust and a feeling of involvement for the employees.

## **Controlling**

Controlling involves regulating organisational activities to ensure that actual performance conforms to the standards and goals expected. To regulate, managers monitor ongoing activities, establish standards, compare results with established standards or progress towards goals and take necessary corrective action to change work processes and practices.

For example customer service standards require evaluating employees' job performance and product standards involve evaluating product freshness, processing and presentation. The restaurant's performance can be assessed by monitoring costs versus profitability of the restaurant. Sometimes the strategies and plans that were developed and implemented may not work out as initially planned due to certain external factors e.g. competition. Controlling and evaluating helps a restaurant manager recognize these failures and quickly implement corrective measures to bring the staff back on track.

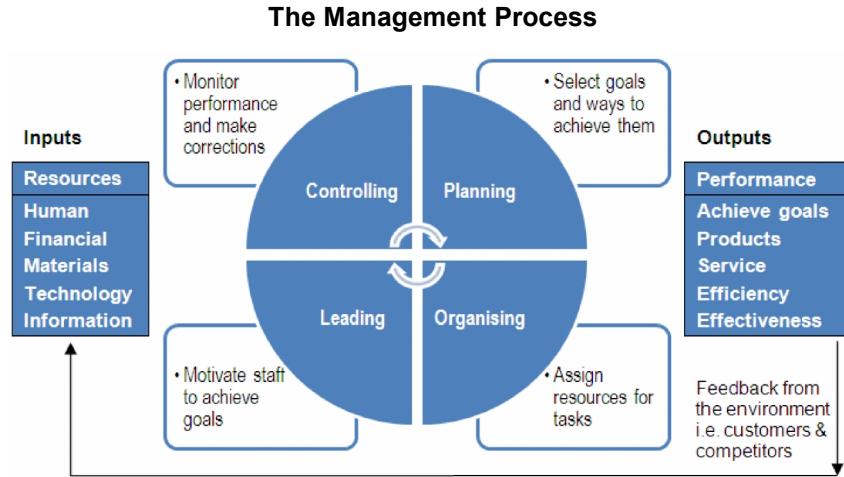
Being a manager of a new restaurant involves many different tasks. Planning, organizing, leading and controlling are four of the main functions that must be considered in any management position. Management is a balancing act of many different components and a good manager will be able to maintain the balance and keep employees motivated. Managers at all levels in an organisation may be involved in all four management functions but the balance of activities varies at different levels in an organisation.

Often incompetent managers concentrate on the organising and controlling functions and forget the other

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two functions – planning and leading. Effective managers are likely to use all four functions in a systematic way.

Managers cannot be successful without being good leaders. Competence in personal, interpersonal and group skills is critical for success in management. Successful managers must be able to work effectively with people.



The four main management functions (the transformation process), together with the resources (inputs) and performance outcomes (outputs) are inter-related and work together as a process with the business environment.

For a business :

1. Inputs include raw materials, human resources, capital, technology and information.
2. The transformation process turns these inputs into finished products or services through employees' work activities, management activities, and the organisation's technology and operations methods.
3. Outputs include products and services, financial results (profits, break-even or losses) information, and human results such as employees' levels of job satisfaction and productivity.
4. In addition, the system's ultimate success depends on effective interactions with its environment: those groups or institutions upon which it depends. These might include suppliers, labour unions, financial institutions, government agencies and customers. For a business organisation, the sale of products and services generates revenue that can be used to pay wages and taxes, buy more inputs, repay loans and generate profits for the owners. If revenues are not enough to satisfy various environmental demands, the organisation downsizes or dies.

Think, for example, of a day-shift manager at a local McDonald's restaurant who has to every day coordinate the work of individuals taking and filling customer orders at the front counter and the drive-through windows, direct the delivery and unloading of food supplies, and address any customer concerns that arise. The manager 'manages' all the parts of this restaurant so that the restaurant's daily sales goals are met.

Managers at all levels in an organisation may be involved in managing the organisation but the balance of activities varies at different levels in an organisation.

### DEVELOPMENT OF MANAGEMENT THEORY

Management in some form or the other has been a concern for organised cooperation ever since the dawn of civilization. Thus, one can witness recognition of organization and management in the Buddhist order and the Sangha as far back as 530 B.C. Roman Catholic Church and 'military organizations' also offer good examples of early application of management principles. However, systematic study and examination of management is

largely the product of the present century and more specifically of the past four decades. Ever since the great contributions of Taylor and Fayol were made to the management theory, the science of management has grown constantly at a fast rate.

## Principles of Management

Various management principles defined by different authors are given below:

### Frederick Taylor

Frederick Taylor who is popularly known as the Father of Scientific Management. The goal of Frederick Taylor's (1901) scientific management was to use systematic study to find the 'one best way' of doing each task. To do that, managers must follow the four principles:

- *First, 'develop a science' for each element of work. Study it. Analyse it. Determine the 'one best way' to do the work.* For example, one of Taylor's controversial proposals at the time was to give rest breaks to factory workers doing physical labour. Today, we take breaks for granted, but in Taylor's day, factory workers were expected to work without stopping. Through systematic experiments, Taylor showed that frequent rest breaks greatly increased daily output.
- *Second, scientifically select, train, teach and develop workers to help them reach their full potential.* Before Taylor, supervisors often hired on the basis of favouritism and nepotism. Who you knew was often more important than what you could do. By contrast, Taylor instructed supervisors to hire 'first class' workers on the basis of their aptitude to do a job well. For similar reasons, Taylor also recommended that companies train and develop their workers - a rare practice at the time.
- *Third, cooperate with employees to ensure implementation of the scientific principles.* As Taylor knew from personal experience, more often than not workers and management viewed each other as enemies. Taylor said, 'The majority of these men believe that the fundamental interests of employees and employers are necessarily antagonistic. Scientific management, on the contrary, has at its very foundation the firm conviction that the true interests of the two are one and the same; that prosperity for the employer cannot exist for many years unless it is accompanied by prosperity for the employee and vice versa; and that it is possible to give the worker what is most wanted - high wages - and the employer what he wants - a low labour cost - for the product'.
- *The fourth principle of scientific management was to divide the work and the responsibility equally between management and workers.* Prior to Taylor, workers alone were held responsible for productivity and performance. But, said Taylor, 'Almost every act of the workman should be preceded by one or more preparatory acts of the management which enable him to do his work better and quicker than he otherwise could'.

Above all, Taylor felt these principles could be used to determine a 'fair day's work', for a 'Fair day's pay' for management and employees so that what was good for employees was also good for management. One of the best ways, according to Taylor, to align management and employees was to use incentives to motivate workers e.g. payment for each product produced.

The scientific management movement early in the twentieth century was hailed as a "second industrial revolution". Since scientific management meant an innovation in the field of management, it generated tremendous opposition even during the life time of Taylor. Public criticism and opinions compelled him to appear before the special Congressional Committee hearings in 1912. The industrial psychologists challenged his assumption of the best *method of job performance*. Although Taylor gave a very lucid explanation of management as a separate and identifiable discipline, his stress on time and motion study and on efficiency at the shop level led to the overlooking of other general aspects of management, particularly in the U.K. and the U.S.A. In fact, the enthusiasm for Taylorism and scientific management had the unfortunate effect of overshadowing the work of Henry Fayol.

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Though Taylor pioneered the scientific management movement, he was by no means the lone contributor. Henry Lawrence Gantt, for instance, corrected to some extent the difficulties of Taylor's '*differential piece rate*' system (where two rates of wages, one lower and one higher are fixed. Those who fail in attaining the standard, are paid at a lower rate and those exceeding the standard or just attaining the standard get a higher rate) by devising a new method known as the "*task and bonus plan*" (a wage incentive plan in which high task efficiency is maintained by providing a percentage bonus as a reward for production in excess of standard). Similarly, Franck Gilbreth and his wife Lillian Gilbreth, stressed the importance of giving greater attention to minute details of work, and also developed the principles of motion economy intended to eliminate redundant motions and produce a rhythm by scientific development of essential motions.

### Max Weber and Henri Fayol – Bureaucracies and Corporations

Max Weber (1864-1920) proposed the idea of bureaucratic organisations at a time when promotion to prominent positions of authority was based on who you knew (politics), who you were (heredity) or traditions. Bureaucracy is the exercise of control on the basis of knowledge, expertise, or experience. Fairness as opposed to favouritism recorded in writing and that professional managers rather than company owners should manage or supervise the organisation. The principles outlined below would guide the management of the organisation.

Workers these days often complain of punishment for non-compliance rather than reward for compliance. The other criticism is that once bureaucracies are created they are difficult to dismantle.

<b>Qualification-based hiring:</b>	Employees are hired on the basis of their technical training or educational background.
<b>Merit-based promotion:</b>	Promotion is based on experience or achievement. Managers, not organisational owners, decide who is promoted.
<b>Chain of command:</b>	Each job occurs within a structure in which each position reports and is accountable to a higher position. A complaints procedure and a right to appeal protect people in lower positions.
<b>Division of labour:</b>	Tasks, responsibilities and authority are clearly divided and defined.
<b>Impartial application of rules and procedures:</b>	Rules and procedures apply to all members of the organisation and will be applied in an impartial manner, regardless of one's position or status.
<b>Recorded in writing:</b>	All administrative decisions, acts, rules or procedure will be recorded in writing.
<b>Managers separate from owners:</b>	The owners of an organisation should not manage or supervise the organisation.

Henry Fayol is popularly known as the father of modern management theory, since he laid down the theory of general management applicable equally to all kinds of administration and to all fields whether social, political or economic. Henry Fayol started his career as a coal mine engineer in 1860 in a French coal mine and was its chief executive (Managing Director) from 1883 and 1918, during which he brought the enterprise from the verge of bankruptcy to high success. As a manager he came to the conclusion that there was a single administrative science applicable to all types of organizations. In the year 1916, he published his well-known work in French entitled "*Administration Industrielle et Generale*" (Industrial and General Administration). However, no English translation of his work was available until the year 1929, and in that year also only a few hundred copies were distributed in the U.K.

Fayol divided all activities of industrial enterprises into the following six groups:

1. Technical activities concerning production;

2. Commercial activities of buying and selling;
3. Financial activities intended to seek optimum use of capital;
4. Accounting activities pertaining to final accounts, costs and statistics;
5. Security activities relating to protection of property; and
6. Managerial activities.

The first five are quite well known and as such his work is largely devoted to the description and explanation of the managerial activities. He referred to the functions of management as its elements and grouped them around the activities of planning, organising, commanding, coordinating and controlling. Fayol observed that the importance of managerial ability increases as one goes up the echelons of management hierarchy. He also emphasised the need for training in management for which development of management theory is essential. On the basis of his experiences and foresight into the field of management, Fayol suggested the following fourteen principles of management.

1. *Division of Work*: So as to produce more and secure better performance with the same effort.
2. *Authority and Responsibility*: Whenever authority is used responsibility arises, and the two are co-extensive.
3. *Discipline*: To ensure obedience and respect for superiors.
4. *Unity of Command*: An employee shall receive orders from one senior only.
5. *Unity of Direction*: A group of activities with common objectives shall have one head and one plan.
6. *Subordination*: Subordination of individual interest to general interest.
7. *Remuneration*: It should be fair and afford maximum satisfaction to the firm and employees as well.
8. *Centralization*: Top management should decide the extent to which authority is to be dispersed in the organization or retained at higher levels. Centralisation or decentralisation should be viewed as a question of proportion.
9. *Scalar Chain*: It refers to superior-subordinate relations throughout the organization. It should be shortcircuited and not be carried to the extent that it proves detrimental to the business.
10. *Order*: There must be a place for everything, and each thing must be in its appointed place. Similarly, there must be appointed place for each employee and every employee must be in his appointed place.
11. *Equity*: Management must have the desire for equity and equality of treatment while dealing with people. Equity is the combination of kindness and justice in a manager.
12. *Stability of Tenure of Personnel*: Management should strive to minimise employee turnover.
13. *Initiative*: It refers to thinking out and executing a plan.
14. *Espirit de Corps*: This principle emphasises the need for teamwork and the importance of effective communication in obtaining it.

Fayol described the above principles as a matter of convenience. He did not intend to close the list or make the principles inflexible.

### **Contributions of the Behaviouralists, Sociologists and Psychologists**

The contribution of behavioral scientists to management principles and practices has been recognised all over the world after the Hawthorne experiments (1928-32) were conducted by Elton Mayo and his associates. According to the behaviouralists, the study of management should be concerned with human behaviour in organizations and related matters; organizational effectiveness depends on the quality of relationship among people working

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in it good management rests on the ability of managers to develop interpersonal competence among members and to support collaborative efforts at all levels of the organization.

With its major emphasis on human relations, informal group communication, employee motivation and leadership styles, the behavioural approach to management has drawn attention to a wide range of socio-psychological phenomena, like the dynamics of organizational behaviour, group dynamics, organizational conflict, change and techniques of organizational development.

Psychologists and sociologists have made significant contributions to the behavioural school of thought. Psychologists like A.H. Maslow, McGregor, Leavitt, Chris Argyris, Herzberg and McClelland, and Sociologists like Bakke, Dubin, Katz, Gouldner and Etzioni, through their research findings, have laid the foundations of interdisciplinary approaches to the study of organization and management.

### Systems Approach

The systems approach defines a system as a set of interrelated and interdependent parts arranged in a manner that produces a unified whole.

There are two types of systems, closed systems and open systems. A closed system does not interact with and is not influenced by the environment in which it operates. An open system approach recognises the dynamic interaction with the environment - suppliers, labour unions, financial institutions, government agencies, and customers.



**Figure 1.10 - The Systems Approach**

Inputs	Processes	Outputs
<ul style="list-style-type: none"><li>• Human</li><li>• Materials</li><li>• Equipment</li><li>• Financial</li><li>• Information</li></ul>	<ul style="list-style-type: none"><li>• Planning</li><li>• Organising</li><li>• Leading</li><li>• Controlling</li><li>• Technology</li><li>• Facilities</li></ul>	<ul style="list-style-type: none"><li>• Products</li><li>• Services</li><li>• Profit/Loss</li><li>• Human development</li><li>• Information</li></ul>

The job of the management is to coordinate all parts of the system in order to meet organisational goals and this is done through setting up feedback mechanisms.

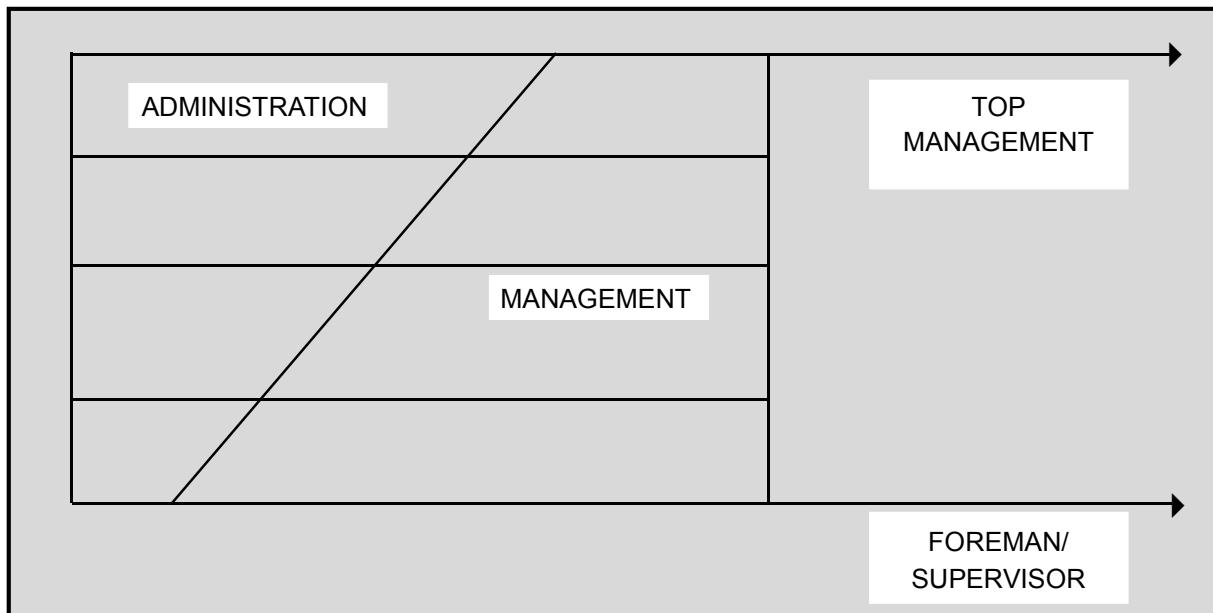
The systems approach has several advantages, the main one being that it shows how changes in one part of an organisation can affect the rest of the organisation. This awareness ensures that activities are more likely to be properly coordinated throughout the organisation.

## ADMINISTRATION AND MANAGEMENT

A clear distinction may be made between administration and management in the following way:

1. Administration is concerned with policy making, whereas management with policy implementation.
2. Functions of administration are legislative and largely determinative, while that of the management are executive and governing.
3. Broadly speaking, administration is concerned with planning and organizing, but motivating and controlling functions are involved in management.
4. Board of directors of any company is normally concerned with administration, whereas personnel below that level are in charge of management.

So viewed, management is more important at lower levels, as has been depicted below:



Thus, the basic distinction between the two terms is that whereas administration is a process of laying down broad policies and objectives of the organization, management directs and guides the operations of an organization towards realizing the objectives set-forth by the former. It is also said that administration is a top-level function while management is a lower-level function.

As of today, management is thought of as comprising both the process of planning and policy-making, and their execution as well. Thus, management includes administrative management (i.e. administration) and operative management.

The conceptual distinction between administration and management hardly serves any purpose. In fact, management process is the same in all enterprises and at all levels in the organization. Management is as much responsible for planning as is administration. The above point is clearly borne out by the fact that no two separate set of personnel are required to discharge the administrative and managerial functions. It is true that planning is more important and broad at higher levels of organization, but it is equally true that every manager irrespective of his position or level in the organization must plan, and planning process is essentially the same at all levels.

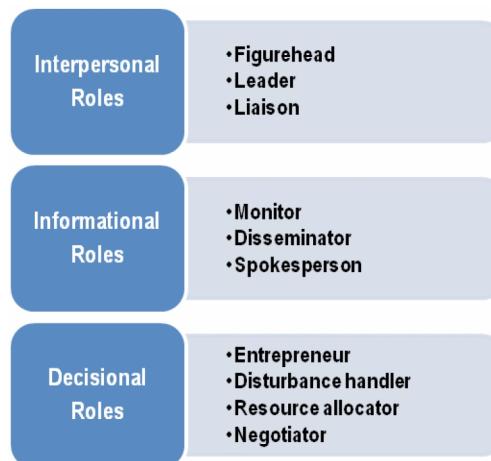
## MANAGERIAL ROLES

Management Roles are broader than functions and refer to more general categories to describe a manager's behaviour in an organisation. Henry Mintzberg (1973) published a now-classic book called *The Nature of Managerial Work*. At the time it was assumed that a manager sat in his comfortable office thinking about the company's future direction and giving instructions to managers and employees.

Mintzberg's data, based on time diaries of male executives, revealed that this picture was not real. The executives actually spent very little time on planning or long-range strategy instead they answered calls, solved problems, reacted to crises, responded to people, and dealt with constant interruptions.

Mintzberg said that managerial work was characterized by "brevity, variety, and fragmentation." Any attempt by managers to stick to a task usually failed because of constant interruptions. Today, managerial work has, if anything, become even more busy and stressful and more like a life manager's never ending day. The pace of action, around-the-clock economy, the constant juggling of projects, demands from different masters, rapid changes in technology, and frequent career reinventions all challenge managers.

Professor Henry Mintzberg, categorised managers' activities into ten roles they perform over the course of a managerial day.



**Figure 1.4 - Management Roles**

### INTERPERSONAL

- **Figurehead** Performs symbolic duties of a legal or social nature.
- **Leader** Builds relationships with subordinates and communicates with, motivates and coaches them.
- **Liaison** Maintains networks of contacts outside the work unit who provide help and information.

### INFORMATIONAL

- **Monitor** Seeks internal and external information about issues affecting the organisation.
- **Disseminator** Transmits information internally, obtained from either internal or external sources.
- **Spokesperson** Transmits information about the organisation to outsiders.

## DECISIONAL

- **Entrepreneur** Acts as an initiator, designer and encourager of change and innovation.
- **Disturbance handler** Takes corrective action when organisation faces important, unexpected difficulties.
- **Resource allocator** Distributes resources of all types including time, funds, equipment and human resources.
- **Negotiator** Represents the organisation in major negotiations affecting the manager's area of responsibility.

## SKILLS OF AN EFFECTIVE MANAGER

### Managerial Skills

Companies looking for employees who could be good managers focus on individuals who have technical skills, human skills, conceptual skills and the motivation to manage (Katz, 1974). The ability to adopt a specific set of behaviours that lead to a desired outcome is called a skill. Managers need the following key skills to carry out their jobs effectively.

To perform management functions and assume multiple roles, managers must be skilled. Robert Katz (1973) identified three managerial skills essential to successful management: technical, human, and conceptual. Technical skill deals with *things*, human skill concerns *people*, and conceptual skill has to do with *ideas*.

### Technical skills

Technical skill involves process or technique knowledge and proficiency necessary to carry out a specific task. Managers use the processes, techniques and tools of a specific area e.g. a heart surgeon, a pilot, an engineer, a builder, writing computer programs, completing accounting statements, analysing marketing statistics, writing legal documents, or drafting a design for wings and body on an aeroplane.

Technical skills are usually obtained through training programs that an organization may offer its managers or employees or may be obtained by way of a college degree.

### Human Skills

Human skills involve the ability to work with, motivate, and direct individuals or groups in the organization whether they are subordinates, peers, or superiors. Human skills, therefore, relate to the individual's expertise in interacting with others in a way that will enhance the successful completion of the task at hand.

Some human skills that are often necessary for managers to display are effective communication (writing and speaking), creation of a positive attitude toward others and the work setting, development of cooperation among group members, and motivation of subordinates.

### Conceptual skills

Conceptual skills involve the ability to see the organisation as a whole, understand how the different parts affect each other and recognize how the company fits into or is affected by its environment. Conceptual skill involves the understanding of abstract relationships, and reducing complexity in order to develop ideas, and solve problems creatively.

Conceptual Skills allows managers to take action using technology more creatively using the organisations people and assets to establish a competitive advantage. Examples of situations that require conceptual skills include responding to a competitor's change in marketing strategy, or releasing a new product that is difficult to imitate.

Technical, Human and conceptual Skills at different levels of Management

### Levels of management

A manager's level in the organization determines the relative importance of possessing technical, human, and conceptual skills.

- Top level managers need conceptual skills that let them view the organization as a whole, and recognize how the company is affected by the community, customers and the competition.
- Supervisors and team leaders need technical skills to manage employees who make products and serve customers, train employees and help employees solve problems.

All levels of management need human skills so they can interact and communicate with other people successfully.

### Management Competence

Developing highly competent managers is much more complicated than developing trade or work skills.

- First, management skills are behavioural, they are not personality characteristics. Managers are not born they learn on the job so their behaviour can undergo change from the time they start as they progress and climb the corporate ladder
- Second, people can develop and improve their management skills through practice. Managers learn on the job and the wider the experience the more skilled the manager gets handling operational, human and technical matters.
- Third, management skills are interrelated and overlapping – in other words they need combinations of skills. This chapter looked at essential management functions, roles and skills all of which a manager needs to be efficient and effective.
- Fourth, some of these management skills may be conflicting, for example effective managers may be required to be both participative i.e. assisting employees and directive i.e. telling inexperienced or unwilling employees what to do and flexible i.e. allowing for variation in interpretation and performance, yet controlled i.e. sticking by the rules, depending on circumstances.

### Tasks and Responsibilities of Professional Managers

Professional Managers tasks includes the following:

- (i) **Providing Direction to the Firm:** The first task, envisioning goals, is one of the tasks that should never be delegated. It is the ability to define overarching goals that serve to unify people and focus energies. It's about effectively declaring what's possible for the team to achieve and compelling them to accomplish more than they ever thought it was possible.
- (ii) **Managing Survival and Growth:** Ensuring survival of the firm is a critical task of a manager. The manager must also seek growth. Two sets of factors impinge upon the firm's survival and growth. The first is the set of factors which are internal to the firm and are largely controllable. These internal factors are choice of technology, efficiency of labour, competence of managerial staff, company image, financial resources, etc. The second set of factors are external to the firm, like government policy, laws and regulations, changing customer tastes, attitudes and values, increasing competition, etc.
- (iii) **Maintaining Firm's Efficiency:** A manager has not only to perform and produce results, but he has to do so in the most efficient manner. The more output a manager can produce with the same input, the greater will be the profit.

- (iv) **Meeting the Competition Challenge:** A manager must anticipate and prepare for the increasing competition. Competition is increasing in terms of more producers, products, better quality, etc.
- (v) **Innovation:** Innovation is finding new, different and better ways of doing existing tasks. To plan and manage for innovation is an on-going task of a manager. The manager must maintain close contact and relation with customers. Keeping track of competitor's activities and moves can also be a source of innovation, as can improvements in technology.
- (vi) **Renewal:** Managers are responsible for fostering the process of renewal. Renewing has to do with providing new processes and resources. The practices and strategy that got you where you are today may be inadequate for the challenges and opportunities you face tomorrow.
- (vii) **Building Human Organization:** Man is by far the most critical resource of an organization. A good worker is a valuable asset to any company. Every manager must constantly look out for people with potential and attract them to join the company.
- (viii) **Leadership:** Organizational success is determined by the quality of leadership that is exhibited. "A leader can be a manager, but a manager is not necessarily a leader," says Gemmy Allen (1998). Leadership is the power of persuasion of one person over others to inspire actions towards achieving the goals of the company. Those in the leadership role must be able to influence/motivate workers to an elevated goal and direct themselves to the duties or responsibilities assigned during the planning process. Leadership involves the interpersonal characteristic of a manager's position that includes communication and close contact with team members. The only way a manager can be acknowledged as a leader is by continually demonstrating his abilities.
- (ix) **Change Management:** A manager has to perform the task of a change agent. It's the manager's task to ensure that the change is introduced and incorporated in a smooth manner with the least disturbance and resistance.
- (x) **Selection of Information Technology:** Today's managers are faced with a bewildering array of information technology choices that promise to change the way work gets done. Computers, the internet, intranets, telecommunications, and a seemingly infinite range of software applications confront the modern manager with the challenge of using the best technology.

Some of the critical responsibilities of a professional manager are towards customers, shareholders, employees, suppliers, distributors and retailers, industry and competition, union, government and society. Therefore in brief it is the responsibility of a manager to take care of the above mentioned things by handling or directing them with a degree of skill.

### LESSON ROUND UP

- Management can be defined as a process by which responsible people in an organization get things done through the efforts of other people in group activities.
- Management can be described as a science as well as an art. The theoretical knowledge of management is a science and its practical application to gain a desired result is an art.
- Many scholars view coordination as a separate function of management. It is the essence of management. The whole idea of coordination is to adjust, reconcile and synchronize individual efforts more effectively and to help achieve some common objectives.
- Frederick Taylor is popularly known as the founder of modern scientific management and Henry Fayol is popularly known as the father of modern management theory.

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- All the three levels of management namely top management, middle management and lower management have obligations towards three social groups. Drucker assigns three jobs to the management like managing a business, managing managers, managing workers and work.
- Many scholars have different views on the concept of administration, and management. It can be said that administration is a top level function while management is a lower level function.
- Executive and managers play the most vital role in determining the future of an organization. The demand for competent managerial personnel having intellectual potentialities and distinct managerial traits is increasing. The fulfillment of the desired mission of an organization requires effectiveness and efficiency. Intellectual skill is one of the most significant factors in managerial effectiveness in view of changing environment of the organization.
- Managerial skills are classified as technical, human and conceptual by Katz.
- A professional manager is an expert, trained and experienced enough to adeptly manage any type of organization be it a manufacturing house, a service organization, a hospital or a government agency.

### GLOSSARY

<b>Nomos</b>	It is a Greek word which means management.
<b>Albeit</b>	Although; even if.
<b>Conversant</b>	It means to be familiar by use or study.
<b>Rationale</b>	A statement of reasons or a reasoned exposition of principles.
<b>Manifested</b>	Readily perceived by the eyes or the understanding.
<b>Divergent</b>	Differing or deviating.
<b>Hamstrung</b>	To destroy or hinder the efficiency or frustrate.
<b>Overarching</b>	Encompassing or overshadowing everything.
<b>Crystallize</b>	To give a definite form or expression to an idea or argument.
<b>Bewildering</b>	Extremely confusing.
<b>Magnitude</b>	Size, extent or dimension.
<b>Reckoned</b>	Consider.

### SELF-TEST QUESTIONS

1. \_\_\_\_\_ organisations tend to develop their employees (human assets) in the pursuit of financial goals (profit), thereby benefit society by creating both material and human wealth.
  - a. For profit organisations
  - b. Non-profit organisations
  - c. Public organisations
  - d. All of the above
2. Which of the following is an informational role of a Manager:
  - a. Figurehead

- b. Leader
  - c. Monitor
  - d. Liason
3. \_\_\_\_\_ is concerned with policy making, whereas \_\_\_\_\_ with policy implementation
- a. Planning; Controlling
  - b. Administration; Management
  - c. Management; Administration
  - d. None of the above
4. The principle of division of work was given by \_\_\_\_\_
- a. Henry Fayol
  - b. Henry Lawrence Gantt
  - c. Frederick Taylor
  - d. Mc-Gregor
5. \_\_\_\_\_ is popularly known as the 'Father of Scientific Management'
- a. Frederick Taylor
  - b. A H Maslow
  - c. Douglas Mc-Gregor
  - d. Mary Parker Follett
6. \_\_\_\_\_ involves outlining a vision of what can be achieved, focusing on interpersonal relations by communicating with each employee, and motivating and inspiring people to perform better.
- a. Organizing
  - b. Directing
  - c. Controlling
  - d. Leading
7. Which of the following word did Luther Gulick coin using the initial letters of management functions:
- a. POSBRD
  - b. POSDROCB
  - c. POSDCORB
  - d. None of the above
8. \_\_\_\_\_ involve the ability to see the organisation as a whole, understand how the different parts affect each other and recognize how the company fits into or is affected by its environment.
- a. Technical skills
  - b. Conceptual skills
  - c. Analytical skills

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- d. Management Skills

9 \_\_\_\_\_ state that management means, “*Getting things done through and with people*”.

  - a. Hicks
  - b. Koontz and O'Donnell
  - c. Haimann
  - d. None of the above

10 Performing activities in the organisation at the least time and at the least cost is called \_\_\_\_\_

  - a. Efficiency
  - b. Effectiveness
  - c. Organizing
  - d. Best use of available resources

**Answer key :** 1 a; 2 c; 3 b; 4 a; 5 a; 6 d; 7 c; 8 b; 9 b ; 10 a

## Suggested Readings

- (1) Management: A Systems and Contingency Analysis of Management Function – *Koontz & O'Donnell*
  - (2) The new Era of Management- Richard L. Draft
  - (3) Management: Theory and Practice – *Earnest Dale*
  - (4) Management for Business & Industry – *Claude S. George Jr.*

The Art of Administration – *Ordway Tead*

# Lesson 2

## Planning

### LESSON OUTLINE

- Concept of Planning
- Features of Planning
- Importance of Planning
- Limitations of Planning
- Types of Plan
- Planning Components
- Review Questions
- Planning Process
- Planning Period
- Concept of Forecasting
  - Steps in Forecasting
  - Advantages of Forecasting
- Concept of Decision-Making
  - Decision-Making Conditions
  - Principles of Decision-Making
  - Steps in Decision-Making
  - Hierarchy of Decisions
  - Decision-Making by Group
  - Evaluating Decision's Importance
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

Planning is the most important function of every manager. It involves deciding in advance what is to be done and where, how and by whom it is to be done.

To understand better, let us take an example. Sita wanted to sit for the IAS exams and wanted to clear it in one go. She knew her target was difficult and that she needed to plan well in advance as there was only a year to prepare. She started planning for it by talking to previous pass outs, how they prepared, looked at last ten year's model question papers, etc. After taking a broad idea of how much syllabus is there, how she should study, from where to take help, etc. she planned her study schedule in the given time frame of one year. The best part was that she stuck to her study plan and emerged as one of the successful candidates. This is what planning means.

Therefore, the objective of this study unit is to enable the students to understand that planning is an all-pervasive and fundamental function of management and that it essentially means looking ahead and preparing for the future. It is decidedly a mental function.

Thus, this study will help the students in understanding the nature and utility of planning, types of plans, steps involved in planning and also how to use the practical aspects of planning for future endeavours.

Planning means deciding in the present what to do in the future. It is the process whereby companies reconcile their resources with their objectives and opportunities.

**Philip Kotler**

## CONCEPT OF PLANNING

Planning is an all-pervasive and fundamental function of management. All other functions of organizing, staffing, directing and controlling must reflect planning function of management. Though more important for higher levels, planning is the function of every manager. It involves deciding in advance what is to be done and where, how and by whom it is to be done. While planning, the manager projects a course of action for the future aimed at achieving desired results for the enterprise as a whole and each department within it. Thus, merely ascertaining the future is not planning till it is followed by making provisions for it. Planning is a rational approach to the future.

Planning deals with future and involves forecasting. A manager does not plan about the past though in his planning for future he is also guided by past performance. Since planning relates activities of the enterprise to its future environment, it requires projecting future activities of the organization. But mere forecasting is not planning. Planning requires assessing the future and providing for it. Planning is forecasting and deciding in advance a course of action to be followed or activities to be pursued in future.

According to George R. Terry – Planning is the selecting and relating of facts and the making and using of assumptions regarding the future in the visualization and formulation of proposed activities believed necessary to achieve desired results.

So, planning is a process whereby the relevant facts are collected and analyzed, the assumptions and premises are made for the future. In the light of these assumptions and premises, a plan of action believed necessary to achieve the desired results is visualized and formulated. Planning, therefore, essentially means looking ahead and preparing for the future. It is a mental task. One should have reflective thinking, imagination and farsightedness, if one is to succeed well in performing this difficult task.

### Example of Effective Planning

Mr. ABC took over as an Executive-Chief of a loss-making company. The company had almost no sale had heavy cost of production, cost of production equal to the price of the competitors product, low morale of the staff, high fixed overheads, etc. He called a meeting of all his department heads and had a brainstorming session for determining the problem and finding a solution. Accordingly, the following plan was worked out jointly by all of them:

- Reduce material costs by increasing the supervision
- Reduce the wastage
- Increase the sales by being a second source of supply to major customers
- Improve the morale of the staff by laying out individual as well as team goals to be achieved with an overall plan.

The company started making profits and wiped out its accumulated losses in a period of three year. It happened because, it was just a matter of proper planning.

## FEATURES OF PLANNING

The essential nature of planning can be highlighted by the following major aspects of planning:

**(i) Planning – an Intellectual Process:** Planning is the process of choosing the proper course of action from among alternatives and calls for decision-making, which is an intellectual process. Changes in the environment bring opportunities and involve risks as well. It is the task of planners to take advantage of opportunities and minimise the risks. This calls for mental pre-disposition to think before taking action. Moreover, planning is not a guess work. It is conscious determination and projecting a course of action for the future and is based on objectives, facts and considered forecasts.

**(ii) Planning – a Primary Function:** Planning is the most basic function of management. As a matter of fact, all other functions of management largely depend upon planning. Control, for example, is a necessary corollary of planning and cannot exist without planning. Organisation is also set up with a plan and objectives in mind and people are invariably guided and motivated towards accomplishing enterprise objectives. Planning is, therefore, the primary function of management.

**(iii) Planning – a Continuous Function of Management:** Management is a dynamic process and planning as its function cannot be an exception to it. Since different functions of management overlap and intermesh with each other, the planning process is continuously repeated. Moreover, as plans beget a number of sub-plans and since plans have to be revised in the light of changing environment, planning becomes a continuing necessity for management.

**(iv) Planning – a Pervasive Function:** Planning is a pervasive function. It pervades at all levels and in all departments of an organization. Sometimes, planning is erroneously considered to be the prerogative and responsibility of top management alone. In fact, planning which involves choosing the future course of action from among alternatives is basically the same whether it is at the supervisory level or at higher echelons of management. It must be noted, however, that planning horizons broaden and the implications of plans becomes wider as one goes up the levels in the management hierarchy.

## IMPORTANCE OF PLANNING

Planning substitutes order for chaos and introduces rationality into the decision-making process of management. It provides the framework within which organizing, staffing, direction and controlling are undertaken. The importance of planning in any organized enterprise needs no exaggeration. To be more specific, planning makes following contributions:

**(i) Planning makes Personnel Conscious of Enterprise Objectives:** The first stage in any type of planning is the deliberate statement of objectives of each department in the organization and the enterprise as a whole. It helps personnel to see the enterprise in its entirety and see how their actions may contribute to its ultimate goals. Since objectives represent end points of planning, management should be aware of the future and revise its plans in the light of possible changes so that goals are accomplished more effectively.

**(ii) Planning Leads to Economy in Operations:** Planning is always done with an eye on economy and efficiency in operations. As an all-pervasive function, planning improves effectiveness of all other functions of management and also helps to secure coordinated efforts throughout the organization. Since it involves choosing, planning facilitates the choice of the best method and helps to identify alternatives expected to produce desired results with minimum unsought consequences. Planning for repetitive or routine matters reduces the need for thinking over the whole problem once again. Moreover, planning for the change, arms the management to face future contingencies very boldly, confidently and effectively.

**(iii) Planning Precedes Control:** Control consists of those activities that are undertaken to force events to conform to plans. Planning is then the necessary prerequisite for control. Management function of control seeks to check the performance against some predetermined standard or projected course of action established through planning process. Though planning affects all other functions of management, the unique feature of control is that it cannot exist without planning.

**(iv) Planning is a Precious Managerial Instrument to Provide for Future:** Though forecasting is its essential characteristic, the task of planning does not end merely with assessing the future. Providing for future contingencies is an equally important part of planning. It is through planning process that management is made to look at the future and discover suitable alternative courses of action. If future changes can be correctly predicted, planning helps the management to have a clear view of the future and chalk out a suitable programme of action. There is no doubt that even the best plans cannot anticipate all the future changes. But this does not mean that planning is a futile exercise which can be dispensed with. As a matter of fact, it is during changing conditions and difficult

situations that planning becomes all the more necessary and assumes a greater importance. As a rational approach to the future, planning provides for unexpected events and arms the management against undesirable changes.

(v) ***Planning Influences Efficacy of Other Managerial Functions:*** Planning, organizing, staffing, direction and control – all account for and have their due contribution to the accomplishment of group's goals. The importance of each in the success of the management job cannot be overlooked. However, planning as a primary function goes a long way in improving efficiency of all other functions of management and makes the tasks of managing more effective.

### LIMITATIONS OF PLANNING

Planning is an all-pervasive and a primary function of management. No manager, irrespective of his position in the organisation, can do without it. However, planning is subject to certain limitations and a proper understanding of them will go a long way in improving the efficiency of planning.

(i) ***Planning Premises may not be Fully Reliable:*** Planning premises provide the basis and framework for predictions. Since the future cannot be predicted with absolute accuracy, premising is always subject to a margin of error and guess-work which are reflected in various plans based on them. Difficulty of accurately premising them becomes the first planning limitation.

(ii) ***Rapidity of Change Sets Another Limit to Planning:*** Business enterprises operate in a changing environment, though the extent and impact of such changes may differ from industry to industry, and among the firms in the same industry. Planning is relatively simple and easy task for a concern operating under stable conditions. Most of the public utilities enjoy such an advantage. On the other hand, industries and units working under dynamic conditions and confronting rapid changes face new problems and complications on account of instability. It makes their planning job extremely difficult.

(iii) ***Availability of Time and Cost Involved in Planning also Lay Down Limits to Planning:*** During a crisis or any other emergency, decisions have to be made without planning in advance whether the manager is ready for it or not. Such decisions are taken in the event of non-availability of time for detailed analysis and research.

Besides, planning is not without cost. Greater the details in planning, more will be the cost. Similarly, cost of planning will go up if plans are drawn for longer periods. While finalising details of analysis the manager should remember that the benefits expected to be derived from planning should be more than the cost involved. But application of this rule is by no means an easy task. It is so because ascertaining the benefits and cost of planning is a difficult exercise.

(iv) ***Philosophy of Management and Personnel can be a very Serious Limitation of Planning:*** Old concepts, beliefs and traditions are often so deeply embedded in the minds of employees that plans which are not consistent with their philosophy may be extremely difficult to implement. Thus, where management is traditionally committed to high quality and high costs, it may not be inclined to carry out a plan to produce cheaper goods even though justified by results expected. Psychologically, people are resistant to change and as such new ideas have to be sold well and people have to be convinced of the value of the change.

(v) ***Procedural and Policy Rigidities also Come in the Way of Planning:*** Procedures, rules and policies once established are difficult to change. Planning, on the other hand, may call for a change in the existing procedures and policies. Where such internal inflexibilities dominate the enterprise, management tends to become bureaucratic and rule-centered. In such cases employees lose much of their initiative and bringing about an effective change through planning becomes a challenging job.

(vi) ***Capital Invested in the Firm is a very Powerful Internal Constraint on Planning:*** Changes in the environment may require overlooking consideration of capital already sunk in the business in the form of say, capital equipment or employee training. Managers, on the other hand, develop a strong tendency to

feel so much committed to the recovery of capital sunk as a result of some earlier decision that future planning is constrained and limited to its recovery, and very often capital so invested itself becomes a planning premise.

**(vii) External Constraints also Set Limits to Planning:** There are those external limitations of planning over which management has very little or no control at all. Personnel policies and decisions might be limited by considerations of labour union pressures particularly when union is organised on national basis, and also by directives, rules and legal provisions laid down by the Government from time to time. Similarly, Government policies, tax laws, competition and technological changes, etc. act as deterrent in the way of planning in varying degrees for different problems at different times.

In the actual planning process manager may face many more difficulties. But these limitations of planning should not demoralise management in any way from attempting to plan. If managing becomes more effective through planning, the manager has no other alternative than to plan. When planning is so useful it will be better if it is done systematically keeping in view its possible limitations.

## TYPES OF PLANS

### Strategic Plans

These are detailed action steps laid out to achieve strategic goals. These have a time horizon 5 years and above. These plans often include their mission and goals as these are the basis for action steps. These plans address issues such as response to changed conditions , resource allocation and efforts required to achieve strategic goals.

### Environmental Assessment

Achieving strategic goals may be influenced by technological factors, the legal-political environment, socio cultural and international environments. Managers must also understand the influences of customers, competitors and suppliers on their goals and plans.

### Porter's Five Competitive Forces Model

This is a model which analyses the nature of competition in terms of five major forces. These reasons may lower profit potential.

Competitive Forces	Reasons for Lower Profit Potential
Rivalry	Various competitive tactics among rivals lower prices that can be changed or raise costs of doing business
Bargaining power of customers	Customers force price reductions or negotiate increases in product quality and service at the same price
Bargaining power of suppliers	Suppliers threaten price increases and/or reductions in quality of goods or services
Threat of new entrants	New entrants bid prices down or cause incumbents to increase costs to maintain market position
Threat of substitute products or services	Availability of substitutes limits the prices that can be charged

Figure 5.12 Porter's Five Competitive Forces Model

## Organisational Assessment

Organisational resources and capabilities include financial, physical, human and other assets for production of goods and services.

To assess the competitive implications of resources and capabilities relative to other environments, organisations must question four major factors. These are critical to organisational ability to build competitive advantage using internal resources and capabilities.

1. *Value*. A resource adds value to the extent that it can capitalise on opportunities or nullify a competitor with better products or services.
2. *Rareness*. A resource is rare to the extent that it is uncommon among competitors. A knowledge of local conditions and access to these resources gives a company a competitive advantage over a company without this knowledge and access.
3. *Degree of limitability*. A resource or capability that is hard for competitors to duplicate or substitute has low limitability. If you are the first with innovative products then you can maintain your competitive advantage such as what Apple Corp have been doing over the years.
4. *Organisation*. A firm must maximise the usefulness of its resources and capabilities in order to keep a competitive advantage.
5. Sustaining competitive advantage needs valuable, rare and difficult to imitate resources and capabilities. This is called a distinctive competence.

## Tactical Plans

These focus on intermediate time frames, usually one to five years. They are more specific and concrete than strategic plans and they outline the major steps towards tactical goals. Middle managers consult with lower level managers in developing them, before making commitments to top-level managers.

## Operational Plans

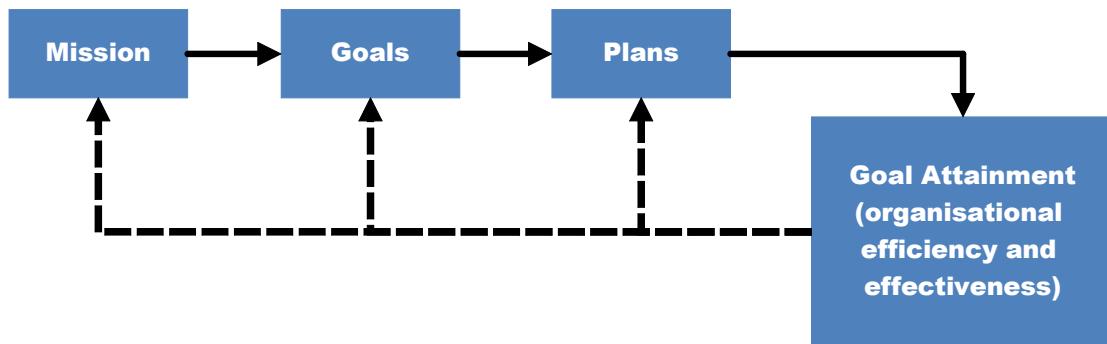
These support tactical-plan implementation and operational-goal achievement. These plans involve time frames of up to a year, such as months, weeks or even days. Lower level managers consult with middle managers to develop these plans. Unless operational goals are achieved, tactical and strategic plans will fail and goals at those levels will not be achieved.



## PLANNING COMPONENTS

Planning components are usually classified as purposes or mission objectives, policies, procedures, programmes, budgets and strategies.

### Main Components of Planning



**Figure 5.1 The Overall Planning Process**

### Organisational Mission

An organisation's mission is its purpose or fundamental reason for existence. It is a broad statement distinguishing the organisation from others of its type. It can be a written document or it may be implicit.

### Purpose of a Mission Statement

- A mission statement is a benchmark for managers to evaluate success.
- For employees it defines common purpose, fosters loyalty, builds a sense of community.
- For outside parties, like investors, the government and the public, it gives insight into values and future direction of the organisation.

Components of a Mission Statement:

- Who are the customers?
- What are the products or services?
- Where does the organisation compete?
- What is the basic technology?
- The firm's commitment to economic objectives.
- Basic beliefs, values and aspirations of the firm.
- Major strengths and competitive advantages.
- Public responsibilities and desired image.
- Attitude towards employees.

## Objectives

The first important task of planning is to lay down objectives or goals. Objectives represent the end towards which not only planning but all other activities of management are directed. Thus, goals are set for the organisation to accomplish. Similarly, staffing, direction and control aim at reaching common objectives. In fact, managing is more effective when based on properly selected objectives. These objectives should be clearly defined and communicated throughout the organisation.

Objectives can be individualistic or collective; short-term or long-term; tangible or intangible; general or specific.

Peter F. Drucker<sup>1</sup> has laid down eight such key areas: market standing, innovation, productivity, physical and financial resources, profitability, management performance and development, work performance and attitude, and public responsibility. There is also a need to decide upon the emphasis to be given to each such area keeping in view the environment within which the business operates. Similarly, objectives in different areas should be properly balanced. This is an intellectual task of great responsibility and effort which calls for a constant review of enterprise objectives in the light of technological and other changes.

## Policies

Policies are guide to thinking in decision-making. Policy lays down the course of action selected to guide and determine present and future decisions. Policy as a general statement of understanding lays down the limits within which decisions are to be made and, thereby, assures consistent and unified performance. For example, if it is the policy of a company to reinvest 50% of its earnings each year, decision relating to appropriation of profit and resorting to external sources of finance shall have to be made within the limits of this policy. Policies can originate at any level in the organisation and a manager should lay down policies within the limits of authority and also within the limits set by earlier policies and decisions of his seniors

Policy may be written, verbal or implied. On functional basis, policies may be classified as those pertaining to sales, production, personnel, finance, purchase, etc.

Policies are of great help in the delegation of authority by a manager. Policies sanctioned in advance help the subordinates too to take decisions within the broader framework established by the higher management. Thus, well defined policies help the manager to delegate authority without fear since policies lay down the limits for decisions taken by subordinates and ensure uniformity in the functioning throughout the organisation. However, policies never remain valid for all times to come. Changes in business environment might render some of the policies outmoded. For effective compliance policies should, therefore, be periodically reviewed and necessary changes be introduced in them consistent with accomplishment of group goals. Moreover, as guide to thinking in decision-making, policies should be flexible and allow reasonable discretion to subordinates responsible for their implementation. Strictly rigid policies tend to become rules and kill much of the subordinates' initiative.

## Procedures, Methods and Rules

**Procedures** suggest the exact manner in which a particular activity is to be done. It specifies the chronological sequence for handling future activities. An enterprise, for example, may have promotion policy based on seniority. To implement this policy procedures must be established for calculating seniority of employees and granting them actual promotions. It is apparent, therefore, whereas policy is a guide to thinking, procedures are guide to actions

**Method**, on the other hand, involves a single operation or one particular step and specifies how this step is to be followed. For example, while calculating seniority a company may lay down various methods of calculating the 'number of completed years of service'.

**Rules** signify some kind of regulation, positive or negative and permit no discretion in its application. Thus, when we talk of leave rules, the idea is that leave can be granted and availed only subject to the regulations contained therein.

1. Peter F. Drucker, "The Practice of Management".

## Budgets

Budget is single-use plan containing expected results in numerical terms. Budgets may be expressed in time, money, materials or other suitable units capable of numerical expression. Income and expense budget, for example, projects the expected revenues and expenses for a given period. Since budget is an important control device it is often thought of in connection with controlling alone. However, budget-making is primarily a planning process, whereas its administration is part of controlling.

## Programme

Programme refers to the outline of plans of work to be carried out in proper sequence for the purpose of achieving specific objectives. Thus, a company might embark upon an expansion programme by say, sixty per cent. And to implement this programme, management must lay down certain policies, procedures, methods, rules and other assignments properly related to and coordinated for its successful implementation. Programme is frequently supported by capital revenue and expense budgets. Thus, programme is a complex structure of policies, procedures, methods, rules, budgets and other assignments.

Programme can originate at any level in the organisation, and it can be a major programme or a minor one. Basic or major programmes usually call for establishing a number of derivative programmes.

## Strategy

Strategy is a term very popular in military science. There it refers to meeting the enemy under conditions advantageous to one's own. A commander, for instance, may allow the enemy to advance upto a certain point and then attack from the back. In the business context a specific meaning attached to a particular policy, under the prevailing circumstances and in the light of competitor's policies, becomes strategy. Strategy is thus an interpretative planning. Anthony defines strategies as resulting from "the process of deciding on objectives of the organization, on changes in these objectives, on the resources used to attain these objectives, and on the policies that are to govern the acquisition, use and disposition of these resources". Chandler defines a strategy as "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary to carry out these goals".

The purpose of strategies is to determine and communicate, through a system of major objectives and policies, a picture of what kind of enterprise is envisioned. Strategies show a unified direction and imply a deployment of emphasis and resources. They are a useful framework for guiding enterprise thinking and action.

## REVIEW QUESTIONS

### Choose the Correct Option:



1. Which qualities should a person possess to succeed in planning:
  - (a) Reflective thinking
  - (b) Imagination
  - (c) Farsightedness
  - (d) All of the above

### State True or False:

2. Only economists and statisticians employed by the management as staff experts are involved in making forecasts.

**Answers :** 1. (d)      2. False

## PLANNING PROCESS

The techniques of planning may be visualized by analyzing the steps involved in major planning. It may be mentioned that planning must follow certain logical steps of techniques to make itself worthy of the purpose. Of course, minor plans are less complex and eventually involve lesser stress and strain in following the steps. But the steps are essentially the same in planning process only with a variation in the degree of complexity involved. Steps in planning may be generalized as follows:

**(i) Establishing Objectives:** The first and primary step in planning process is the establishment of planning objectives or goals. Definite objectives, in fact, speak categorically about what is to be done, where to place the initial emphasis and the things to be accomplished by the network of policies, procedures, budgets and programmes, the lack of which would invariably result in either faulty or ineffective planning.

It needs mentioning in this connection that objectives must be understandable and rational to make planning effective. Because the major objective, in all enterprises, needs to be translated into derivative objective, accomplishment of enterprise objective needs a concerted endeavour of all the departments.

**(ii) Premising:** The second step involved in planning process is the establishment of planning premises.

Premises signify planning assumptions or future setting within which planning will take place. The very nature of planning requires that some assumptions be made regarding future happenings. As a natural corollary, it is a prerequisite to determine future settings, such as the markets, prices, tax structure, government policy, business cycles, etc. before framing the master plan. Premises, as such, may be viewed as an environment of plans in operation.

Indeed, the selection, evaluation and review of planning premises and their use in planning depends upon the skill and experience of the planner. But the difficulties normally faced by the planners are twofold: (b) selecting what premises to use; and (a) evaluating the assistance obtained from the use of these premises.

However, it is to be kept in view that all assumptions are not premises. While some assumptions may be considered premises, some represent future expectations from actual plans developed. For example, assumptions pertaining to future business conditions, sales volume, change of government, industrial policy should be considered as premises on which to develop plans. These assumptions or forecasts are a prerequisite to planning. However, it is to be noted that forecast is often the resultant effect of planning. Forecast regarding returns on new investment or costs translate a planning programme into future expectations.

At the same time, plans themselves and the forecasts of their future effect often become premises for other plans. The decision of the Tourism Development Corporation of India to start cheaper hotels at the metropolises may be cited as an instance in point. It should be realised, however, that opening of cheaper hotels creates conditions that give rise to premises for many other plans necessarily dependent upon the hotels being built.

It may be noted that premises are not always the same for all the industries, or even units in the same industrial complex. Premises which may be of strategic significance to one industry may not be of equal significance to others due to the difference in size of the industry, nature of business and other relevant factors.

Planning premises may be viewed as (a) external and internal, (b) tangible and intangible, and (c) controllable, semi-controllable and non-controllable.

Premises internal to the firm are generally comprised of sales forecast, capital investment in plan and equivalent major programmes already laid down, and many other factors that shape the nature of planning. External premises may be generalized under three broad heads. The general business environment comprised of socio-economic and politico-technological conditions, the product market and the factor market.

Premises may be tangible as well as intangible. Premises are tangible when it is possible to quantify them in terms of rupees, working hours, man days, units of production, etc. Intangible premises, on the other hand, cannot be quantified in numerical terms, e.g. goodwill of a company.

Controllable premises are those that are largely decided by company management involving policies and programmes. Whereas premises which, to a considerable extent, may be modulated and controlled by the business enterprises are semi-controllable and those which are absolutely beyond the clutch of business enterprises are non-controllable premises.

However, all these premises need to be attended to minutely to make planning effective.

**(iii) Determining Alternative Courses:** The next logical step in planning is to determine and evaluate alternative courses of action. It may be mentioned that there can hardly be any occasion when there are no alternatives. And it is most likely that alternatives properly assessed may prove worthy and meaningful. As a matter of fact, it is imperative that alternative courses of action must be developed before deciding upon the exact plan.

**(iv) Evaluation of Alternatives:** Having sought out the available alternatives along with their strong and weak points, planners are required to evaluate the alternatives giving due weightage to various factors involved for one alternative may appear to be most profitable involving heavy cash outlay, whereas the other less profitable, but involving least risk. Likewise, another course of action may be found contributing significantly to the company's long-range objectives, although leaving the immediate expectations likely to go unfulfilled.

Evidently, evaluation of alternatives is a must to arrive at a decision. Otherwise it would be difficult to choose the best course of action in the perspective of the company needs and resources as well as objectives laid down.

**(v) Selecting a Course of Action:** The fifth step in planning is selecting a course of action from among the alternatives. In fact, it depends decision-making to decide upon the plan to be adopted for accomplishing the enterprise objectives.

**(vi) Formulating Derivative Plans:** To make any planning process complete, the final step is to formulate derivative plans to give effect to and support the basic plan. For example, if Indian Airlines decides to run Jumbo Jets between Delhi and Patna, obviously, a number of derivative plans have to be framed to support the decision, e.g. a staffing plan, operating plans for fuelling, maintenance, stores purchase, etc. In other words, plans do not accomplish themselves. They require to be broken down into supporting plans. Each manager and department of the organisation has to contribute to the accomplishment of the master plan on the basis of the derivative plans.

**(vii) Numberizing Plans by Budgeting:** After decisions are made and plans are set, the final step to give them meaning is to numberize them by converting them into budgets. If done well, budgets become a means of adding together the various plans and also important standards against which planning progress can be measured.

Thus it may be seen that the process of planning proceeds along the distinct stages of premising, forecasting and decision-making.

## FACTORS INFLUENCING GOAL COMMITMENT

Effective use of goals requires getting individuals and or work groups to be committed to goals they must carry out. It is one's attachment to, or determination to reach a goal.

### Supervisory Authority

Goals may be assigned by a supervisor who explains the reasons for the goal to the staff and gives needed instructions. A supportive supervisor will be more effective than an authoritative one. A supervisor must encourage and offer opportunities.

### Peer and Group Pressure

This builds goal commitment by focussing everyone's efforts. Successful individuals act as role models but if goals are seen as unfair, peer and group pressure can cut goal commitments.

### **Public Display**

Commitment may be greater for difficult goals with public commitment rather than private.

### **Expectations of Success**

If individuals have high expectations of success then they might be more committed. If they think they cannot accomplish the tasks, commitment to the goal is less likely.

### **Incentives and Rewards**

During goal setting, incentives may be offered. Some are tangible like money and others are intangible such as job challenge and recognition of goal achievement. Positive outcomes may foster commitment but negative ones may inhibit commitment.

### **Participation**

Where the individual participates in goal setting commitment will be stronger. Participation aids in plan development for goal implementation. Managers should include subordinates in goal setting and then in planning how to achieve those goals.

### **Planning Period**

Plan can be made either for the long run or intermediate run, or short run. But there should be some logic in selecting the right time range for the company planning. A company should not plan for a longer period than is economically justifiable, yet it is at times risky to plan for a shorter period. The answer to the right planning period seems to lie in the “commitment principle”, that logical planning encompasses a period of time in the future necessary to foresee, through a series of actions, the fulfillment of commitments involved in a decision.

What the commitment principle implies is that long range planning is not really for future decisions but rather for the future impact of today's decisions. In other words, a decision is a commitment, normally of funds, direction of action, or reputation. Hence, decisions lie at the core of planning.

The planning period will be longer or shorter depends upon the extent to which flexibility is desired to be built into the plan. The short range tends to be selected to conform to quarters or a year because of the practical need for making plans co-extensive with accounting periods. The arbitrary selection of five years or so for the long range is often based on the belief that the degree of uncertainty over longer periods makes planning of questionable value.

Often short-range plans are made without reference to long-range plans. This is a serious error. No short-run plan should be made unless it contributes to the achievement of the relevant long range plan. Sometimes the short-range decisions, which are taken on immediate situation, not only fail to contribute to a long- range plan but actually impede or require changes in the long-range plan.

The commitment principle must be considered in the light of flexibility principle of planning. This principle applies to the building into plans an ability to change direction. The more the flexibility built into the plans, the lesser would be the danger of losses to be incurred by unexpected events.

The more planning decisions committed for the future, the more important it is that a manager periodically checks on events and expectations and redraws plans as necessary to maintain a course towards a desired goal. This is called the “principle of navigational change”. This principle applies to flexibility in the planning process.

## Promoting Innovation: The Role of the Planning Process

An organisation's view of innovation may come from the highest levels. The CEO sees a future based on innovation and will communicate this to organisation members. This can be reflected in the mission statement.

Goals can encourage innovation by having new ideas incorporated into the goals.

Actual plans may involve the introduction of new products and services.

Plans can also achieve goals by using innovative means in order to achieve stated goals.

## Potential Obstacles to Planning

- A rapidly changing environment may make planning harder.
- Some managers may not believe in planning at all.
- The manager's daily work schedule pressures may distract from planning.
- Some managers have poor planning knowledge and skills.
- There may be low managerial involvement which may reduce effective planning.

## Overcoming Obstacles to Planning

- Have top management show strong support for the planning process.
- Have lower level managers engage in and support planning.
- Have planning staff help top management develop planning process components such as monitoring the external and internal environments to generate data to help in decision making.
- Increase training of staff in how to develop plans.
- Managers should review plans often.
- Managers should develop contingency plans which are alternative plans for use if the environment changes making original plans unsuitable.

## CONCEPT OF FORECASTING

Forecasting may be defined as analysis and interpretation of the future conditions in relation to operations of the enterprise. It involves looking ahead and projecting the future course of events. Forecasts may be comprehensive or limited in their scope. Managers at different levels might be responsible themselves for making forecasts, or the management may employ economists and statisticians as staff experts for the task. In the latter case forecasting experts are usually associated with top management. Since forecasts involve some amount of guess work and are always subject to a degree of error, it is essential that business executives bring to bear upon these forecasts their experience and clairvoyance.

## Steps in Forecasting

Though it is difficult to lay down common elements of forecasting workable in different situations and acceptable to all, the following steps provide general guidelines:

**(i) Identifying and Developing the Structure:** Factors affecting future events are so complex and innumerable that it is neither feasible nor desirable to study and discover all of them. The manager and forecaster should, therefore, identify the strategic factors that materially bear upon the forecasts in hand. It calls for analysing the internal and external factors and discovering relations between them. Knowing the trend of each of them is of great help in forecasting.

**(ii) Forecasting Future Course of Business:** Having prepared the ground and structure on which to base

different estimates, the next step is to make rational forecasts. Those responsible for forecasting make use of statistical and other techniques while projecting future business. The experience, clairvoyance and participation of management are important determinants of the quality of forecasts.

**(iii) Analysis of Deviations:** The next important step in forecasting is to observe the results and analyse major differences. Major deviation from predictions should be thoroughly analysed and reasons established. It helps to improve the quality of later forecasts.

**(iv) Improving the Existing Forecasting Procedure:** Skill in forecasting is largely gained through experience and practice. Hence, it is desirable that one should always think of improving and refining the existing procedure of forecasting. Guess-work should gradually be reduced and substituted by rational judgement and systematic analysis.

## CONCEPT OF DECISION-MAKING

Decision-making signifies actual selection of a course of action from among a number of alternatives. It is so important to the job of managing that management is sometimes described as consisting essentially of the decision-making process. Decision-making permeates planning, organising, controlling and all other functions of management. Because of limitations in time, money, etc., management is forced to discover a number of alternatives and choose the one that is expected to contribute more with less costs and other unsought consequences to the accomplishment of some goal. Since decision-making involves selection from among the alternatives, the course of action to be followed, it is better regarded as part of the planning process.

Management has to take decisions on all types of problems and matters. Generally, decisions relating to routine matters are decentralized so that top management can concentrate on vital and strategic decisions and laying down of broad policies. It also adds to the efficiency of management if decisions related to distant future are made in advance. However, it needs to be emphasised that decision-making as a rational process should be based on systematic analysis of all pertinent facts and not guided by intuition or hunch.

## Decision-Making Conditions

All organisations do not always exist in the same type of situation, and the situations do not remain the same for all decisions. Though, it is difficult to identify each and every situation and discuss it in this study lesson, we can classify various situations into three possible conditions. These are: (i) Certainty (ii) Risk (iii) Uncertainty.

**(i) Certainty:** This condition is present if the decision maker knows exactly what will happen. Thus, he will be able to predict the outcome precisely. For instance, if we put Rs. 1,000 in a fixed deposit for a year at 6 per cent rate of interest we will know how much interest (Rs. 60) our money will earn. When a decision is made under certainty, a manager knows exactly what the outcome will be because he knows his resources, time available, and other associated things.

**(ii) Risk:** The future conditions are not always known in advance. In real life, most managerial decisions are made under risk conditions, that is, some information is available but it is insufficient to answer all questions about the outcome. So a decision maker has to make probability estimates of these outcomes. How can one assign probability estimates to various courses of action? One has to depend on past experience if the situation is similar. But no two situations are exactly similar in business operations. If probability estimates are assigned to expected outcomes on the basis of past experience, it is known as objective probability. On the other hand, if the probability estimates are assigned on the basis of what is known as "gut feel", it is subjective probability. The "gut feel" here refers to how an individual feels about the problem and the course of action to be taken to solve that problem without totally relying on past experience.

There is no rule of thumb approach in assigning probabilities to various courses of action. Some may use quantitative technique, such as expected value analysis by which the expected payoff of an action can be

mathematically determined. Whatever the method used, the attitude of the decision maker becomes an essential ingredient when making decisions under conditions of risk. Some decision makers are risk takers while others are risk averters. A certain amount of risk-taking ability is essential for managerial success.

(iii) ***Uncertainty:*** Sometimes there are uncertain conditions when the decision maker feels that he cannot estimate probabilities for various alternatives or outcomes because he has no way of measuring the likelihood of those alternatives. For instance, if you are planning a trip to Kashmir and have never been there before, and have not been heard about the weather in Kashmir during winter, you may be in a predicament as to what clothes to carry and what precautions to take.

### Principles of Decision-Making

A manager's effectiveness is related to the quality of his decisions. Decision-making by a manager involves arriving at conclusions and exercising judgement. In all circumstances management decisions should follow a few basic principles which are likely to ensure their soundness.

(i) ***Principle of Definition:*** A logical decision can be made only if the real problem is defined with minute attention. Too often, time and effort are wasted due to the manager's inability to pin-point what the problem or the objective is. Indeed, it would be no exaggeration to suggest that a problem well defined is half solved.

(ii) ***Principle of Evidence:*** Decisions should not be taken hastily. They must be based on evidence meaning that adequate facts must be present to back the judgement. When the facts underlying a problem are discovered and care is taken to analyse the situation, the basic work in decision-making is done.

(iii) ***Principle of Identity:*** People have different perspectives. As a result same fact appears to be different to different people. Not only that, the relative importance of the same fact differs from year to year.

It is, therefore, urged that the decision-maker should take into account different viewpoints and determine the relative significance of the time period during which the event happens. In case any decision involves two or more persons it is advisable to consider the views of each person. All view points should be weighed carefully and compared with other sources before a decision is taken.

### Steps in Decision-Making

A manager is responsible for making decisions on matters falling within the scope of his authority. Moreover decisions that can be taken at a given level should not be generally referred to higher levels. A manager should use his skill and intelligence while deciding something because the quality of decisions made by him indicates the extent of responsibility discharged by him. Steps taken in decision-making are as follows:

(i) ***Identifying and Diagnosing the Real Problem:*** Understanding the problem intelligently is an important element in decision-making. Predetermined objectives, past acts and decisions and environmental considerations provide the structure for current decisions. Once this structure is laid, the manager can proceed to identify and determine the real problem.

Diagnosing the real problem implies knowing the gap between what exists and what is expected to happen, identifying the reasons for the gap, and understanding the problem in relation to higher objectives of the organisation. However, sometimes symptoms are mistaken for real problem. Defining a problem is thus not an easy task. Very often it consumes a lot of time which is worth spending.

(ii) ***Discovery of Alternatives:*** The next step is to search for available alternatives and assess their probable consequences. But the number of forces reacting upon a given situation is so large and varied that management would be wise to follow the principle of the limiting factor. That is, management should limit itself to the discovery of those key factors which are critical or strategic to the decision involved. Thus, while planning for expansion of the enterprise, availability of finance or of trained staff during a short span of time might be the limiting factors.

Discovery of the limiting factors is so important to the process of decision-making that sometimes it is described as search for the strategic factors. But search for the limiting factor or factors is by no means easy. However, in any attempt to discover the strategic factors management should not lose sight of higher objectives of the enterprise, instead it should analyse the limiting factors in terms of their contribution to the accomplishment of organisational objectives.

**(iii) Analysis and Evaluation of Available Alternatives:** Once the alternatives are discovered, the next stage is to analyse and compare their relative importance. This calls for listing of the pros and cons of different alternatives in relation to one another. Management should consider the element of risk involved in each of them and also the resources available for their implementation. Executives should weigh each of them from the viewpoint of accomplishment of some common goals and in relation to the effort involved and results expected.

Both tangible and intangible factors should be considered while evaluating different alternatives. Tangible factors, like profits, time, money and rate of return on capital investment can be expressed numerically. Such factors are usually evaluated and compared by projecting their effects on income, expense and cost structure of the enterprise. Since such factors are analysed for the future, their evaluation is based on forecasts and estimates. It is, therefore, better if the analyst discovers the extent to which different estimates can be relied upon.

Management can afford to overlook intangible factors in situations where their effect on the course of action is negligible. However, facts like public relations, reputation, employee morale and personnel relations prove significant and cannot be ignored inspite of the difficulties to express them numerically. The analysis should, therefore, identify the relevant intangible factors and ascertain their relative importance to arrive at a judicious decision.

Sometimes, the manager is faced with a situation where two or more alternatives appear equally good or bad. In that case actual difference will be the deciding factor. Similarly, where none of the alternatives under consideration is expected to produce desired results the manager will do well to decide in favour of no action or else trace other undiscovered alternatives.

The evaluation of alternatives may utilize the techniques of marginal analysis, wherein the additional revenues from additional costs are compared. The real usefulness of marginal approach to evaluation is that it accentuates the variables in a situation and de-emphasizes averages and constants.

Alternatives can also be evaluated on the basis of cost effectiveness. It is a technique which implies choosing from among the alternatives and thus identifying a preferred choice when objectives are far less specific than those expressed by clear quantities. Cost effectiveness criteria can be made more systematic through the use of models and other techniques.

**(iv) Selection of Alternatives to be Followed:** Defining the problem, identifying the alternatives and their analysis and evaluation set the stage for the manager to determine the best solution. In such matters a manager is frequently guided by his past experiences. If the present problem is similar to the one faced in the past, the manager may have a tendency to decide on that very basis. Past experience is an useful guide for taking decisions in the present. But it should not be followed blindly. Changes in the circumstances and underlying assumptions of decisions in the past should be carefully examined before deciding on a problem on the basis of experience.

- *Selection on the basis of experiments*

It is sometimes argued that managers should draw conclusions on the basis of experiments. Say, a plan relating to personnel matters may be tried in a branch office before extending it to other places. Experimentation as the basis for final decision has the advantage of incorporating intangible factors and also the environmental changes. But it has the limitation of being the most expensive of the techniques and as such is generally recommended for use only when all other bases have been tried.

- *Research as the basis for decision*

Another useful basis for decision is the application of scientific method to planning and decision-making. Application of research techniques helps the manager to visualise the problem and causal relationships between different variables in mathematical terms. In the recent past, extensive research has been carried out in the field of management with a view to develop a sound theory and practices of decision-making. A number of research approaches and techniques have been developed in economics, accounting, mathematics and other disciplines which have greatly contributed to this trend. Break-even analysis, marginal contribution analysis, forecasting, capital budgeting, standard costing, sensitivity analysis, operations research and the like, provide examples of research techniques currently in use in the field of decision-making.

(v) ***Communication of Decision and its Acceptance by the Organisation:*** Once decision is made it needs to be implemented. This calls for laying down derivative plans and their communication to all those responsible for initiating actions on them. It will be better if the manager takes into account beliefs, attitudes and prejudices of people in the organisation and is also aware of his own contribution to the implementation of the decision. It is further required that subordinates are encouraged to participate in decision-making process so that they feel committed and morally bound to support the decision. At the same time management should establish effective control so that major deviation can be observed, analysed and incorporated in future decisions.

### Hierarchy of Decisions

All decisions taken at all times are generally not of equal importance. The manager should, therefore, determine the importance of each decision in terms of its commitment and scope and the risk involved therein. In essence, then the manager would be able to pass on less important decisions to be made at lower echelons of management in the organisation, and this will help him to determine what kind of analysis and research is needed in arriving at a conclusion, keeping in view its importance. Thus, less important decisions can be based on simple analysis, whereas important decisions must be made after a thorough analysis of all the pertinent factors.

### Decision-Making by Groups

Decision-making by groups is not a rare thing observed in business operations. Board meetings, committees, staff-meetings and conferences provide examples of decisions-making by groups. Thus, directors at the top of an organisation make decisions in their board meetings. Similarly, departmental managers or executives solve a number of problems jointly.

In what type of problems, at what level, and how, decision-making by group may be used in the organisation is a policy matter and rests with higher ups. But wherever it is resorted to, the appointing authority should lay down in explicit terms the scope and exact functions expected of the group. If properly handled, decision-making by groups or committees offers the following advantages:

- (i) It improves quality of the decision since different viewpoints and opinions are reflected in it.
- (ii) Coordination of departmental activities through meetings of their respective heads become easier.
- (iii) Group decision-making provides opportunity for participation by individuals representing different interests and thus it boosts their morale and motivates them for a whole-hearted cooperation in carrying out the decisions.
- (iv) It provides opportunity for the training of employees and their development as future decision-makers.

Of course, group decision-making is not free from limitations. Its salient weaknesses may be enumerated as follows:

- (i) It is costly as well as a time-consuming affair and, as such, cannot be recommended particularly in situations where decisions must be made promptly.

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- (ii) More often differences in opinion and compromises lead to indecision.
- (iii) It is also observed that group decisions help members evade their individual responsibilities.
- (iv) If an individual member of the group is able to dominate discussion in the meetings, a decision so made does not represent synthesis of viewpoints of different interests.

### Evaluating Decision's Importance

How important a decision is to an organization can be assessed on the basis of the appraisal of the following factors:

- (i) **Size or Length of Commitment:** If a decision commits the enterprise to heavy expenditure of funds, or to an important personnel programme, or if the commitment can be fulfilled only over a long period, it should be subjected to suitable attention at an upper level of management.
- (ii) **Flexibility of Plans:** Decisions involving inflexible courses of action must carry a priority over those easily changed.
- (iii) **Certainty of Goals and Premises:** If goals and premises are fairly certain, a decision resting on them tends to be less difficult than where they are highly uncertain.
- (iv) **Quantifiability of Variables:** Where the goals inputs, parameters and variables can be accurately quantified, the importance of the decision, other things remaining the same, tends to be less than where the inputs are difficult to quantify.

### LESSON ROUND UP

- Planning is forecasting and deciding in advance of a course of action to be followed or activities to be pursued in future. It is the function of every manager.
- Predictions and assumptions about the future are known as Planning Premises.
- Forecasting is defined as an analysis and interpretation of the future conditions in relation to operations of the enterprise.
- Decision-making signifies actual selection of a course of action from among a number of alternatives.
- Decision-making by groups takes place in board meetings, committees, staff-meetings, conferences, etc. The appointing authority should lay down explicit terms regarding the scope and exact functions expected of the decision-making groups.

### GLOSSARY

<b>Pervasive</b>	Spread throughout or widespread.
<b>Pre-disposition</b>	The fact or condition of being predisposed (make susceptible).
<b>Intermesh</b>	Caught as if in a mesh.
<b>Contingency</b>	A chance, accident, or possibility conditional on something uncertain.
<b>Outmoded</b>	Not acceptable by present standards or no longer usable.
<b>Unified</b>	To make or become a single unit or unite.
<b>Mandays</b>	A unit of measurement, especially in accountancy; based on a standard number of man-hours in a day of work.

<b>Clairvoyance</b>	Intuitive knowledge of things and people.
<b>Hunch</b>	To shove; push or jostle.

### SELF TEST QUESTIONS

1. It is a broad statement distinguishing the organisation from others of its type. It can be a written document or it may be implicit.
  - a. Organization goals
  - b. Organisations policy
  - c. Organization Objectives
  - d. Organisation Mission
2. \_\_\_\_\_ is single-use plan containing expected results in numerical terms
  - a. Policies
  - b. Short term goals
  - c. Budget
  - d. None of the above
3. \_\_\_\_\_ may be defined as analysis and interpretation of the future conditions in relation to operations of the enterprise. It involves looking ahead and projecting the future course of events.
  - a. Forecasting
  - b. Long term goals
  - c. Operational plans
  - d. Tactical planning
4. It is a decision making situation in which, a manager knows exactly what the outcome will be because he knows his resources, time available, and other associated things.
  - a. Uncertainty
  - b. Certainty
  - c. Risk
  - d. None of the above
5. An individual's attachment to, or determination to reach a goal is referred to as:
  - a. Goal attainment
  - b. Goal attachment
  - c. Goal commitment
  - d. Goal setting
6. \_\_\_\_\_ is single-use plan containing expected results in numerical terms.
  - a. Budget
  - b. Short term plans

- c. Term plans
  - d. None of the above
7. \_\_\_\_\_ lays down the course of action selected to guide and determine present and future decisions.
- a. Procedures
  - b. Policy
  - c. Plans
  - d. Methods
8. The specific and concrete plans which focus on intermediate time frames, usually one to five years are called \_\_\_\_\_
- a. Tactical Plans
  - b. Operational plans
  - c. Short term plans
  - d. Strategic plans
9. Porter's Five Competitive Forces Model is a tool used by organisations for \_\_\_\_\_
- a. Environmental Assessment
  - b. Business Development
  - c. Environmental Management
  - d. None of the above
10. \_\_\_\_\_ is the process of choosing the proper course of action from among alternatives and calls for decision-making
- a. Planning
  - b. Managing
  - c. Forecasting
  - d. Brainstorming

**Answer key :** 1 a; 2 c; 3 a; 4 b; 5 c; 6 a; 7 b; 8 a ; 9 a; 10 a

### Suggested Readings

- (1) Principles of Management — *George R. Terry*
- (2) Essentials of Management — *Joseph L. Massie*
- (3) A Concepts of Organisation — *Paul E. Togerson*
- (4) Principles of Management — *Peter F. Drucker*
- (5) Management: A Functional Approach — *Joseph M. Putti*.





# Lesson 3

## Organizing

### LESSON OUTLINE

- Concept of Organisation
- Importance of Organisation
- Process of Organisation
- Types of Organisational Structure
  - Formal Organisational Structure
    - Line Organisation
    - Functional Organisation
    - Line and Staff Organisation
    - Project Management Organisation
    - Matrix Organisation
  - Informal Organisation Structure
- Review Questions
- Structure of Organisation
- Growth in Organisation
- Authority and Responsibility
  - Authority
  - Responsibility
  - Accountability
  - Delegation of Authority
- Centralisation and Decentralization
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

1. Discuss the fundamental characteristics of organising
2. Describe functional and divisional approaches to structure
3. Describe formal organisational structures
4. Identify how structure can be used to achieve an organisations strategic goals

Organization structure is the pattern of relationships among the component parts of the organization.

**Kast and Rosenzweig**

## CONCEPT OF ORGANISATION

Organisation in a formal sense refers to a collective group of persons engaged in pursuing specified objectives. The behavioural scientists and the sociologists view Organisation as comprising human relationships in group activity. It is referred to as the social system encompassing all formal relations. Another way of looking at Organisation is to consider it as an essential function of management. In operational sense, Organisation can be considered as consisting of divisions of work among people and coordination of their activities towards some common objectives.

The important steps in organising are:

- (i) Identification and classification of activities of the enterprise consistent with its objectives.
- (ii) Grouping those activities into workable units or departments.
- (iii) Delegation of authority and placing of responsibility on the executives of the departments for carrying out the assigned activities.
- (iv) Establishing superior-subordinate relationship within the departments.
- (v) Making provision for effective coordination between them and establishment of definite lines of supervision.

The following are the main features of organising:

- (i) It is a sub process of management
- (ii) It is goal oriented. It is designed on the basis of objectives and it aims at achieving them.
- (iii) It deals with group efforts.
- (iv) It is based on the principle of division of work.
- (v) It establishes authority-responsibility relationship among the organisational members.

Organising process leads to the creation of organisation structure, which defines how tasks are divided and resources deployed. Organisation structure is defined as

1. The set of formal tasks assigned to individuals and departments
2. Formal reporting relationships including lines of authority, decision responsibility, number of hierarchical levels,, and span of managers control and
3. The design of systems to ensure effective coordination of employees across departments.

## FEATURES

### 1. Work specialisation

Work Specialization is the degree to which tasks in an organization are divided into separate jobs. In some companies or organizations this is also referred to as division of labor. Work specialization is something that helps companies become more efficient, and productive. It is always important for a company's productivity to go up and stay stable.

An example of where work specialization may be used to help productivity and efficiency would possibly be in a shop, or an assembly line setting. One of the first businessmen to implement this idea of work specialization in a blue collar fashion was Henry Ford. He believed the assembly line was beneficial to his company and indeed it was. The assembly line focused on workers only performing one specific task and passing it to the next person. It was well-organized, fast, and efficient, something that the auto industry needed to implement in order to be successful, and Ford did just that.

## 2. Chain of Command

In an organizational structure, “chain of command” refers to a company’s hierarchy of reporting relationships — from the bottom to the top of an organization, who must answer to whom. The chain of command not only establishes accountability, it lays out a company’s lines of authority and decision-making power. A proper chain of command ensures that every task, job position and department has one person assuming responsibility for performance.

## 3. Authority, Responsibility and Delegation

- a. Line and Staff Authority

### AUTHORITY AND RESPONSIBILITY

#### Nature of Authority

Authority may be described as the right of a manager to command subordinates, issue them orders and instructions and exact obedience from them. Authority is also the right of the manager to make decisions, and to act or not to act depends upon how he deems fit to accomplish certain objectives of the organisation.

Fayol defined authority as “the right to give orders and exact obedience”, and viewed this as official authority. He also recognised that official authority vested in the job was often ineffective. Authority is greatly enhanced by personal authority comprising of intelligence, experience, moral values, leadership quality, etc. But as the key to management job, authority is conveniently described as the power to command others, to act or not to act in a manner for the purpose of achieving some objectives. An individual without authority cannot occupy the position of a manager. It is authority that makes the managerial position real and vests in him the power to order his subordinates and secure necessary compliance. In an organisation with a chain of superior-subordinate relations authority acts as the binding force and provides the basis for responsibility. Mooney<sup>1</sup> described authority as “the supreme coordinating power”. Delegation of authority is one of the important means of securing coordination in the organisation. Without authority there would be no superior-subordinate relations and there would be chaos and anarchy in the organisation.

Authority to command obedience is also known as the official authority or authority of position which a manager enjoys by virtue of his position in the organisation. But a person may have the ability to influence the behaviour of other people in the organisation. This is known as personal authority of the manager. Official authority of a manager becomes more effective when it is supported by his personal authority. Very often managers are found avoiding the term authority because of the impression of power associated with it and speak of having responsibility delegated to them, though it is authority which is delegated and not the responsibility. Similarly, authority should not be confused with unlimited power. It should thus be clear that authority consists of certain permissions or rights to act for the enterprise in some specified area.

#### Responsibility

Very often we hear statements, like ‘delegating responsibility’, ‘carrying out a responsibility’, ‘discharging a responsibility’, ‘possessing responsibility’. Such statements are a pointer to the fact that responsibility is a term clogged with variety of meanings in the field of management. It is frequently described as an obligation on the part of manager to perform a task himself. Those who accept the task should be held responsible for their performance as well. The basic essence of responsibility is obligation. However, in the context of hierarchical relations in the organisation, responsibility may well be described as the obligation of a subordinate to perform the duty or tasks assigned to him. Responsibility should then be construed in relation to a person and no other object. Implied in this is also the assumption that responsibility is founded on and emanates from superior-

subordinate relations established in the organisation. Thus a manager has the right to get the assigned duty performed properly by his subordinate. Moreover, he should ensure that the authority delegated to the subordinate gets properly discharged. From the above, it follows that authority flows downwards, whereas responsibility is exacted upwards.

Emergence of informal leadership sometimes creates problems in clearly defining responsibility of the subordinates. Thus, where the assistant sales manager is influenced by the production manager and looks forward to him for guidance, the basic structure is altered, though formally sales manager's responsibility to Chief Executive does not change and assistant sales manager remains equally responsible to the sales manager.

### **Accountability**

Accountability denotes answerability for the accomplishment of the task assigned by the superior to his subordinate.

It is to be noted that the process of delegation is not at all complete with just assigning the duty and delegating appropriate authority for the accomplishment of the task. The process of delegation becomes complete only by making the delegatee answerable to the superior for his functioning.

Thus, if the publicity manager of a company is assigned the task of formulating and implementing a mass publicity plan for a new product, he is answerable for its effectiveness. Similarly, production managers are answerable about the production, sales managers about sales and purchase managers about the purchase of raw materials. It may be mentioned that in all cases, managers delegate their authority to the subordinates creating a particular responsibility and keeping them answerable to them for the accomplishment of the job. In this way, authority goes downwards in the line making everyone accountable for the duty assigned.

### **Authority – Power Continuum**

The limits to formal authority are sometimes explained by making a distinction between authority and power. It is suggested that authority may be regarded in the official hierarchical sense as the right to command and power may be regarded as the capacity to influence the behaviour of others. In reality, managers having authority may be found also to have power to secure obedience in different proportions. At one extreme, right and capacity may be combined in equal proportions, while at another extreme right and capacity may be completely separable. For instance, the head of a division of the Army usually combines authority and power more completely. On the other hand, the foreman of a printing press may have authority over skilled subordinates but may not be able to wield power equally over them in view of the subordinates' superiority of skill. Hence, one should consider authority and power constituting a continuum.

### **Balance of Authority, Power, Responsibility and Accountability**

Ideally, authority, power, responsibility and accountability should be equal to one another in every position in the firm. When any one is out of balance with the other, problems can arise. When authority in a position exceeds power, the person holding the job can't be effective. He will be unable to use rewards and punishments to enforce authority. Even where authority and power are equal, they must be matched by responsibility and accountability. Otherwise, the position holder may pass the buck to someone else, when his actions cause problems.

### **Delegation of Authority**

Delegation is an administrative process of getting things done by others by giving them responsibility. Authority is the degree of discretion conferred on people to make it possible for them to use their judgment. As the organisation grows there is a need to delegate authority to more and more people to cope with the volume of work. Delegation of authority entails the division of work load and the sharing of responsibility.

A single individual cannot manage and control every activity of the business enterprise owing to his limitations, both physical and mental. There is a limit upto which a person can supervise the subordinates. When the number of subordinates increases beyond a limit, he will have to delegate powers to those who will perform supervision for him. A manager is not judged by the work he performs on his own but by the work he gets done through others. He assigns duties and authority to his subordinates and ensures that the organisational goals are achieved. Degree of delegation really depends upon manager's degree of management capabilities.

Various advantages of delegation of authority make a manager delegate some of his authority. A clearly defined authority-responsibility relationship helps the manager in maintaining healthy relationship with the subordinates. It enables the manager to get the benefit of specialised knowledge and paves the way for efficient functioning of the organisation. Delegation is a basic administrative technique essential for management of business enterprises. No organisation can ever function if authority is not delegated. While delegating authority, the manager does not delegate responsibility.

### Barriers to Delegation

- Fear of loss of Power
- Certain personal attitudes
- Lack of ability to direct well

### Principles of Delegation

Delegation does not always work as smoothly as the manager might expect it to. To overcome weak delegation and to make delegation more effective, certain guides, rules or principles are enunciated and followed. Some of the important principles are discussed below:

**(i) Clarity of Delegation:** Whether specific or general, written or unwritten, delegation of authority must be very clear in terms of its contents, functional relations, scope and assignments. The delegatee should also be given a clear idea about the tasks assigned, what is expected of the recipient in his own job and how his obligation fits into the general plan. Ambiguity in delegation often leads to poor results and tends to make the delegation less effective.

Principle of clarity of delegation also implies defining in clear terms the horizontal and vertical relationships of the position of each subordinate to the other positions in the organisation. That is, every subordinate must know what position in the organisation structure exists at his own level and how his position fits in the overall management hierarchy. Thus, every manager must know who are working under him and who are occupying positions higher than him in the organisation. This helps him to seek guidance and also to provide guidance in terms of scalar chain established in the organisation.

Specific written delegations help both the manager as well as the recipient of authority. It helps to minimise conflicts and overlaps. But as one goes up the echelons of organisational structure, such specific delegations become more and more difficult.

Principle of clarity of delegation should not be taken to mean that authority relations between the subordinates and the seniors once established become immutable. As a matter of fact, with change in the work itself, authority delegations should be adequately modified.

**(ii) Delegation to be Consistent with Results Expected:** A manager before proceeding with actual delegation of authority to the subordinate should know the jobs and results expected of such delegation. He should thereafter delegate only that much authority which is just sufficient to accomplish the results. It is an important guiding principle of delegation and rests on the assumption that goals are set and plans made in advance, and that jobs are set-up to accomplish or implement them. This principle also helps to minimise the dangers of delegating too much or inadequate authority.

**(iii) Responsibility cannot be Delegated:** Obligation to accomplish the assigned task is absolute and can not be partitioned when authority is delegated to the subordinate. Thus, when the chief executive of a company appoints a sales manager to look after sales, the former does not absolve himself of his responsibility for the same by delegating part of his authority to the latter. The chief executive even after delegation still remains accountable to the Board of Directors for management and supervision of the whole of the enterprise. If this principle is violated, three important consequences will follow:

- If the manager is able to pass on obligation along with delegation of authority to the subordinates, the rule of single chain of command will be violated.
- Management at the top shall have great responsibility and yet not be accountable for the results.
- When manager is allowed to delegate even his own obligation, there shall be no way of knowing who is accountable for what.

Thus, when authority is delegated, obligations are not passed down the organisation; rather new responsibilities are created at each level.

**(iv) Parity of Authority and Responsibility:** Whenever authority is delegated, responsibility steps in and is coextensive with authority. A subordinate can be held accountable for the tasks assigned to him and to the extent authority delegated for their accomplishment. Accordingly, sales manager cannot be held responsible for production failures for which he was given no authority. Since both authority and responsibility relate to the same assignment, it is logical that the two should be co-extensive. But this parity is not a mathematical one.

There are writers who have challenged the merit of equating responsibility with authority. While accepting the element of truth in this principle, they have raised certain difficulties inherent in the parity. Firstly, duties are concerned with objectives and activities, obligations with attitudes, and authority is related to rights. All the three things are related but lay down different orders. Indeed, it is difficult for the manager to express them through some common denominator and measure their equality. Moreover, authorities and rights which are passed on to the subordinates are subject to substantial restrictions both from within and also from outside the enterprise. These restrictions make it difficult for the executive to measure equality of authority and responsibility. Besides, some managers are prompted to develop a tendency to cover up their failure under the pretext of lack of desired authority. Thus, the principle of parity of authority and responsibility, though by and large correct is unfortunately an over simplification and “is likely to bring more mischief than good”.

**(v) Exception Principle:** A manager can delegates authority to the subordinate to relieve himself of the overload which he thinks can be passed on, in order to push down the process of decision-making as near the source of information and action as possible. In such a case, it is expected that the recipient of authority shall make proper use of it and make all the decisions falling within the scope of his authority. Only in exceptional cases when he fails to make the decision at his level, he should refer the matter to higher-ups for consideration and decision.

By delegating a part of his authority to the subordinate, the manager does not absolve himself of his responsibility. It is, therefore, essential that the manager should device suitable techniques of control so as to ensure that the authority is properly used and results are achieved as expected. Controls should not interfere with the authority; rather report the deviations promptly. In the same way, managers should reward those subordinates who use their authority successfully.

Authority once delegated can always be recovered by the delegator. Change in the company policy and programme and objectives, or in the organisation structure are some of the factors that may create the need for recovery of delegated authority.

In an organisation such problems also arise which require pooling the authority of two or more managers together before final decisions can be taken. Thus, on a number of occasions the production department has to seek concurrence of the sales department before effecting any major change in the product design. This pooling

together of the authority of two or more managers to solve a problem or take a decision is described as splintered authority.

(vi) **Principle of Functional Definition:** To develop departmentation, activities must be grouped to facilitate the accomplishment of goals, and the manager of each sub-division must have authority to coordinate its activities with the organisation as a whole. Principle of functional definition also says that the more a position or a department has clear definition of results expected, activities to be undertaken, organisation authority delegated, and authority and informational relationships with other positions understood, the more adequately the individual responsible can contribute towards accomplishing enterprise objectives.

(vii) **Scalar Principle:** It says that the more clear the line of authority from the top manager in an enterprise to every subordinate position, the more effective will be the responsible decision-making and organisation communication. Subordinates must know who delegates authority to them and to whom matters beyond their own authority must be referred.

(viii) **Principle of Unity to Command:** According to this principle, the more completely an individual has a reporting relationship with to a single superior, the lesser will be the problem of conflict in instructions and the greater the feeling of personal responsibility for results. Therefore, in case of delegation, except for the inevitable instances of splintered authority, the right of discretion over a particular activity will flow from a single superior to a subordinate. Thus, delegation will be more effective when the subordinate receives orders and instructions directly from one senior. This avoids the problem of confusion, preferences and divided loyalty.

#### 4. Span of Management

Depending upon the complexity of organisational activities and relationships amongst superiors and subordinates, it becomes important the superiors manage an optimum number of subordinates that result in optimum organisational output. All the subordinates cannot be managed by one superior. There has to be a limit on the number of subordinates who can be effectively managed by one superior.

The number of subordinates that a superior can effectively supervise is known as span of management or span of control. In the 19th and middle of 20th century, management writers determined 5 or 6 as the optimum number that a manager could effectively manage at the upper level.

#### 5. Centralisation and Decentralisation

Centralisation refers to the tendency to withhold a larger part of formal authority at higher echelons of management hierarchy. Thus, larger number of decisions more important to them are made by those occupying higher positions in the organisation. On the other hand, larger part of the authority is delegated down the levels of management so that decisions are made as near the source of information and action as possible, such a tendency and characteristic in the organisation is described as decentralisation. Place of decision-making authority in the management hierarchy and degree of the decision-making power at lower echelons of the organisation are the two important tests used to determine whether mode of working is centralised or decentralised in the organisation. The greater the number of decisions made and the more the functions affected by decisions at lower levels, the greater will be the degree of decentralisation.

Decentralisation should not be confused with delegation of authority. Decentralisation is basically concerned with attitude and philosophy of the organisation and management. It is not merely a process involving the handing over a part of the authority to the subordinates. Delegation is a process and decentralisation is the situation produced by larger delegation of authority down the levels of organisation. Moreover, a company cannot do without delegation, i.e., delegation of authority is essential in as much as no organisation is possible without delegation. Decentralisation is not of that much compulsion to the process of organisation. Thus, there may be delegation without there being decentralisation.

## Advantages of Decentralisation

Advantages of decentralisation become the limitations of centralisation:

- (i) Decentralisation makes for quick decision and improves quality of the decisions by pushing decisionmaking closest to the situation.
- (ii) Decentralisation helps improve effectiveness of managers. Development of self-reliant managers is encouraged. Every manager knows what he is expected to do. Good managers are tested and can be encouraged, whereas weak managers can be counselled and reprimanded.
- (iii) Democratisation of management is yet another advantage of decentralisation. Those who are governed can assert their voice and have a share in that governance.
- (iv) Decentralisation provides actual work experience to a large number of middle and lower managers and thus creates a reservoir of promotable managerial manpower.
- (v) Improved morale of personnel is another great advantage of decentralisation. Managers at different levels and semi-autonomous divisions are able to see by themselves the results of their own actions and ascertain their role and success.

## Advantages of Centralisation

Advantages of centralisation are largely absent in a decentralised organisation and they become limitations of decentralisation.

- (i) Uniformity of policy and procedure can strictly be enforced since decisions and controls are largely centralised.
- (ii) Centralisation helps to eliminate overlapping or duplicate activities and thus effects sufficient cost savings.
- (iii) Centralisation helps in fuller utilisation of talents of outstanding executives for enterprise as a whole.
- (iv) Centralisation ensures consistency in operating and uniformity in decision and consequently, helps to retain substantial control over activities of the enterprise.

Decentralisation is not an easy process. Both centralisation and decentralisation have their relative merits and limitations. Evidently, it is necessary to consider each in balance with the other. Even in a decentralised company, certain functions are invariably centralised. Moreover, some tasks cannot be decentralised. Thus, compulsions of trade unions, corporate laws or financial considerations may well force a company to centralise such activities.

## Factors Determining the Degree of Decentralisation

To which extent authority can be delegated largely depends on the attitude and temperament of individual managers, yet many other factors also affect it. Some such factors of overwhelming preponderance may be explained as follows:

- (i) **Importance and Significance of the Decision:** One of the important factors determining the degree of decentralisation of authority is *costliness of the decision*. Normally, decisions which are costly in terms of money value involved or in terms of factors like goodwill and image of the establishment, employee morale or motivation tend to be centralised at the upper levels of management. In other words, it is very rare that authority for crucial decisions is delegated. Of course, the practice is not based on the assumption that people at the higher level in the managerial hierarchy do not make mistakes. It is believed, however, that higher level executives commit

better fewer mistakes since they are trained and more experience, and in possession of adequate information necessary to arrive at a decision. In fact, it is observed from the mode of managerial behaviour that the determining factor in the centralisation of authority with regard to specific area or areas is the weight of responsibility since authority delegation does not implicate responsibility delegation.

**(ii) Size of the Enterprise:** Another pertinent factor determining of decentralisation is largely the *size of the organisation*. The larger the firm, the more decisions are to be taken. Hence a number of departments and many levels are included. There is no denying the fact that it becomes too difficult to coordinate all of them. Moreover, a number of executives and specialists need to be consulted in such big establishments. In essence, decisions are often delayed, though delayed decisions cost more.

Diseconomies of large size may be greatly reduced by organising the enterprise into a number of decentralised units resulting in greater economy and efficiency. Of course, exactness of the size, till now, is a controversial matter. Nothing in particular or categorically can be prescribed. But it is to be appreciated in all circumstances that the size of each individual unit should be so determined that departments or units are easily manageable with authority considerably decentralised.

**(iii) Management Attitude and Philosophy:** Decentralisation largely depends upon the character of top executives and their attitude. It may be noted that outlook and attitude of top management is, undoubtedly, a significant determinant of the extent and mode of authority dispersal. It is certain that an executive with traditional rigid outlook hardly contemplates delegating substantial authority. On the other hand, people with rational managerial temperament believe and want to rely upon participative approach of doing the work and are anxious to take maximum opportunity of individual initiative in the organisation, opt for decentralisation.

**(iv) Control Techniques:** Another related factor determining the degree of decentralisation is the magnitude of the desire to obtain a uniform policy with regard to such vital factors as the price of a product, service, delivery, credit, etc., which can best be practised by centralised authority. And there is no denying the fact that such a standing belief deters them from delegating authority to others - even to the executives of regional offices.

Of course, the internal advantage of uniform policy cannot be undermined altogether. But, in the same event, costs involved to centralise decisions must also be taken into account. It is further to be appreciated that centralisation is likely to arrest individual initiative and dampen the future growth of managerial personnel from within the organisation.

**(v) Availability of Capable Executives:** Nevertheless, availability of capable executives substantially determines the nature and extent of dispersal of authority. It is not uncommon that top executives willing to delegate authority find themselves handicapped for want of capable and qualified subordinates. Obviously, the key to safe decentralisation is adequate training of subordinates by making them able to shoulder higher responsibility effectively. And perhaps it would be interesting to note that decentralisation provides possible opportunities to impart the training required.

**(vi) Environment Influences:** So far the determinants of the extent of decentralisation that have been analysed belong to the interior of the firm. But certain external forces are also significant in determining the mode of decentralising authority. There should not be any controversy over the fact that forces, like government control, national unions, fiscal policy of the government and government purchases, also, to a considerable length, determine and mould the extent and nature of decentralisation of any organisation.

In fact, these forces on many occasions deter the management of an enterprise to delegate authority down the echelon since many aspects of the functioning are virtually controlled by such external forces. Say, for example, when raw material is subject to government allocation, the extent of authority that can be given to purchase and factory managers is really a point of argument. Likewise, if pricing of any product is subject to regulation, hardly any authority could be given to sales manager to exercise and assert.

### Delegation and Decentralisation

Even though both delegation and decentralisation involve dispersal of authority following are the points of distinction between the two:

<b>Points</b>	<b>Delegation</b>	<b>Decentralisation</b>
1. Nature	Delegation is individual. It usually involves two persons. The supervisor and the subordinate.	Decentralisation is totalistic in nature. It involves delegation from top management to the department or division of sectional level.
2. Control	Control rests with the delegator or the supervisor.	In decentralisation, management exercises minimal control. All powers are given to concerned departments or divisions or sections.
3. Need	Delegation is essential to get things done by others. Unless authority is delegated it will be difficult to assign responsibility.	Decentralization is optional because it depends upon the philosophy of management. Top management may or may not dispense with the authority.
4. Responsibility	In delegation, responsibility remains with the delegator. He can delegate authority but not all responsibility. Eventually it is the delegator who is answerable for the job.	In decentralisation, head of each department is responsible for all activities being performed under him. He is required to show better performance of the whole department. So responsibility is fixed at each department level.
5. Relationship	Delegation creates superior-subordinate relationships	Decentralization is a step towards formation of semi-autonomous units.

It can be seen from the above chart that decentralization is a fundamental phase of delegation. It is an extension of the concept of delegation. According to Allen, decentralization is the systematic effort to delegate to the lower levels all authority except that which can be exercised at central point.

### 6. Departmentalisation

'Departmentation' or 'Departmentalisation' is the process of grouping the activities of an enterprise into several units for the purpose of administration at all levels. The administrative units so created may be designated as departments, divisions, units, branches, sections, etc.

### IMPORTANCE OF ORGANISATION

Organisations are established to attain different goals related to different interest groups. These goals are attained through the mutual contribution of all related stakeholders. The effectiveness and efficiency of organisation helps in providing the continuity and success to the business firms. The importance of organisation can be realized in many ways, among which some are discussed as follows:

(i) **Facilitates Administration:** An efficient and sound organisation makes it easy for the management to relate to the flow of resource continually to the overall objectives. A sound organisation helps in providing appropriate platform where management can perform the functions of planning, direction, coordination, motivation and control.

(ii) **Facilitates Growth and Diversification:** A sound organisation helps in the growth and diversification of activities. The growth is facilitated by clear division of work, proper delegation of authority, etc. In short, it helps

in the organisational elaboration. In case of reasonable expansion of the organisation, the functional types get replaced by a more flexible decentralized organisation.

(iii) **Permits Optimum Use of Resources:** The optimum use of technical and human resources gets facilitated with sound and efficient organisation. The organisation can have the facilities of latest technological developments and improvements. It also facilitates optimum use of human resources through specialization. The people in the organisation get appropriately trained and get promotion opportunities. A sound organisation provides all the desired potential and strength to the company to meet the future challenges.

(iv) **Stimulates Creativity:** Specialization in the organisation helps individuals in getting well-defined duties, and clear lines of authority and responsibility. It encourages the creativity of the people. The sound organisational structure enables managers to concentrate on important issues where their talent can be exploited to the maximum.

(v) **Encourages Synergy Effect:** When one 'efficient' team member is able to persuade and motivate all other average team-members to work more efficiently, resulting in greater performance of the group than what it was before the motivation of all other employees, the effect is known as 'synergy effect'

A sound organisation helps in adopting efficient methods of selection, training, remuneration and promotion for employees. It makes people work in a team with synergy. Organisation helps in providing factors, like job rotation, job enlargement and enrichment to its employees. A sound organisation provides higher job satisfaction to its employees through proper delegation and decentralization, favorable working environment and democratic and participative leadership. It enhances the mode of communication and interaction among different levels of the management.

(vi) **Transfer and Adaptation of Technology:** Any organisation involved in the ongoing process of research enhances its level of services. In this course, it adapts the latest technologies available in the market and indirectly it also imparts these technologies to the society through its members.

## PROCESS OF ORGANISATION

The steps involved in the process of an organisation are:

(i) **Determination of Objectives:** Organisation is usually associated with defining objectives. Therefore, it is necessary for the management to identify the objectives before beginning any activity. It will assist the management in the selection of men and materials and with their help it can attain its objectives. Objectives also act as the strategy for the management and the workers. They give unity of direction in the organisation.

(ii) **Identification and Grouping of Activities:** When the members of the groups are to unite their efforts effectively there must be an appropriate division of the main activities. Each job should be properly classified and grouped. This will facilitate the group to know what is expected of them as members of the group and will help in avoiding any duplication of efforts. For example, the total activities of an individual industrial organisation can be separated into major functions, like production, purchasing, marketing and financing, and each such function is further subdivided into various jobs. The job assigned may be classified and grouped to ensure the useful achievement of the additional steps.

(iii) **Allotment of Duties:** Once the activities are categorised and grouped into various jobs categorizing and grouping the activities into various jobs, they should be allocated to the employees so that they can carry them out effectively. Each individual should be given a particular job to do according to his ability and made responsible for that. He should also be given sufficient authority to do the job assigned to him.

(iv) **Developing Relationships:** Since various individuals work in the same organisation it is the duty of the management to lay down the structure of relationships in the organisation. Everybody should clearly know to whom he is accountable. This will facilitate the smooth functioning of the enterprise by facilitating delegation of responsibility and authority.

(v) **Integration of Activities:** Integration can be accomplished in the entire activities in following ways:

- (a) Through authority relationships – horizontally, vertically, and laterally.
- (b) Through organized information or communication systems and with the help of effective coordination integration can be accomplished. This will enable the enterprise to achieve unity of objectives, team work and team spirit by the integration of different activities.

## TYPES OF ORGANISATION STRUCTURE

There are two types of Organisation Structures:

- Formal Organisation Structure
- Informal Organisation Structure

They are discussed herein under:

### Formal Organisation Structure

The formal organisation refers to the structure of jobs and positions with defined functions and relationships. This type of organisation is built by the management to realize the objectives of an enterprise.

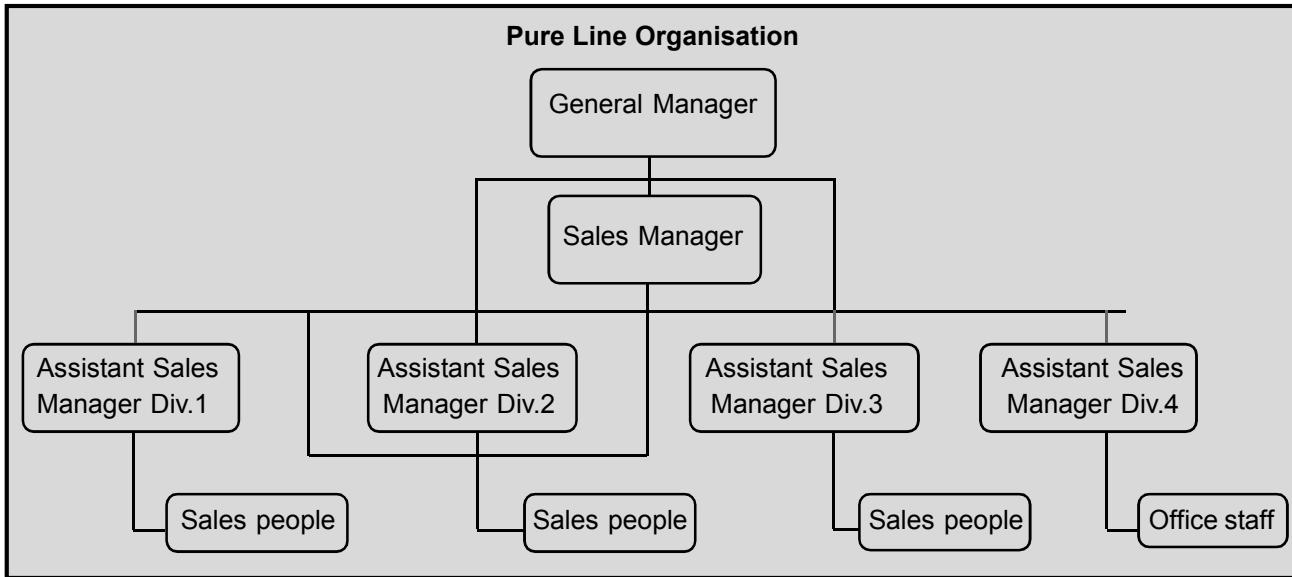
The types of organisation employed by companies vary considerably. However, on the basis of the nature of authority and its flow, the fundamental organisation structures may be classified as follows:

- (1) Line Organisation
- (2) Functional Organisation
- (3) Line and Staff Organisation
- (4) Project Management Organisation
- (5) Matrix Organisation.

#### 1. Line Organisation

Historically, line type of structure is the oldest pattern of organisation. The oldest and simplest form of organisation is line origination. Line functions refer to those employees who have direct responsibility for accomplishing the objective of the enterprise. In this form of organisation, a supervisor exercises direct supervision over a subordinate, under the organisation, authority flows from the person at the top to the person at the lowest ring of the organisation. Here the chief executive leads the organisation. This form of organisation is otherwise called military organisation or scalar type of organisation.

The line organisation is Illustrated by a Figure given herein:



**Benefits of Line Organisation:**

- (i) It is simple to work.
- (ii) It is economical and effective. It permits rapid decisions and effective coordination.
- (iii) It promotes unity of command and conforms to the scalar principle of organisation.
- (iv) It fixes responsibility for the performance of tasks in a definite manner upon definite individuals.
- (v) With a unified control and undivided loyalty, line organisation ensures excellent discipline.
- (vi) It is less expensive due to non-involvement of staff personnel.
- (vii) It is stable.

**Weaknesses of Line Organisation:**

- (i) It suffers from lack of specialisation. Each department manager looks after activities of his own department only.
- (ii) There is a possibility of keymen being loaded to the breaking point. Since there is no staff aid, the organisation can be seized by a strong man and run on an arbitrary basis. Such a dictatorial or arbitrary power can lead to a considerable damage to the organisation.
- (iii) Such enterprises suffer from lack of expert staff to give them advice. There are occasions when the line manager is not competent enough to make decisions.
- (iv) Line organisation is rigid and inflexible. Discipline is maintained to the extent that organisation is rarely allowed to change.
- (v) It is based upon an autocratic system of management.
- (vi) The work may be divided according to the whims of the manager rather than according to any scientific plan.
- (vii) It cramps progress and prevents effective working of the unit.
- (viii) It is likely to encourage nepotism (*favoritism shown on the basis of family relationship, in business and politics*).

The Line Organisation system can be successfully utilised:

- (i) Where the scale of business is small, and the number of subordinates and operative employees are not many;
- (ii) In continuous process industries;

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- (iii) Where the work is largely of routine nature;
- (iv) Where the machinery is nearly automatic and does not call for the intelligence of the foreman;
- (v) Where labour-management problems are not difficult to solve.

### REVIEW QUESTIONS



#### State True or False:

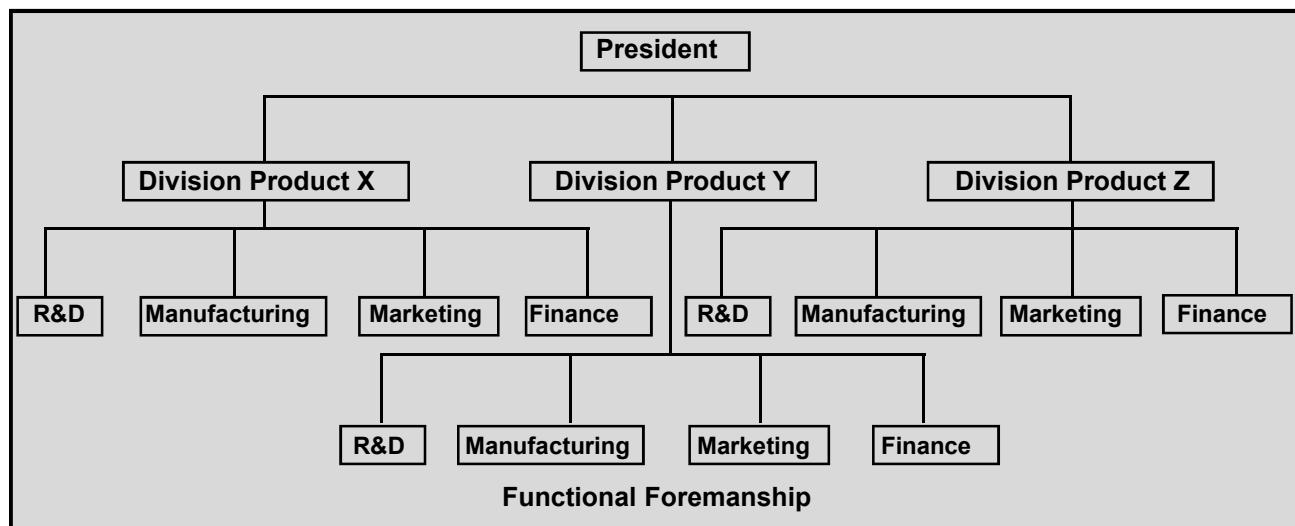
1. Line organisation is flexible and changeable.
2. Functional organisation is characterized by total absence of staff specialists.
3. In case of matrix organisation, the manufacturing department constitutes the horizontal chains of command.
4. A manager in an organisation is judged by the work he performs on his own. Hence, delegation of authority is not essential for him.
5. In decentralization, management exercises maximum control.

**Answers:** 1. False 2. False 3. False 4. False 5. False

## 2. Functional Organisation

Under this system, the whole task of management and direction of subordinates is divided according to the type of work involved. At the higher levels, the functional organisation refers to the structure that is formed by grouping all the work into major functional departments. Related and similar work is done in one department under one executive. For example, the purchaser is responsible for all purchases of the company. The scope of the work is limited but the area of authority is unlimited.

The chief advantage of functional system is that it ensures division of labour and specialisation based on individual proficiency and specialised knowledge. This makes for better utilisation of employees and development of their skills. The disadvantage of one-man control under line organisation is largely alleviated here.



#### Drawbacks of Functional Organisation:

- (i) Because of high degree of specialisation, functional organisation is difficult to establish.

- (ii) Changes in personnel often lead to instability since performance also shifts with these changes.
- (iii) Specialists often operate with considerable independence so that the organisation seldom functions as a total system. As a result, control and coordination becomes difficult to achieve.
- (iv) Authority and responsibility often overlap and a great deal of friction results; locating and fixing up responsibility becomes extremely difficult.
- (v) Specialists usually ignore the big picture so that the deficiency of leadership is almost perennially (*everlasting*) felt.

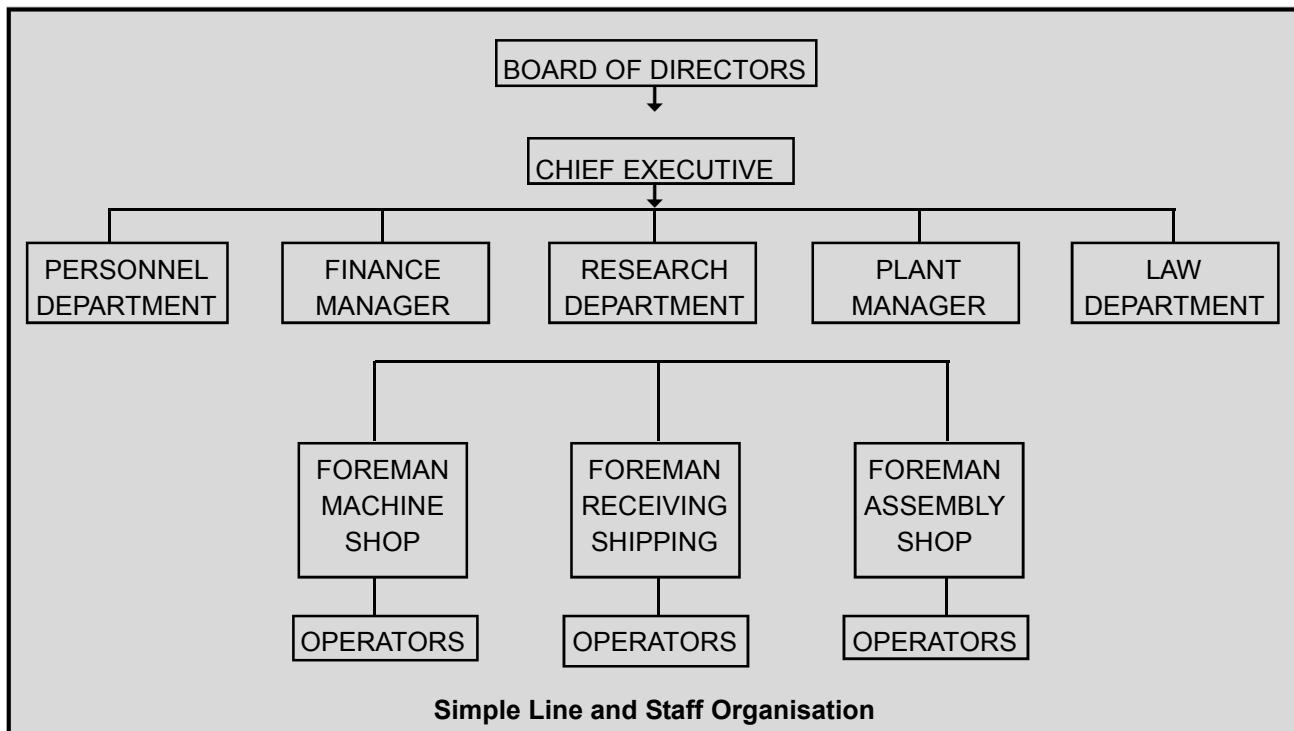
### 3. Line and Staff Organisation

Both the line and functional plans prove inadequate in operation. The line system concentrates on authority too much. But purely functional plan also divides it too much. The line and staff system strikes a happy balance between the two.

Under this organisation “line” is supplemented by “staff”. The staff refers to officers who are not line managers but are more or less permanently detailed to special services or to the study of some phases of operations. Staff personnel thus act as an advisory group adjacent to the line.

This pattern of organisation came into being as a result of the departmental managers having to investigate, think and plan and, at the same time, perform the ordinary tasks of production and selling. Consequently, the work of investigation, research, recording, standardisation and advising, i.e., the work of experts, was wholly distinguished and separated from the routine process of manufacturing and selling. Thus, there arose a clear demarcation between ‘thinking’ and ‘doing’; the staff being the ‘thinkers’ and the line being the ‘doers’.

Line and staff organisation is illustrated by a Figure given below:



The merits of line and staff organisation are:

- (i) It adds functional specialists to the pure line organisation and thus aims at combining the merits of the two.

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- (ii) The stability and discipline of the line organisation are preserved; only the specialist is added.
- (iii) It brings expert knowledge to bear upon management. Functional specialists provide advice to the management on wide-ranging matters.
- (iv) It provides for better placement and utilisation of personnel and leads to more concerted skill development.

### ***The drawbacks are:***

- (i) The line and staff relationships often lead to numerous frictions and jealousies.
- (ii) Line managers may depend too much on staff experts and thus lose much of their judgement and initiative.
- (iii) On the contrary, the staff experts remain ineffective because they do not get the authority to implement their recommendation.

### ***The Problem of Choice:***

The problem of choosing from among the three types of organisation discussed above is not that of selecting one of them; rather it is concerned with determining the right balance among the three.

- The line structure is part of every organisation, no matter how small or simple it is. The line structure is characterised by total absence of staff specialists.
- At the other extreme is functional organisation with too much of specialisation.
- In between these two lies the line and staff organisation.

A typical organisation is generally characterised by line and staff positions in structure. It has some staff specialists vested with a degree of functional authority relating to their respective areas of specialisation over lower line managers. Some of the staff managers generally succeed in acquiring a degree of functional authority whether permitted or not. It would be judicious, therefore, to strike a balance between the line and functional authority.

## **4. Project Management Organisation**

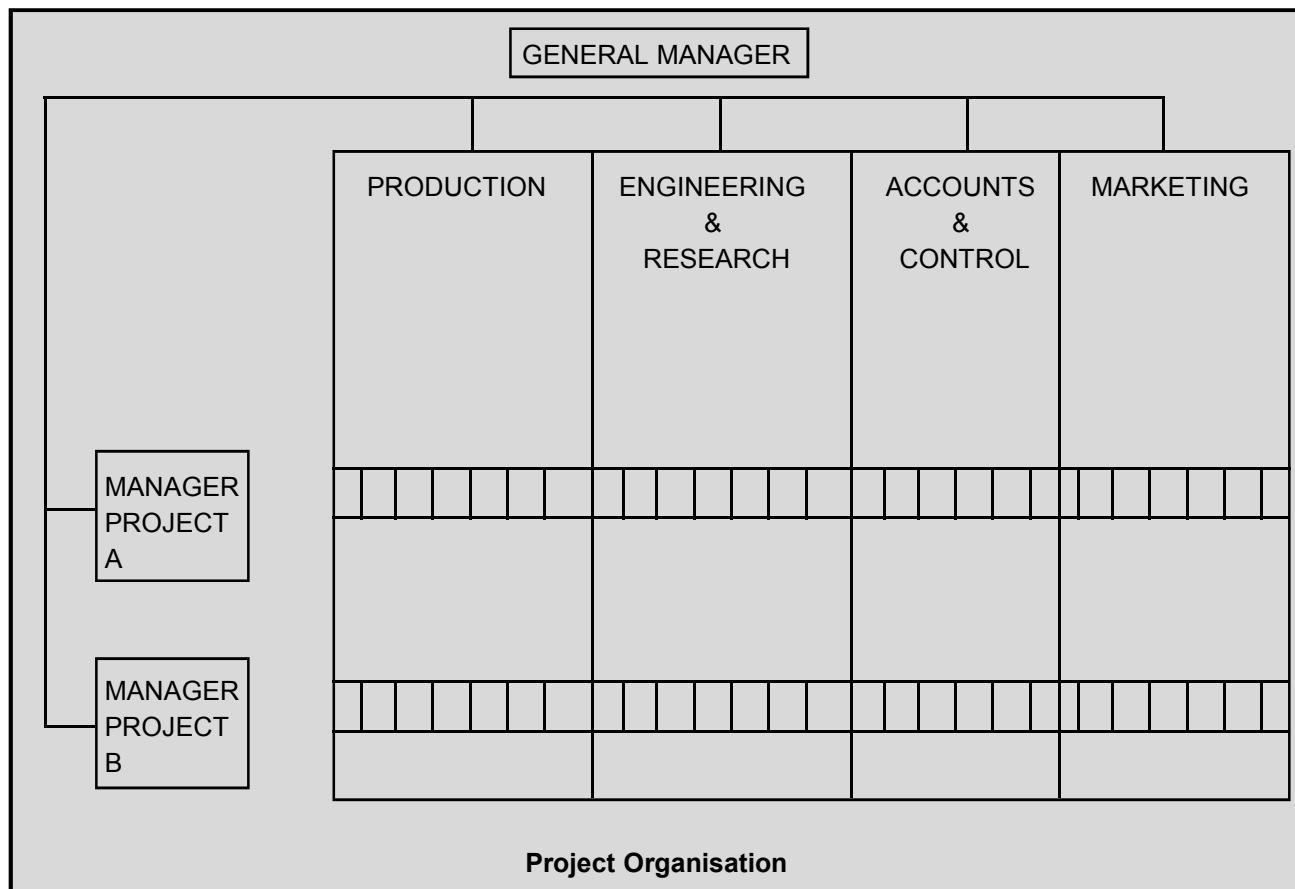
Project organisation is not a separate kind of organisation, like the line, line and staff and functional organisations; it is rather set up within an existing organisation for the purpose of completing a project or accomplishing assigned objectives in time, and within cost and profit goals as laid down by the management in this connection. Project organisation is directed by the project manager responsible for project goals.

Project management organisation may involve development and introduction of a new product, complete redesigning of an existing product line, installing a new plant, and the like. For example, 'software development' for a client.

Project organisation involves appointment of the project manager usually drawn from the middle management ranks. He is responsible for detailed planning, coordination, control and achievement of the objectives within the time schedule. Project manager operates with a team of qualified personnel drawn from different functional departments involved in the project. Moreover, project manager's authority is functional within the limits of the project. Another important characteristic of project organisation is that it is dissolved after the project work is completed.

***Resulting Organisation Structure:*** The essence of project management organisation is its independent status which cuts horizontally the normal organisation structure. Since project management is usually required to take prompt decisions and actions from a number of functional areas, flow of information is largely lateral and not vertical. Thus project organisation is characterised by exceptionally strong horizontal working relationships. For instance, major product development calls for close working between the engineering, production and marketing

departments; and with employers who are at the same level in organisation hierarchy. However, frequent product changes and decisions affecting costs require communication with the superiors. Project organisation, as such does not completely rule out the possibility of vertical communication though horizontal working relationships are stronger. To be more effective, the project manager should occupy the same status in organisational hierarchy as is occupied by managers of the functional departments. This may be illustrated in the project organisation chart produced below:

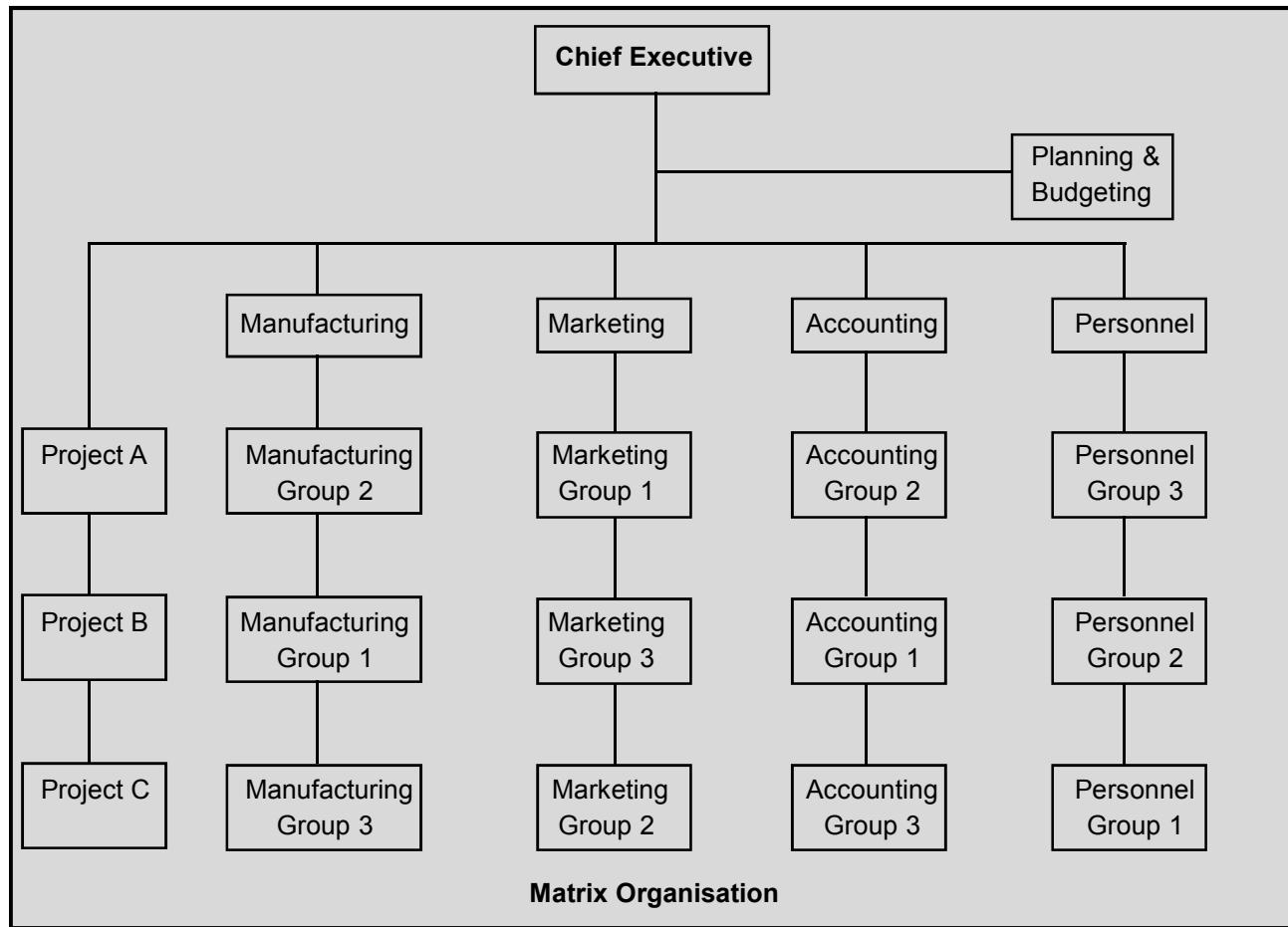


## 5. Matrix Organisation

A newly evolving organisation structure which has received considerable attention in the West is the Matrix Organisation. It combines functional departmentation with product or project organisation.

In a matrix organisation, the functional departments, like manufacturing, marketing, accounting and personnel constitute the vertical chains of command, while the project organisation or product divisions form the horizontal chains of command. The vertical lines of authority are cut horizontally across by project or product line divisions.

The matrix or task force consists of a group of individuals, drawn from the various functional departments, who are assigned to particular projects or product divisions, and are considered best qualified for the work. The project manager or divisional manager usually reports to the Chief Executive in a line capacity. (See the given Figure of Matrix Organisation).



## ***Advantages and Limitations of Matrix Organisation***

The matrix organisation structure is designed to derive the benefits of both the functional structure and the divisional structure. It helps to promote specialisation as well as lateral coordination and highlights the achievement of business results in each of the divisions and the organisation as a whole.

However, it suffers from several limitations. The multiplicity of vertical and horizontal relationships impair organisational efficiency. The secondment of specialists from functional departments to a number of projects makes it difficult for functional heads to appraise employee performance. Disagreement between project teams and functional departments results in the form of considerable stress on the personnel.

## **Informal Organisation**

Informal organisation refers to the relationship between people that is not based on procedures but on personal attitudes, prejudices, likes and dislikes. There always exists an informal organisation in a formal organisation and every management has to recognise this fact.

*Barnard* viewed informal organisation as joint personal activity without being conscious of the joint purpose, even though possibly contributing to joint results.

*Keith Davis* regards informal organisation as the network of personal and social relationships which is not established or required by formal organisation. Thus informal organisation comprises of the whole set of customs, social norms and ideas by which people are influenced.

### **Features of Informal Organisation**

Informal organisation is characterised by the following features:

- (i) It develops spontaneously and is not established by formal managers.
- (ii) It is based on informal authority attached to the person and not the position. Informal authority is earned and not delegated. This authority under informal organisation largely flows either upwards or horizontally.
- (iii) Informal organisation represents human tendency to cut across formal channels communication informally with other parts of the enterprise.
- (iv) It is all-pervasive and exists in every enterprise.
- (v) Informal organisation is not always destructive, though, at times, it can make the job of management more difficult. Because of its powerful influence on productivity and job satisfaction, formal management would do well to derive benefit from the study of informal organisation.
- (vi) Informal organisation cannot altogether be abolished. It is not created at the will of the formal managers. Moreover, the formal managers can not do without the conventions, customers and culture the informal organisation is strongly bound with.

### **Functions of Informal Groups**

- (i) These groups maintain and continue the cultural values and life style of the group.
- (ii) They provide social satisfactions.
- (iii) The group develops system of communication in order to meet wants and to keep its members informed about what affects them.
- (iv) They exercise social controls by which the behaviour of others is influenced and regulated.

### **Problems Associated with Informal Organisation**

- (i) *Resistance to Change*: There is a tendency that the group may become overly protective of its life style and stand like a rock in the face of change. They are strongly bound by conventions, customs and culture.
- (ii) *Role Conflict*: The quest for social satisfactions may lead members away from organisational objectives. What is good for the employee is not always good for the organisation. This would result in a role conflict. Workers want to meet the requirements of both, their group as well as of their employer, but frequently these requirements are conflicting each other.
- (iii) *Rumour*: Communication in informal organisation leads to the problem of rumour.
- (iv) *Conformity*: Social control of informal groups exerts strong pressures for conformity. The closer they are attached to it, the stronger its influence becomes.

### **Benefits of Informal Organisation**

Informal systems bring a number of benefits for the employers. Informal system:

- (i) Makes the total system more effective.
- (ii) Lightens the work load of the management.
- (iii) Helps get work done.
- (iv) Tends to encourage cooperation.
- (v) Fills in the gaps in a manager's abilities.
- (vi) Gives satisfaction and stability to work groups.

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- (vii) Provides a useful channel of communication.
- (viii) Provides a safety valve for employees' emotions.
- (x) Encourages managers plan and act more carefully.

### **Control of Informal Organisation**

The benefits of informal organisation will accrue only when it is properly controlled and its potential power properly channelised. The significant aspects of manager's duty in this connection are:

- (i) He should recognise and reconcile himself to the existence of informal organisation.
- (ii) He should influence the informal organisation so that its role is more positive and its negative aspect is minimised.
- (iii) He should integrate informal organisation with the formal organisation in such a way that the former also contributes to the accomplishment of enterprise objectives.
- (iv) He should make informal organisation secondary to formal organisation, and not vice versa.

## **STRUCTURE OF ORGANISATION**

The idea of structures in an organisation is also a fundamental one. It is characterised by activity-authority relationship in an enterprise. Organisation as a structure is a consciously conceived and created pattern of tasks, roles and relationships among individual members of a group towards the accomplishment of its objectives. This pattern or network may be exhibited by way of organisation chart.

The organisation structure is not an end in itself, it is rather a means to an end. It is created to achieve certain goals, and organising in turn is done to accomplish those objectives. *Peter F. Drucker* also views organisation as a means to the end of business performance and results.

## **Purpose and Cause of Organising**

It needs to be emphasized that structure is a means, not an end in itself. As such not only should it facilitate achievement of enterprise objectives through orderly organised group effort but it should also do the same with the least cost in terms of time, money, effort and pain. Thus, strictly speaking, the structure does not have objectives of its own, rather it is a manifestation of enterprise objectives in terms of those attributable to the specific tasks, roles and relationships.

The basic cause of organisation structure lies in the limitations of span of management. If there were no such limitations, one could have an organized enterprise with only one manager. The number of subordinates a manager can effectively manage may be a few or many depending upon one's ability, the requirements of job to be done, and the basic factors that influence time demands.

## **Dynamic Organisation Structure**

Organisation structure should not be static. An enterprise operates under a highly dynamic environment where technological, social, political and economic setting in which it operates and the people managing the organisation are continually in a flux. This calls for adapting the organisation structure to changing conditions so that it can survive and grow. A change in economic function generally calls for redesigning the organisation structure. Intense competition may require profit decentralisation and provision of better service to the people. Economic considerations may favour vertical disintegration of particular process. Such changes in economic functions influence the organisation structure largely through interchanging the jobs. Accommodating these changes in the organisation require that the structure should be partly modified.

## Developing an Organisation Structure

Designing a new organisation structure or reorganising an existing one calls for careful consideration of current practices and principles of organisation. There are, however, no such rules the application of which will lead to the best organisation structure in every situation. But the following steps can be of great help in designing a suitable structure which will help in achieving enterprise objectives:

- (i) *Clear Definition of Objectives*: The first step in developing an organisation structure is to lay down its objectives in very clear terms. This will help determine the type, stability and basic characteristics of the organisation. In fact, organisation activities are detailed in terms of objectives to be achieved.
- (ii) *Identifying the Activities and Grouping them into Convenient Classes*: The next important step in developing an organisation structure is an enumeration of activities necessary to achieve the objectives, their grouping in a systematic manner, assignment of such groups of activities to personnel and providing for their coordination. Wherever possible, similar functions should be combined into one position.
- (iii) *Determine the Structure*: The first two steps outlined above set the stage for actual determination of the organisation structure. More specifically, the organiser has to decide about the span of supervision, types of organisation, basis of departmentation and the pattern of authority structure.
- (iv) *Revise the Structure on the Basis of Assessment of Personnel and Other Resources*: The last step in developing a suitable organisation structure is to assess the capacities and abilities of the people available to man the different positions in the organisation along with other resources at the disposal of the enterprise. The ideal organisation should then be adapted to fit the reality of the situation.

Principles of organisation and steps in developing the organisation structure outlined above provide only the general guidelines that can be followed. However, each enterprise should be viewed as a separate entity and developed accordingly. It is unwise to follow a particular structural form simply because that proved more effective in one instance. Local conditions, business objectives and policies, scale of operation, nature of work, and above all character and abilities of personnel available are important factors to be considered while developing an organisation structure.

## GROWTH IN ORGANISATION

Organisational growth, unlike the growth of organisms which is a natural and evolutionary process, can be planned, expedited, stabilised, controlled and even retarded keeping in view the strategic plans of action. However, taking the given growth as an objective of an organisation, it would be a worthwhile exercise to study the process of growth in organisations.

Larry E. Greiner has provided a sound theoretical framework to analyse the process of organisational growth. He argues that growing organisations move through *five relatively calm periods of evolution, each of which ends with a period of crisis and revolution*. According to him, “Each evolutionary period is characterised by the dominant management style used to achieve growth, while each revolutionary period is characterised by the dominant management problem that must be solved before growth will continue”.

As organisation grows from small to large size(*evolution*), initially there is growth through the creativity of the founders who are usually technically- or entrepreneurially-oriented, but soon management problems occur that cannot be handled through the mere dedication of the founders and through informal channels of communication. A *crisis of leadership* develops. To meet this, a strong manager is appointed. (*revolution*)

This new manager takes most of the responsibility for initiating direction, while lower level supervisors get tasks carried out without enjoying any decision-making authority. As the organisation grows further (*evolution*) these lower level officers demand more autonomy. Hence, the *crisis of autonomy* occurs. To handle this situation, authority is delegated to lower level managers. (*revolution*)

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But soon these levels internalise subunit goals (*evolution*) and it becomes difficult for the top manager to control and integrate their activities. So growth through delegation leads to a *crisis of control*. The need for coordination is felt. (*revolution*)

There is need for the coordination of delegates' activities as centralization at this stage is now no longer possible. So elaborate rules and regulations are developed (*evolution*) to obtain proper coordination, but this itself creates the *crisis of red-tape*

It is hoped, perhaps, that this crisis can be overcome through collaboration (*revolution*). Hence, there is growth through collaboration in which people work as teams, and social control and self-discipline take the place of formal control.

Thus, as the enterprise grows, the structure undergoes a change. The movement, in general, appears to be towards greater autonomy, flexibility and informality and is conducive to adaptiveness and innovativeness that are key to organisational effectiveness and success.

### LESSON ROUND UP

- In a formal sense, organisation refers to a collectivity of persons engaged in pursuing specified objectives. The behavioural scientists and the sociologists view organisation as comprising human relationships in group activity.
- A formal organisation refers to the structure of jobs and positions with defined functions and relationship. On the basis of the nature of authority and its flow, the fundamental organisation structure may be classified as Line Organisation, Functional Organisation, Line and Staff Organisation, Project Management Organisation and Matrix Organisation.
- Informal Organisation refers to the relationship between people based not on procedures but on personal attitudes, prejudices and also the likes and dislikes of people.
- Organisational growth, unlike growth of organisms which is a natural evolutionary process, can be planned, expedited, stabilized, controlled, and even retarded, keeping in view the strategic plans of action.
- Authority is a term packed with variety of meanings by theorists and management practitioners. In everyday life, authority is commonly understood as rightful power or right to command.
- Responsibility is described as an obligation to perform a task.
- Accountability denotes answerability for the accomplishment of the task assigned by the superior to his subordinate.
- According to L.A. Allen, "Delegation is the process a manager follows in dividing the work assigned to him so that he performs that part which only he, because of his unique organisational placement, can perform effectively and so that he can get others to help him with what remains".
- Centralization refers to the tendency to withhold a larger part of formal authority at higher echelons of management hierarchy.
- Larger part of authority is delegated down the levels of management, so that decisions are made as near the source of information and action as possible, such a tendency and characteristic in the organisation is described as decentralization.

### GLOSSARY

**Whims**

An odd or capricious notion or desire or a sudden or freakish fancy.

**Perennially**

Lasting for an indefinitely long time.

<b>Judicious</b>	Using or showing judgment as to action or practical expediency; discreet or prudent.
<b>Lateral</b>	Of or pertaining to the side; situated at, proceeding from, or directed to a side.
<b>Manifestation</b>	Outward or perceptible indication or materialization.
<b>Echelons</b>	A level of worthiness, achievement or reputation.

### SELF-TEST QUESTIONS

1. The tendency to withhold a larger part of formal authority at higher echelons of management hierarchy is called \_\_\_\_\_
  - a. Centralisation
  - b. Formalization
  - c. Bureucracy
  - d. All of the above
2. The fears of delegation are:
  - a. Fear of loss of Power
  - b. Certain personal attitudes
  - c. Lack of ability to direct well
  - d. All of the above
3. This type of organization structure combines functional departmentation with product or project organisation.
  - a. Vertical structure
  - b. Horizontal structure
  - c. Matrix organization structure
  - d. Team based structure
4. In this form of organisation, a supervisor exercises direct supervision over a subordinate, and the authority flows from the person at the top to the person at the lowest ring of the organisation.
  - a. Staff organization
  - b. Functional organization
  - c. Centralization
  - d. Line organization
5. \_\_\_\_\_ is the process of grouping the activities of an enterprise into several units for the purpose of administration at all levels.
  - a. Departmentation
  - b. Departmentalisation
  - c. Only a
  - d. Both a and b
6. \_\_\_\_\_ refers to the structure that is formed by grouping all the work into major functional departments
  - a. The functional organization

- b. Vertical structure
  - c. Horizontal structure
  - d. None of the above
7. \_\_\_\_\_ may involve development and introduction of a new product, complete redesigning of an existing product line, installing a new plant, and the like.
- a. Project management organization
  - b. Team based structure
  - c. Matrix structure
  - d. Functional organization
8. The organization structure which follows dual chain of command and combines functional departmentation with product or project organisation is \_\_\_\_\_
- a. Horizontal structure
  - b. Divisional structure
  - c. Team Based Structure
  - d. Matrix Structure
9. In informal organisations there is a tendency that the group may become overly protective of its life style and they are strongly bound by conventions, customs and culture which results in \_\_\_\_\_
- a. Resistance to change
  - b. Role conflict
  - c. Conformity
  - d. Rumour
10. \_\_\_\_\_ ensures division of labour and specialisation based on individual proficiency and specialised knowledge.
- a. Functional structure
  - b. Work Specialisation
  - c. Departmentalisation
  - d. None of the above

**Answer key:** 1 a; 2 d; 3 c; 4 d; 5 d; 6 a; 7 a; 8 d; 9 a; 10 a

### Suggested Readings

- (1) Management: Analysis, Concepts and Cases – *Hayness and Massie*
- (2) Principles of Management – *George R. Terry*
- (3) Formal Organisation: A System Approach – *Carzo and Yanou*
- (4) Management – *Stoner, Freeman, Gibert Jr.*
- (5) Management Theory and Practice – *J.S. Chandan*
- (6) Management Principles and Practices – *Parag Diwan, L.N. Aggarwal.*





# Lesson 4

## Human Resource Management

### LESSON OUTLINE

- Concept of Human Resource Management (HRM)
- Difference between Personnel Management and HRM
- Features of HRM
- Importance of HRM
- Limitations of HRM
- Role of Personnel Manager in an Organisation
- Qualities of HR Manager
- Functions of HR Manager
  - Managerial Functions
  - Operative Functions
  - Advisory Functions
- Concept of Recruitment
  - Sources of Recruitment
    - Internal Sources
    - External Sources
- Concept of Selection
- Training and Development
- Concept of Performance Appraisal
- Methods of Performance Appraisal
  - Traditional Methods
  - Modern Methods
  - Human Resource Planning
  - Talent Management
  - Organisation Development
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

HRM is a broad term which encompasses recruitment, selection, training and development, and performance appraisal. Let us take an example to understand the concept of HR better.

Mahesh and Rakesh both were recruited through campus interview by XZY Ltd after completing their B.Tech. They were both offered a salary of Rs. 15,000 each and designated as management trainees. Their work was to head two production units having standard process, and each manager was responsible for a certain amount of daily output.

After a few months, Mahesh got bored and quit the job, while Rakesh was very happy with the existing job and continued. Note the difference in both the cases.

Here is where the role of HRM comes into the picture. The meaning of HRM is that it is that part of management which is concerned with people at work and with their relationship with the enterprise they are working for.

Therefore, the objective of the study lesson is to enable the students to understand what HRM is and through this understand the role of a personnel manager, recruitment process, selection process, the advantages of training and career development in a professional set up, etc.

Human Resource Management encompasses those activities designed to provide for and coordinate the human resources of an organization.

## CONCEPT OF HUMAN RESOURCE MANAGEMENT

Management's basic job is the effective utilization of human resources for the achievement of organizational objectives, viz., profitable operations and growth through the satisfaction of certain needs of the customers and society. It is through the combined efforts of human resources or personnel that technological, financial, physical and all other resources are utilized. Therefore, motivation of human resources is of utmost importance everywhere. The effectiveness with which various kinds of human resources are coordinated and utilised is responsible for the success or failure in achieving organizational objectives.

All the activities of any enterprise are initiated and determined by the persons who make up that institution. Plants, offices, computers, automated equipment, and everything else that a modern firm uses may be rendered unproductive except for human effort and direction. Of the tasks of management, managing the human component is the most important task, because everything else depends on how well the employees are working. The technological and material factors do frequently play a large part in the operations of a firm, yet in the ultimate analysis, it is on the quality of its people, the opportunities they get to develop and utilise their skills and the manner in which they are managed and supervised in their work that the performance of the organization depends.

The following definitions will make the concept clearer:

"Human Resource Management is that part of management which is concerned with people at work and with their relationship with an enterprise. Its aim is to bring together and develop into effective organization the men and women who make up an enterprise and having regard for the well-being of the individual and of working groups, to enable them to make their best contribution to its success".

"Thus, Human Resource Management is that part of the process of management specifically concerned with the people employed in an organization. Its purpose is to establish and maintain sound relations at all levels of the organization and to secure the effective use of personnel by ensuring such conditions of employment as well as to attain for these personnel social satisfaction which they tend naturally to seek within their working environment".

The word 'personnel' refers to 'the human resource' of an organization, i.e., the employees. Thus Human Resource Management is often referred to as Personnel Management (*though there are conceptual differences between the two*). To define it, "Personnel management is concerned with all aspects of managing the human resources of an organization. More specifically, personnel management involves determining the organization's need of human resources, recruiting and selecting the best available employees, developing, counselling and rewarding employees, acting as a liaison with unions and government organizations and handling other matters related to the well being of employees." Each of these functions is necessary to some degree irrespective of nature and size of the organization. That is why, in most of the organizations, a separate department known as Personnel/ Human Resources Department is created for the effective performance of these functions.

Human Resource Management is also concerned with the human and social implications of change in internal organization and methods of working and of economic and social changes in the community".

Management must have the support of all employees. In an informative society, human resources are at the cutting edge. And it means that human resource professionals are becoming much more important in their organization.

Currently, many companies recognize the growing importance of their human resources, but a large number are conceptualizing them in strategic terms-in ways to gain a competitive advantage. But, many companies forego the opportunity to seize competitive advantage through human resource practice initiatives.

## What are Human Resources?

The term human resources may be defined as the total knowledge, skills, creative abilities, talents and aptitudes of an organization's workforce, as well as the values, attitudes, approaches and beliefs of the individuals involved in the affairs of the organization. It is the sum total or aggregate of inherent abilities, acquired knowledge and skills represented by the talent and aptitudes of the persons employed in an organization.

Several terms have been used by various management thinkers to represent human resources. These include 'personnel', 'people at work', 'manpower', 'staff' and 'employees'. Whatever may be the term used, the human resources of an organization include all individuals engaged in various organizational activities at different levels. According to Leon C. **Meggison**, "*From the national point of view, human resources may be defined as knowledge, skills, creative abilities, talents and aptitudes obtained in the population; whereas from the viewpoint of the individual enterprise, they represent the total of the inherent abilities, acquired knowledge and skills as exemplified in the talents and aptitudes of its employees.*"

**Jucius Michael** calls these resources, 'human factors', which refer to "*a whole consisting of inter-related, inter-dependent and interacting physiological, psychological, sociological and ethical components.*" Thus, human resources are multi-dimensional in nature. People working in the organization have different needs at different times. These needs may be physiological (water, food, ventilation, etc), social (sense of affiliation, belongingness etc.) and psychological (motivation, counselling, guidance, supervision, etc).

## Definition of Personnel/Human Resources Management

Personnel management has come to be recognized as an inherent part of management, which is concerned with the human resources of an organization. Its objective is to maintain better human relations in the organization by the development, application and evaluation of policies, procedures and programmes relating to human resources to optimize their contribution towards the realisation of organizational objectives. In other words, personnel management is concerned with getting better results with the collaboration of people.

**French Wendell**, defines "*Personnel Management is the recruitment, selection, development, utilization, compensation and motivation of human resources by the organization*".

To quote **Edwin B. Flippo**, "*Personnel Management is the planning, organizing, directing, and controlling of the procurement, development, resources to the end that individual and societal objectives are accomplished*". This definition reveals that personnel or human resource (HR) management is that aspect of management, which deals with the planning, organizing, directing and controlling the personnel functions of the enterprise. This definition is a comprehensive one and covers both the management functions and the operative functions. The purpose of all these functions is to assist in the achievement of basic organizational, individual and societal goals.

## DIFFERENCE BETWEEN PERSONNEL MANAGEMENT AND HRM

As in any other discipline, there is a problem of semantics with HRM too. First, we have two terms, namely personnel management (PM) and HRM. Between these two terms there is a basic difference, and it is important to understand what it is.

HRM differs from PM both in scope and orientation.

- Personnel management is more administrative in nature, dealing with payroll, complying with employment law, and handling related tasks. Personnel management typically seeks to motivate employees with such things as compensation, bonuses, rewards, and the simplification of work responsibilities.
- PM is more specific in nature as it focuses on operational activities.

On the other hand,

- HRM considers workforce as one of the primary resources that contributes to the success of an organization and society. Thus it is responsible for managing the workforce by formulating policies and procedure that promote mutuality-mutual goals, mutual respect, mutual rewards and mutual responsibilities.
- HRM is more general in nature as it focuses on the developmental activities.

## FEATURES OF HUMAN RESOURCE MANAGEMENT

The nature of the personnel management has been highlighted in its following features:

- (i) *Inherent Part of Management*: Human resource management is inherent in the process of management. This function is performed by all the managers throughout the organization rather than by the personnel department alone. If a manager is to get the best of his people, he must undertake the basic responsibility of selecting people who will work under him. He must also take interest in training and motivating the employees and in appraising their performance for improving their quality.
- (ii) *Pervasive Function*: Personnel management is a pervasive function of management. It is performed by all managers at various levels across all departments in the organization. In other words, every manager from managing director to the foreman is required to perform the personnel function on a continuous basis.
- (iii) *People Centered*: Personnel management is people centered and is relevant in all types of organizations. It is concerned with all categories of personnel from top to the bottom of the organization. The broad classification of personnel in an industrial enterprise may be as follows:
  - Blue-collar workers (i.e. those working on machines and engaged in loading, unloading, etc.) and white-collar workers (i.e. clerical employees).
  - Managerial and non-managerial personnel.
  - Professionals (such as Company Secretary, Lawyer, etc.) and non-professional personnel.
- (iv) *Personnel Activities or Functions*: Personnel management involves several functions concerned with the management of people at work. It includes manpower, planning, employment, placement, training, appraisal and compensation of employees. For the performance of these activities efficiently, a separate department known as Personnel Department is created in most of the organizations.
- (v) *Continuous Process*: Personnel management is not a 'one shot' function. It must be performed continuously if the organizational objectives are to be achieved smoothly. To quote G.R. Terry. "*The personnel function cannot be turned on and off like water from a faucet; it cannot be practiced only one hour each day or one day a week. Personnel management requires a constant alertness and awareness of human relations and their importance in everyday operations*".
- (vi) *Based on Human Relations*: Personnel management is concerned with the motivation of human resources in the organization. The human beings can't be dealt with like the physical factors of production. Every person has different needs, perceptions and expectations. The managers should give due attention to these factors. They require human relations skills to deal with the people at work. Human relations skills are also required in training, performance, appraisal, transfer, and promotion of subordinates. If the personnel function is performed properly, the human relations in the organization will be cordial.

## IMPORTANCE OF HUMAN RESOURCE MANAGEMENT

According to **Dirks** "The objectives of personnel administration include the utilization of human resources

*effectively, establishment and maintenance of productive and self-respecting working relationships among the participants and attainment of maximum individual development of the members in the organization.”*

According to the **Indian Institute of Personnel Management**, “*Personnel management aims to achieve both efficiency and justice, neither of which can be pursued successfully without the other. It seeks to bring together and develop into an effective organization the men and women who make up an enterprise, enabling each to make his or her own best contribution to its success both as an individual and as a member of a working group. It seeks to provide fair terms and conditions of employment and satisfying work for those employed.*”

The basic objective of human resource management is to contribute to the realisation of the organizational goals. However, the specific objectives of personnel management may be outlined as follows:

- (i) To ensure effective utilisation of human resources. All other organizational resources will be efficiently utilised by the human resources.
- (ii) To establish and maintain an adequate organizational structure of relationship among all the members of an organization by dividing the organization tasks into functions, positions, and jobs, and by defining clearly the responsibility, accountability, authority for each job and its relation with other jobs in the organization.
- (iii) To generate maximum development of human resources within the organization by offering opportunities for advancement to employees through training and education.
- (iv) To ensure respect for human beings by providing various services and welfare facilities to the personnel.
- (v) To ensure reconciliation of individual/group goals with those of the organization in such a manner that the personnel feel a sense of commitment and loyalty towards it.
- (vi) To identify and satisfy the needs of individuals by offering various monetary and non-monetary rewards.

In order to achieve the above objectives, human resource management undertakes the following activities:

- (i) Human Resource or Manpower Planning, i.e., determining the number and kinds of personnel required to fill various positions in the organization.
- (ii) Recruitment, selection and placement of personnel, i.e., employment function.
- (iii) Training and development of employees for their efficient performance and growth.
- (iv) Appraisal of performance of employees and taking corrective steps such as the transfer of the employees from one job to another.
- (v) Motivation of workforce by providing financial incentives and avenues for promotion.
- (vi) Remuneration of employees. The employees must be given sufficient wages and fringe benefits to achieve higher standard of living as this would motivate them to show higher productivity.
- (vii) Social security and welfare of employees.

## LIMITATIONS OF HUMAN RESOURCE MANAGEMENT

The following are the limitations of HRM:

- (i) *Uncertain Future*: The future of an enterprise in any country is uncertain, i.e., political, cultural, technological changes takes place every day. This affects the employment situation. Accordingly the company may have to appoint or remove people. Therefore, HRM can only be a guiding factor. One cannot totally rely on it and perform every action according to it.
- (ii) *Conservative Attitude of Top Management*: Much top management adopts a conservative attitude and is

not ready to make changes. The process of HRM involves either appointing or laying off the staff. Therefore, it becomes very difficult to implement HRM in organization because top management does not support the decisions of other department many times.

- (iii) *Problem of Surplus Staff:* HRM gives a clear cut solution for the excess staff, i.e., termination, laying off and VRS. However when certain employees are laid off it affects the psyche of the existing employees, and they start feeling insecure, stressed out and lose faith in the company. This is a limitation of HRM, i.e., it does not provide alternative solutions like re-training so that employees need not be laid off by the company.
- (iv) *Time Consuming:* HRM collects information from all departments, regarding demand and supply of personnel. This information is collected in detail and each and every job is considered. Therefore, the activity takes up a lot of time.
- (v) *Expensive Process:* The solution provided by the process adopted by the HRM incurs expenses like VRS, overtime, etc. Company has to spend a lot of money in carrying out these procedures. Hence, we can say the process is expensive.

### ROLE OF PERSONNEL MANAGER IN AN ORGANIZATION

In most of the big enterprises, personnel department is set up under the leadership of personnel manager who has specialised knowledge and skills. The personnel manager performs managerial as well as operative functions. Since he is a manager, he performs the basic functions of management, like planning, organising, directing and controlling in order to manage his department. He has to also perform certain operative functions of recruitment, selection, training, placement, etc., which the other line managers may entrust him with. He has to play multiple roles in the effective management of human resources and in improving human relations in the organization. Ideally, the personnel manager should concentrate on drawing managerial attention to human problems. Just as finance assesses costs, marketing emphasizes customers, personnel is people-centered. Success of a Personnel Manager depends on the degree of his contribution to solve management problems in dealing with human resources in the organization. Though managing is the job of the every manager in the organization, yet the personnel manager has a special role to play. Some of the important roles of personnel manager in an organization in addition to the managerial and operative functions are discussed below:

- (i) *Policy Initiation:* Policy initiation and its formulation is one of the important tasks of a personnel manager. The personnel manager helps the top management in the formulation of policies on wages and salary administration, transfer, appraisal, welfare activities, personnel records and statistics, working environment, etc.
- (ii) *Advisory Role:* The advisory role of personnel manager is of crucial importance. Line managers are generally confronted with a variety of problems in their day to day operations. The personnel manager can offer useful advice in all these matters as he is familiar with personnel policies and practices, labour agreements, labour laws, etc.
- (iii) *Linking Pin Role:* The personnel manager attempts to achieve and maintain good industrial relations in the organization. He gives authentic information to the trade union leaders regarding the personnel policies and programmes of the enterprise. He also conveys the views of the trade union leaders to the higher management. Thus, he acts as a link between the management and the workers.
- (iv) *Representative Role:* The personnel manager generally acts as a spokesman of the top management or representative of the company and communicates management policies and decisions that affect people in the organization. He can do this because he has a better understanding and can visualise an overall picture of the company's operations.
- (v) *Decision-Making Role:* The personnel manager also plays an effective role in decision-making on issues

related to human resources. He formulates and designs objectives, policies and programmes of human resource management.

- (vi) *Mediator Role:* The personnel manager often acts as a mediator in the event of conflict between employees, or groups of employees, superior and subordinate, and even between management and employees. Thus, he attempts to maintain industrial peace and harmony in the organization.
- (vii) *Leadership Role:* The personnel manager provides leadership and guidance to the workers and their groups. He ensures effective communication in the organization and influences the workers for extending their cooperation in achieving organizational objectives. He also acts as a counsellor by providing advice to workers on their work and personal problems.
- (viii) *Welfare Role:* The personnel manager acts as a welfare officer in the organization. As welfare officer, he is responsible for providing canteen, crèches, transport and hospital facilities, and other welfare services for the benefit of workers and their family members.
- (ix) *Research Role:* The personnel manager maintains the records of the employees working in the enterprise. On the basis of records, he undertakes research in various personnel areas such as absenteeism, labour turnover, alcoholism, etc., and suggests suitable measures for their eradication to the top management.

The role of personnel management in industry is underlined by the complex and dynamic nature of environment under which the modern large-scale industries function. The task has also been facilitated by the greater recognition of the value of human resources in industry and application of human resource development (HRD) techniques by the enlightened managers in modern organizations.

### QUALITIES OF A HUMAN RESOURCE MANAGER

Fayol has put the qualities required by the human resource managers into the following categories:

- (i) Physical-health, vigour, address;
- (ii) Mental-ability to understand and learn; judgment, mental vigour and adaptability;
- (iii) Moral-energy, firmness, willingness to accept, responsibility, initiative, loyalty, tact, dignity;
- (iv) Educational-general acquaintance with matters not belonging exclusively to the function performed;
- (v) Technical-peculiar to the function; and
- (vi) Experience-arising from the work.

The personnel manager should possess all the qualities required of a manager for the effective functioning. However, the personnel manager should possess human relations skills in greater degrees as he is to deal more with the human relations matters. To be specific, the qualities required of an effective personnel or human resource manager are listed below:

- (i) The personnel manager should have human approach to human problems. His attitude towards the operative workforce should be sympathetic in dealing with their problems.
- (ii) He should be alert mentally and at no time he should be caught unaware.
- (iii) He should be competent to take quick decisions.
- (iv) He should be honest in dealing with the employees so as to leave no scope for any kind of doubt in the minds of the employees about his integrity.
- (v) He should have patience and should not lose temper easily.
- (vi) He should not depend upon his formal authority too much.

- (vii) He should be a good leader so as to guide the subordinates towards achieving organizational goals.
- (viii) He should have a sense of social responsibility so as to help his employees to discharge their social obligations to the various segments of society.
- (ix) He should be a good communicator and should be courteous in dealing with workers, trade union leaders and members of the press.

## FUNCTIONS OF A HUMAN RESOURCE MANAGER

Following are the functions of a Human Resource Manager

### A. Managerial Functions

The Human Resource Manager is a member of the management. So he must perform the basic managerial functions of planning, organising, directing and controlling in relation to his department. These functions are briefly discussed below:

- (i) *Planning*: To get things done by his subordinates, a manager must plan ahead. Planning is necessary to give the organization its goals as well as directions to establish best procedures to reach those goals. Effective managers recognise that a substantial part of their time should be devoted to planning. For a personnel manager, planning means the determination in advance of personnel programmes that will contribute to the goals established by the enterprise, i.e., anticipating vacancies, planning job requirements, job descriptions and determination of the sources of recruitment.
- (ii) *Organising*: Once the personnel manager has established the objectives and developed the plans and programmes to achieve them, he must design and develop organization structure to carry out the various operations. The organization structure basically includes the following:
  - Grouping of personnel activity logically into functions or positions;
  - Assignment of different groups of activities to different individuals;
  - Delegation of authority according to the tasks assigned and responsibilities involved;
  - Coordination of activities of different individuals.
- (iii) *Direction*: The plans are to be put into effect by people. But how smoothly the plans are implemented depends on the motivation of people. The direction function of the personnel manager involves encouraging people to work willingly and effectively for achieving the goals of the enterprise. In other words, the direction function is meant to guide and motivate the people to accomplish the personnel programmes. The personnel manager can motivate the employees in an organization through career planning and salary administration by boosting employees' morale, developing cordial relationships, providing safety requirements and looking after the welfare of employees. The personnel manager must have the ability to identify the needs of the employees and the means and methods to satisfy those needs. Motivation is a continuous process as new needs and expectations emerge among employees when old ones are satisfied.
- (iv) *Controlling*: Controlling is concerned with the regulation of activities "A" in accordance with the plans, which in turn have been formulated on the basis of the objectives of the organization. Thus, controlling completes the cycle as it leads back to planning. It is the observation and comparison of results with the standards and correction of deviations that may occur. Controlling helps the personnel manager to evaluate and control the performance of the personnel department in terms of various operative functions. It involves performance appraisal, critical examination of personnel records and statistics and personnel audit.

## B. Operative Functions

The operative functions are those tasks or duties which are specifically entrusted to the personnel department under the general supervision of personnel manager. These are concerned with employment, development, compensation, integration and maintenance of personnel of the organization. The personnel department performs the following operative functions:

- (i) *Employment*: The first operative function of personnel department is to employ the right kind and number of persons necessary to achieve the objectives of the organization. This involves recruitment, selection, placement, etc. of the personnel. Before these processes are performed, it is better to determine the manpower requirement, both in terms of number and quality, of the personnel and assess the existing strength to understand the gap and plan accordingly. Recruitment and selection depend on the sources of supply of labour and the devices designed to select the right type of people for various jobs. Induction and placement of personnel for their better performance also come under the employment or procurement function.
- (ii) *Development*: Training and development of personnel is a follow up of the employment function. It is a duty of management to train each employee properly to develop his technical skills for the job for which he has been employed, and also to groom him for the higher jobs in the organization. Proper development of the personnel is necessary to increase their skills in performing their jobs and in satisfying their growth need. A good training programme should include a mixture of both types of methods. It is important to point out that personnel department arranges for training not only of new employees but also of the old employees to update their knowledge in the use of latest advancements.
- (iii) *Compensation*: This function is concerned with the determination of adequate and equitable remuneration of the employees in the organization for their contribution to the organizational goals. The personnel can be compensated both in terms of money as well as by receiving non-monetary rewards. Factors which must be borne in mind while fixing the remuneration of personnel are their basic needs, requirements of jobs, legal provisions regarding minimum wages, capacity of the organization to pay, wage levels afforded by competitors, etc. For fixing the wage levels, the personnel department can make use of certain techniques, like job evaluation and performance appraisal.
- (iv) *Maintenance*: Merely appointment and training of people is not sufficient; they must be provided with good working conditions so that they like their work and the work-place, and thus maintain their efficiency give their best to the enterprise. Working conditions certainly influence the motivation and morale of the employees. These include measures taken for health, safety, and comfort of the workforce. The personnel department also provides for various welfare services which relate to the physical and social well-being of the employees. These may include provision of cafeteria, rest rooms, counselling, group insurance, education for the children of employees, recreational facilities, etc.
- (v) *Motivation*: Employees work in the organization for the satisfaction of their needs. In many of the cases, it is found that they do not contribute towards the organizational goals as much as they can. This happens because employees are not adequately motivated. The personnel manager helps the various departmental managers to design a system of financial and non-financial rewards to motivate the employees.
- (vi) *Personnel Records*: Personnel department maintains the records of the employees working in the enterprise. It keeps full records of their training, achievements, transfer, promotion, etc. It also preserves many other records relating to the behaviour of personnel, like absenteeism and labour turnover, and the personnel programmes and policies of the organization.
- (vii) *Industrial Relations*: These days, the responsibility of maintaining good industrial relations is mainly discharged by the personnel managers. The personnel managers can help in collective bargaining, joint consultation and settlement of disputes, if they arise. This is because personnel manager is in possession

of full information relating to personnel and has the working knowledge of various labour enactments. The personnel manager can do a great deal in maintaining industrial peace in the organization as he is deeply associated with various committees on discipline, labour welfare, safety, grievance, etc. He helps in laying down the grievance procedure to redress the grievances of the employees.

- (viii) **Separation:** Since the first function of personnel management is to procure the employees, it is logical that the last should be the separation and return of that person to society. Most people do not die on the job. The organization is responsible for meeting certain requirements of due process in separation, as well as assuring that the returned person is in as good shape as possible. The personnel manager has to ensure the release of retirement benefits to the retiring personnel in time.

### C. Advisory Functions

Personnel/Human resource manager has specialised education and training in managing human relations. He is an expert in his area and so he can give advise on matters relating to human resources of the organization. He offers his advise to:

- (i) **Top Management:** Personnel manager advises the top management in formulation and evaluation of personnel programmes, policies and procedures. He also gives advice for achieving and maintaining good human relations and high employee morale.
- (ii) **Departmental Heads:** Personnel manager offers advice to the heads of various departments on matters, such as manpower planning, job analysis and design, recruitment and selection, placement, training, performance and appraisal.

## RECRUITMENT PROCESS

Recruitment is the process of searching for prospective employees and encouraging them to apply for the jobs in an organization. It aims at securing as many qualified applicants for jobs as possible so as to decrease the hiring ratio.

After having determined the number and kinds of personnel required, the HR or Personnel Manager proceeds by identifying the sources of recruitment and by finding suitable candidates for employment. Both Internal and external sources of manpower are used depending upon the types of personnel needed.

### Meaning of Recruitment

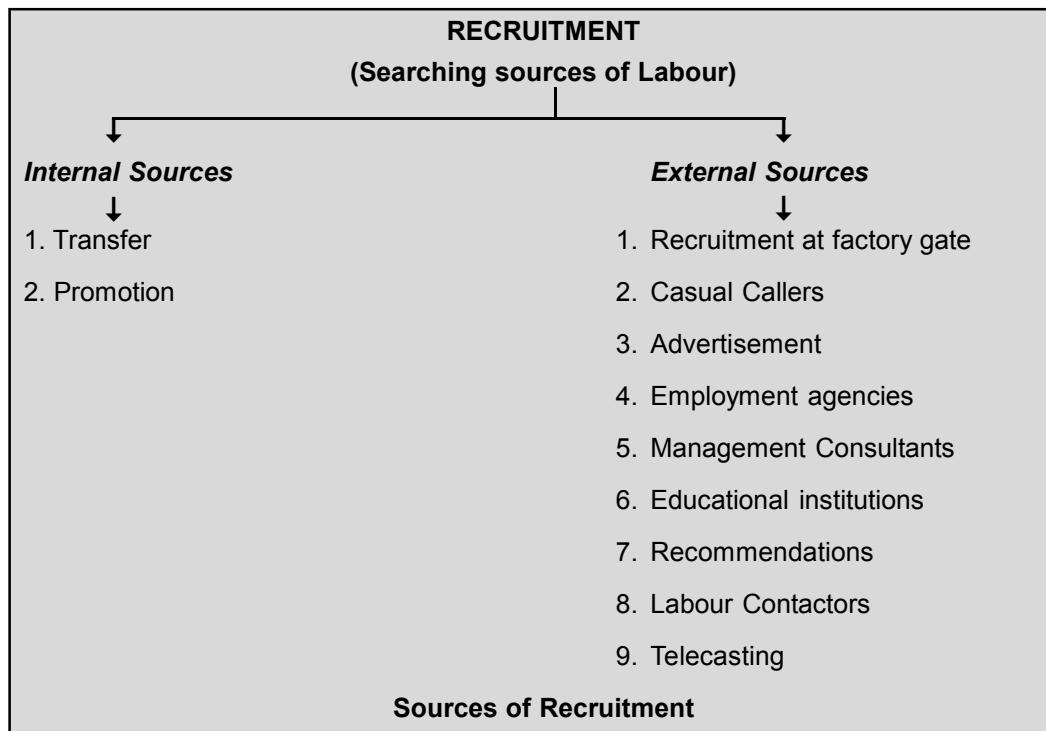
The process of identification of different sources of personnel is known as recruitment. According to **Edwin B. Flippo**, "Recruitment is the process of searching the candidates (or employment and stimulating them to apply for jobs in the organization". It is a linking activity that brings together those offering jobs and those seeking jobs. **Dale S. Beach** observed, "Recruitment is the development and maintenance of adequate manpower resources. It involves the creation of a pool of available labour upon whom the organization can draw when it needs additional employees."

Recruitment is a positive function as it results in collection/pool of applicants in response to the vacancy advertised.

### Sources of Recruitment

As shown below, the various sources of recruitment may be grouped into the following two categories:

- Internal sources (recruitment from within the enterprise)
- External sources (recruitment from outside)



### Internal Sources

The internal sources of recruitment include personnel already on the pay-roll of an organization. It also includes personnel who were once on the pay-roll and wish to return, or whom the company may like to re-hire, like those who left their jobs voluntarily or were laid off. Recruitment from internal sources so as to fill up vacancies by transfer, promotion, or re-hiring previous employees, offers several advantages:

- Selection and placement of existing employees are simple and economical.
- The employer is in a better position to appraise the skill and capability of present employees accurately.
- It improves employee morale as internal promotions provide opportunities for advancement.
- It promotes loyalty among the employees.
- Persons already employed can be more easily inducted and trained for new jobs.

However, recruitment from within the organization often leads to in-breeding and prevents the 'infusion of new blood' into the organization. As promotion is based on seniority, internal recruitment involves the danger that unsuitable employees may get promoted and the really capable persons may be left behind. In any case, it narrows down the area of selection and does not provide equal opportunity to all qualified persons to be considered for the jobs. Besides, recruitment at lower levels have to be made from outside the organization.

### External Sources

These sources lie outside the organization, and usually include:

- Persons introduced and recommended by present and former employees or trade unions;
- Employment Exchanges and private employment agencies;
- Open advertisements;
- Educational, technical and professional institutions;

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- Contractors and jobbers;
- Gate hiring of unskilled workers;
- Casual applicants; and
- Temporary or badli workers.

Encouraging present employees to recommend candidates for employment helps management both in finding suitable candidates and in maintaining goodwill among employees. But this may also encourage family cliques and inner circles of close friends. In general, external recruitment through open advertisement provides a wider scope for selection from among a large number of candidates with requisite skill and competence. It proves to be most useful for filling up managerial positions requiring technical and professional qualifications.

### Difference between Internal Sources and External Sources

INTERNAL SOURCES	EXTERNAL SOURCES
<ol style="list-style-type: none"><li>1. Internal recruitment is a quick process. It involves the search of candidates from within the organization</li><li>2. This process is cheaper.</li><li>3. The existing staff is motivated to improve their performance.</li><li>4. Choice of candidates is limited. The scope of fresh talent is diminished.</li></ol>	<ol style="list-style-type: none"><li>1. External recruitment is a lengthy process. It involves finding the candidates from outside the organization.</li><li>2. This process is costly as vacancies have to be notified in newspapers, etc.</li><li>3. The existing workers feel dissatisfied if external sources are used.</li><li>4. The business can hope for talented candidates from outside. This means infusion of new blood and new ideas into the enterprise.</li></ol>

## SELECTION

The selection procedure starts with the screening of applications for various jobs from the interested candidates. Totally unsuitable candidates are rejected at this stage. The personnel department administers various kinds of tests to the candidates to determine if they would be able to do their jobs efficiently. Those passing this stage are called for employment interview. Candidates found suitable for employment are required to go through medical examination and reference checking. The employment process is completed when appointment letters are issued to the candidates clearing all the stages in the selection procedure.

### Selection and Recruitment

Recruitment is the process of identifying sources for prospective candidates who may be stimulated to apply for job in an organization. The main objective of recruitment is developing and maintaining adequate manpower resources with the required skills upon which organization can depend when it needs additional personnel. It helps management to search for competent personnel from among the eligible qualified candidates.

As against recruitment, selection is the process of logically choosing individuals who possess the necessary skills and ability to successfully fill specific jobs in the organization.

Selection is more of a negative function because it results in the elimination of unsuitable candidates.

<b>Basis</b>	<b>Recruitment</b>	<b>Selection</b>
1. Meaning	It is the process of searching candidates for vacant positions and making them apply for the same.	It is the process of selection of right type of candidates and offering them jobs.
2. Nature	It is a positive process.	It is a negative process.
3. Aim	Its aim is to attract more and more candidates for vacant positions.	Its aim is to reject unsuitable candidates and pick up the most suitable people for vacant positions.
4. Procedure	The firm notifies the vacancies through various sources and distributes application forms to the candidates.	The firm makes the candidates pass through a number of stages, such as filling of form, employment tests, interview, medical exam., etc.
5. Contract of Service	No contractual relation is created. Recruitment only implies communication of vacancies.	Selection follows recruitment and it leads to a contract of service between the employer and the employee.

### Significance of Selection

Selection is a critical process these days because it requires a heavy investment of money to get the right type of people. Induction and training costs are also high. If the right type of persons are not chosen, it would lead to a huge loss to the employer in terms of time, effort and money. Therefore, it is essential to devise a suitable selection procedure. Each step in the selection procedure should help in getting more and more information about the applicants to facilitate decision-making in the area of selection.

Absenteeism and employee turnover are two important problems which are generally faced by most of the organizations. The magnitude of these problems can be reduced if in future all selections are made carefully so that there are 'round pegs in the round holes'. Whenever unsuitable employees are appointed, the efficiency of the organization goes down. Such employees shirk work and absent themselves from the work more often. They may also be compelled to leave their jobs. If this happens, all the expenses incurred on the selection and training of such employees will go waste.

Scientific selection and placement of personnel goes a long way towards building up a stable workforce. It will keep the rates of absenteeism and labour turnover low and will increase the morale of the employees. If the employees are suitable according to the requirements of the jobs, they will show higher efficiency and productivity. This will also enable the organization to achieve its objectives effectively.

The benefits of selecting right kinds of people for various jobs are as follows:

- (i) Proper selection and placement of personnel go a long way towards building up a suitable workforce. It will keep the rates of absenteeism and labour turnover low.
- (ii) Competent employees will show higher efficiency and enable the organization to achieve its objective effectively.
- (iii) The rate of industrial accidents will be considerably low if suitable employees are placed against various vacancies.

- (iv) When people get jobs of their taste and choice, they get higher job satisfaction. This will build up a contended workforce for the organization.
- (v) The morale of the employees who are satisfied with their jobs is often high.

### **Selection Procedure**

The procedure of selection varies from organization to organization and even from department to department within the same organization depending upon the kind of the jobs to be filled. The number of steps in the procedure and the sequence of steps also vary. For instance, some organizations do not hold preliminary interview, test or screening, whereas in some organizations, such as commercial banks preliminary tests are given to eliminate a large numbers of applicants. Similarly, in some cases, medical examination is given before final selection and in some others, medical check up follows the final selection. Thus, every organization designs a selection procedure that suits its requirements. However, the main steps that could be incorporated in the selection procedure are as under:

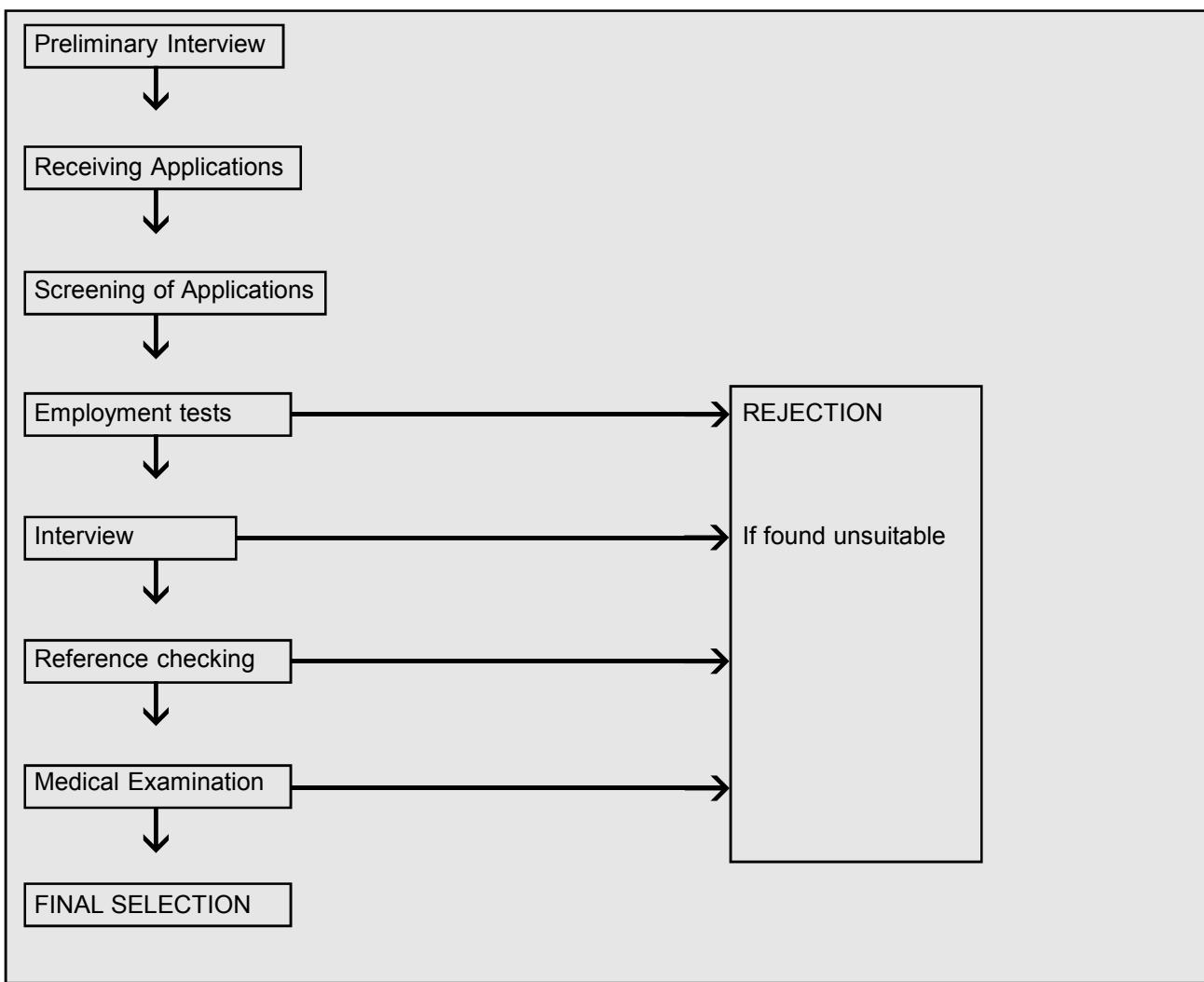
- (i) Preliminary interview
- (ii) Receiving applications
- (iii) Screening of applications
- (iv) Employment test
- (v) Employment interview
- (vi) Physical examination
- (vii) Checking references
- (viii) Final selection.

As shown in the figure, every candidate for a job has to clear a number of hurdles before getting selected for it. If he is not found suitable at any stage, he is not considered for the further stages. Thus, he is rejected. The successive stages in the selection process are discussed below:

#### **(i) Preliminary Interview**

In most of the organizations, the selection programme begins with preliminary interview or screening. The preliminary interview is generally brief and does the job of eliminating the totally unsuitable candidates. The preliminary interview offers advantages not only to the organization, but also to the applicants. If an applicant is eliminated at this stage, the organization will be saved from the expenses of processing him through the remaining steps of the selection procedure and the unsuitable candidate will be saved from the trouble of passing through the long procedure. Preliminary interview may take place across the counter in the organization's employment office. It may consist of a short exchange of information with respect to organization's interest in hiring and the candidate's enquiry. Candidates who pass this screening are usually asked to fill in the application form.

### SELECTION PROCEDURE



#### **(ii) Receiving Applications**

Whenever there is a vacancy, it is advertised or enquiries are made from the suitable sources, and applications are received from the candidates. Standard application forms may be drawn up for different jobs and supplied to the candidates on request. The application form is useful for several reasons. It gives a preliminary idea of the candidate to the interviewer and helps him in formulating questions to get more information about him.

The written information about age, qualifications, experience, etc. may prove to be of greater value to the interviewers. It makes the processing of applications very easy since there is uniformity in filling the data in the application form.

#### **(iii) Screening of Applications**

After the applications are received, they are screened by a screening committee and a list is prepared of the candidates to be interviewed. Applicants may be called for interview on some specific criteria, like sex, desired age group, experience and qualifications. The number of candidates to be called for interview is normally five to seven times the number of the posts to be filled up. The screened applications are then reviewed by the Personnel Manager and interview letters are dispatched by registered post or under certificate of post.

#### **(iv) Employment Tests**

Individuals differ in almost all aspects one can think of. They differ with respect to their physical characteristics,

capacity to work, level of mental ability and their likes and dislikes and also with respect to their personality traits. The pattern of physical, mental and personal variables gives rise to thousand and one combinations and the particular pattern makes the individual suitable for several classes of activities, jobs or fields of work. Matching of individual's physical, mental and temperamental pattern with the requirements of job or field of training is a difficult task. But where this matching takes place, the result is happiness for the individual and prosperity for the organization and the society. But instances of round pegs in square holes and *vice versa* are not rare. So before deciding upon the job or jobs suitable for a particular individual, one should find out the level of his ability, his knowledge in the field he is required to work, his interests and aptitudes in detail. This will require the use of employment tests which are listed below:

- Intelligence tests.
- Aptitude tests.
- Trade or proficiency tests.
- Interest tests.
- Personality tests.

Employment tests are widely used for judging the applicant's suitability for the job. They bring out the strengths and weaknesses of the individuals which could be analysed before jobs are offered to them. The tests must be designed properly. If the tests are biased, they will not be good indicators of one's knowledge and skills. Selections based on such tests will be faulty. That is why, tests should not be relied upon totally.

#### **(v) Employment Interview**

Although applications and employment tests provide a lot of valuable information about the candidate, they do not provide complete information required of the applicant. Interview may be used to get more information about the candidate. The main purpose of an employment interview are:

- To find out the suitability of the candidate;
- To seek more information about the candidate; and
- To give him an accurate picture of the job with details of the terms and conditions implied, and some idea about the organization's policies.

For the selection of right type of people, employment interview is very important. The communication skill of the candidate can be judged in such interview. His way of thinking can also be understood. Interview is very important where the candidate has to go through employment tests. The information contained in the application blank can be verified during the interview. This occasion is also utilised for testing the capability and personality of the applicant. Thus, interview affords an opportunity to develop a clear picture of the candidate. It is customary to have an interview in several stages especially for senior positions. There may be a preliminary interview by the head of the department. The final interview is taken by the Interview or Selection Committee consisting of the chairman of the organization, head of department, personnel manager and outside experts. During the interview, the members of the selection committee appraise each candidate according to the merit. At the end of interview of each candidate, the chairman consults the members and after a brief discussion finalises the grading of the candidate. After all the candidates have been interviewed, a panel is prepared. The number of persons in the panel is generally about two to three times the number of vacancies to be filled up.

A proper physical arrangement for the interview is of great importance. It enhances the reputation of the organization in the eyes of the candidates. The interview should be conducted in a room free from any disturbance, noise or interruption, so that it can be held confidentially and in a quiet environment. Another important condition for successful interviewing is that the interviewers should look ready for the meeting and the room should look

ready for a private discussion. Privacy and comfort are recognised as aids to free talk. People generally speak more freely and frankly when they are at ease and do not feel threatened.

**(vi) *Checking References***

A referee is potentially an important source of information about a candidate's ability and personality if he holds a responsible position in some organization or has been the boss or employer of the candidate. Prior to final selection, the prospective employer normally makes an investigation on the references supplied by the applicant and undertakes more or less a thorough search into the candidate's past employment, education, personal reputation, financial condition, police record, etc. However, it is often difficult to persuade a referee to give his opinion frankly. The organization may persuade him to do so by giving an assurance that all information provided by him will be treated as strictly confidential.

**(vii) *Medical Examination***

The pre-employment physical examination or medical test of a candidate is an important step in the selection procedure. Though in the suggested selection procedure, medical test is located near the end, but this sequence need not be rigid. The organizations may place the medical examination relatively early in process so as to avoid time and expenditure to be incurred on the selection of medically unfit persons. Some organizations either place the examination relatively early in the selection procedure or they advise the candidates to get themselves examined by a medical expert so as to avoid disappointment at the end. The physical examination should disclose the physical capabilities of the individual that are significant from the standpoint of his efficient performance in the job he is assigned to or of those jobs to which he may reasonably be expected to be transferred or promoted to. A proper medical examination will ensure higher standard of health and physical fitness of the employees and will reduce the rates of accident, labour turnover, and absenteeism.

The advantages of physical examination are:

- it serves to ascertain the applicant's physical capability to meet the job requirements;
- it serves to protect the organization against the unwarranted claims under workers' compensation laws or against law suits for damages; and
- it helps to prevent communicable diseases entering the organization.

**(viii) *Final Selection and Appointment Letter***

After a candidate has cleared all the hurdles in the selection procedure, he is formally appointed by issuing him an appointment letter or by concluding with him a service agreement. Generally, the candidates are not appointed on permanent basis because it is considered better to try them for a few months on the job itself. This is because no procedure of selection is complete in itself to find out the whole picture of the personality and qualities of a candidate. It is only by observing a person at work that one can find out how he does his work and behaves with his fellow employees and supervisors. If during the probation period, an employee is found unsuitable, the management may transfer him to some other job to which he may be expected to do justice. But if the organization cannot offer him a job which he can do well, the management may either sack him or give him time and training to improve himself.

## TRAINING AND DEVELOPMENT

Employee training and development are integral parts of the HR function of management. Training implies a systematic procedure whereby employees are imparted technical knowledge and skill for specific jobs. It emphasises improvements of the abilities of employees to handle specific jobs and operations more effectively. Development, on the other hand, implies an educational process aimed at the growth and maturity of managerial personnel in terms of insight, attitudes, adaptability, leadership and human relations, on the basis of conceptual and theoretical knowledge.

Training and development programmes are generally designed in accordance with the nature of the job, personnel concerned (operatives, supervisors, managers) and the purpose in view. The programmes can be broadly divided into two categories: *On-the-Job Programmes*; and *Off-the-Job Programmes*.

Training of operatives and skilled workers are mostly organised by way of: (i) Training on specific jobs; (ii) Vestibule training with separate sets of tools and equipment in a special training centre; (iii) Internship training with the cooperation of vocational training institutions; (iv) Apprenticeship training combining job experience with classroom instruction; and (v) Job rotation involving transfer from job to job on a systematic basis.

Supervisory and managerial training programmes are mostly off-the-job programmes. One or more such programmes commonly used are the following: (i) Classroom lectures; (ii) Conferences; (iii) Group discussions; (iv) Case studies; (v) Role-playing; (vi) T-group training; and (vii) Programmed instruction.

Management development programmes may consist of (i) In-basket programme for identifying executive potentials and developing decision-making abilities; (ii) Management games to develop capabilities of decision-making in a competitive situation of a realistic nature; (iii) Sensitivity training aimed at developing awareness of and sensitivity to behavioural patterns of oneself and others; (iv) Committee assignments or membership of junior boards; (v) Simulation and role-playing, and (vi) Transactional analysis for improving communication abilities, human relations and managerial interaction with subordinates.

### **Benefits of Training**

The investments made in training benefit an organization in many ways more than one:

- (i) Training helps to improve the quantity and quality of workforce. It increases the knowledge and skills of employees and improves their performance.
- (ii) It helps to reduce the time and cost required to reach the acceptable level of performance. It prevents employees' obsolescence. Accidents are also reduced.
- (iii) It enables the organization to fill manpower needs. Promising employees can be spotted and trained for higher level jobs.
- (iv) Trained employees make better and economic use of materials and equipment. Maintenance cost is reduced and the life of machines and equipment is increased.
- (v) It helps to reduce the need for constant and close supervision of workers. It facilitates "management by exception".
- (vi) It helps to give more job satisfaction and boosts the morale of the employees which results in the enhancement of their earnings, provides job security and better career prospects.
- (vii) It facilitates delegation and decentralisation of authority. Trained employees are willing to accept new and challenging assignments.

### **Benefits of Development**

Similarly, the investment made in management development benefits the organization in the following ways:

- (i) It prevents managerial obsolescence by exposing executives to latest concepts and techniques in their respective fields of specialisation.
- (ii) It ensures that the company is staffed with a sufficient number of managers who have requisite knowledge and skills.
- (iii) It ensures long-term survival and growth of the organization.
- (iv) It replaces old executives with younger ones, i.e., it develops a second line of competent officers for future replacement.

- (v) It creates group cohesiveness and encourages teamwork.
- (vi) It ensures that managerial resources of the organization are properly and fully used.

## Training Methods

### **On-the-job training Methods:**

Under these methods new or inexperienced employees learn through observing peers or managers performing the job and trying to imitate their behaviour. These methods do not cost much and are less disruptive as employees are always on the job, training is given on the same machines and experience would be on already approved standards, and above all the trainee is learning while earning. Some of the commonly used methods are:

#### **1. Coaching:**

Coaching is a one-to-one training. It helps in quickly identifying the weak areas and tries to focus on them. It also offers the benefit of transferring theory learning to practice. The biggest problem is that it perpetuates the existing practices and styles. In India most of the scooter mechanics are trained only through this method.

#### **2. Mentoring:**

The focus in this training is on the development of attitude. It is used for managerial employees. Mentoring is always done by a senior inside person. It is also one-to-one interaction, like coaching.

#### **3. Job Rotation:**

It is the process of training employees by rotating them through a series of related jobs. Rotation not only makes a person well acquainted with different jobs, but it also alleviates boredom and allows to develop rapport with a number of people. Rotation must be logical.

#### **4. Job Instructional Technique (JIT):**

It is a Step by step (structured) on the job training method in which a suitable trainer (a) prepares a trainee with an overview of the job, its purpose, and the results desired, (b) demonstrates the task or the skill to the trainee, (c) allows the trainee to show the demonstration on his or her own, and (d) follows up to provide feedback and help. The trainees are presented the learning material in written or by learning machines through a series called 'frames'. This method is a valuable tool for all educators (teachers and trainers). It helps us:

- a. To deliver step-by-step instruction
- b. To know when the learner has learned
- c. To be due diligent (in many work-place environments)

#### **5. Apprenticeship:**

Apprenticeship is a system of training a new generation of practitioners of a skill. This method of training is in vogue in those trades, crafts and technical fields in which a long period is required for gaining proficiency. The trainees serve as apprentices to experts for long periods. They have to work in direct association with and also under the direct supervision of their masters.

The object of such training is to make the trainees all-round craftsmen. It is an expensive method of training. Also, there is no guarantee that the trained worker will continue to work in the same organisation after securing training. The apprentices are paid remuneration according the apprenticeship agreements.

#### **6. Understudy:**

In this method, a superior gives training to a subordinate as his understudy like an assistant to a manager or director (in a film). The subordinate learns through experience and observation by participating in handling day

to day problems. Basic purpose is to prepare subordinate for assuming the full responsibilities and duties.

**B. Off-the-job Training Methods:**

Off-the-job training methods are conducted in separate from the job environment, study material is supplied, there is full concentration on learning rather than performing, and there is freedom of expression. Important methods include:

**1. Lectures and Conferences:**

Lectures and conferences are the traditional and direct method of instruction. Every training programme starts with lecture and conference. It's a verbal presentation for a large audience. However, the lectures have to be motivating and creating interest among trainees. The speaker must have considerable depth in the subject. In the colleges and universities, lectures and seminars are the most common methods used for training.

**2. Vestibule Training:**

Vestibule Training is a term for near-the-job training, as it offers access to something new (learning). In vestibule training, the workers are trained in a prototype environment on specific jobs in a special part of the plant.

An attempt is made to create working condition similar to the actual workshop conditions. After training workers in such condition, the trained workers may be put on similar jobs in the actual workshop.

This enables the workers to secure training in the best methods to work and to get rid of initial nervousness. During the Second World War II, this method was used to train a large number of workers in a short period of time. It may also be used as a preliminary to on-the job training. Duration ranges from few days to few weeks. It prevents trainees to commit costly mistakes on the actual machines.

**3. Simulation Exercises:**

Simulation is any artificial environment exactly similar to the actual situation. There are four basic simulation techniques used for imparting training: management games, case study, role playing, and in-basket training.

**(a) Management Games:**

Properly designed games help to ingrain thinking habits, analytical, logical and reasoning capabilities, importance of team work, time management, to make decisions lacking complete information, communication and leadership capabilities. Use of management games can encourage novel, innovative mechanisms for coping with stress.

Management games orient a candidate with practical applicability of the subject. These games help to appreciate management concepts in a practical way. Different games are used for training general managers and the middle management and functional heads – executive Games and functional heads.

**(b) Case Study:**

Case studies are complex examples which give an insight into the context of a problem as well as illustrating the main point. Case Studies are trainee centered activities based on topics that demonstrate theoretical concepts in an applied setting.

A case study allows the application of theoretical concepts to be demonstrated, thus bridging the gap between theory and practice, encourage active learning, provides an opportunity for the development of key skills such as communication, group working and problem solving, and increases the trainees' enjoyment of the topic and hence their desire to learn.

**(c) Role Playing:**

Each trainee takes the role of a person affected by an issue and studies the impacts of the issues on human life and/or the effects of human activities on the world around us from the perspective of that person.

It emphasizes the “real-world” side of science and challenges students to deal with complex problems with no single “right” answer and to use a variety of skills beyond those employed in a typical research project.

In particular, role-playing presents the student a valuable opportunity to learn not just the course content, but other perspectives on it. The steps involved in role playing include defining objectives, choose context & roles, introducing the exercise, trainee preparation/research, the role-play, concluding discussion, and assessment. Types of role play may be multiple role play, single role play, role rotation, and spontaneous role play.

(d) In-basket training:

In-basket exercise, also known as in-tray training, consists of a set of business papers which may include e-mail SMSs, reports, memos, and other items. Now the trainer is asked to prioritise the decisions to be made immediately and the ones that can be delayed.

**4. Sensitivity Training:**

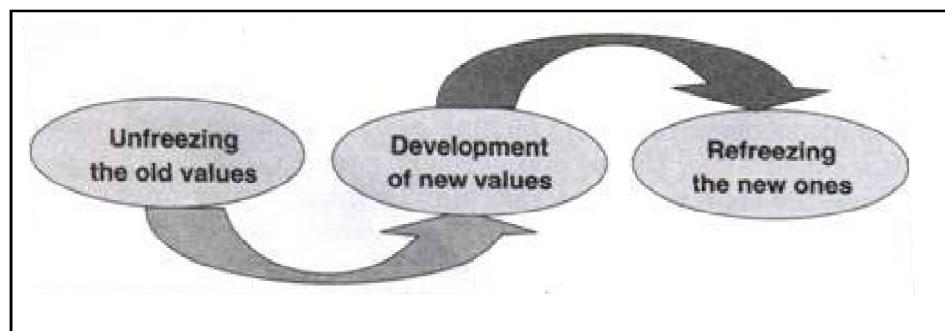
Sensitivity training is also known as laboratory or T-group training. This training is about making people understand about themselves and others reasonably, which is done by developing in them social sensitivity and behavioral flexibility. It is ability of an individual to sense what others feel and think from their own point of view.

It reveals information about his or her own personal qualities, concerns, emotional issues, and things that he or she has in common with other members of the group. It is the ability to behave suitably in light of understanding.

A group's trainer refrains from acting as a group leader or lecturer, attempting instead to clarify the group processes using incidents as examples to clarify general points or provide feedback. The group action, overall, is the goal as well as the process.

Sensitivity training Program comprises three steps (see Figure 18.7)

- Unfreezing the old values**
- Development of new values**
- Refreezing the new ones**



**Figure 18.7 Procedure for Sensitivity Training**

## PERFORMANCE MANAGEMENT

Performance management can be described as a set of policies and procedures which aim to improve the achievement of organisational goals through a focus on individual performance. The performance management system has a broader scope than the performance appraisal system, which is focused on whether the business objectives are valid and aligned both internally and externally with business units and markets.

As a component of performance management, *performance appraisal* is the process of assessing how well employees are doing at their jobs. There are five reasons for appraising performance:

1. To mould employees behaviour in order to comply with company norms

1. To improve consistency between employee actions and corporate goals
2. To improve the quality of human resource planning, especially training and succession
3. To improve quality of salary reviews
4. To provide records in cases of dismissal, demotion, grievance or appeal

### **Performance Appraisal**

People differ in their abilities and aptitudes. Therefore, it is necessary for management to know these differences so that the employees having better abilities may be rewarded and the wrong placements of employees may be rectified through transfers. The individual employee may also like to know the level of his performance in comparison to his fellow employees so that he may improve upon it. Thus, there is a great need to have suitable performance appraisal system to measure the relative merit of each employee.

The basic purpose of performance appraisal is to facilitate orderly determination of an employee's worth to the organization of which he is a part. However, a fair determination of the worth of an employee can take place only by appraising numerous factors, some of which are highly objective, as for instance, attendance; while others are highly subjective; as for instance, attitude and personality. The objective factors can be assessed accurately on the basis of records maintained by the Human Resource or Personnel Department, but there are no device to measure the subjective factors precisely. Notwithstanding this, appraisal of these factors must be done to achieve the full appreciation of every employee's merit.

Performance appraisal goes by various names, such as performance evaluation, progress rating, merit rating, merit evaluation.

Performance appraisal means systematic evaluation of the personality and performance of each employee by his supervisor or some other person trained in the techniques of merit rating. It implies employing of various rating techniques for comparing individual employees in a work group in terms of their personal strengths and weakness with respect to the requirements of their respective jobs. *To quote Dale Yoder, "Performance appraisal includes all formal procedures used to evaluate personalities and contributions and potentials of group members in a working organization. It is a continuous process to secure information necessary for making correct and objective decisions on employees".* The comparison of performance with job requirements helps in finding out the merit of the individual employee in a work group. Rating may be done by a supervisor or an independent appraiser.

### **Advantages of Performance Appraisal**

The benefits which justify the existence of a system of performance appraisal in an enterprise are as under:

- (i) A good system of performance appraisal helps the supervisor to evaluate the performance of his employees systematically and periodically. It also helps him to assign that work to individuals for which they are best suited.
- (ii) Performance rating helps in guiding and improving the performance of employees. The supervisor may use the results of rating for the purpose of constructively guiding employees for the efficient performance of the work.
- (iii) The ability of the staff members is recognised and can be adequately rewarded by giving them special increments.
- (iv) Performance appraisal can be used as a basis of sound personnel policy in relation to transfers and promotions. If the performance of an employee is better than others, he can be recommended for promotion, but if a person is not doing well on a job, he may be transferred to some other job.
- (v) Ratings can be used to evaluate the effectiveness of training programmes. Weaknesses of employees are revealed by merit rating; hence the training programmes can be modified accordingly.
- (vi) Performance appraisal provides an incentive to the employees to enhance their performance in a bid to

improve their rating over others.

- (vii) Systematic appraisals prevent grievances and develop confidence amongst the employees if they are convinced of the impartial basis of evaluation. The records of merit rating are stored in permanent form to protect the management against subsequent charges of discrimination which might be levelled by the trade union leaders.

Performance appraisal has a beneficial effect on both the persons doing the appraisal as well as those who are being appraised. The appraisal brings prominently to the attention of supervisors or executives the importance of knowing their subordinates as human resources. The necessity of performance appraisal leads the appraiser to a thoughtful analysis of the people rated and tends to make him more alive to the opportunities and responsibilities in developing the calibre of his subordinates.

It is the general tendency to know what others feel about us, but we seldom like criticism. The objective of appraisal is to derive the point to the appraisee without inviting his resentment or his drawing back into the shell or taking a defensive attitude. Idea is to give him an insight, and that too in a way, that he takes suitable steps to improve upon his performance through constructive motivation. Thus, appraisee is helped. He then feels himself as a part of the organization and tries to put in his best. This insight helps him in changing his attitude and in moving on to the path of self-improvement.

### **Limitations of Performance Appraisal**

Performance appraisal may sometimes not yield the desired results because of the following shortcomings:

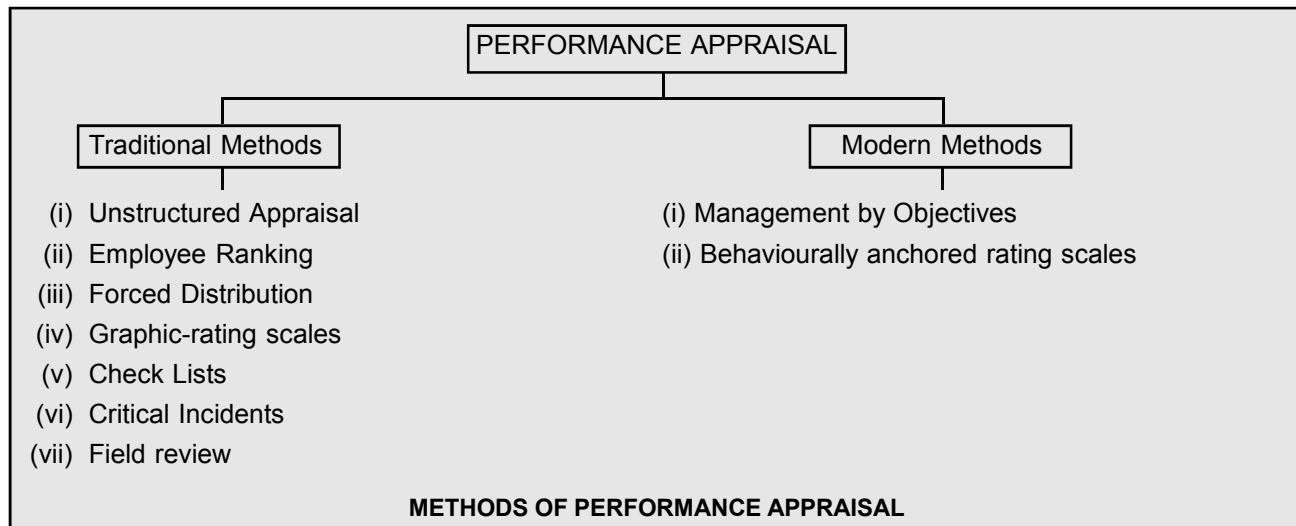
- (i) If the factors included in the assessment are irrelevant, the result of merit rating will not be accurate.
- (ii) Different qualities to be rated may not be given proper weightage in certain cases.
- (iii) Some of the factors are highly subjective, like the personality of the employees and the initiative taken by them. Hence, the actual rating may not be on scientific lines.
- (iv) Supervisors often do not have critical ability for assessing the staff. Sometimes, they are guided by their personal likes and dislikes. In such cases ratings are likely to be biased.

### **Methods of Appraisal**

There are various methods of merit rating which may be classified into:

- Traditional Methods
- Modern Methods

These are shown as hereunder:



## Traditional Methods

Traditional methods are very old techniques of performance appraisal. They are discussed below.

(i) **Unstructured Appraisal:** Under this, the appraiser is required to write down his impression about the person being appraised in an unstructured way. However, in some organizations, comments are required to be grouped under specific headings, such as quality of job performance, reasons for specific job behaviour, personality traits, and development needs. This system is highly subjective and has got its merit in its simplicity and is still in use, especially in the small firms.

(ii) **Ranking Method:** This is the simplest of all methods. The appraisal consists of ranking employees as more or less efficient by interpersonal comparison of overall qualities. This method may be conveniently adopted if the number of employees is small and work performance is measurable. The ranking thus made involves subjective appraisal of employees without any common standards.

A variant of the ranking method is the paired-comparison method, in which employees are compared and ranked in pairs. Each employee is compared with the other employees in a group, one at a time. The results of these paired comparisons are tabulated and a rank is assigned to each employee.

(iii) **Forced Distribution Method:** The basic assumption made for using this method is that employees are distinguishable as outstanding, above average, average, below average or poor; and their number conforms to a normal frequency distribution, e.g., 10% each in the highest and lowest categories, 20% each in the above average and below average categories, and 40% in the average category. The rater is required to distribute the employees in the five categories on the basis of their overall performance and attributes.

(iv) **Graphic Rating Scales:** This method is similar to the Rating- scale Method, except that the degrees of qualities or attributes on which employees are to be appraised are indicated on a graph or chart. The scale of attributes may be numerical-alphabetical or descriptive-adjective. Thus different degrees of an attribute may be stated as exceptional, above average, below average, or poor and assigned numbers as 5, 4, 3, 2, 1.

(v) **Check List:** Employee appraisal under this method involves listing of a number of statements about the performance and behaviour of the employee and the rater checks these statements indicating whether a statement applies or does not apply to the employee or there is a doubt. Afterwards, values (or weights) are assigned to the statements depending upon their respective importance. The final rating of the employee is taken as the average of the scale value of all statements that the rater has checked.

(vi) **Critical Incident Method:** This method involves employee appraisal on the basis of events or incidents and the employee's reactions to them reflecting positive or negative aspects of his behaviour. A continuous record of incidents is maintained by the supervisors and numerical scores are assigned according to the nature of employee's reaction to the particular events.

(vii) **Field Review Method:** Under this method, the supervisors are interviewed by an expert from the personnel department. The expert questions the supervisors to obtain all the pertinent information on each employee and takes notes in his note book. Thus, there is no rating form with factors or degrees, but overall ratings are obtained. The workers are usually classified into three categories: outstanding, satisfactory and unsatisfactory.

The success of Field Review method depends upon the competence of the interviewer. If he knows his job, he can contribute significantly to accurate appraisals. Field Review method relieves the supervisors of the tedious writing work of filling in appraisal forms. It also ensures a greater likelihood that the supervisors will give adequate attention to the appraisals because the personnel department largely controls the process. Superficial judgement can be eliminated, if the appraiser probes deeply.

## Modern Methods

There are two important methods of performance appraisal which are used by the modern organizations. The

first is Management by Objectives which represents result-oriented appraisal. The second is Behaviourally-Anchored Rating Scale which is based behaviour-rating, the behaviour of the subordinates.

#### **(i) Management by Objectives**

It was **Peter Drucker** who proposed goal setting approach to performance appraisal which he called 'Management by Objectives and Self Control'. This approach was further strengthened by **Douglas Mc.Gregor**. McGregor was concerned with the fact that most traditional appraisal systems involved ratings of traits and personal qualities that he felt were highly unreliable. Besides, the use of such trait ratings produced two main difficulties: (1) The manager was uncomfortable about using them and resisted making appraisals, and (2) it had a damaging effect on the motivation and development of the subordinate.

Goal setting approach or "Management by Objectives" (MBO) is the same as behavioural-approach to subordinate appraisal, actually called "work planning and review" in case of General Electric Co., U.S.A. Under this approach, an employee is not appraised by his recognisable traits, but by his performance with respect to the agreed goals or objectives. Thus, the essential feature of this approach is mutual establishment of job goals. The application of goal setting approach to performance appraisal involves the following steps:

- The subordinate discusses his job descriptions with his superior and they agree on the contents of his job and the key results areas.
- The subordinate prepares a list of reasonable objectives for the coming period of six to twelve months.
- He sits with his superior to discuss these targets and plans, and a final set is worked out.
- Check-points are established for the evaluation of progress, and the ways of measuring progress are selected.
- The superior and the subordinate meet at the end of the period to discuss the results of the subordinate's efforts to meet the targets mutually established.

The goal setting approach has done away with the judgmental role of the superiors in the appraisal of their subordinates. It has led to greater satisfaction, greater agreement, greater comfort and less tension and hostility between the workers and the management. This approach is considerably superior to the traditional approach of performance appraisal. It emphasizes upon the training and development of individuals. It is problem-solving approach rather than tell and sell approach. This approach has also got a built-in device of self-appraisal by the subordinates because they know their goals and the standards by which their performance will be measured.

The goals setting approach suffers from the following limitations:

- (a) This approach can be applied only when the goal setting is possible by the subordinates. It is doubtful if such a procedure can be applied for the blue-collar workers.
- (b) This approach is not easy to administer. It involves considerable time, thought and interaction between the superior and the subordinate. If the span of supervision is quite large, it will not be possible for the superior to have discussion with each and every subordinate for setting up mutually agreed goals.
- (c) This approach mainly emphasises counselling, training and development. It is argued that critical evaluation and modification to improve are incompatible. But, in practice, it is not possible to forego the critical aspect of performance appraisal.
- (d) This approach is appropriate for the appraisal of executives and supervisory personnel who can understand it in a better way.

Operative workers cannot understand this approach and moreover, a vast majority of them do not want to take initiative in setting down their own goals.

### **(ii) Behaviourally Anchored Rating Scales**

Behaviourally Anchored Rating Scales (BARS) are designed to identify the critical areas of performance for a job, and to describe the more effective and less effective job behaviour for getting results. Performance is evaluated by asking the rater to record specific observable job behaviour of an employee and then to compare the observations with a “behaviorally anchored rating scale”. As a result, the supervisor will be in a position to compare the employee’s actual behaviour with the behaviour that has been previously determined to be more or less effective.

Proponents of BARS claim many advantages of this approach. They argue that such a system differentiates among behaviour, performance, and results, and consequently is able to provide a basis for setting developmental goals for the employee. Because it is job-specific and identifies observable and measurable behaviour, it is a more reliable and valid method for performance appraisal.

Empirical studies of behaviourally anchored rating scales (BARS) have provided a fertile ground for study by both theorists and practitioners. The BARS experience has helped to clarify three major controversies of the appraisal process. One was the previously discussed issue of rating content (trait vs. job related). The second controversy involved the multidimensional nature of performance. The administrative uses of appraisal had encouraged rating systems to produce an overall measure of performance, which tended to mark differences in performance in the key result areas (“performance dimension”) critical to job results. The third controversy involved the issue of the most effective way to anchor the rating scales (numerical or behavioural). By anchoring the scales behaviourally, the BARS approach was expected to produce more valid and reliable results by reducing measurement errors (leniency, halo effect, central tendency, and so on).

## **HUMAN RESOURCE PLANNING**

- **The meaning of HRP**

In simple terms, Human Resource Planning should be viewed, as that part of HRM where a determination is made in terms of organization’s human resource needs for it to be able to meet its goals. Bulla and Scott (1994) cited in Armstrong (2001: 357) defined it as,

“The process of ensuring that the human resource requirements of an organization are identified and plans are made for satisfying those requirements”

- **HRP: A Qualitative And Quantitative Process**

HRP addresses an organization’s human resource needs both in quantitative terms i.e. how many people and qualitative terms i.e. what kind of people and with what skills, knowledge, and aptitudes (SKAs)

### **The business philosophy behind HRP**

An organization that engages in HRP is in essence displaying its belief in that the human resource is the most important and strategic resource. (HRP is therefore a key element of strategic HRM). In other words such an organization believes that only through a proper HR base can its survival and growth be guaranteed

### **The context of HRP**

HRP occurs within the framework of an organization’s strategic planning process.

Strategic planning is, “the determination of overall organizational goals and objectives and how they will be achieved”

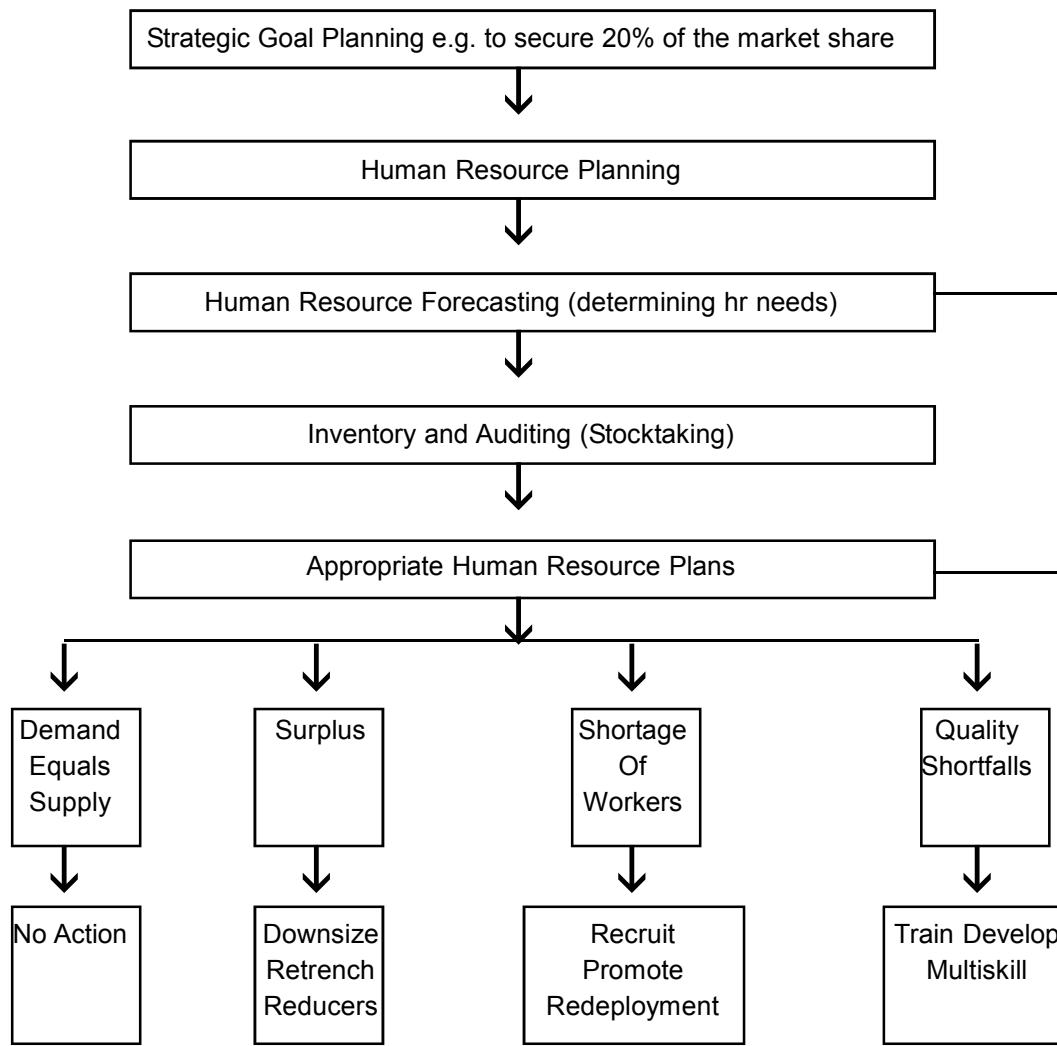
- **HRP is in itself a strategic process in an organization.**

HRP occurs within the framework of an organization’s business goals. In other words through HRP (i.e. the process of determining future HR needs), an organization can set what goals it wants to achieve and how it will

achieve them (of course together with other functional plans). HRP is therefore a key way through which organizational goals can be achieved.

It is important to note that organizational and corporate frameworks determine or set the agenda for HRP.

## THE PROCESS OF HUMAN RESOURCE MANAGEMENT



The Institute Of Personnel Management Zimbabwe (IPMZ), argues that HRP is essentially a 3 step process which involves

1. HR forecasting
2. Inventory and auditing
3. HR plan

## HR FORECASTING

HR forecasting is that part of HRP which involves the estimation of future HR requirements in terms of actual numbers and the skills and competences they will need. As indicated earlier on, the basis of this estimation is

the organization's strategic plan or long-term business plan. Several techniques (qualitative and quantitative) are used for this purpose. The following are some of the techniques used:

1. Zero based forecasting - A technique, which estimates future HR needs, based on current HR levels. This is the most commonly used.
2. Bottom up approach -Where line managers estimate their future HR requirements with the HR manager and MD reconciling the estimations.
3. Predictor variable approach-Future HR needs are forecast based on a company's understanding of factors that usually affect employment levels e.g. (the most common) future employment levels can be forecast based on the relationship between sales and employment.
4. Computer based simulation- Use of computer models to answer such questions as " what would happen if production would increase by 20%, sales by 50% and turnover by 5%)
5. Availability forecast- This forecast techniques enables HR managers to determine if the organization will be able to secure the necessary HR requirements from its own internal as well as the external labour markets. It essentially incorporates supply forecasting.

### Inventory And Audit

After having determined the HR requirements necessary for the organization to meet its goals, the HR manager then has to engage in the process of inventory analysis and auditing. This essentially means making a " stock take" of what the organization already has in place. Thus the following question is raised at this stage,

Is there a variance between our current HR position and our future needs and to what extent?

### Inventory and Auditing is threefold

1. General numbers inventory and auditing
2. Skills inventory and auditing
3. Managerial inventory and auditing

### HR PLAN

The questions asked during the inventory and audit stage are answered at the last stage of the HRP process i.e. the plan stage. Here the HR manager basically works on a plan to address the discoveries at the inventory and audit stage- the plan, which becomes the document called the **Human Resource Plan**. For example it was discovered during the audit and inventory stage that 10% of the managers would have retired. A career management or recruitment plan will be put into place or if it was discovered that 50% of the staff lack the necessary skills- an appropriate HR plan based on training will be put in place.

### Operational/ Short Term HR Planning

A distinction is often made between long term HR planning or sometimes referred to as manpower planning and what is called operational planning. Operational planning essentially involves annual HR plans. Organizations usually have 2 types of plans- the long-term strategic plans and the annual operational plans which involves annual goals e.g. sales and profit targets for a given year (when are these reviewed for public companies.)

Operational HR plans are also in this category where annual HR goals – in line with the organizational goals- are set and means of achieving them also set.

An operational HER plan is essentially a document that spells out what the organization will do in terms of the various HR practices e.g. R and S- in order to achieve the organizational objectives.

## HRP as a Process

Given that conditions in an organization's external and internal environments can change abruptly. This implies that HRP should also be a continuous process whereby HR plans are continuously updated to match changing external circumstances. Thus it does not make business sense for the HR manager to form and continue implementing a plan that no longer makes sense in view of the external changes.

## The Purpose of HRP

An organization may have its own purpose of engaging in HRP depending on its particular circumstances but the following are the generic aims of HRP. (Armstrong 2001; 362)

1. Attract and retain the number of people required with the appropriate skills, expertise and competencies
2. Anticipate the problems of potential surplus or deficits of people
3. Develop a well trained and flexible workforce – thus contributing to the organization's ability to adopt to uncertain or changing environment
4. Reduce dependence of external sources of labour supply by developing appropriate internal ones
5. Derive optimum value from an organization's HR

## The Significance of HRP to overall Business Management

The overall significance of HRP to overall business management is that all business results are only achieved by the people who work within it. It is therefore through proper HRP that all other business goals can be achieved. In fact, it may well be argued that HRP should be the starting point in overall business planning for it is only an organization's human resource that can drive and implement all other business plans.

## HRP Policy

Every organization must have a policy in relation to HRP, which answers the following questions

1. When operational and long term plans will be made?
2. The format of the plans (CONTENT)?
3. Under what circumstances would they be reviewed?
4. Who is responsible for making them?
5. How will they be evaluated?

## TALENT MANAGEMENT

Talent management is actions taken by organizations for the purpose of attracting, selecting, developing, and retaining the best employees in the most strategic roles (Scullion and Collings, 2011). It recognizes people who excel at particular activities and performance upon whom support is offered to enable them to "push the envelope" while capturing and sharing what they do differently so that colleagues can emulate them. Talent management aims at deploying the right people in the right jobs at the right time, ensuring the right environment for individuals to deliver their best and remain committed to the organization (Uren and Jackson 2012). With a proper talent management, organization should have the capacity to identify the kinds of people and capability that will create value or deliver competitive advantage for the organization now and in the future. Talent management helps organizations to make the most of the strengths and talents of their employees. Talent management has a number of benefits to offer such as improved employee engagement, retention, alignment to strategic goals in

order to identify the future leadership of the organization, increased productivity, culture of excellence and much more (Ballesteros, 2010). Despite the benefits of talent management, Boudreau and Ramstad (2007) observe that many companies today do not have a ‘talent strategy’ in place, despite organizations’ acknowledging the fact that talent is an important issue. In many organizations there is a lack of workforce planning, while the approach to accessing talent is poorly coordinated across the business. It is crucial that talent management system be put in place for building organizations. Boudreau and Ramstad (2007) posits that the 73% of the executives in United States of America agree on the positive relationship between talent management process and business strategy to obtain the success of the organizations. It means that companies recognize the importance of talent management integration with business strategy to get the organizational excellence. The concept of talent management treats talent as a system of interrelated parts that help organizations to strategically leverage talent. By recognizing the interrelatedness nature of talent management, organizations are able to better develop, promote and retain their talent to meet current and future business needs. Organizations are taking steps to manage talent most effectively and also to develop their own employer brand. These brands simplify decision-making and communicate the value they create for their customers. Likewise, employees also identify themselves with certain organizations (Shravanthi and Sumanth, 2008) especially in the light of forecasted labour shortage. Organizations that formally decide to “manage their talent” undertake a strategic analysis of their current human resource processes. This is to ensure that a co-ordinated performance oriented approach is adopted.

DDI defines talent management as a mission critical process that ensures organizations have the quantity and quality of people in place to meet their current and future business priorities. The process covers all key aspects of an employee’s “life cycle:” selection, development, succession and performance management. Key components of a highly effective talent management process include:

- A clear understanding of the organization’s current and future business strategies.
- Identification of the key gaps between the talent in place and the talent required to drive business success.
- A sound talent management plan designed to close the talent gaps. It should also be integrated with strategic and business plans.
- Accurate hiring and promotion decisions.
- Connection of individual and team goals to corporate goals, and providing clear expectations and feedback to manage performance.
- Development of talent to enhance performance in current positions as well as readiness for transition to the next level.
- A focus not just on the talent strategy itself, but the elements required for successful execution.
- Business impact and workforce effectiveness measurement during and after implementation.

## **Organisation Development**

Organizational development is the process through which an organization develops the internal capacity to be the most effective it can be in its mission work and to sustain itself over the long term. This definition highlights the explicit connection between organizational development work and the achievement of organizational mission. This connection is the rationale for doing OD work.

Board and staff members are motivated to tackle the hard work of OD only when they are convinced of the connection between achievement of mission and organizational development. They must understand the “why” of organizational development. They are guided in their OD work by a vision of an effective and well-functioning organization that can better achieve its mission.

- Organizational survival – whether improving basic systems or providing space to understand and address

critical transitions, organizations credited OD work with their very survival.

- “Being the best we can be” – by improving the quality of their work through human or technical investments, organizations built their credibility and accountability in the eyes of their constituents and supporters.
  - Raising more resources for the mission work – as organizations strengthened their capacity for evaluation, communication, collaboration and fundraising, they attracted more resources to increase the level and impact of their program work.
  - “Walking our talk” – by focusing on the values that are the foundation of the mission work, OD led organizations to make a commitment to practice internally what they are seeking to accomplish externally.
- 3 • Developing staff and board members so they can improve program results – by creating an environment where people feel valued and seek continual learning and improvement, staff and board members increased their energy and effectiveness towards the achievement of mission.

Beckhard lays out a sequential, five stage model for organization development (OD). OD involves (1) planned, (2) organization-wide action (3) managed through its internal hierarchy which (4) increases organizational efficiency and sustainability through (5) use of *planned interventions* into organizational processes that are informed by behavioral-science knowledge. Beckhard asserts that successful OD has to address the entire “organization” of an organization, even if it is looking to affect only tactical changes to parts of it. Seeing organizational health and possibilities for change and development as connected and intricately interrelated, Beckhard—invoking both his own definition and those of Gardner (1965), Schein (1965), Miles (1966), and Morse (1968)—writes that an organization is OD-primed when it is, above all, goal-oriented, self-renewing, adaptable, well-regulated, and communicating effectively within its ranks. Once such a dynamic is in place, Beckhard writes, OD’s processes can facilitate increased effectiveness, improved working conditions, and better productivity.

As Beckhard sees it, OD is most useful when an organization needs to (1) change a managerial strategy, (2) adjust the organizational climate for consistency with both individual needs and shifting environmental demands, (3) change some aspect of its normative “culture” or group psychology, (4) change organizational structure and roles, (5) improve intergroup (and inter-organizational) collaboration, (6) open up its communication systems, (7) better plan and strategize, (8) coping with internal problems from mergers and acquisitions, (9) improve worker motivation, and/or (10) adapt to a changing environment.

### LESSON ROUND UP

- Human Resource Management is the art of acquiring, developing and maintaining a complete work force in such a manner as to accomplish with maximum efficiency and economy the functions and objectives of the organization.
- In most of the big enterprises, personnel department is set up under the leadership of personnel manager who has specialised knowledge and skills. The personnel manager performs managerial as well as operative functions. Since he is a manager, he performs the basic functions of management, like planning, organising, directing and controlling to manage his department and also performs certain operative functions of recruitment, selection, training, placement, etc., which the other line managers may entrust to him.
- Recruitment is the process of searching for prospective employees and encouraging them to apply for the jobs in an organization, whereas selection is the process of logically choosing individuals who possess the necessary skills and ability to successfully fill specific positions in the organization.
- Employee training and development are an integral parts of the HR function of management. Training implies a systematic procedure whereby employees are imparted technical knowledge and skill for specific jobs. Development, on the other hand, implies an educational process aimed at growth and maturity of

managerial personnel in terms of insight, attitudes, adaptability, leadership and human relations, on the basis of conceptual and theoretical knowledge.

- Performance appraisal means systematic evaluation of the personality and performance of each employee by his supervisor or some other person trained in the techniques of merit rating.
- Management by Objectives means that an employee is not appraised by his recognisable traits, but by his performance with respect to the agreed goals or objectives.
- Under "behaviorally anchored rating scale", the supervisor is in a position to compare the employee's actual behaviour with the behaviour that has been previously determined to be more or less effective.

## GLOSSARY

<b>Exemplified</b>	To show or illustrate by example.
<b>Appraisal</b>	The act of estimating or judging the nature or value of something or someone.
<b>Forego</b>	To go before or precede.
<b>Absenteeism</b>	Frequent or habitual absence from work or school.
<b>Cohesive</b>	Well-integrated or unified.
<b>Resentment</b>	The feeling of displeasure at some work, remark, person, etc, regarded as causing injury or insult.
<b>Pertinent</b>	Pertaining to or relating directly or significantly to the matter in hand.

## SELF-TEST QUESTIONS

1. \_\_\_\_\_ determines the number and kinds of personnel required to fill the various positions in organisations:
  - a) Manpower Planning
  - b) HR Planning
  - c) HR Audit
  - d) HR Planning or Manpower Planning
2. Which is Not the role of Personnel Manager
  - a) Policy initiation
  - b) Advisory Role
  - c) Mediator Role
  - d) None of the above
3. Compensation is one of the \_\_\_\_\_ functions of HR Manager
  - a) Managerial
  - b) Operative
  - c) Top Management
  - d) All of the above
4. Ranking, Rating Scales, Checklists are the methods of:

- a) Transfer Management
  - b) Promotional Methods
  - c) Performance Appraisal
  - d) Job Description
5. The process of searching for the prospective employees and encouraging them to apply for the jobs in an organisation is known as:
- a) Selection
  - b) Placement
  - c) Recruitment
  - d) Training
6. The managerial function of HRM means:
- a) Effectively Planning of manpower resources
  - b) Grouping of personnel activity logically into functions or positions
  - c) Encouraging people to work willingly creating a motivational culture
  - d) All of the above
7. Which of the following is an external source of recruitment?
- a) Transfer
  - b) Re-Hiring
  - c) Promotion
  - d) Employment Agencies
8. What is the second step in selection process?
- a) Checking references
  - b) Medical Examination
  - c) Receiving applications
  - d) Employment tests
9. \_\_\_\_\_ helps to anticipate the problems of potential surplus or deficits of people
- a) Demand Forecasting
  - b) Supply Forecasting
  - c) Performance management
  - d) HRP
10. \_\_\_\_\_ means that an employee is not appraised by his recognisable traits, but by his performance with respect to the agreed goals or objectives
- a) Management by Objectives
  - b) Balanced Scorecard
  - c) Key Performance Areas
  - d) All of the above

**Answer key:** 1d; 2d; 3b; 4c; 5c; 6d; 7d; 8c; 9d; 10a

## Suggested Readings

- (1) Management (7th Edition) – *Koontz, O'Donnell and Weihrich*
  - (2) Principles of Management – *Koontz and O'Donnell*
  - (3) Management – *Stoner, Freeman, Gilbert, Jr.*
  - (4) Human Resource Management – *George IT Milkovich and Jahri W. Boudreau*, Chicago
  - (5) Human Resource Management – *Lan Breadwell and Lan Holden*, Macmillan, New Delhi
  - (6) Personnel Management – *Edwin B. Flippo, McGraw Hill*, New York
  - (7) Personnel Management and Human Resources – *C.S. Venkataratnam and B. K. Srivastava*,  
Tata McGraw Hill, New Delhi
  - (8) Personnel and Human Resource Management – *David A. Decenzo and Stephens P. Robbins*,  
Prentice Hall of India, New Delhi
  - (9) Management Training in Organizations – *K. Dayal, Prentice Hall of India*, New Delhi.

# Lesson 5

## Direction and Co-ordination

### LESSON OUTLINE

- Direction – Concept
- Features
- Importance
- Elements of Directing
- Supervision
- Motivation
- Leadership
- Communication
- Co-ordination- Concept
- Features
- Importance
- Co-ordination types-
- Internal and external
- Co-ordination: The essence
- of Management
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

The managerial function of directing is like the activities of a teacher in a classroom. In order to teach, a teacher has to guide his students, maintain discipline, inspire them, motivate them and lead them to the desired goal. Directing is a very important function in the management of any enterprise. It helps the managers in ensuring quality performance of jobs by the employees and in the achieving organizational goals. It involves supervision, communication, providing leadership to the subordinates and motivating them to contribute their best to the organisation.

Coordination is the unification, integration, synchronization of the efforts of group members so as to provide unity of action in the pursuit of common goals. It is a hidden force which binds all the other functions of management together. Management seeks to achieve coordination through its basic functions of planning, organizing, staffing, directing and controlling. That is why, coordination is not a separate function of management because it aims at achieving the common goal of the enterprise by harmonizing individual efforts of the employees. This is the key to the success of management. Coordination is the essence of management and this is implicit and inherent in all its functions.

Directing is the guidance, the inspiration, the leadership of those men and women that constitute the real core of the responsibilities of management.

**Urwick and Brech**

Coordination is the process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of a common purpose.

**McFarland**

## CONCEPT OF DIRECTION

Direction is that part of managerial function which actuates the organizational methods to work efficiently for achievement of organizational purposes. It is considered life-spark of the enterprise which sets it in motion the action of people because planning, organizing and staffing are the mere preparations for doing the work. Direction is that inert-personnel aspect of management which deals directly with influencing, guiding, supervising, motivating sub-ordinate for the achievement of organizational goals.

Taylor pointed out that effective direction depends upon the “harmony of objectives”.

Henri Fayol emphasized certain other concepts to facilitate direction which he viewed as commanding. These concepts are as follows:

- (i) to have a through knowledge of the personnel;
- (ii) to eliminate the incompetent;
- (iii) to be well versed in the agreements binding the business and its employees;
- (iv) to set a good example;
- (v) to conduct periodic audit of the organisation and use summarised charts to further this;
- (vi) to bring together the chief assistants by means of conferences at which unity of direction and focusing of effort are provided for; and
- (viii) to aim at infusing unity, energy, initiative and loyalty among the personnel.

## FEATURES OF DIRECTION

The direction is not merely issuing orders and instructions by a superior to his subordinates, but it also includes the process of guiding and inspiring them. Based on this, following are the chief features or characteristics of direction:

1. Direction is an important managerial function. Through direction management initiates actions in the organization.
2. Direction function is performed at every level of management.
3. Direction is a continuous process and it continues throughout the life of the organization.
4. Direction initiates at the top level in the organization and flows to bottom following the hierarchy.
5. Direction has dual objectives. On one hand, it aims at getting things done by the subordinates and, on the other, it aims at providing the superiors opportunities for some more important work, which their subordinates cannot do.

## IMPORTANCE OF DIRECTION

(i) *Direction initiates actions*: Organization is the sub-total of human and non-human resources. These resources should be handled in a certain way to get the desired results. Through direction, management conveys and motivates individuals in the organization to function in the desired way to achieve organizational objectives. Without direction, other managerial activities, like planning, organizing and staffing become ineffective.

(ii) *Direction integrates employees' efforts*: For achieving organizational objectives, individuals need not only to be efficient, but effective also. Their actions are interrelated in such a way that each individual's performance affects the performance of others in the organization. Thus, individuals' efforts need to be integrated so that organization achieves its objectives in the most efficient manner and this is possible through direction only.

(iii) *Direction attempts to get maximum out of individuals:* Every individual in the organization has some potentiality and capability which, in the absence of proper motivation, leadership, communication—all elements of direction—may not be utilized fully. Direction provides the way to utilize these capabilities and it also helps in increasing these capabilities.

(iv) *Direction facilitates changes in the organization:* Organization exists in the society and any change in the society changes organizational process to keep organization ready to face environmental changes. Moreover, there changes occur in organization structure and in individuals as well. To incorporate and implement these changes, management should motivate individuals affected by them, which is an essential function of direction.

(v) *Direction provides stability and balance in the organization:* Effective leadership, communication and motivation provide stability in the organization and maintain the balance in its different parts. Thus, organization exists for a long period and its parts work in a harmonious way.

## ELEMENTS OF DIRECTING

Direction has following elements:

- Supervision
- Motivation
- Leadership
- Communication

### **Supervision-**

Supervision refers to the direct and immediate guidance and control of subordinates in the performance of their work. It involves observing the subordinates at work and ensuring that they work according to the plans and policies of the organization. George R. Terry and Stephen G. Franklin have defined supervision as “*Supervision is guiding and directing efforts of employees and other resources to accomplish stated work outputs.*”

Effective supervision is a function which has several factors. Some such factors are given hereunder:

- (i) *Skills and Abilities:* Whatever the situation may be, the range of duties to be performed by a supervisor will call for possession of specific skills. Basically, a supervisor will require three types of skills, namely technical, human relations and conceptual.
- (ii) *Leadership Position:* Leadership is an influencing process. By influencing the work behaviour of subordinates, a manager directs it towards the attainment of organizational goals. To be effective, supervisors should be given proper place and status in the organization and should be vested with requisite authority so that he is able to exercise leadership over the group and motivate employees to perform better.
- (iii) *Nature of Supervision:* Here the supervisor should be intelligent enough to decide whether he has to exercise general or close supervision. Experience of most organizations suggests that general supervision has a favourable impact on the morale and productivity of subordinates.
- (iv) *Group Cohesiveness:* Effective supervision relates to group cohesiveness. Group cohesiveness is characterized by the degree of attraction that each member has for the group. Groups with high
- (v) Cohesiveness produce better results because each member of the group works towards the attainment of common goals and is prepared to share responsibility for the group work.
- (vi) *Improved Relationship with Superiors:* Problems of supervision usually arise from omissions, mistakes and negligence on the part of superior managers. Hence, for any improvement in supervision, supervisor's

relations with his superior must be cordial so that he can frankly present his views and suggestions related to his subordinates and their work performance.

### **Motivation-**

Motivation means inspiring, stimulating or encouraging the subordinates with zeal to work. Positive, negative, monetary, non-monetary incentives may be used for this purpose.

Motivation is the word derived from the word 'motive' which means needs, desires, wants or drives within the individuals. It is the process of stimulating people to actions to accomplish the goals. In the work goal context the psychological factors stimulating the people's behaviour can be -

- desire for money
- success
- recognition
- job-satisfaction
- team work, etc

One of the most important functions of management is to create willingness amongst the employees to perform in the best of their abilities. Therefore the role of a leader is to arouse interest in performance of employees in their jobs. The process of motivation consists of three stages:-

1. A felt need or drive
2. A stimulus in which needs have to be aroused
3. When needs are satisfied, the satisfaction or accomplishment of goals.

Therefore, we can say that motivation is a psychological phenomenon which means needs and wants of the individuals have to be tackled by framing an incentive plan.

### **Usefulness of Motivation in Management**

Since management involves creation and maintenance of a healthy environment where the individuals can perform effectively and efficiently, it necessarily follows that a manager cannot get the best of work out of his subordinates without knowing what motivates them. In fact, a deliberate attempt has to be made to build up a motivational system in the organization which could make the entire managerial process a success.

People join organizations to achieve certain goals as members of a cohesive group. But it is not necessary that they are always willing to work for attaining these goals. Chester Bernard recognized the willingness to work or cooperate as an important element in the success of an organization. And, of course, people's willingness is determined by many factors. It is the responsibility of management of any enterprise to "build into the entire system factors that will induce people to contribute as effectively and efficiently as possible. A manager does this by building into every possible aspect of the organizational climate those things which will cause people to act in desired ways".

### **Types of Motivation**

Motivation can be of the following types:

#### ***Psychological Motivation***

*Dr. Wilder Penfield*, a neurosurgeon from McGill University discovered in 1951 that not only the past events are recorded in detail in the brain, but also the feelings that are associated with those events. An event and the feelings which are produced by the event are inextricably locked together in the brain. The memory record continues in fact even after the person's ability to recall it disappears. The brain functions as a high fidelity tape recorder. (So if the record is of a pleasant or happy experience the person will be always motivated with that

experience). The recorded experiences and feelings associated with them are available for reply today in as vivid a form as when they happened and provide much of the data which determines the nature of today's transactions. Dr. Eric Berne developed this concept further and devised a scientific method to study human behaviour. He originated Transactional Analysis (T.A.).

### **Transactional Analysis**

According to Eric Berne, a transaction is the unit of social intercourse. When two or more people encounter one another, sooner or later one, of them will speak or give some indication of acknowledging their presence. This is called *transactional stimulus*. The other person will then say or do something which is in some way related to the stimulus, and that is called *transactional response*. Transactional analysis is the method of examining the social intercourse of this type. It helps in finding out 'why people do as they do' by determining which part of the multiple natured individuals is being activated in any transaction.

#### **Ego States**

The parts of the multiple nature of an individual which are recorded in the brain and are replayed in course of a transaction are described as: parent, child and adult, (PAC) ego states.



**Parent:** What a child sees his parent doing and what he hears from them are recorded straight in his mind in the first five years. Thus, hostility of parents is recorded with terror and love with pleasure. Thousands of no's and repeated don't's are recorded in this set. It is thus the taught concept of life. The recordings are available for replay throughout the life. These are reflected in such words as 'work hard', 'do not worry', 'everything will be O.K.', 'done well', 'never do so again' and such actions as outstretching of arms, hugging, foot tapping, blessing and rebuking.

**Child:** This is the recording of the response of 'little person' to what he sees and hears. It is done simultaneously with the recordings of external and imposed events which we have described as parent. Most of the reactions of the child are 'feelings'. He is small, he is dependent, he is clumsy and so on. When a person is in the grip of feelings, we say that his child has taken over. *It is thus the felt concept of life*. It is reflected in such words as: 'do not leave me', 'I would not do so again', 'I wish', 'I want' and in such actions as tearful eyes, surprise on face, anger, pleasure, pleading for something and being playful.

**Adult:** When the child is able to move at about 10 years, the recording of adult also starts. The self actualisation is the beginning of the adult. An important function of adult is to examine the data in parent whether or not it is true and to examine the child to see whether or not the feelings are appropriate to the present. It is thus the *thought concept of life*. During early years, adult is fragile and indecisive. It cannot change or erase the recordings in the parent and child.

Adult is reflected in such words as 'why' and 'who', and such actions as 'listening', 'thinking', 'pondering' and 'reflecting'.

### Crossed Transactions

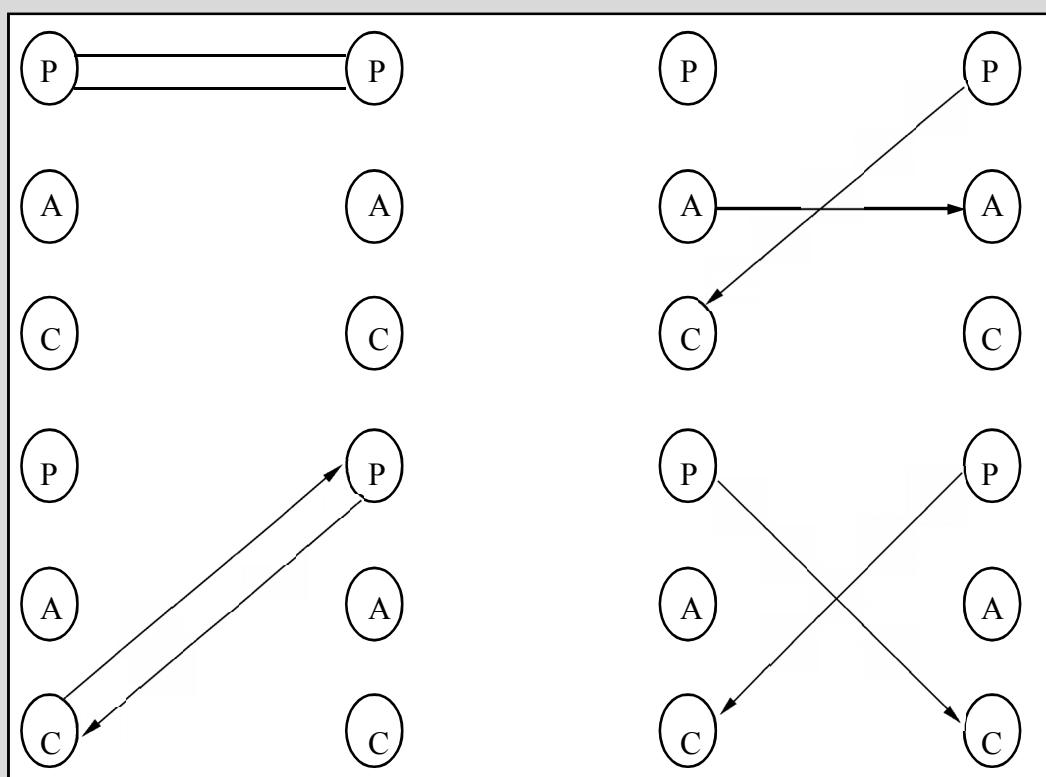
Any social intercourse may be parallel or crossed.

The parent-parent, child-child or adult-adult transactions are parallel. These are complementary and can go on indefinitely (except child-child transactions which are few as the child is a get stroke rather than give stroke creature).

Parent-child, child-parent, parent-adult, adult-parent, etc., are the examples of crossed transactions.

### Illustration

1. Stimulus : Support staff is indisciplined.  
Response : It is a sign of the times. (Parent-parent).
2. Stimulus : You have presented a good report.  
Response : Thank you. (Adult-adult).
3. Stimulus : I wish you were better educated.  
Response : I am not so lucky. (Child-child).
4. Stimulus : I have to finish the report tonight as it is due tomorrow.  
Response : You always leave things to the last minutes. (Adult-parent).
5. Stimulus : Your are always late.  
Response : Sony Sir! (Parent-child)



Parallel and Crossed Transactions

## Benefits of Transactional Analysis

Transactional Analysis can give employees fresh insights into their own personalities and it can also help them understand why others sometimes respond as they do. A major benefit of transactional analysis is improved interpersonal communication. Employees can sense when crossed communication occurs and they can take steps to restore complementary communication. Transactional Analysis is especially useful in sales and other areas where success depends on customer relations.

### **Leadership-**

Leadership may be defined as a process by which manager guides and influences the work of subordinates in desired direction.

Leadership is a process by which an executive can direct, guide and influence the behavior and work of others towards accomplishment of specific goals in a given situation. Leadership is the ability of a manager to induce the subordinates to work with confidence and zeal.

Leadership is the potential to influence behaviour of others. It is also defined as the capacity to influence a group towards the realization of a goal. Leaders are required to develop future visions, and to motivate the organizational members to want to achieve the visions.

According to Keith Davis, "Leadership is the ability to persuade others to seek defined objectives enthusiastically. It is the human factor which binds a group together and motivates it towards goals."

## Characteristics of Leadership

1. It is a inter-personal process in which a manager is into influencing and guiding workers towards attainment of goals.
2. It denotes a few qualities to be present in a person which includes intelligence, maturity and personality.
3. It is a group process. It involves two or more people interacting with each other.
4. A leader is involved in shaping and moulding the behaviour of the group towards accomplishment of organizational goals.
5. Leadership is situation bound. There is no best style of leadership. It all depends upon tackling with the situations.

## Cultivated Leadership Attitudes

Since leading people involves interpersonal relationships between the leaders and the followers, the leader should always try to improve his attitude towards the led to become effective. This process is more important than mere knowledge of things, because certain behavioural patterns of learned can be used with skill. Some such behavioural patterns are:

- (a) **Awareness:** The manager should not do his job of leading unimaginatively, that is without being aware of the factors which account for success or failure. He must know his job, the people involved and the situational considerations clearly to ensure effectiveness.
- (b) **Empathy:** It is generally described as the ability of a person to look at things or problems from another person's point of view. Manager should not assume that subordinates will understand the things and problems as he himself perceives them. People differ in their experiences, ability and understanding of things. Thus, in order to understand their feelings and problems, to lead them successfully, manager should put himself in the position of his subordinates.
- (c) **Objectivity:** In his task of leading the manager should not be guided by any preconceived notions about

the attitude and behaviour of his subordinates. Problems and their causes should be observed very objectively and unemotionally.

- (d) *Self-knowledge:* A manager may think himself to be fair and objective but subordinates may view him otherwise. He should, therefore, know for himself how he appears to others and what is the effect of his attitude and behaviour on the subordinates. This would help him lead in the pattern perceived by those who are being led. Self-knowledge will help the leader to improve and cultivate those habits and attitude that produce favourable response on the part of subordinates. For instance, if self-realization leads him to learn that instructions are not properly understood, the manager can attempt to improve his ability to communicate.

### **Communications-**

#### **CONCEPT OF COMMUNICATION**

Communication is a vital aspect of the managerial process. In fact, superior- subordinate relation cannot thrive without effective and meaningful communication. Effective communication is often defined as the exchange of thoughts, facts, opinions, or information between two or more persons so as to bring about mutual understanding or confidence.

Communication may be through words, symbols, letters, or actions. But so long as people in the organisation share the meaning and understanding with one another, there is communication. To be more specific, communication may be defined as the transfer of information and understanding from one person to another.

There are two indispensable features of communication:

- (i) Communication cannot take place until there are at least two persons - the receiver and the sender.
- (ii) Communication need not elicit confidence, but the information which is so exchanged must be understood by the receiver. However, understanding does not mean that the receiver must agree to the information. Communication takes place when the information is understood even though there is disagreement.

Communication is the process of passing information, experience, opinion etc from one person to another. It is a bridge of understanding.

A famous quote says - "**The way we communicate with others and with ourselves ultimately determines the quality of our lives**"

The process of passing any information from one person to the other person with the aid of some medium is termed as **communication**.

The first party who sends the information is called the **sender** and the second party who receives the information, decodes the information and accordingly responds is called the **receiver or the recipient**. Thus in simpler terms communication is simply a process where the sender sends the information to the receiver for him to respond.



In an organization, your boss will never give you your share of credit, unless and until you present your work in a well-defined manner. How will one present his/her work- by communication?

Parents will never understand that their child is hurt unless and until, the child cries or shows his wounds. What is crying? A form of communication. What does showing of wounds mean-The child wants to communicate to his parents that he needs to be immediately attended by the doctor.

**REVIEW QUESTIONS****State True or False:**

1. The approach towards directing the subordinates will depend upon the situation only.
2. Goals are similar to needs but imply that the object is social, not merely physiological.
3. Transactional Analysis can give employees fresh insight into their own personalities.
4. While decoding the message the sender determines the method of transmission.
5. Formal channels of communication are referred to as "Communication through the chain of command".
6. A confession of mistake may lead to material gains in terms of promotion and pay hike.

**Choose your option:**

7. Which theory is also known as the "Two Factor Theory"?

- (a) Theory of Douglas McGregor
- (b) Herzberg's Motivation – Hygiene Theory

**Answers:** 1. False 2. False 3. True 4. False 5. True 6. False 7. (b)

**CONCEPT OF CO-ORDINATION**

In every organization, different types of work are performed by various departments and work groups and no single department or work group on its own can be expected to achieve the goals of the organization as a whole.

Hence, it becomes essential that the activities of different departments and work groups of the organization are harmonized. This function of management is known as 'co-ordinating' function. It ensures unity of action among individuals, work groups and departments, and brings harmony in carrying out the different activities and tasks so as to achieve the organizational goals efficiently. The concept of co-ordinating always applies to group efforts. There is no need for co-ordination when only single individual is working.

In other words, co-ordinating function is the orderly arrangement of individual and group efforts to provide unity of action in the pursuit of a common goal. In an organization, all the departments must operate in an integrated manner so that the organizational goals are duly achieved. Co-ordinating function involves synchronization of different efforts of the various departments so that the planned objectives are achieved with minimum conflict.

The significance of co-ordinating as a function of management mainly arises from the fact that work performed by different departments and groups form integral part of the total work for which the organization exists. Without harmonized effort or unity of action, achievement of goals in some departments may run counter to that of the other departments, or the timing of achievements may not match properly. The co-ordinating function of the management prevents overlapping and conflict so that the unity of action is achieved.

Different management experts have described the co-ordinating function of the management in the following way.

"Co-ordination is orderly arrangement of group efforts to provide unity of action in the pursuit of common goals".  
– Mooney and Reelay

"Co-ordination is the integration of several parts into an orderly hole to achieve the purpose of understanding".  
– Charles Worth

"Co-ordination is balancing and keeping together the team by ensuring suitable allocation of tasks to the various members and seeing that the tasks are performed with the harmony among the members themselves." – Brech

"The first test of a business administration should be whether you have a business with all its parts so coordinated, so moving together in their closely knit and adjusting activities, so linking, inter-locking, inter-relating, that they make a working unit that is not a congeneric of separate pieces, but a functional whole or integrated unit". – Mary Parker Follett

According to Mary Parker Follett, co-ordinating is the "Plus-value of the group". That is, if there is good co-ordinating between the groups then the combined achievement of the groups will be greater than the total of the achievement of the individual group, i.e.  $3+2=6$ . This is impossible in the physical world, but it is possible in human affairs through co-ordinating.

### **Features of Co-ordination**

Co-ordination is the unification, integration, synchronization of the efforts of group members so as to provide unity of action in the pursuit of common goals. It is a hidden force which binds all the other functions of management.

According to *Mooney and Reelay*, "Co-ordination is orderly arrangement of group efforts to provide unity of action in the pursuit of common goals".

According to *Charles Worth*, "Co-ordination is the integration of several parts into an orderly hole to achieve the purpose of understanding".

Management seeks to achieve co-ordination through its basic functions of planning, organizing, staffing, directing and controlling. That is why; co-ordination is not a separate function of management because achieving of harmony between individuals efforts towards achievement of group goals is a key to success of management. Co-ordination is the essence of management and is implicit and inherent in all functions of management.

The significance of co-ordinating function becomes more important when the size and scale of operation is large in the organization. This is because of the following reasons.

- When the size and scale of operation is large, there is more number of people and work groups working. So there is greater possibility of people working at cross purposes as the unit and sub-unit goals may be considered more important by them than the organizational goals. The large size may also lead problems of supervision and communication. Hence co-ordinating the activities becomes a major task of the management in a large organization.
- Large organizations generally tend to have activities located at different places, which may not permit frequent and close interaction among people. Hence, the need for co-ordinating becomes greater and it becomes a major responsibility for the management.
- The large size of the organization is often associated with diversification of business activities. This may be due to a large number of different types of products being produced. Due to it, there are several division and sub-division of activities. At the same time, there are also increase in the number of managerial levels and vertical division of responsibilities. All these make co-ordinating function an important function of the management.

### **Importance of Co-ordination**

The following points highlight the importance of co-ordinating function of the management

- Achievement of Common Goals: It provides proper direction to the various departments of the organization

by integrating (bringing together) the different activities of the departments for achieving the common goals or objectives of the organization.

- Facilitates motivation: Co-ordinating gives complete freedom to the employees. It encourages the employees to show initiative. It helps them in getting the job satisfaction through achievement of the objectives and thus getting motivated.
- Unity of Action: It helps to ensure unity of action in the face of disruptive forces. By welding together different departments and sections into one entity, co-ordinating ensures the stability and growth of an organization. It enables the executives to see the organization as a whole instead of narrow sectional goals. Individual interests are sub-ordinated to the common interest more easily and effectively.
- Encourages team spirit: There exist many conflicts and rivalries between individuals, departments, between a line and staff, etc. Similarly, conflicts are also between individual objectives and organizational objectives. Co-ordinating function arranges the work and the objectives in such a way that there are minimum conflicts between departments and the individuals. It encourages the employees to work as a team and achieve the common objectives of the organization.
- Higher efficiency and economy in the organization: Co-ordinating helps to improve the efficiency of operations by avoiding overlapping efforts and duplication of work. Integration and balancing of individual efforts provide a smooth and harmonious team work. There is the synergetic effect of the co-ordinating function. Co-ordinating also improves workers efficiency since their work does not go waste and produces the desired results.
- Optimum utilization of resources. Co-ordinating function helps in avoiding cross purpose work since it brings together the human and material resources of the organization. In this way it helps to minimize the wastage of resources in the organization and thus make possible the optimum utilization of resources.
- Improves inter personnel relations in the organization: Since the co-ordinating is done through people, with people and between people, it helps in removing misunderstanding between the people and thus improving the inter personnel relationship between the employees. Composite and orderly effort established through team spirit and executive leadership enables employees to derive a sense of security and personal contentment from their job.
- Improves organizational effectiveness. Co-ordination fosters loyalty and commitment among employees. This enhances the effectiveness and stability of the organization. According to McFarland, "if job satisfactions are present, executives will tend to remain longer with the company. They will feel that they have a place in the organization. They will feel that they have earned that place. The presence of co-ordination becomes part of their job experience and hence can form a very useful part of their training." Thus, co-ordination is indispensable for an effective management.
- Improves goodwill of the organization. Through co-ordinating function the performance of the organization improves and it produces goods which are more acceptable to the customers. Its performance earns goodwill amongst its stakeholders.

### **Limitations of Co-ordination**

Co-ordination is necessary for the smooth and successful functioning of the management. But in practice co-ordination faces certain problems. Its limitations are listed below:

- (i) *Lack of Administrative Talent*: Lack of administrative talent arises due to the selection of inefficient candidates. They do not understand the administrative procedure properly. This results in ineffective co-ordination.
- (ii) *Misunderstanding*: There are a number of personnel employed in an organisation. They should have

mutual understanding with one another. But the problem of co-ordination comes in due to misunderstandings which creeps in among the employees very often.

### Types of Co-ordination

Co-ordination is of two types. They are explained herein below:

**1. Internal Co-ordination:** It is the establishment of relationship with a view to coordinate the activities of all the managers, executives, divisions, subdivisions, branches and other workers.

Internal Co-ordination is further sub-divided into the following two groups:

- (i) *Vertical Co-ordination:* In vertical co-ordination a superior authority co-ordinates his work with that of his subordinates and vice versa. Sales manager coordinates his work with the activities of the sales supervisor. Similarly, the sales supervisor is required to have co-ordination, and cordial relationship with his superiors.
- (ii) *Horizontal Co-ordination:* This refers to the establishment of a relationship between the persons of the same status. For example, co-ordination between the departmental heads, supervisors, co-workers, etc.

There are two forms of internal co-ordination: (1) vertical reporting to your supervisor(s) and to your staff, and (2) horizontal reporting to your colleagues and your management team. The effective and efficient co-ordinating of internal and external organizational components help in reducing internal and external complexities and uncertainties in the organization thus increasing productivity, integrating macro and micro level organizational dynamics, connecting of roles among inter and intra organizational groups, bridging performance and trust among competing organizational groups, and defining organizational tasks and their accomplishment.

**2. External Co-ordination:** External co-ordination is the establishment of a relationship between the employees of the organization and the outsiders of the enterprise. This relationship is established for the benefit of the organization as a whole. An organization has to establish better relationship with the following outsiders :

- Market agencies.
- General public.
- Competitors.
- Customers.
- Union Government, State Government, local self-governments and other government agencies.
- Different institutions rendering auxiliary services.
- Financial Institutions.
- Media.
- Technological Agencies.
- Different commercial organizations.

The work to establish a good and cordial relationship between the employees of the organization and the outsiders is entrusted to a person who is designated as Public Relations Officer (PRO).

### CO-ORDINATION – THE ESSENCE OF MANAGEMENT

Since the co-ordinating function of the management is very important, it is sometimes called the 'essence' of management. Co-ordinating is an integral element or ingredient of all the managerial functions. It is a hidden force which binds all the other functions of management. It is required in each and every function and at each and every stage. Co-ordinating function cannot be separated from other functions as described below.

- Co-ordinating through planning – Co-ordinating is a part of planning, because it tells what to include in a good plan and how to execute it. Planning facilitates co-ordination by integrating the various plans through mutual discussion, exchange of ideas.
- Co-ordinating through organizing – Co-ordinating is the very essence of organizing. It is part of organizing, because it takes the first lead. In fact when the management assigns and groups various activities to the departments, co-ordinating of the activities is the uppermost in its mind.
- Co-ordinating through staffing – Co-ordinating is part of staffing, because it specifies who will be a staff and its rational placement. Management always ensures that, for better co-ordination, the right number of personnel in various positions with right type of education and skills are taken so that there are right men on the right job.
- Co-ordinating through directing – Co-ordinating is part of directing, because it gives it a clear focus. The purpose of giving orders, instructions and guidance to the subordinates is served only when there is a harmony between the superiors and the subordinates.
- Co-ordinating through controlling – Co-ordinating is a part of reporting, because it makes it realistic. Management ensures through co-ordinating that there is no difference in actual performance as compared to the standard performance so as to achieve the organizational goals.

### LESSON ROUND UP

- Directing is an important function of management which involves communicating and providing leadership to the subordinates.
- M.R. Jones has defined motivation as being concerned with “how behaviour gets started, is energized, is sustained, is directed, is stopped, and what kind of subjective reaction is present in the organization while all of this is going on”.
- Motivation may also be seen as a chain reaction: beginning with felt needs, resulting in wants or goals sought, which in turn give rise to tensions, then causing action towards achieving goals, and finally satisfying wants.
- Behaviour is motivated by a desire to attain goal. Transactional analysis helps in finding out ‘why people do as they do’ by determining which characteristic of the individual with multiple facts is being activated in any transaction.
- Leadership is one of the important aspects of managing. A leader directs and motivates members of the group. He also represents the group in the outside world and introduces the outside world to the group.
- The leadership process is a function of the leader, the follower, and the other situational variables i.e.  $L = f(l, f, s)$ . If managers are also good leaders, they provide direction, drive and a good representation; thus proving that leadership is an essential part of successful management.
- Leadership is a means of directing and represents that part of an executive’s activities by which he guides and influences the behaviour of his subordinates and the group towards some specified goals by personally working with them and understanding their feeling and problems.
- Effectiveness in communication greatly contributes to the success of managerial functioning and is a vital aspect of the managerial process.

- Words, pictures and actions are the communication media used for exchanging information and for developing understanding between different persons.
- Co-ordination is the orderly synchronization of group efforts so as to provide unity of action in the pursuit of a common purpose.

## GLOSSARY

<b>Unification</b>	The process of uniting or union.
<b>Implicit</b>	Implied, rather than expressly stated.
<b>Fidelity</b>	Strict observance of promises, duties, etc.
<b>Inextricable</b>	Hopelessly intricate, involved, or perplexing.
<b>Antagonism</b>	An opposing force, principle, or tendency.
<b>Discretion</b>	The power or right to decide or act according to one's own judgment; freedom of judgment or choice.
<b>Elicit</b>	To draw or bring out or forth; educe; evoke.
<b>Gangplank</b>	A flat plank or small, movable, bridgelike structure for use by persons boarding or leaving a ship at a pier.
<b>Repercussion</b>	An effect or result, often indirect or remote, of some event or action.

## SELF-TEST QUESTIONS

1. \_\_\_\_\_ pointed out that effective direction depends upon the "harmony of objectives".  
a) Peter Drucker b) Fredrick Taylor c) Henri Fayol d) Philip Kotler
2. Elements of direction are \_\_\_\_\_  
a) Supervision b) Motivation c) Leadership d) All of the above
3. Planning, organizing, staffing, directing and controlling all involve \_\_\_\_\_  
a) Planning b) Directing c) Communication d) Co-ordination
4. Transactional Analysis was devised by \_\_\_\_\_  
a) Herzberg b) Maslow c) Berne d) Mc Cleland
5. Physiological Need has the following elements \_\_\_\_\_  
a) Love b) Affection c) Belongingness d) None of the above
6. Herzberg's Two Factor Theory is \_\_\_\_\_  
a) Motivator-Affection b) Affection-Social c) Belongingness-Motivator d) Motivator-Hygiene
7. According to Trait Theory sometimes skills are sometimes mistaken for \_\_\_\_\_  
a) Image b) Communication c) Belongingness d) Traits
8. Any informal communication about company and personal matters outside the official network constitutes grapevine.  
a) Gossip b) Non Verbal Communication c) Verbal Communication d) Grapevine
9. Crosswise communication is also known as \_\_\_\_\_

- a) Upward Communication b) Diagonal Communication c) Downward Communication d) Oral Communication

10. \_\_\_\_\_ is the orderly synchronization of group efforts so as to provide unity of action in the pursuit of a common purpose

a) Planning b) Directing c) Communication d) Co-ordination

**Answer key:** 1 b; 2 d; 3 d; 4 c; 5 d; 6 d; 7 d; 8 d; 9 b; 10 d

## **Suggested Readings**

- (1) Management (7th Edition) – Koontz, O'Donnell and Weihrich
  - (2) Principles of Management – Koontz and O'Donnell



# Lesson 6

## Controlling

### LESSON OUTLINE

- Concept of Control
- Features of Control
- Importance of Control
- Limitations
- Control Process
- Essentials of a Good Control System
- Techniques of Control
- Non-Traditional Techniques of Control
  - Budgetary Control
  - Standard Costing
  - Financial Ratio Analysis
  - Internal Audit
  - Break-Even Analysis
  - Statistical Control
- Modern Techniques of Control
  - Zero Base Budgeting
  - Network Analysis
- Management Audit
- Review Questions
- Relationship between Planning and Controlling
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

The word control is very commonly used. You must have come across statements, like control your anger, control your expenses and save money and control your kids.

In common parlance, word control means to check or verify ; to regulate; to curb or restrain, etc.

However, in the context of a business it means a process of controlling the activities of an organisation.

A good definition of control is that it is a process through which managers assure that actual activities conform to planned activities.

Control is directly related to planning. The process of controlling ensures that plans are being implemented properly. In the management cycle functions, i.e., planning, organizing, directing and controlling, planning comes before all other functions and controlling comes the last. This is because control is the final link in the function chain of management activities. It is the only way the managers know whether the organizational goals are being met. If not, why?

Thus, the objective of this lesson is to make the students understand the concept and various techniques of control so as to enable them to get an insight into what kind of control system would work best in a given situation.

The managerial control implies the measurement of accomplishment against the standard and the correction of deviation to assure attainment of objectives according to plans.

Koontz and O'Donnell

## CONCEPT OF CONTROL

Controlling is an important function of management which all the managers are required to perform. In order to contribute towards achievement of organisational objectives, a manager is required to exercise effective control over the activities of his subordinates.

Thus, controlling can be defined as a managerial function to ensure that activities in an organisation are performed according to the plans. Controlling also ensures efficient and effective use of organisational resources for achieving the goals. Hence, it is a goal oriented function.

Often, controlling and management control are considered same. However, there is a vast difference between the two. Controlling is one of the managerial functions while management control can be defined as a process which managers follow to perform the controlling function.

Management control refers to setting of predetermined standards, comparing actual performance with these standards and, if required, taking corrective actions to ensure the achievement of organisational goals.

"Managerial control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans". **Koontz And O'Donnell**

"Control is the process of bringing about conformity of performance with planned action." **Dale Henning**

Controlling function is performed in all types of organizations whether commercial or non-commercial and at all levels i.e. top, middle and supervisory levels of management. Thus, it is a pervasive function. Controlling should not be considered as the last function of the management.

The controlling function compares the actual performance with predetermined standards, finds out deviation and attempts to take corrective measures. Eventually, this process helps in formulation of future plans too. Thus, controlling function helps in bringing the management cycle back to planning.

## Features

Controlling checks mistakes and tells us how new challenges can be met or faced. The success of the organisation thus hinges on the effective controlling. Controlling is the last function of the management process which is performed after planning, organising, staffing and directing. On the other hand, management control means the process to be adopted in order to complete the function of controlling.

The following steps are included in it:

- (i) Setting performance standards,
- ii) Measurement of actual performance,
- iii) Comparison of actual performance with standards,
- iv) Analysis deviations, and
- (v) Taking corrective action.

## Importance of Controlling

The importance of controlling becomes clear from the following facts:

### (1) Accomplishing Organisational Goals:

The controlling process is implemented to take care of the plans. With the help of controlling, deviations are immediately detected and corrective action is taken. Therefore, the difference between the expected results and

the actual results is reduced to the minimum. In this way, controlling is helpful in achieving the goals of the organisation.

**(2) Judging Accuracy of Standards:**

While performing the function of controlling, a manager compares the actual work performance with the standards. He tries to find out whether the laid down standards are not more or less than the general standards. In case of need, they are redefined.

**(3) Making Efficient Use of Resources:**

Controlling makes it possible to use human and physical resources efficiently. Under controlling, it is ensured that no employee deliberately delays his work performance. In the same way, wastage in all the physical resources is checked.

**(4) Improving Employee Motivation:**

Through the medium of controlling, an effort is made to motivate the employees. The implementation of controlling makes all the employees to work with complete dedication because they know that their work performance will be evaluated and if the progress report is satisfactory, they will have their identity established in the organisation.

**(5) Ensuring Order and Discipline:**

Controlling ensures order and discipline. With its implementation, all the undesirable activities like theft, corruption, delay in work and uncooperative attitude are checked.

**(6) Facilitating Coordination in Action:**

Coordination among all the departments of the organisation is necessary in order to achieve the organisational objectives successfully. All the departments of the organisation are interdependent. For example, the supply of orders by the sales department depends on the production of goods by the production department.

Through the medium of controlling an effort is made to find out whether the production is being carried out in accordance with the orders received. If not, the causes of deviation are found out and corrective action is initiated and hence, coordination between both the departments is established.

## Limitations of Controlling

**1. Difficulty in Setting Quantitative Standards:**

It becomes very difficult to compare the actual performance with the predetermined standards, if these standards are not expressed in quantitative terms. This is especially so in areas of job satisfaction, human behaviour and employee morale.

**2. No Control on External Factors:**

An organization fails to have control on external factors like technological changes, competition, government policies, and changes in taste of consumers etc.

**3. Resistance from Employees:**

Often employees resist the control systems since they consider them as curbs on their freedom. For example, surveillance through closed circuit television (CCTV).

**4. Costly Affair:**

Controlling involves a lot of expenditure, time and effort, thus it is a costly affair. Managers are required to ensure that the cost involved in installing and operating a control system should not be more than the benefits expected from it.

## CONTROL PROCESS

Control consists of assuring that the results of operations conform, as closely as possible, to the established goals and predetermined standards. The essential elements of any control process are:

### 1. Establishment of Goals and Standards

Standards are the norms against which any performance is measured to find out its results. The first essential element of any control process is to know what should be the result. This requires projecting the future and determining the goals and standards of performance. Standards may be :

- tangible or specific (like production of 200 units per day or sale of 1500 units per day)
- intangible or abstract (to be the most preferred employer)

But these must be so expressed that people concerned understand them, and that accomplishment of assigned duties can be measured against them.

### 2. Measurement of Actual Performance against Standards and their Comparison

Once the standards are set, the second basic step in control process is the evaluation of performance. This requires measuring the work in terms of control standards, and communicating the appraisal with the persons responsible for taking corrective actions. Measurement of performance must be in units similar to those in which standards are expressed.

Checking on performance is not intended just to determine that a mistake has been made, rather it enables the manager to predict the future problems. Customer inquiries are sometimes used to predict a rise or fall in sales: a machine's vibration may be used to predict a breakdown; or grievances may be used to predict a strike. Through such predictions, corrective actions can be initiated without waiting for the actual event to occur.

Measurement of performance becomes easy if appropriate standards are set and means are available for exact determination of the performance. But in practice there are some activities for which it is extremely difficult to develop sound standards. Likewise, there are many performance areas that are difficult to measure. Industrial relations, finance, and public relations are a few examples.

Thus, setting appropriate standards and developing the means for exact measurement and appraisal of performance is an extremely difficult task. Moreover, as new techniques are being developed to measure the performance with a reasonable degree of objectivity, useful standards at higher as well as lower levels of management are bound to emerge. Management should also apply the exception principle and concentrate mainly on significant deviations, wherever they occur.

### 3. Corrective Action

When a significant discrepancy occurs between the actual output or performance and the planned or predetermined performance standards, specific action must be taken to correct the situation. Some innovative people and organizations already have built-in corrective actions in their control process, if the deviations are due to controllable factors. Some even go to the extent of identifying the uncontrollable factors and developing alternative courses of action for deviations. When deviations occur and the procedures regarding corrective action are given in advance to the performers of job, actions can be taken without delay. The following are important phases of corrective action.

#### *(i). The Operation Phase*

- (a) Prompt investigation of the causes of the deviation.
- (b) Decisions concerning the required corrective action.
- (c) Prompt direction for correcting the situation in accordance with the decision.

- (d) Close supervision of the corrective action to ensure that it takes place according to the instructions and is effective.

#### **(ii). The Administrative Phase**

- (a) Further investigation of recurring difficulties to determine the basic factors, either human or physical, that are responsible.
- (b) Disciplinary action, either positive or negative, as the situation requires.
- (c) Creative planning to prevent a recurrence of the situation.
- (d) Recognition of the situation and introduction of the planned measurement.

#### **4. Follow-Through**

Recommending corrective actions for underperformance is not enough in itself. The managers responsibility does not end here. Often the control proves ineffective or fails because the corrective actions recommended are not allowed through. Suppose the performance evaluation of a subordinate indicates weakness in his supervisory practices, the superior of this individual recommends a corrective action and ensures that he undergoes some kind of training in supervisory practices. The responsibility of the superior does not end here. The superior has to follow through his recommendations to ensure that the subordinate participates and makes progress in the training programme. Further, the superior must watch whether the subordinate is applying what he had learnt in the training programme to the actual work situation.

### **ESSENTIALS OF A GOOD CONTROL SYSTEM**

Certain ideas are basic to the development of an effective control system and every manager, irrespective of the level at which he is operating must be guided by these considerations.

**(i) Feedback:** Feedback is the process of adjusting future actions based upon the information about past performance. It is based upon interdependence of different parts of a system.

A manager responsible for control needs a continuous flow of information relating to the actual performance so that deviations are promptly detected and corrected. Information which flows back to the manager for this purpose is nothing but feedback. Information may be formal or informal feedback. Informal feedback is through personal contact, informal discussions and personal observations. Financial statements, reports, statistical analysis, and other written communications furnish examples of formal feedback. In every organization information is either formal or informal feedback.

However efficient the data of feedback may be, the managerial control cannot be so instantaneous or self-correcting as some of the mechanical or electronic controls are. There are, however, managers who on the pretext of automatic correction of deviations, favour new and sophisticated systems of data collection. These managers overlook the fact that there always exists a time-lag between recording the deviations and initiating the corrective actions. Even when deviations are promptly reported, it takes time to analyse them, chalk out a programme of actions and then implement the same. A major part of the time in correcting deviations is consumed in identifying these activities separately; whereas not much time is spent in recording and reporting these deviations.

Thus, even fastest data collection, such as the “real time” information (i.e. information immediately available at the time events are occurring) will not result in automatic correction of deviations from plans.

**(ii) Control should be Objective:** Evaluation of the performance of a subordinate should not be a matter of subjective determination. That is, control, should be definite and objective. A subordinate will respond favourably to the objective standards and impartial appraisal of his work performance.

**(iii) Prompt Reporting of Deviations:** Control system should be devised so as to detect deviations before they actually occur. The manger should be provided with information as soon as possible so that he can hive off failures.

(iv) **Forward Looking Control:** Ideal control is instantaneous, self-correcting and forward-looking. However, managerial control is not exactly similar to the mechanical or electronic control. There normally exists a time-lag between recording and reporting the deviations and the corrective actions to become operative. A manager should, therefore, structure his control system in a way so that deviations are predicted well in time and corrective action can be initiated before substantial deviation occurs.

(v) **Flexible Control:** Control must be flexible in the sense that it should respond favourably to the conditions. In consequence of unforeseen circumstances when plans are changed, control should reflect corresponding changes to remain operative under new conditions. Controls are not an end in themselves. In order to accomplish objectives if it becomes necessary to revise the plans, the control system must have the attribute to adapt itself to new developments. The basic idea is that control should remain workable under dynamic business conditions including the failure of the control system itself. Flexible plans tend to make the control adaptable to new situations.

(vi) **Organizational Suitability:** Control is exercised through managerial positions, and as such they should reflect the organizational pattern. Each managerial position should be provided with adequate authority to exercise self-control and take corrective actions. Flow of control information should be consistent with organization structure employed.

(vii) **Control should be Economical:** A control system should be economical in the sense that the cost of its installation and maintenance should be justified by its benefits. Simply stated, control must be worth its cost. An elaborate control system may sometimes have to be discarded because cost and benefit considerations do not warrant its installation. Thus, a small company can hardly afford the extensive system of control practiced by large companies.

(viii) **Strategic Point Control:** Deviations cannot be eliminated altogether. However, all deviations are not of equal importance and do not require same account of attention. Thus, if postal expenses rise by just 10 per cent, the deviation is insignificant and carries very little meaning for the management. If, on the other hand, labour cost rises by only 5 per cent, this must occupy full attention of management. An attempt to control and attend to all the factors will make the management busy with less important problems and deny management the attention to the strategic areas and deviations. It is thus one of the essential requirements of an effective control system to highlight the critical or limiting points that deserve close management attention for appraisal and adjustments. Thus, efficient control system discriminates between important and unimportant factors, and through it makes the system more effective and less costly.

(ix) **Control should be Simple to Understand:** Those who administer control should understand it. Control specialists very often recommend sophisticated and advanced techniques of control on the pretext of proving their expertise and tend to overlook the question which are understood by the managers in the organization. There are also cases where the personnel lack sufficient motivation to learn the new system. In either case, control loses its effectiveness. Thus, while launching a system of control, management should take into account the present qualifications and abilities of executives and also their potential abilities to be developed soon. Mathematical formulae, complex charts and detailed statistical summaries, though very useful, may fail to prove as effective control devices, if their meaning is not properly communicated to the executives who have to use them.

(x) **Control should Suggest Corrective Action:** An essential requirement of the effective control system is that it should indicate deviations and suggest corrective actions promptly and in time. Simple recording of deviations and errors and fixing responsibility for their occurrence is not sufficient, if it is not followed by suitable actions to prevent its further occurrence.

(xi) **Control should be Worker-Focused :** Modern control system is worker-focused rather than work or job oriented. Control is affected on people who handle material resources for producing certain work results. If any corrective action is called for, persons accountable for results are to be located for initiating remedial actions. Research studies have proved that modern control system allows greater freedom and therefore people show special interest in it. Moreover, people generally associate worker-focused control with higher productivity.

## TECHNIQUES OF CONTROL

A variety of tools and techniques have been developed and used for years for the purposes of managerial control. These tools are, in the first instance, planning devices. Some of these techniques are termed as traditional and others as modern. Most of the modern control devices usually reflect the system techniques long used in physical sciences. Operations research and PERT (Programme Evaluation and Review Technique) are important modern control techniques.

Thus, the main traditional control devices are:

- Budgetary Control
- Standard Costing
- Financial Ratio Analysis
- Internal Audit
- Break-Even Analysis
- Statistical Control

Some of the non-traditional (modern) control devices are:

- Zero Base Budgeting
- Network Analysis
  - CPM - Critical Path Method
  - PERT - Programme Evaluation and Review Technique
- Management Audit

Traditional devices focus on non-scientific methods whereas, non-traditional devices are based more on scientific methods and are more accurate.

They are discussed below.

## TRADITIONAL CONTROL TECHNIQUES

Despite the newer techniques of planning and control, some of the traditional techniques are still very popular because of their special significance and continuing utility. Budgeting is one of the most important of such devices.

### Budgetary Control

Budget as a plan represents a statement of anticipated inflows and expected outflows expressed numerically. Exercising control over day-to-day operations of the enterprise for the purpose of executing budgets is known as budgetary control.

The Institute of Cost and Management Accountants of England and Wales defines a *budget* as “a financial and/or quantitative statement prepared prior to a defined period of time of the policy to be pursued during that period for the purpose of attaining a good objective”.

The Institute of Cost and Management Accountants of England and Wales has defined *budgetary control* as “the establishment of objectives relating to the responsibilities of executives to the requirements of a policy and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy or to provide a basis for its revision”.

Expected results in a budget may be expressed in financial terms, in terms of man hours, units of output, machine hours, or in any other numerically measurable term. A budget may deal with operations, such as the expense budget; it may relate to capital outlays, like the capital budget; or it may reflect flow of cash, as does the cash budget.

Full benefits of budgeting and budgetary control can be realised if different phases of all the operations of the company are covered by budgets and comprehensive budgeting is used. In such cases, planning is largely confined to budgeting. In a number of enterprises, however, only important activities are planned and controlled by means of budgets, and only partial budgets are prepared. Sales budgets are generally prepared in either case.

### **Elements of Budgetary Control**

Basically, budgetary control involves the following steps:

- Determination of objectives to be achieved, like higher profits, better finance position and better position in the market.
- Noting the steps necessary to achieve the objectives, i.e., laying down the exact and detailed course of action month by month and over the whole period.
- Translating the course of action into quantitative and monetary terms.
- Constant comparison of the actual with the budget (again both physical achievement and the money values involved). Noting deviations and rectifying the same to eliminate the gap between the budget planned and the budget achieved.

### **Purpose of Budgeting**

Budgeting is used for a variety of purposes. Thus, according to Koontz and O'Donnell, "Budgets correlate planning and allow authority to be delegated without loss of control". Some of the basic general purposes for which budgeting is used are as follows:

**(i) To Develop an Organized Procedure for Planning:** A budget requires planning and is also in itself an instrument of planning. Budgeting involves anticipating of results and expressing them in numerical terms. The revenue and expense budget, for example, requires compilation of sales budget and a number of different expense budgets. Forecasting or projecting a future course of action implied in budgeting is essentially a planning process. Comprehensive budgeting forces management to develop a network of objectives and policies and plans for all the phases of operations of the enterprise.

**(ii) Means of Coordination:** Budgeting is also used for coordinating the activities of the various divisions of a business. Thus, production must bear a logical relation to sales. While preparing budgets information is certainly required relating to the different divisions and activities in the enterprise. A sales budget, for instance, cannot be prepared without the knowledge of production programme of the enterprise. The very act of preparing budgets, therefore, forces coordination. The process of integrating various budgets into a master budget also highlights the importance of coordination implied in budgeting.

**(iii) Basis for Control:** Control represents the most widely known use of budgeting. Events can be compelled to conform to plans only when there are predetermined objectives and standards. Budgeting forces management to lay down objectives, goals and plans in numerical terms. It thus provides the yardstick for the measurement of performance, so very essential for effective control. Budget reports analyze the deviations and also suggest corrective actions. Thus, budgeting is also used as an aid to managerial control.

Stated above are the general or overall purposes of budgeting and budgetary control.

### **Other purposes of a Budget**

(i) **To Control Cost:** Individual budgets for each operation and department help the management to know separately the cost for each of them and thus exercise effective control over cost. The departmental manager who notices substantial deviations from budgeted costs for operations under his control, feels compelled to curtail extra expenditure and think very seriously about controlling the cost.

(ii) **To Increase Efficiency in the Field of Production:** Very often than not, budgetary control necessitates preparation of separate production budget, and thus helps determine progress and efficiency of the production.

(iii) **To Determine Capital Requirements:** Budgeting is also employed to determine capital requirements of the enterprise. This is possible through computing financial flows at different phases of all the operations of the enterprise as reflected in various budgets.

(iv) **To Encourage Research and Development:** Budgeting also aims at encouraging research and development. Comparison of actual performance with the budgeted goals and plans, and a thorough analysis of deviations particularly in this key factors provide a sound basis for research and development.

(v) **To Increase Utility of Cost Records:** Budgeting entails considerable use of cost information and records. Thus, budgetary controls add meaning to cost records and increase their utility.

### **Types of Budget**

Budgets are drawn on the basis of plans, and since an average enterprise has a large variety of plans, there are many types of budgets currently in use in business organizations. The following are the important types of budgets.

- Sales budgets including selling and distribution costs budgets.
- Production and manufacturing budgets.
- Purchase Budget.
- Capital Expenditure Budget.
- Administration Expenses Budget.
- Research and Development Budget.
- Cash Budget.

A master budget is frequently prepared to combine all other budgets in a summary form. The components of the master budget are the various functional budgets. The summary plan of master budget is generally divided into two parts- a forecast income statement and a forecast balance sheet.

### **Benefits of Budgeting**

The system of budgeting and budgetary control leads to the following advantages:

- (i) Budgeting helps to express many diverse actions and things in terms of a common numerical denominator. It thus provides the management with a means of making comparisons between dissimilar things.
- (ii) Maximum efficiency is achieved by avoiding wastage and losses.
- (iii) Expenditure beyond what is provided in budgets is not incurred without prior sanction. Thus, expenditure can be scrutinized before it is incurred.
- (iv) Budgets serve as a target. Therefore, objective judgement rather than the judgements depending upon personal ideas and whims is possible. The people concerned also know the standard against which their performance is supposed to be judged.
- (v) Every one knows what exactly he has to do. This means there will be no over-lapping and that nothing will be left undone.

- (vi) Management by exception is possible; comparison of actual and budgeted performance will show up spots where management attention is needed the most.
- (vii) If budgets are drawn up on the basis of measured dynamism, the firm would be able to grow at a faster rate.
- (viii) Budgeting is also very useful in "profit planning" - setting targets for profits and related matters and then ensuring accomplishment of targets through an analysis of deviations and prompt corrective actions.

### **Standard Costing**

Expenses/costs associated with every activity are recorded and classified and then compared with the standard or budgeted costs. The concerned manager takes corrective action if any deviation is found. This technique helps in finding out which activity is profitable and which is not.

### **Financial Ratio Analysis**

All business organizations prepare Profit & Loss a/c and Balance Sheet. When a comparative study of these financial statements are made, trends of changes in profits, assets, liabilities, turnover etc. can be assessed. Further ratio analysis can be done to compute and analyze financial statements. Ratio Analysis is the relation between various elements of financial statements expressed in mathematical terms. It helps to understand profitability, liquidity and solvency of a firm.

### **Internal Audit**

It is another effective and widely used tool of managerial control. Internal auditing signifies regular and independent appraisal of the accounting and financial and other operations of a business by a staff of internal auditors.

There is no denying the fact that internal auditors mostly limit themselves to the integrity of accounts and corporate assets. But the horizon of internal auditing can be widened just by bringing under them some more appraisal areas, as policies, procedures, methods and quality of management. But the primary limiting factor in this regard is that no management however broad it may be in outlook and attitude, likes to give internal auditors so much of authority and respond to their queries regarding various aspects of management. Nevertheless, dearth of qualified personnel to carry out such a broad-based audit is also a matter of significance.

### **Break- Even Analysis**

Break-Even Analysis is a point of 'no profit – no loss'. For instance when a firm is able to sell 24,000 bags, it would break-even. It indicates that a sale below this level will cause a loss and any sale above this level will earn profits. It can be used as a control device as it provides a basis for collective actions to be taken to improve future performance.

### **Statistical Control**

In order to find out the causes for deviations comparison of various ratios, averages, percentages of statistical data are undertaken. Statistical reports compiled after the analysis are presented in the form of charts or graphs which helps in visualizing the trends and weaknesses in the respective areas of operation, and necessary remedial steps are suggested. Charts and diagrams are used by the production, sales, purchase, and personnel and even more frequently by the executive heads of companies. In recent years statistical data and information have become the most common means to aid planning and as a controlling device.

## NON TRADITIONAL/MODERN CONTROL TECHNIQUES

Following are the modern techniques of control:

### Zero Base Budgeting

Zero base budgeting is a new approach to budgeting, which was first introduced by Peter Pyhrr in 1970 in the United States. It is defined as an operative planning and budgeting process which requires each manager to justify his entire budget in detail from scratch (hence zero base). It shifts the burden of proof on each manager to justify why he should spend any money at all.

The following steps are implied in zero-base budgeting.

First, managers at all levels have to define the objective of each programme of activity that they supervise, and prepare alternative spending plans as 'decision packages'. There should be at least three, if not more, such packages:

- one involving expenditure of (say) 20% below the present level of expenditure or the minimum expenditure which will permit the programme to continue meaningfully;
- another package indicating resources in terms of men, materials and money which will be needed to continue the present levels of performance and objectives;
- and a third package indicating what more could be achieved, if additional funds were available to the extent of (say) 10% or more. The executives at the next higher level have then to consolidate these decision packages and rank them in order of priorities.

ZBB as a technique of budgeting based on continuous evaluation of the current activities. It provides a convenient reference plan that can be used for controlling activities during the budget period. It is an effective managerial tool to ensure sound planning and efficient budgeting. It can be used more meaningfully in those areas where there exists a direct relationship between the expenditure on an activity and its consequent benefit to the enterprise. However, the process of ZBB involves additional time and effort to be devoted during the initial years.

### Network Analysis

Network analysis is a technique for planning and controlling complex projects and for scheduling the resources required on such products. It achieves this aim by analyzing the component parts of a project and assessing the sequential relationships between each event. The results of this analysis are represented diagrammatically as a network of interrelated activities. Broadly speaking, there are two network techniques.

#### (a) Critical Path Method

Critical Path Method, an important network technique for management control, was developed by Walkar of Dupont to reduce time for periodic maintenance. It is used for planning and controlling the most critical activities to accomplish any project. Under this technique a project is broken into different operations or activities and their relationships are determined. These relations are shown with the help of a diagram known as network diagram. The Network diagram or flow plan may be used for optimizing the use of resources and time. CPM technique is based on the assumption that activity times are proportional to the magnitude of resources allocated to them; and by making a change in the level of resources, the activity time and the project completion time can become varied.

The application of CPM leads to the following advantages:

- (i) It provides an analytical approach to the achievement of project objectives which are defined clearly.
- (ii) It identifies most critical elements and pays more attention to these activities.

- (iii) It assists in avoiding waste of time, energy and money on unimportant activities.
- (iv) It provides a standard method for communicating project plans, schedule and cost.

**(b) Programme Evaluation and Review Technique (PERT)**

PERT is an important technique in the field of project management. It involves basic network technique which includes planning, monitoring and controlling of projects. In addition to its use in schedule planning and control, the network concept in PERT provides framework for treating a wide range of project management problems. Thus, PERT system is directed towards the dynamic management of projects. It specifies techniques and procedures to assist project managers in:

- (i) Planning schedules and costs;
- (ii) Determining time and cost status;
- (iii) Forecasting manpower skill requirements;
- (iv) Predicting schedule slippages and cost overruns;
- (v) Developing alternate time-cost plans;
- (vi) Allocating resources among tasks.

Application of PERT requires that management should know the goals to be achieved, determine the actions necessary to achieve those goals, determine the sequence in which these activities must be performed and carefully establish the time that will elapse at each of the successive stages of actions required to achieve the goals.

PERT uses 'probability' and 'linear programming' for planning and controlling the activities. Probability helps in estimating the timings of various activities in the project and linear programming is used to maximize the achievement of the project objectives. With the help of these tools, PERT can foretell the probability of achieving the project targets leading to project's main objective.

PERT is employed in construction of ships, buildings and highways, in planning and launching of new projects, in publication of books and, in installation and debugging of computer systems. Frequently, PERT systems are used in conjunction with computers. A computer programme is employed that permits calculations to be made without reference to a flow chart or diagram.

**Management Audit**

Companies get their accounts audited at least once a year. This statutory audit is intended to ensure that the company's records and reports reflect sound accounting principles. Such an audit looks at the past and at the historical records of past performance. However, some of the progressive companies appear to have recognized the importance and utility of management audits. And management audits are becoming increasingly significant in connection with control of overall performance of an enterprise and its management.

Management audit may be defined as the systematic and dispassionate examination, analysis and appraisal of management's overall performance. It is basically a procedure or a form of appraisal of management's total performance by means of an objective and comprehensive examination of the organization structure or its components, such as a department, its plans and policies, methods of operation, controls and its use of physical facilities and human resource. Thus, management audit signifies critical assessment of the management of the enterprise from the broadest possible point of view. Such an audit may be undertaken by the management itself, or it may be carried out with the help of management consultants. In the same way, while a comprehensive management audit may be recommended, companies may even apply it independently to some specific sections of the organization. Thus, production efficiency or investment appraisal may well be the subject matter of management audit. It may even be used to provide guidance on critical assessment of capital budgeting or profit performance.

## Financial Audit and Management Audit

Management audit should not be confused with accounting or statutory audit. Accounting audit is concerned with the verification and confirmation of financial data, and is essentially historical in character. But management audit looks at the past, the present and the future. Its basic purpose is to appraise the management performance of the various departments and of the company as a whole. In terms of scope, financial audit is largely concerned with financial records and results of company's operation for the year, while management audit goes further and covers areas of management on asset potential, capacity utilization, executive evaluation, personnel practices, physical facilities, financial procedures, and others not directly covered by the former. Rights and duties of company auditors are well defined in the statute governing them, and are also governed by judicial pronouncements. So far as management audit is concerned, there are no clearly defined rights and duties of such an auditor; nor is there any uniformity in the depth of the audit. Statutory audit is conducted by an independent qualified auditor but management audit may even be undertaken by management itself; the qualifications of those conducting management audit are not prescribed by any law.

## Appraisal Areas

Management audit consists of two distinct parts—systematic compilations of relevant data and its analysis with a view to appraise management's overall performance.

The American Institute of Management has identified ten categories of appraisal areas to be used under any comprehensive management audit programme.

(i) **Economic Function:** This category includes appraising public value of the company in relation to different interests like consumers, shareholders, employees, suppliers and the communities in which that company operates.

(ii) **Corporate Structure:** Under this category is appraised the effectiveness of the corporate structure through which the management seeks to accomplish its objectives.

(iii) **Health of Earnings:** It is concerned with determining the income itself and also appraising the extent to which profit potential of the company's asset has been realized.

(iv) **Service of Shareholders:** Here, the management audit team determines the company's service to the shareholders w.r.t. (with reference to) *minimization of risk, reasonable return, capital appreciation over a period of time*.

(v) **Research and Development:** For giant companies, particularly, evaluation of their research policies is crucial to management audit. Research and development success is evaluated in terms of the part played by them in the company's past progress and also in terms of how successfully research policies are preparing the company for future progress and improvement of its position in the industry.

(vi) **Directorate Analysis:** In this appraisal area three elements usually considered are –

- (i) the quality of each director and his contribution to the board.
- (ii) the extent to which directors work as a team.
- (iii) whether the directors act as trustees for the organization.

(vii) **Fiscal Policies:** The key factors under this category of appraisal are providing, controlling and managing thrifitly the use of funds.

(viii) **Production Efficiency:** Production or operating efficiency is equally vital to manufacturing as well as non-manufacturing companies. The first part under this category, which is frequently overemphasized, is the appraisal of machines and materials management.

(ix) **Sales Vigour:** There are significant variations in sales practices and marketing principles followed by different companies even in the same industry. Still, sales vigour can be evaluated if marketing goals are properly

determined. The extent to which past sales potential has been realized, the development of sales personnel, and the extent to which present sales policies of the company will enable its management to realize future sales potential are the three important bases that can be used to appraise the sales vigour.

**(x) Executive Evaluation:** Each of the appraisal categories discussed above to some extent involve evaluation of the concerned executives. However, because of their vital role, the quality of executives and their management philosophy need to be evaluated separately. The American Institute of Management has found three personal qualities as being essential elements for business leaders. These are ability, industry and integrity. Good management demands that executives should work together in harmony, and ensure company's continuity by sound policies, decisions, procedures and programmes relating to different activities of the enterprise.

### REVIEW QUESTION



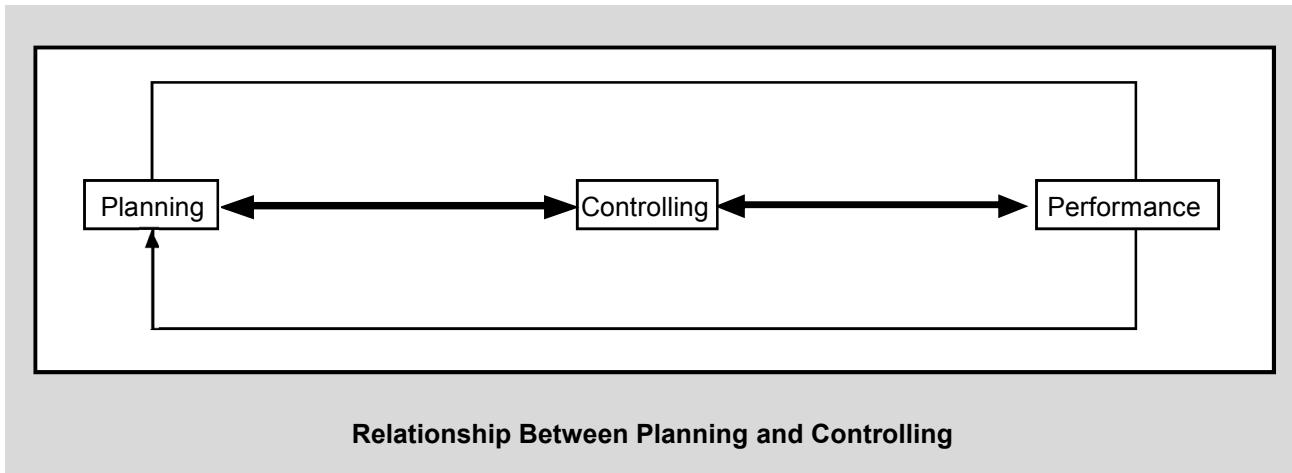
#### State True or False:

1. Control can work irrespective of any plans to set objectives and specify activities.
2. Efficient control system discriminates between important and unimportant factors.
3. Traditional control devices focus on scientific methods whereas non-traditional devices are based more on non-scientific methods.
4. Zero Base Budgeting can be used more meaningfully in those areas where a direct relationship exists between the expenditure on an activity and its benefit to the enterprise.

**Answers:** 1. False 2. True 3. False 4. True

### RELATIONSHIP BETWEEN PLANNING AND CONTROLLING

Planning and controlling are closely linked to each other. They are called the siamese twins of management. Not surprisingly, effective planning facilitates controlling, and controlling facilitates planning. The reciprocal relationship between planning and controlling is depicted in the given Figure. Planning lays out a framework for the future and, in this sense, provides a blueprint for control. A system of control presupposes the existence of certain standards. Planning provides the standards of performance which serve as the basis of control. In this context, Koontz, O'Donnell, and Weihrich rightly remark, "Every objective, every goal of the many planning programmes, every policy, every procedure, and every budget become standards against which actual or expected performance might be measured." Control systems, in turn, regulate the allocation and use of resources and, in doing so facilitate the process of the next phases of planning. Control is meant to keep the plans on the right track and to keep away the forces of disruption and distortion. The lessons of control are feedback to modify and reform future plans. Thus, planning and controlling reinforce each other. Planning based on facts makes control easier, and adequate controlling improves future planning. It is, however, important to remember that in today's complex organizational environment, both functions have become more difficult to implement while though have become more important in every department of the organization.



### Planning is Looking Ahead and Controlling is Looking Back: A Critical Evaluation

While explaining the relationship between planning and controlling it is often said, "Planning is looking ahead and controlling is looking back." The view of planning and controlling expressed in the statement, though true, is incomplete. Planning is, no doubt, a forward-looking activity as it involves deciding in advance the organization's objectives, strategies, major policies and programmes, and forecasting the future events as also their likely impact on the organization. And, controlling is a backward-looking activity as it involves checking whether the plans are properly implemented, their results achieved, and the deviations corrected. Surely, it is a postmortem of events which have already taken place. Hence, nothing can be done to undo the past.

However, the description of the processes and purposes of planning and controlling, though correct, is certainly not complete. Planning is not merely forward-looking. Plans for the future are often partly the projections of the past and the present. Thus, planning is based on past experiences. The planner has to look back into the organization's past decisions, policies, programmes and commitments to embark on future course of action. Similarly, controlling is not merely a looking back exercise. By identifying deviations and initiating corrective steps, controlling attempts to improve work performance in future. The whole exercise of looking back is meant to improve work performance in future. Feedforward controls, in particular, enable managers to take advance preventive action against occurrence of deviations and distortions in plans, and thereby help in keeping the organization alert and alive to the future environmental events. Thus, the early warning and rapid response processes are integral to all control systems which make controlling forward looking.

### LESSON ROUND UP

- Control is a fundamental managerial function that usually follows other functions.
- The essential elements of any control process are:
  - Establishment of goals and standards.
  - Measurement of actual performance against standard.
  - Corrective action.
  - Follow through action.
- Some of the basic general purposes for which budgeting is used are as follows:

- To develop an organized procedure for planning
- To provide means of coordination
- To form a basis of control
- The essence of good reporting is the application of the principle of management by exception.
- Network analysis is a technique for planning and controlling complex projects and for scheduling the resources required on such products.
- Zero base budgeting is defined as an operative planning and budgeting process which requires each manager to justify his entire budget in detail from scratch.
- Planning and controlling are closely linked to each other. They are called the siamese twins of management. Not surprisingly, effective planning facilitates controlling, and controlling facilitates planning.

## GLOSSARY

<b>Recurring</b>	Occurring or appearing again.
<b>Instantaneous</b>	Occurring, done, or completed in an instant.
<b>Hive</b>	A place swarming with busy occupants.
<b>Pretext</b>	Something that is put forward to conceal a true purpose or object.
<b>Yardstick</b>	Any standard of measurement or judgement.
<b>Entails</b>	To impose as a burden.
<b>Vigour</b>	Force of healthy growth in any living matter or organism, as a plant or active or effective force, especially legal validity.
<b>Siamese Twins</b>	Any twins who are born joined together in some manner.

## SELF-TEST QUESTIONS

1. Break-Even Analysis is a point of \_\_\_\_\_
  - a) Balance b) All Loss c) All Profit d) no profit – no loss
2. Zero base budgeting is a new approach to budgeting, which was first introduced by \_\_\_\_\_ in 1970
  - a) Peter Thiel b) Peter Drucker c) Peter Pan d) Peter Pyhrm
3. Full form of (PERT) is \_\_\_\_\_
  - a) Programme Evaluation and Refocus Technique
  - b) Programme Evaluation and Review Tools
  - c) Planning Evaluation and Review Technique
  - d) Programme Evaluation and Review Technique
4. \_\_\_\_\_ may be defined as the systematic and dispassionate examination, analysis and appraisal of management's overall performance
  - a) Operations Brief b) Financial Forecasting c) Management audit d) Marketing Forecasting

5. Critical Path Method, an important network technique for management control, was developed by \_\_\_\_\_  
 a) Bill Gates - Microsoft b) Steve Jobs – Apple c) Chanda Kocher – ICICI Bank d) Walkar – Dupont
6. \_\_\_\_\_ is a technique for planning and controlling complex projects and for scheduling the resources required on such products.  
 a) Competition analysis b) Network analysis c) Financial analysis d) Internal analysis
7. Which one is not a non-traditional (modern) control device \_\_\_\_\_  
 a) Management Audit b) Critical Path Method c) Zero Base Budgeting d) Statistical Control
8. Control is directly related to \_\_\_\_\_  
 a) Directing b) Staffing c) Planning d) Organising
9. \_\_\_\_\_ are closely linked to each other  
 a) Staffing and Planning b) Planning and Controlling c) Planning and Implementation d) Directing and Organising
10. Main traditional control devices are \_\_\_\_\_  
 a) Budgetary Control b) Standard Costing c) Financial Ratio Analysis d) All of the above

**Answer key:** 1. d; 2 d; 3 d; 4 c; 5 d; 6 b; 7 d; 8 c; 9 b; 10 d

### Suggested Readings

- (1) Professional Management – *Haimann*
- (2) Essentials of Management – *Koontz & O'Donnell*
- (3) Business Budgeting and Control – *Heckert (J.B.) and Wilson (J.D.)*
- (4) Business Policy – A Management Audit Approach – *William T. Greenwood*
- (5) Management Theory and Practice – *J P Mahajan.*

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# Lesson 7

## Recent Trends in Management

### LESSON OUTLINE

- Concept of Change Management
- Concept of Resistance to Change
- Change through the Management Hierarchy
  - Lewin's Three-Step Model
  - Action Research
- Concept of Crisis Management
- Types of Crisis Management
- Review Questions
- Total Quality Management (TQM)
- Important Principles of TQM
- Concept of Risk Management
- Objectives of Risk Management
- Scope and Applicability of Risk Management
- Risk Management Process
- Responsibilities of Risk Management
- Global Practices
- Features of International Business
- Importance of International Business
- Role of International Manager
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

Management trends come and go. They are good or bad depending on many variables, like industry, company culture, education level of employees, existing contracts and laws. Mostly, however, they are good or bad depending on how well they are applied. Some of the recent trends, therefore, are change management, crisis management, Total Quality Management (TQM), risk management, etc.

Change management entails thoughtful planning and sensitive implementation, and above all consultation with, and involvement of the people affected by the changes.

Crisis management entails the identification of threats to an organisation and its stakeholders and the methods used by the organization to deal with these threats.

TQM is an approach that seeks to improve quality and performance which will meet or exceed customer expectations. It is a set of management practices throughout the organisation geared to ensure that the organization consistently meets or exceeds customer requirements.

Risk management refers to the identification of opportunities and avoiding or mitigating losses.

Therefore, the objective of this study unit is to provide students an insight into the recent trends of management.

The world hates change, yet that is the only thing that has brought progress.

Charles Kettering

## CONCEPT OF CHANGE MANAGEMENT

In an open-system context it is not difficult to analyze behaviour of people subject to the influence of a variety of forces—both internal as well as external—which may necessitate change at individual, group and organizational levels. While change is a fact of life, so is individual, group and organization are resistance to change. Since organizational success lies in operational adjustment to the forces of change, it becomes imperative that the managers be aware of and apply appropriate techniques of managing change, such as Lewin's Three-step Model, Action Research and organization development are some os such techniques whch can be applied with a view to achieve, with a view to achieving fullest benefits of change, thus avoiding the dysfunctional consequences. Organizational success lies in operational adjustment in the forces of charges as influencing them is not always possible. This makes it compleutive that the managers should be aware of appropriate techniques of managing changes and should be able to apply them

### Meaning of Change and its Causes

Change is a natural phenomenon. Organization is an open system and is influenced by change in its internal as well as external environment. Management decisions regarding matters, like organization structure, corporate objectives, policies and strategies should not be regarded as final for success and survival of the enterprise; it is necessary that management anticipates changes and effectively deals with them.

Change may be defined as a variation in the established way of life to which people are accustomed to in the organization. Change basically results from stimuli both from outside and inside, the enterprise. It can be natural, such as growth of an organism; re-active, such as a forced adjustment to change in technology or practice, introduction of a new employee-benefit scheme with a view to enhance personnel satisfaction and productivity. Particularly, in an organizational context, in view of the inevitability of change, managers have two options: either to wait until the moment when change will be thrust upon the organization, or to voluntarily initiate steps to bring about the necessary change, or to prepare the organization to strengthen its competencies in anticipating, planning and implementing change. In any case, there could be a need to identify the various internal and external forces acting as stimulants to change.

*A. External Forces:* These lie in the external environment of an organization. They may be classified as:

- (i) *Educational and Cultural Forces* – Spread of education, changes in the system of education, patterns of culture and so on.
- (ii) *Economic Forces* – Shortage of vital resources, rapid growth of population, market demands, increase of competition, expansion of transport facilities, etc.
- (iii) *Technological Forces* – New techniques of production, improvement of an existing resource, discovery of a new machine, etc.
- (iv) *Political Forces* – Change of government, change of policies of the existing government, spurt in trade union activity, etc.
- (v) *Social Forces* – Changes in the modes of living, habits and customs, urbanization, spread of provincialism and racialism.

*B. Internal Forces:* These are the pressures arising from within the organization. They include –

- (i) Composition and policy of top management;
- (ii) Changes of personnel due to retirement, resignation, promotion, transfer and so on;
- (iii) Change of physical facilities, like shortage of supplies of raw materials, wearing out of machinery and equipment, demand for more space;

- (iv) Changes in employee attitudes, feelings and aspirations;
- (v) Changes in work allocation, duty hours, composition of work groups, and so on.

These forces are interlinked and react on each other.

## RESISTANCE TO CHANGE

Well documented findings from studies of individual and organizational behaviour have revealed that organization and their members resist change. And this resistance can be overt, implicit, immediate or deferred. For example, while threat to go on strike is an overt expression of resistance to change, increased errors or mistakes is an implicit resistance to change. Likewise, resistance to change may be an immediate response or it may be deferred and stockpiled. While resistance to change is not always dysfunctional, rather at times it can contribute to better decision-making and can be a source of functional conflict, it often obstructs beneficial changes. Hence, management needs to identify the sources of individual and organizational resistance to change.

### Why Change is Resisted?

New policies and programmes often meet with resistance and cause a failure, unnecessary delay or distortion in implementation. Conflict between human reaction to change and the increased need for change is the most perplexing problem in the management of change. Following are usually identified as the most important factors responsible for people's resistance to change:

- (i) People find it easy to do what they have been doing and find it inconvenient to learn something new.
- (ii) Since change almost invariably brings with it a redistribution of power and influence, it tends to be opposed by those individuals and groups who are negatively affected by it.
- (iii) Change is also resisted when people in course of doing or learning a new system experience failure.
- (iv) Change is also resisted by individuals who are less educated and less intelligent, and who rely heavily on their personal experience and are not inclined to take risks. Those who stand to lose the most by the change tend to oppose it the most. People with traditional temperament know that change will expose their inadequacies and inefficiency; hence, they must oppose change.

### Types of Resistance to Change

Resistance to change is of three different types. These types work in combination to produce each employee's total attitude towards a change. These are –

- (i) *Logical*: This resistance arises from the time and effort required to adjust to change. These are true costs borne by the employees. It involves rational objections such as: time required to adjust, extra effort to relearn, economic cost, and doubtful technical feasibility of change.
- (ii) *Psychological*: It is "logical" in terms of attitudes and feelings of individual employees about change, such as fear of unknown, low tolerance of change, dislike of management, need for security, etc.
- (iii) *Sociological*: It is logical in terms of group interests and values. Social values are powerful forces in the environment, so they must be carefully considered.

While individuals do resist change, it is not difficult to visualize that even groups as well as overall organizations too actively resist change. Group resistance and organizational resistance to change may be due to and in spite of individual resistance to change. To illustrate group resistance to change one may cite examples of group norms, values and informal role prescriptions. An individual union member, for instance, may be willing to accept changes in job suggested by management; but if union norms dictate otherwise, he is likely to resist. Indeed, if the proposed change is likely to alter the existing informal group-composition, it would most likely face active resistance.

Sources of organizational resistance to change may lie in factors with sustain as limited focus of change, structural inertia, threat to established resource allocations and power relationships. For example, if the proposed change in one aspect of organizational functioning does not account in its implications in other areas that might be affected, the change is likely to be nullified; or when a stimulus to change is counterbalanced stability as the organizational structure has built-in ways and means of retaining equilibrium or when there is modification in departmental budgets or resource allocation; or when existing power relations are altered by redesignation of functionaries.

### **Overcoming Resistance to Change**

Resistance to change is likely to be minimized if the management helps employees to adjust to contemplated change with a supportive conduct and behaviour. The imperative need is to make the employees feel that their interest in the work situation is being adequately considered and fully protected by the management. It should be impressed upon the employees that in the long run they will gain from change and the management will, by all means, help them to achieve these goals. If the supportive climate exists, the employees are likely to be more receptive to change. However, besides, the following considerations should be kept further in view:

- (i) The nature of change should be properly understood with all its ramifications by those who are affected by it.
- (ii) Changes should be introduced in stages; further change should be introduced when the earlier change has been fully assimilated.
- (iii) Change should not cause security problems to the employees.
- (iv) Change is more effective when it is developed with due participation by all concerned.
- (v) Change should be properly planned.
- (vi) As far as possible, change should not carry individual overtones.
- (vii) Display of effective leadership skills and proper motivation of employees will help management minimize resistance to change.
- (viii) Introduction of change should be supplemented by systematic training of personnel. Sensitivity training can also be very useful to overcome resistance to change.
- (ix) Advice to specialized staff may be sought while introducing change.
- (x) Possibility of introducing change through outside management consultant can also be explored.

### **Concept of Flexibility**

Too much flexibility will encourage the subordinates to bypass the existing lines of authority and responsibility and overlook the existing procedures. Too much rigidity on the other hand, makes introduction of change an extremely difficult proposition. The two extremes should, therefore, be avoided. Management should endeavour to strike a proper balance between them. Principle of flexibility and its inevitability needs to be clearly explained and taught to personnel in the organization. If individuals view change as a matter of routine, problems in managing change will be considerably reduced.

### **Simulating Participation**

Planning for change and its implementation is a challenging job. If disclosed abruptly, change may lead to considerable opposition and resistance. If change is introduced gradually and through participation of affected groups, it is likely to promote understanding and commitment of subordinates. A manager can use his leadership quality to dispel any conflict and misunderstanding in the course of participation proceedings for change.

Small conferences and group meetings should be arranged to stimulate participation and enlist cooperation. Managers should explain and discuss the proposed change with people affected by it. The object here is to know what the people think about it and the kind of problems they see in the change. People should be encouraged to ask questions and discuss things logically. Leaders of informal groups should also be taken into confidence while effecting change. Involvement of the people in the proposed change makes them understand and appreciate the need for change. In any case, resistance to change is definitely reduced.

Managers should also use their directional devices of leadership, motivation and communication to encourage acceptance to change. Sensitivity training with its psychological fervour can also be used to overcome resistance to change.

### CHANGE THROUGH THE MANAGEMENT HIERARCHY

Minor changes are usually introduced by the executive in charge of the activities. However, major changes are finalized and implemented by top management with the aid of lower levels in the management hierarchy. Subordinates comply with orders and instructions of the senior executive with regard to implementation of change because they view it as his legitimate right.

The hierarchical approach to managing change does not pay sufficient attention to facts, like group dynamics, role prescriptions, value structure, and motives and attitude of people affected by change. For its success, it is thus necessary that top management must feel highly committed to the change and take every possible precaution to ensure its success.

In a number of organizations separate specialized planning units are maintained. The staff unit is also frequently used to recommend change and implement it through the line hierarchy.

Some companies prefer to administer change with the help of outside management consultants. The outside consultant normally commands specialized skill and experience. His recommendations may be dispassionate and objective. It is also observed that people show less resistance to change when it is recommended and managed by an outsider, rather than when it is initiated and administered internally.

### Lewin's Three-Step Model

Kurt Lewin argued that successful change in organizations should follow three steps. Unfreezing the status quo, movement or changeover to a new state, and refreezing the new change to make it permanent. Successful implementation of change, thus, should first facilitate unlearning by increasing the 'driving forces', which direct behaviour away from the status quo (equilibrium state), and then by decreasing the 'restricting forces', which hinder movement from the existing equilibrium. Once the desired change has been introduced, the same needs to be refrozen so that it can be sustained for times to come. This would require rebalancing of the driving and restraining forces.

### Action Research

Action research is a method of scientific inquiry into the circumstances necessitating change and the action that may be taken thereof. It is based on scientific collection and analysis of the data, and then on the selection of the change action indicated by the analysed data. The process of action research consists of five steps: diagnosis, prognosis, feedback, action and evaluation. Essentially, this is a problem-focused approach wherein circumstances necessitating change are carefully studied and acted upon. However, in many cases, and this is the way it should be, the organizational change is solution-focused, i.e. it involves a movement towards better state of affairs, thus making the process of change an ongoing and organization-wide exercise.

## CONCEPT OF CRISIS MANAGEMENT

Crisis Management is the management and coordination of an organization's responses to an incident that threatens to harm, or has harmed, that organization's people, its structures, its ability to operate, its valuables and/or reputation. It takes into account its planning and automatic incident response, but it must also dynamically deal with situations as they unfold, often in unpredictable ways.

In simple words,

Crises management is the process of responding to an event that threatens the operations, staff, customers, reputation or the legal and financial status of an organization. Its aim is to minimize the damage.

Crisis management is the process by which an organization deals with a major event that threatens to harm the organization, its stakeholders, or the general public. The study of crisis management originated with the large scale industrial and environmental disasters of the 1980's. Therefore, the defining quality is the need for change. If change is not needed, the event could more accurately be described as a failure or incident.

## Crisis Management vs. Risk Management

Crisis management involves dealing with threats after they have occurred, whereas risk management is one which involves assessing potential threats and finding the best ways to avoid those threats. It is a discipline within the broader context of management consisting of skills and techniques required to identify, assess, understand, and cope with a serious situation, especially from the moment it first occurs to the point till the recovery procedures start.

Venette argues, "Crisis is a process of transformation where the old system can no longer be maintained."

## TYPES OF CRISIS

Types of Crisis have been categorized thus :

- (i) *Natural Disaster*: Natural crises or disasters are the 'Acts of God'. They are environmental phenomena as earthquakes, volcanic eruptions, tornadoes and hurricanes, floods, landslides, tsunamis, storms, and droughts that threaten life, property, and the environment. For example the 2004 Indian Ocean earthquake, i.e., Tsunami was a natural crisis.
- (ii) *Technological Crisis*: Technological crisis are caused by human application of science and technology. Technological accidents inevitably occur when technology becomes complex and something goes wrong with the system as a whole. For example, Chernobyl disaster.
- (iii) *Confrontation Crises*: It occurs when discontented individuals and/or groups fight with government and other interest groups to win acceptance of their demands and expectations. The common type of confrontation crises are boycotts, sit-ins, ultimatums to those in authority, blockade or occupation of buildings, and resisting or disobeying police.
- (iv) *Crises of Organizational Misdeeds*: It occurs when management takes actions without adequate precautions, knowing well that they will harm or place the stakeholders at risk.
- (v) *Workplace Violence*: It occurs when an employee or a former employee commits violence against other employees on organizational premises.
- (vi) *Rumours*: False information about an organization or its products creates crises thus hurting the organization's reputation, e.g., linking the organization to radical groups or spreading stories that their products are contaminated or such standard.

## REVIEW QUESTIONS



### State True or False:

1. External forces are the pressures arising from within the organization.
2. Changes should be introduced in stages.
3. Middle management provides motivating climate for employees, directs them in proper procedures and assists in eliminating sources of error.
4. One of the objectives of risk management is to minimise the use of resources.
5. TQM is used to increase the overall customer satisfaction.
6. International management is the practice of managing business operations in one's own country.

**Answers:** 1. False 2. True 3. False 4. False 5. True 6. False

## TOTAL QUALITY MANAGEMENT

Success of any organization depends on offering quality products at competitive prices. All over the world, it is being realized that quality control be ensured through inspection and test alone. Every department and individual has a contribution to make in the achievement of quality.

Quality can be the most significant factor in determining the long-run success or failure of any organization. High quality of products can give a competitive edge to an organization. On the other hand, good quality generates satisfied customers who reward the organization with continued patronage and favourable word of mouth advertising.

TQM owes its genesis to the post-war research of American management consultants, like Drs. Joseph Juran and W. Edward Deming who introduced statistical control techniques to the Japanese during Japan's rebuilding period. Prior to the Word War II, the Bell Telephone system was the leader in the early modern history of quality control. In the Western Electric Company an inspection department was created to support the Bell Operating companies in the early 1990s. Quality assurance was applied to design manufacturing and installation. During the World War II, the US military began using statistical sampling procedures and imposing strict standards on suppliers. Thus, statistical quality control became widely known and was gradually adopted by other industries.

Growth in consumer quality awareness has put a greater strain on business. Consumer demands and dynamic technological changes have opened up new and highly competitive markets. The quality of goods and services can no longer be taken for granted. The rapid growth of the service sector has also introduced new perceptions of quality management. Institutions, such as the Government, banks and hospitals do not produce tangible goods. The interaction between employees and customers is much more critical in such organizations. As a result, the skills, attitudes and training of service personnel affect the quality of the services delivered. Information processing represents a large component of the work done by service organizations and poses special quality considerations. Errors in computer billing, or airline and hotel reservations are the results of poor quality control of computer software and data input systems.

In view of globalization of markets, Governments have begun to realize that quality is essential to international trade and the national economy. Therefore, public purchasing authorities have been instructed to buy goods that conform to the quality standards. Some time back, the European Economic Community collectively established a common set of quality standards known as ISO 9000. While ISO 9000-ISO 9003 series is a reference for external quality assurance, ISO 9004 is for internal quality management. Taken together these standards aim at achieving TQM.

The lesson is that quality must not be viewed solely from a technical point of view; a significant emphasis must be placed on managerial activities. We view the total quality system as composed of two related systems—the *management system* and the *technical system* (see Figure 1). The management system is concerned with planning, organizing, controlling, and human resources management processes relating to quality assurance programs. Growing out of human resources management are structures for employee involvement and team approaches to decision-making, quality improvement, and problem solving.

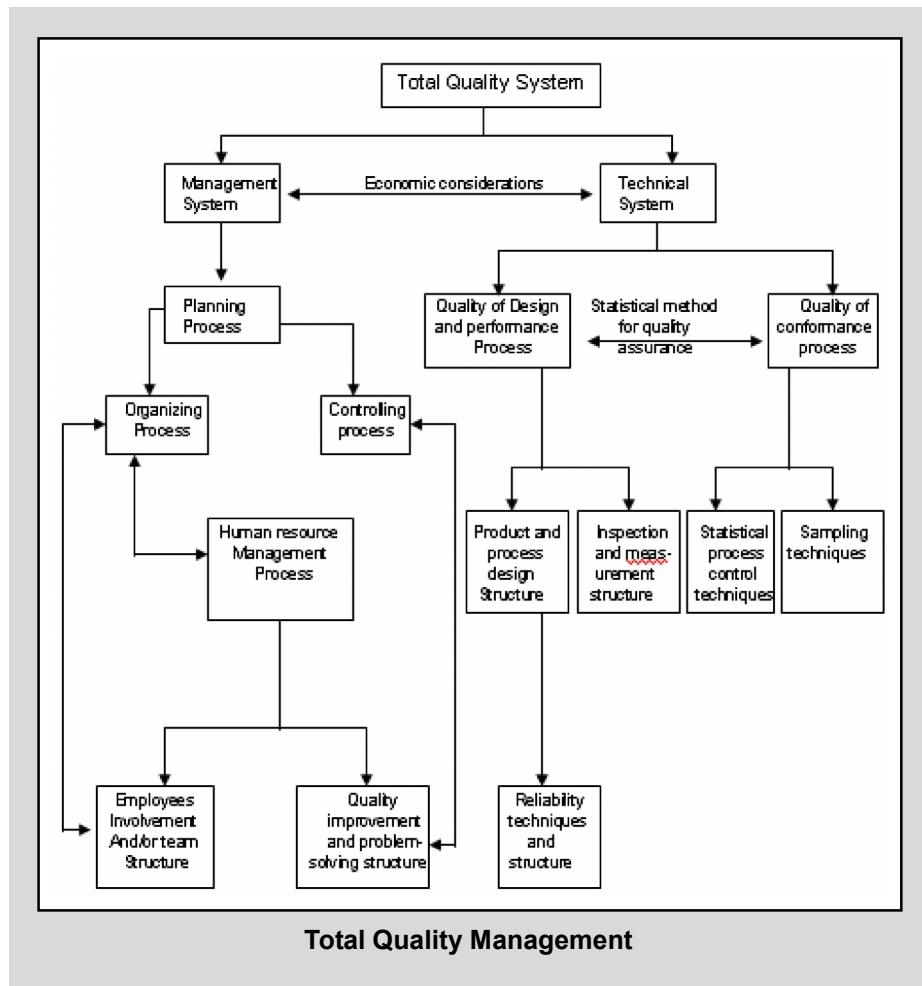
The important terms in this global view of quality are *system, process, structure, and technique*. A system, as we use it here, is the interrelated set of plans, policies, processes, procedures, people, and technology required to meet the objectives of an organization. A process consists of policies, procedures, steps, technology, and personnel needed to carry out a significant segment of operations within an organization. Usually, a process will cross several organizational boundaries within an operating unit and require coordination across those boundaries. A structure is a formal or informal organizational entity that is developed to perform a certain process or set of tasks. A technique is a systematic approach, procedure, and associated technology required to carry out a task.

Management must be aware of customer needs, the capability of the company's production processes, and the financial implications of any decision; in short, management must know how all the components in the organization tie together.

Quality is the responsibility of everyone in the organization, from the operators on the production floor to the chief executive officer. People, such as machine operators, assembly line workers, ticket agents, nurses, and waitresses are the craftspeople who build quality into products and services. First-line supervisors must provide the motivating climate for employees, direct them in proper procedures, work together with them to locate problems, and assist in eliminating sources of error. Middle management must plan, coordinate, execute, and monitor quality policy. Finally, top management must commit the resources and provide the leadership necessary to set the tone and carry out the requirements of an ongoing dynamic quality policy.

The technical system involves the assurance of quality in product design, planning and design of manufacturing or service-producing processes, and in the control of incoming materials, intermediate production and finished goods. These are included in the “Quality of Design and Performance Process” block of given Figure. To ensure conformance to the requirements of the process or service, the “Quality of Conformance Process” must be developed. Statistical process control techniques and sampling techniques are usually employed in each of these areas for the identification of quality problems and for controlling the quality of production processes. Both the design and performance process and the conformance process must be coordinated and must work together. Information transfer between the two systems is necessary for effective problem solving and quality improvement.

*Economic considerations and total quality management play a crucial role in tying together the management and technical systems:* New technologies, such as on-line process control, automatic gaging, and new analytical tools also present new opportunities to both management and technical personnel for quality assurance.



### Important Principles of Total Quality Management<sup>1</sup>

Total Quality Management (TQM) is an approach that organizations use to improve their internal processes and increase customer satisfaction. When properly implemented, it can lead to decreased costs related to corrective or preventative maintenance, better overall performance, and an increased number of satisfied and loyal customers.

However, TQM is not something that can happen overnight. While there are a number of measures that help organizations to quickly implement a quality management system, there are some underlying philosophies that the company must integrate throughout every department of the company and at every level of management.

Therefore, whatever resources an organization uses, it should remember these seven important principles of Total Quality Management as a foundation for all their activities.

**(i) Quality can and must be Managed:** The first step in the TQM process is to realize that there is a problem and that it can be controlled. Many companies believe that their operations are too large to effectively manage the level of quality, which is rendered untrue by TQM.

**(ii) Processes, not People, are the Problem:** If a process causes problems then the solution does not lie in hiring new employees or in giving them a lot of training sessions. The solution is that the processes are to be corrected first then the people can be trained on these new procedures.

**(iii) Don't Treat Symptoms, Look for the Cure:** To fully reach your potential, a solution for the problem has to be found. For example, if an organization's shipping department is lagging behind, it could be because of the holdups in manufacturing. Therefore, go to the root source to correct the problem.

**(iv) Every Employee is Responsible for Quality:** Everyone in the company, from the workers on the line to the upper management, must realize that they have an important part to play in ensuring high levels of quality in their products and services. Everyone has a customer to delight, and they must all step up and take responsibility for that.

**(v) Quality must be Measurable:** A quality management system is only effective when you can quantify the results. You need to see how the process is implemented and if it has the desired effect. This will help you set your goals for the future and ensure that every department is working to produce the same result.

**(vi) Quality Improvements must be Continuous:** Total Quality Management is not something that can be done once and then forgotten. It is not a management "phase" that will end after a problem has been corrected. Real improvements must occur frequently and continually in order to increase customer satisfaction and loyalty.

**(vii) Quality is a Long-term Investment:** Quality management is not a quick fix. TQM is a long-term investment, and it is designed to help one find long-term success.

Therefore, this kind of management style can be a huge cultural change in an organization. Hence, if one builds on a foundation of quality principles, he will be equipped to make this change and start working towards real long-term success.

## CONCEPT OF RISK MANAGEMENT

Risk management has its origins in the field of corporate insurance. Presently it is recognized as a distinct and important function of all business organizations. Although the term risk management is a recent phenomenon, yet the actual practice of risk management is as old as civilization itself.

Risk management basically refers to the identification of opportunities and avoiding or mitigating losses. It is a logical and systematic process of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process, in a way which enables an organization to minimize losses and maximize opportunities.

Risk management is also considered as a structured approach in managing uncertainty related to a threat, a sequence of human activities including: risk assessment, strategies development to manage it, and mitigation of risk using managerial resources. The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk. Hence, risk management is a scientific approach to deal with pure risks by anticipating possible accidental losses and designing and implementing procedures which minimize the occurrence of loss or the financial impact of the losses that do occur.

Risk management is also an integral component of good management and decision-making at all levels. All departments manage risk continuously whether they realize it or not, sometimes more rigorously and systematically and sometimes less so. More rigorous risk management occurs most visibly in departments whose core mandate is to protect the environment and public health and safety. Such a risk management process is essentially a part and parcel of the operations and management functions in the business unit. It means that each department and the executives therein are directly or indirectly involved in the risk management function. The effectiveness of the risk management of the industry or business unit, therefore, depends on the efficiency with which the managers/executives of different departments handle it as part of their roles.

Thus, risk management is the process dealing with uncertainty within a public policy environment. To be precise, risk management is a systematic approach for setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues.

The major characteristics of risk management are as under :

- It is a systematic discipline for dealing with problem of uncertainty.
- It provides a system of making choices.
- It is a way for better understanding of potential liability.
- It is a guide for responding to undesirable events.

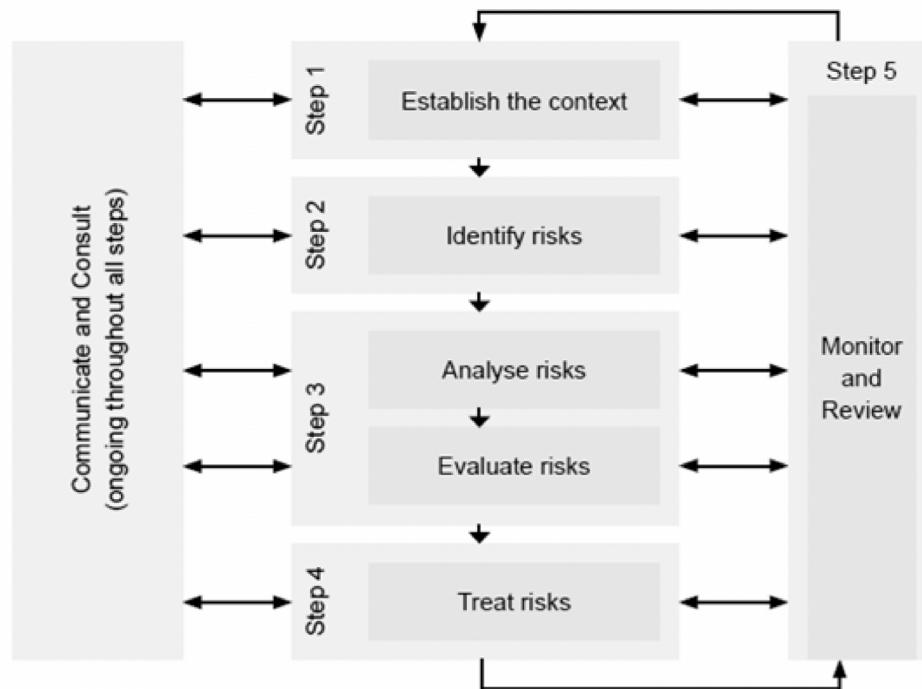
## RISK MANAGEMENT PROCESS

Risk Management is a five step process :

- Step 1 – Establish the context
- Step 2 – Identify the risks
- Step 3 – Analyse the risks
- Step 4 – Evaluate the risks
- Step 5 – Treat the risks

Throughout each step it is essential that there is consultation and communication with everyone in your organisation's functions, activities and events (refer to diagram).

## RISK MANAGEMENT PROCESS



### Step 1 – Establish the context

Before risk can be clearly understood and dealt with, it is important to understand the context in which it exists.

You should define the relationship between your club and the environment that it operates in so that the boundaries for dealing with risk are clear.

Establish the content by considering:

- The strategic context – the environment within which the organisation operates
- The organisational context – the objectives, core activities and operation's of the club.

### **Step 2 – Identify the risks**

The purpose of this step is to identify what could go wrong (likelihood) and what is the consequence (loss or damage) of it occurring.

Key questions to ask include:

- What can happen? List risks, incidents or accidents that might happen by systematically working through each competition, activity or stage of your event to identify what might happen at each stage.
- How and why it can happen? List the possible causes and scenarios or description of the risk, incident or accident.
- What is the likelihood of them happening?
- What will be the consequences if they do happen?

Risks can be physical, financial, ethical or legal.

Physical risks are those involving personal injuries, environmental and weather conditions and the physical assets of the organisation such as property, buildings, equipment, vehicles, stock and grounds.

Financial risks are those that involve the assets of the organisation and include theft, fraud, loans, license fees, attendances, membership fees, insurance costs, lease payments, pay-out of damages claims or penalties and fines by the government.

Ethical risks involve actual or potential harm to the reputation or beliefs of your club, while legal risks consist of responsibilities imposed on providers, participants and consumers arising from laws made by federal, state and local government authorities.

### **Step 3 – Analyse the risks (& evaluate)**

This involves analysing the likelihood and consequences of each identified risk and deciding which risk factors will potentially have the greatest effect and should, therefore, receive priority with regard to how they will be managed. The level of risk is analysed by combining estimates of likelihood (table 1) and consequences (table 2), to determine the priority level of the risk (table 3).

It is important to consider the consequences and the likelihood of risk in the context of the activity, the nature of your club and any other factors that may alter the consequences of likelihood of risk.

Risk evaluation involves comparing the level of risk found during the analysis process with previously established risk criteria, and deciding whether risks can be accepted. If the risk falls into the low or acceptable categories, they may be accepted with minimal further treatment. These risks should be monitored and periodically reviewed to ensure they remain acceptable. If risks do not fall into the low or acceptable category, they should be treated using one or more of the treatment options considered in step 4.

The criteria for evaluating the risks at your club are shown below:

**Table 1– Likelihood scale**

Question – what is the likelihood of the risk event occurring?

Rating	LIKELIHOOD The potential for problems to occur in a year
5	<b>ALMOST CERTAIN:</b> will probably occur, could occur several times per year
4	<b>LIKELY:</b> high probability, likely to arise once per year
3	<b>POSSIBLE:</b> reasonable likelihood that it may arise over a five-year period
2	<b>UNLIKELY:</b> plausible, could occur over a five to ten year period
1	<b>RARE:</b> very unlikely but not impossible, unlikely over a ten year period

**Table 2 – Loss or damage impact scale**

Question: what is the **loss or damage impact** if the risk event occurred (**severity?**)

Rating	POTENTIAL IMPACT In terms of the objectives of the club
5	<b>CATASTROPHIC:</b> most objectives may not be achieved, or several severely affected
4	<b>MAJOR:</b> most objectives threatened, or one severely affected
3	<b>Moderate:</b> some objectives affected, considerable effort to rectify i.e. sport injury – requires medical attention and has some impact on participation in sport and/or other activity
2	<b>MINOR:</b> easily remedied, with some effort the objectives can be achieved i.e. sport injury requires first aid treatment and prevents immediate participation in sport and/or other activity
1	<b>NEGLIGIBLE:</b> very small impact, rectified by normal processes i.e. sport injury but does not prevent participation

### Risk priority

The **risk priority scale** determines the nature of the risk and the action required. They are indicators to assist in the decision making of what action is warranted for the risks.

Question: what is the **risk priority?**

**Table 3– Risk priority scale**

		IMPACT				
		5 Catastrophic	4 Major	3 Moderate	2 Minor	1 Negligible
5 Almost certain		Extreme (1)	Extreme (1)	Major (2)	Major (2)	Medium (3)
L	4 Likely	Extreme (1)	Extreme (1)	Major (2)	Medium (3)	Minor (4)
E	3 Possible	Extreme (1)	Major (2)	Major (2)	Medium (3)	Minor (4)
H	2 Unlikely	Major (2)	Major (2)	Medium (3)	Minor (4)	Minor (4)
D	1 Rare	Medium (3)	Medium (3)	Minor (4)	Minor (4)	Minor (4)

**Key:**

<b>Extreme</b>	Extreme risks that are likely to arise and have potentially serious consequences requiring urgent attention
<b>Major</b>	Major risks that are likely to arise and have potentially serious consequences requiring urgent attention or investigation
<b>Medium</b>	Medium risks that are likely to arise or have serious consequences requiring attention
<b>Minor</b>	Minor risks and low consequences that may be managed by routine procedures

An example of how to use the risk rating tables is included in Attachment A.

#### **Step 4 – Treat the risks**

Risk treatment involves identifying the range of options for treating the risk, evaluating those options, preparing the risk treatment plans and implementing those plans. It is about considering the options for treatment and selecting the most appropriate method to achieve the desired outcome.

Options for treatment need to be proportionate to the significance of the risk, and the cost of treatment commensurate with the potential benefits of treatment.

According to the standard, treatment options include:

- **Accepting the risk** – for example most people would consider minor injuries in participating in the sporting activity as being an inherent risk.

- **Avoiding the risk** is about your club deciding either not to proceed with an activity, or choosing an alternate activity with acceptable risk which meets the objects of your club. For example, a cricket club wishing to raise funds may decide that a rock climbing competition without a properly trained and accredited instructor, equipment etc may decide a safer way of raising funds.
- **Reducing the risk** likelihood or consequences or both is commonly practiced treatment of a risk within sport, for example use of mouth guards for players in some sports i.e. contact sports.
- **Transferring the risk** in full or in part, will generally occur through contracts or notices for example your insurance contract is perhaps the most commonly used risk transfer form used. Other examples include lease agreements, waivers, disclaimers, tickets, and warning signs.
- **Retaining the risk** is knowing that the risk treatment is not about risk elimination, rather it is about acknowledging the risk is an important part of the sport activity and some must be retained because of the inherent nature of the sport activity. It is important to consider the level of risk which is inherent and acceptable.
- **Financing the risk** means the club funding the consequences of risk i.e. providing funds to cover the costs of implementing the risk treatment. Most community non profit sport clubs would not consider this option.

Whichever option you choose to treat a risk, if the risk has rated highly you will need to carefully consider necessary policies, procedures and strategies to treat the risk. These will include:

- what is needed to treat the risk
- who has responsibility
- what is the timeframe
- how you will know when the risk has been successfully managed.

Also, seek independent advice from your broker, insurer, solicitor, financial advisor and/or affiliated state body.

#### **Step 5 – Monitor and review**

As with communication and consultation, monitoring and review is an ongoing part of risk management that is integral to every step of the process. It is also the part of risk management that is most often given inadequate focus, and as a result the risk management programs of many organisations become irrelevant and ineffective over time. Monitoring and review ensure that the important information generated by the risk management process is captured, used and maintained.

Few risks remain static. Factors that may affect the likelihood and consequences of an outcome may change, as may the factors that affect the suitability or cost of the various treatment options. Review is an integral part of the risk management treatment plan.

As discussed earlier, risk management is an integral part of all core business functions, and it should be seen and treated as such. Risk management should be fully incorporated into the operational and management processes at every level of the organisation and should be driven from the top down.

#### **GLOBAL PRACTICES/INTERNATIONAL BUSINESS**

International management is the practice of managing business operations in more than one country. International management professionals are familiar with the language, culture, economic and political environment, and business practices of countries in which multinational firms actively trade and invest. They also have the conceptual and analytical skills needed to formulate effective management strategies and policies for the benefit of all the constituents of the firm, in today's globally competitive environment.

International business is used to collectively describe all commercial transactions, i.e., private, governmental, sales, investments, etc that take place between two or more regions, countries and nations beyond their political boundary. Usually, private companies undertake such transactions to each profits and government undertakes them to gain profits and for political reasons as well.

Therefore, it refers to all those business activities which involve cross-border transactions of goods, services and resources between two or more countries. Transaction of economic resources include capital, skills, people, etc., for international production of physical goods, and of services include as finance, banking, insurance, construction, etc.

The conduct of international operations depends on companies' objectives and the means with which they carry them out. These international operations affect and are in turn affected by the physical and societal factors and also by the competitive environment.

## FEATURES OF INTERNATIONAL BUSINESS

The following are the features of International Business:

**(i) Large Scale Operations:** In international business, all the operations are conducted on a very huge scale. Production and marketing activities are also conducted on a large scale. It first sells its goods in the local market and then exports the surplus goods.

**(ii) Integration of Economies:** International business integrates (combines) the economies of many countries. This is because it uses finance in one country, get labour from another country, and infrastructure from some other country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.

**(iii) Dominated by Developed Countries and MNCs:** It is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan are dominating foreign trade. This is because they have large finances and other resources, the best technology, a highly advanced R & D, highly skilled employees and managers, etc. Therefore, they produce quality goods and give services at low prices. This helps them to capture and dominate the world market.

**(iv) Benefits to Participating Countries:** International business gives benefits to all participating countries. However, the developed countries get the maximum benefits and the developing countries get benefits in the form of foreign capital and technology, rapid industrial growth and more employment opportunities. All this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.

**(v) Rigorous Competition:** International business has to face rigorous competition in the world market. The competition is between unequal partners, i.e. developed countries and developing countries. In this kind of competition, developed countries and their MNCs are in a favourable position because they produce superior quality goods and provides services at a low price. So, developing countries find it very difficult to face competition from developed countries.

**(vi) Sensitive Nature:** The international business is very sensitive in nature. Any change in the economic policies, technology, political environment, etc. has a huge impact on it.

## IMPORTANCE OF INTERNATIONAL BUSINESS

The following factors make international business very important to an economy:

**(i) Foreign Exchange Earnings:** International companies export their goods and give services all over the world. This way they earn valuable foreign exchange with this foreign exchange they import things. This eventually helps them in making huge profits, thereby strengthening the economy of either company

**(ii) Optimum Utilisation of Resources:** International business makes optimum utilisation of resources. This is because it produces goods on a very large scale for the international market. International business utilises resources from all over the world. It uses the finance and technology of rich countries and the raw materials and labour of the poor countries.

**(iii) Achieving Objectives:** The main objective of an international business is to earn high profits. This objective is achieved easily with the help of the best technology and best employees and managers. Since these companies produce high-quality goods, they are able to sell them all over the world. All this results in high profits for the international business.

**(iv) Spreading Business Risks:** International business spreads its business risk by doing business all over the world. So, a loss in one country can be balanced by a profit in another country. The surplus goods in one country can be exported to another country. The surplus resources can also be transferred to other countries. All this helps to minimise the business risks.

**(v) Improves Organization's Efficiency:** International business has very high organisation efficiency. This is because without efficiency they will fail to face the competition in the international market. So, they use all the modern management techniques to improve their efficiency.

**(vi) Gets Benefits from Government:** International business brings a lot of foreign exchange for the country. Therefore, it gets many benefits, facilities and concessions from the government of their home country. It also gets many financial and tax benefits from the government.

**(vii) Expands and Diversify:** International business can expand and diversify its activities. This is because it earns very high profits and also gets financial help from the government.

**(viii) Increases Competitive Capacity:** International business produces high-quality goods at low cost as it spends a lot of money on advertising all over the world. It uses superior technology, management techniques, marketing techniques, etc. All this makes it more competitive. So, it can fight competition from foreign companies.

## ROLE OF AN INTERNATIONAL MANAGER

Global competition has forced businesses to change their ways and manner of managing business at home and abroad. Therefore, the new management approach focuses on establishing a new communication system that features a high level of employee involvement. Organizational structures must also be flexible enough to change with changing market conditions. Ongoing staff development programs and design-control procedures, which are understandable and acceptable, are outcomes from this new approach. Management values are changing, and managers must now have a vision and be able to communicate that vision to everyone in the organisation.

Although the international manager performs the same basic functions as the domestic manager does, he has to adjust to more variables and different environments. Therefore, each of the five basic management functions require a change when operating in a foreign market.

### Planning

The first stage of international planning is to decide how to do business globally: whether to export, to enter into licensing agreements or joint ventures, or to operate as a multinational corporation with facilities in a foreign country.

To develop forecasts, goals, and plans for international activities, the manager must monitor environments very closely. Key factors include political instability, currency instability, competition from governments, pressures from governments, patent and trademark protection, and intense competition.

## Organizing

International businesses must be organized so that they can adapt to cultural and environmental differences. No longer can organizations just put “carbon copies” or clones of themselves in foreign countries. An international firm must be organized so that it can be responsive to foreign customers, employees, and suppliers. An entire firm may even be organized as one giant worldwide company that has several divisions. Above all, the new organization must establish a very open communication system where problems, ideas, and grievances can quickly be heard and addressed to, at all levels of management. Without this, employees will not get involved when their insights and ideas are crucial to the success of the business.

As an organization extends its operations internationally, it needs to adapt its structure. When the organization increases its international focus, it goes through the following three phases of structural change:

- (i) *Pre-international Stage*: Companies with a product or service that incorporates the latest technology, are unique, or superior may consider themselves ready for the international arena. The first strategy used to introduce a product to a foreign market is to find a way to export the product. At this phase, the firm adds an export manager as part of the marketing department and finds foreign partners.
- (ii) *International Division Stage*: Pressure may mount because of the enforcement of host country's laws, trade restrictions, and competition, placing a company at a cost disadvantage position. When a company decides to defend and expand its foreign market position by establishing marketing or production operations in one or more host countries, it establishes a separate international division. In turn, foreign operations begin, and a vice president, reporting directly to the president or CEO, oversees the operations.
- (iii) *Global Structure Stage*: A company is ready to enter an international division phase when it meets the following criteria, i.e., the international market is as important to the company as the domestic market; senior officials in the company possess both foreign and domestic experience; International sales represent 25 to 35 percent of total sales and the technology used in the domestic division has far outstripped that of the international division.

As foreign operations become more important to the bottom line, decision-making becomes more centralized at corporate headquarters. A functional product group, geographic approach, or a combination of these approaches should be adopted. The firm unifies international activities with worldwide decisions at world headquarters.

## Staffing

Because obtaining a good staff is so critical to the success of any business, the hiring and development of employees must be done very carefully. Management must be familiar with the country's national labor laws. Next, it must decide how many managers and personnel it is going to hire from the local labor force, or it would consider transferring home-based personnel.

## Directing

Cultural differences make the directing function more difficult for the international manager. Employee attitudes towards work and problem solving differ from country to country. Language barriers also create communication difficulties. To minimize problems arising from cultural differences, organizations are training managers in cross-cultural management. Cross-cultural management trains managers to interact with several cultures and to value diversity.

## Controlling

Geographic dispersion and distance, language barriers, and legal restrictions complicate the controlling function. Meetings, reporting, and inspections are typically part of the international control system.

Controlling poses special challenges if a company engages in multinational business because of the far-flung scope of operations and the differing influences of diverse environments. Controlling operations is nonetheless a crucial function for multinational managers. Particularly powerful unions exist in many parts of the world, and their demands restrict managers' freedom to operate.

### **Remote Work Systems**

Remote workers provide flexibility when building your team. A remote workforce provides access to a much broader talent pool, especially when you're looking for a specific skillset. If your HQ is in an expensive real estate market like New York City or San Francisco, working with remote employees also offers an alternative to sky high office leases.

Because people working away from HQ do not have the luxury of their co-workers actually seeing them at the office, they tend to make a greater effort to demonstrate that they are working and get just as much done, if not more sometimes, than everyone at the office.

A big leap for making this transition possible is the evolution of team communication platforms like Google Hangouts and Slack. Not only are they allowing remote workers to stay connected as if they were in the same physical space, but they also provide the transparency that allows managers to see what employees are actually doing.

### **New work tools increase transparency**

Transparency is a common theme with modern teams as they move away from the more siloed email and Office suite to a broader set of cloud-based tools that allow them to plan, create, share, and work together. As a result, traditional management systems have changed.

In the past, managers have typically determined how employees spend their time. These days, it's more common for managers to empower employees to self-organize.

An open organization also leaves room for alignment on everything from big picture goals to who's responsible for specific projects. When employees have visibility from top to bottom, they feel valued and understand their role on their team and within the company's broader vision.

At the core of this shift is trust, and the way to build this trust is making it easier for people to work collaboratively, make decisions, and show progress. In this world, the role of the manager is to coach, remove roadblocks and advocate for the team.

### **The move to mobile has employees driving tech choices**

Empowerment for employees is at the heart of some of the biggest changes happening in the workplace today. By trusting employees to set their own priorities around team goals, allowing them to help pick their favourite tools, and manage where they choose to work, employers are building happier and more productive companies.

### **Sustainability and Corporate Social Responsibility**

For business to be sustainable, and even profitable, our planet has to be sustainable - this realization has hit businesses perhaps the hardest in recent times. HBS Dean Nitin Nohria feels that in the coming decade, we are likely to see a lot of focus directed towards applying management principles to solutions of complex social issues such as environmental sustainability, energy security, access to healthcare etc. This will also underline the need for increased interdisciplinary interaction and influence on business management.

One evidence of this growing engagement with issues of society and sustainability is the increase in number of companies who have intensified their CSR focus and the innovative ways in which they have engaged themselves,

points out professor of marketing, Michael Norton. Shifting steadily from corporate philanthropy to more direct and effective engagement, companies have devised new models of extending a social footprint. Drawing attention to the Pepsi Refresh project, Norton has highlighted how the company encouraged users to submit projects with social impact-from cleaning up a river to saving animals-and allowed other users to vote on which projects Pepsi should fund.

### **The Study of Psychology**

Speaking of interdisciplinary influences on business, the study of human psychology - probing into cognition, motivation, behavior and performance - has become a key pillar of organizational management.

From employee management to customer satisfaction and social engagement, satisfaction of business objectives requires effective analysis of both individual and institutional psychology. A good amount of research is therefore likely to be focused on how psychological theory and research can be integrated into business academics and management practice; Professor Amabile feels that with more evolved tools and access to ever-growing information databases, managers will have the power to substantially improve both the practice of business and the welfare of society.

### **Retail and Workplace Flexibility**

Technology has helped ecommerce companies see explosive growth, while challenging traditional retail with the result being larger warehouses and smaller brick-and-mortar stores. More companies are using modern logistics and automation to operate with razor-thin inventory. And the effect on the workplace? With the rise of the sharing economy, more companies are renting out unused conference rooms, and offices are becoming smaller, collaborative spaces with open floor plans and fluid work environments. When possible, companies should consider allowing employees to telecommute. This economy of space goes hand-in-hand with cost-savings for business owners, as renting out large multi-office spaces is no longer necessary.

### **Business Ecosystems**

Professor Carlyss Y. Baldwin feels that one of the most notable trends in management has been the rise of business ecosystems - defined as groups of firms which together provide complex products and related services to meet end-to-end requirements of users across the value chain. The integration between media, technology and telecommunication firms would be an apt contemporary example.

This has important implications for management because innovation in business ecosystems has a character distinct from traditional, vertically integrated firms. Every organization in the ecosystem has to be aware of the bigger picture. Innovation in ecosystems requires collective action to both invent and appraise, efficient, cross-organization knowledge flows, modular architectures, and good stewardship of legacy systems.

### **Darwinian Markets**

The modern workplace is making an evolutionary leap forward. Open offices are trending (for better or worse), communication is immediate and marketing strategies are changing quickly alongside developments in technology. Companies who embrace change will find success by attracting top talent and harness their ideas to grow their customers. Competition is here to stay, and as such, it is imperative for firms to have a clear brand identity and harness social media opportunities to manage and market themselves.

The IT world, a sector known for setting trends, has reverted to in-sourcing as a means of cutting costs, with the added benefit of improved communications. Your entire enterprise may be on the cloud, but the best information sharing happens when you're face-to-face.

## LESSON ROUND UP

- Change may be defined as a variation in the established way of life to which people are accustomed to in the organization.
- Change is caused by two types of forces: External force, i.e., the forces which lie in the external environment of an organisation, and the other are Internal forces that are the pressures arising from within the organization.
- Organizations and their members resist change. The resistance can be overt, implicit, immediate or deferred.
- Groups as well as overall organizations actively resist change. Group norms, values and informal role prescriptions are examples of group change.
- Crisis management is the process by which an organization deals with a major event that threatens to harm the organization, its stakeholders, or the general public.
- Total Quality Management (TQM) is an approach that organizations use to improve their internal processes and increase customer satisfaction.
- Risk management is as much about identifying opportunities as avoiding or mitigating losses.
- The objective of risk management is to reduce different risks related to a preselected domain to the level accepted by society.
- Risk management should be most rigorously applied where critical decisions are being made. Decisions about risk will vary depending on whether the risk relates to long, medium or short term goals.
- Profits are created through business activity. Risk and business come together more often.
- A certain amount of risk-taking is inevitable if an organization is to achieve its objectives.
- International management is the practice of managing business operations in more than one country. International management professionals are familiar with the language, culture, economic and political environment, and business practices of the countries in which their multinational firms actively trade and invest.
- Global competition has forced businesses to change the manner they manage at home and abroad. Although the international manager performs the same basic functions as the domestic manager, he must adjust to more variables and environments.

## GLOSSARY

<b>Dysfunctional</b>	Behaving or acting outside social norms.
<b>Imperative</b>	Absolutely necessary or required; unavoidable.
<b>Provincialism</b>	Narrowness of mind, ignorance, or the like, considered as resulting from lack of exposure to cultural or intellectual activity.
<b>Temperament</b>	The combination of mental, physical, and emotional traits of a person; natural predisposition; unusual personal attitude or nature as manifested by peculiarities of feeling, temper, action, etc., often with a disinclination to submit to conventional rules or restraints.
<b>Inevitable</b>	That which cannot be avoided, evaded, or escaped; necessary.
<b>Abruptly</b>	Sudden or unexpected.

<b>Prognosis</b>	A forecast.
<b>Lagging</b>	The act of staying behind; lingering; loitering; slow and dragging.
<b>Pertinent</b>	Relating directly and significantly to the matter at hand; relevant.
<b>Foreseeable</b>	To know in advance; foreknow; to see beforehand.
<b>Descend</b>	To pass from higher to lower in any scale or series; to slope, tend, or go downwards; to be inherited or transmitted, as through succeeding generations of a family.
<b>Intrinsic</b>	Belonging to or lying within a given part.
<b>Vulnerabilities</b>	Open to criticism, moral attack, assault; difficult to defend.
<b>Outstripped</b>	To outdo; surpass.
<b>Unifier</b>	Unite.

### SELF-TEST QUESTIONS

1. Change is caused by \_\_\_\_\_  
a) Internal b) External c) Both d) None of the above
2. TQM, full form is \_\_\_\_\_  
a) Total Quality Member b) Tillman Quantified Management c) Total Quantified Manager d) Total Quality Management
3. The Concept of Staffing is about \_\_\_\_\_ -  
a) People b) External Customers c) Suppliers d) Employees
4. Kurt Lewin wrote about successful change in the \_\_\_\_\_  
a) External Environment b) Organisation c) Competition d) Employees
5. Resistance to change happens due to \_\_\_\_\_  
a) Physical b) Emotional c) Logical d) Spiritual
6. \_\_\_\_\_ Management involves dealing with threats after they have occurred,  
a) Crisis b) Risk c) Emergency d) Natural Disaster
7. \_\_\_\_\_ management basically refers to the identification of opportunities and avoiding or mitigating losses  
a) Financial b) Risk c) Human Resource d) Operations
8. International management is the practice of managing \_\_\_\_\_ in more than one country  
a) Government b) Technology c) Locations d) Business Operations
9. Prognosis is a \_\_\_\_\_  
a) Vision b) Forecast c) Strategy d) Plan
10. 'Acts of God' is what kind of \_\_\_\_\_ Disaster  
a) Natural b) Technological c) Confrontation d) Workplace

**Answer key:** 1. c; 2 d; 3 d; 4 b; 5 b; 6 a; 7 b; 8 d; 9 b; 10 a

## Suggested Readings

- (1) Principles of Management — *George R. Terry*
  - (2) Essentials of Management — *Joseph L. Massie*
  - (3) A Concepts of Organisation — *Paul E. Togerson*
  - (4) Principles of Management — *Peter F. Drucker*
  - (5) Management: A Functional Approach — *Joseph M. Putti.*



# PART B

## BUSINESS ETHICS

### LESSON

#### 8. Business Ethics



In this era of globalization and multinational competition, ethical practices in business are assuming great importance. As the relationships among various suppliers and customers are shaped by ethical practices and are based on mutual trust, the ethical decision-making has assumed massive importance in today's corporate world. Corporate success, being a dependent variable has become increasingly controversial and the growing number of researches and studies around the world more on the basic assumption are focusing on corporate ethics and its consequent effects.

The purpose of this study lesson is to clarify boundaries of the debate on corporate success. With globalization and the new international economic order, social expectations from business have undergone a massive change. Ethical behaviour in business pays off in financial terms as well.

Ethics matters because it promotes good business sense to 'do the right thing'. Additionally, good corporate ethics results in:

- Attracting better talent
- Retaining employees and customers
- Attracting new customers
- Having a positive effect on Return on Investment (ROI) and on corporate reputation.



# Lesson 8

## Business Ethics

### LESSON OUTLINE

- What is the Business Ethics
- Importance of Business Ethics
- Characteristics of Business Ethics
- Principles of Business Ethics
- Elements of Business Ethics Management
- Challenges in Business Ethics
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

Business ethics reflects the philosophy of business, one of whose aim is to determine the fundamental purpose of a company. Ethics is related to every aspect of our life. In today's world of scams, frauds, corruptions due to cutthroat competition, it is essential for new entrants to ensure that they adhere to the basic ethical standards.

Business ethics is not only applicable to any particular kind of business but it is applicable to all kinds of business.

Business ethics is concerned with the behaviour of a businessman in doing a business.

Business ethics may be defined as a set of moral rules and principles to protect the interest of customers, employers, society, business unit itself and the industry as a whole (Stakeholders).

Therefore, the objective of this study lesson is to enable the students to understand the genesis and concept of ethics and also why all businesses should be done ethically.

Integrity is doing the right thing, even if nobody is watching.

## BUSINESS ETHICS

### What is Business Ethics?

Business ethics is nothing but the application of ethics in business. Business ethics is the application of general ethical ideas to business behaviour. Ethical business behaviour facilitates and promotes good to society, improves profitability, fosters business relations and employee productivity. The concept of business ethics has come to mean various things to various people, but generally it's coming to know what is right or wrong in the workplace and doing what's right - this is in regard to effects of products/ services and in relationships with stakeholders.

Business ethics is concerned with the behaviour of a businessman in doing a business. Unethical practices are creating problems to businessman and business units. The life and growth of a business unit depends upon the ethics practiced by a businessman. Business ethics are developed over the passage of time and custom. A custom differs from one business to another. If a custom is adopted and accepted by businessman and public, that custom will become an ethic. Business ethics is applicable to every type of business. The social responsibility of a business requires the observing of business ethics. A business man should not ignore the business ethics while assuming social responsibility. Business ethics means the behaviour of a businessman while conducting a business, by observing morality in his business activities.

According to Wheeler, Business Ethics is an art and science for maintaining harmonious relationship with society, its various groups and institutions as well as reorganizing the moral responsibility for the rightness and wrongness of business conduct.

According to Rogene. A. Buchholz, Business ethics refers to right or wrong behaviour in business decisions.

## BUSINESS ETHICS

Business Ethics or Ethical standards are the principles, practices and philosophies that guide the business people in the day to day business decisions. It relates to the behaviour of a businessman in a business situation. They are concerned primarily with the impacts of decisions on the society within and outside the business organizations or other groups who keep interest in the business activities. Business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. - School of Distance Education.

## ETHICAL PRINCIPLES IN BUSINESS

The Principles of business ethics developed by well known authorities like Cantt, J. S.Mill, Herbert Spencer, Plato, Thomas Garret, Woodrad, Wilson etc are as follows

- 1. Sacredness of means and ends:** The first and most important principle of business ethics emphasizes that the means and techniques adopted to serve the business ends must be sacred and pure. It means that a good end cannot be attained with wrong means, even if it is beneficial to the society.
- 2. Not to do any evil:** It is unethical to do a major evil to another or to oneself , whether this evil is a means or an end.
- 3. Principle of proportionality:** This principle suggests that one should make proper judgment before doing anything so that there is a fair view taken & others do not suffer from any loss or risk of evils by the conduct of business.
- 4. Non co-operation in evils:** It clearly pints out that a business should not co-operate with any one for doing any evil acts.

5. **Co-operation with others:** This principles state that business should help others only in that condition when others deserve help.
6. **Publicity:** According to W. Wilson, anything that is being done or to be done, should be brought to the knowledge of everyone. If everyone knows, none gets opportunity to do an unethical act.
7. **Equivalent price:** According to W. Wilson, the people are entitled to get goods equivalent to the value of money that they will pay.
8. **Universal value:** According to this principle the conduct of business should be done on the basis of universal values.
9. **Human dignity:** As per this principle, man should not be treated as a factor of production and human dignity should be maintained.
10. **Non-violence :** If businessman hurts the interests and rights of the society and exploits the consumer by overlooking their interests this is equivalent to violence and unethical act. - School of Distance Education.

### **Ethics : Indian and Ancient Indian Perspective**

True, ethical behavior and ethics as a science do not necessarily presuppose a religious-philosophical creed. However, not only does every activity presuppose some knowledge of pragmatic matters, it also involves ideas or beliefs regarding the nature of the objective world and the subject. In ethical behavior man has to be conscious of himself as a moral agent, and this presupposes some definite concepts of the human self, as also of the goal(s) or value(s) which man has to realize through his conduct. Hinduism as a religion is both a view of life and a way of life which are related as the theoretical and practical guides of the same spiritual life. Any study of Hindu ethics ought to take into account innumerable discussion on ethical matters, scattered throughout ancient Indian literature. Jainism and Buddhism as two branches of larger Hindu philosophical thought gives detailed accounts of ethical and unethical behavior and also talks in great lengths about the duties of man. Ethics in Indian philosophy is conscious living within the frame of certain principles of conduct laid down by those regarded as authorities. In general, therefore, the ethical institutions of life or the moral point of view, consists in the awareness of an important distinction between what is and what ought to be. In Indian philosophy ethical behavior may be both social and personal. Ethics as an institution of life has been recognized here from the very early age of the Vedas. Rather it has been recognized as the most basic element in human life. But then it has not necessarily been recognized as a social enterprise in the sense of being an instrument of the society to help guide the people living in the society. It is rather engrained in the very being of the universe. Ethics has a divine origin. Man has simply to adopt it from there. The Vedic distinction between Rju (straight) and Vran (crooked) and the Upanisadic distinction between Sreyah (desirable) and Preyah (pleasurable) have much to do with the origin of the sense of right and wrong and hence can be related to ethical and unethical behavior in the context of modern day business ethics. In Indian philosophy the origin of ethics does not come from the contingent agency like the society, but it has a divine origin. The concept of ethics is not necessarily tied up here with the concept of society. Furthermore, it is not the case here that ethics in Indian philosophy has meaning only in the context of society. An individual may behave ethically or unethically in relation to other members of his society as also in relation to himself. Man by virtue of being what he is has to follow certain obligations, even if he is not a member of any society. There is talk of both social and individual morality in Indian ethics, Social ethics refers to questions of morality in relation to others, and where as individual ethics refers to the question of morality in relation to oneself. One is adopting a moral point of view not only making judgments about the conduct and character of some towards other members of the society, but also in his behavior to himself as a man. The concept of social and individual ethics can be analyzed in the context of business ethics. While social ethics can be seen from the point of view of organizational behavior individual ethics could be the ethical codes for individual members of the corporation which can guide them to indulge in ethical business. The recognition of both social and individual ethics constituting the parts of the ethical life of man corresponds to the acceptance of the ethics of doing and

the ethics of being as part of the Indian concept. The ethics of doing refers to the DOs and DONTs and the ethics of being refers to the virtues and vices. Social ethics is predominantly the ethics of doing and individual ethics is the ethics of being. It can be said that whereas social ethics has its root in a sense of duty towards others, individual ethics or subjective ethics has its root in a sense of inculcating inner virtue. The institution of ethics has for its basic concern the regulation of man's lower inclinations and promotion of the higher ones in realization of his aspirations as a man. It is in such a concern that the transition from 'is' to 'ought' is involved. The natural inclinations of man go in favor of his own egoistic interest and therefore it is the concern of ethics to instruct him to feel, think and do for others also. The sacrifices of one's egoistic interests does not always mean giving up one's egoistic interests for the sake of others, but also for the sake of the higher ones. The Vedas in general seem to give an ethics of overt duties rather than inner virtues, an ethics of doing rather than being, and all duties are clearly directed towards worldly end. The Dharmashastras also preach an externalist ethics where inner motive or intention of the doer does hardly seem to constitute the rightness and wrongness of the action done by him. Dharmashastras are more or less given to us in the form of a legal code. Although at times it talks about inner purification. Purity of motive and intention is also necessary for doing moral acts; only overt acts will not do. In the Upanisads and later in the Bhagavat Gita and other systems of Indian thought what is more important in ethical consideration are not the external acts, but the inner dispositions which prompt the acts. Sin is not merely failure to do the right, but failure to let good intentions to act. According to the Buddhist and the Jaina outlook actions are good or bad not in terms of the external consequences they produce, but the inner motive which prompts them. In other words, it is the purity or impurity of motive which decides whether an action is right or wrong. However, neither Buddhism nor Jainism fully ignores the importance of consequences in judging an action to be right or wrong. Their attitude seems to be that only consequence does not determine the rightness or wrongness of an action. The Jain view to a certain extent tried to bring a synthesis between the consequences and internal motives of an action.

## ESSENTIAL ELEMENTS OF BUSINESS ETHICS MANAGEMENT

Everyone who is entrusted to manage ethics in his organization is bound to prepare a sound ethical programme which should include the following components:-

1. Formal code of conduct
2. Ethics committee
3. Ethics communication
4. An Ethic office with Ethical officers
5. Ethics Training Programme
6. A disciplinary system
7. Establishing an ombudsperson.
8. Monitoring

### 1. Code of conduct

Several organizations that have undertaken to implement ethical behaviour at their workplaces have started the process with developing and implementing codes of conduct for their employees. Codes of conduct are statements of organizational values. It comprises of three elements such as a code of ethics, a code of conduct and statement of values. A code of conduct is a written document, inspirational in contents and specifies clearly what is acceptable or unacceptable behaviour at workplace and beyond, when the employees represent their organizations outside. In general, the code should reflect the management's desire to incorporate the values and policies of the organization. The statement of values envisaged by the management serves

the public and normally addresses the stakeholders groups. It informs the stakeholders about the firm's top priorities and what its core beliefs are.

### **Code of Ethics**

Every time a new business is launched anywhere in the world , whether a one man operation or a full blown brick – and- mortar corporate enterprise, the owners must adopt a code of ethics for the business. For small businesses the code is usually unwritten. And sometimes not even discussed and decided upon, but still a code exists. Larger businesses often have written codes of ethics and employees are twined in them and required to adhere to the code. A code of ethics is a buzzword to employees to observe ethical norms and forms the basis for rules of conduct. It is comprehensive enough to cover the entire scheme of organizational ethics expected to be followed by everyone in the company. It usually specifies methods for reporting violations, disciplinary action for violations and a structure of the due process to be followed.

A code of ethics in business is just as important as a sound marketing plan, a solid financial strategy, and an organized business plan.

A code of ethics must summarize the beliefs and values of the organization. Those beliefs and values should be internalized by all employees and used regularly in all business practices, no matter the type of business. Owners of businesses that routinely engage in unethical practices cannot pass the values and principles along to the other people working in the business. Small businesses suffer even more, because unethical behaviour and actions are easier for customers to take notice of. Once customers become aware that a business does not have high ethical ideals, they will take their business elsewhere.

Codes of ethics vary among businesses, and also from one country to another. When business grows large enough to expand its operations into other countries, it is critical to hire talent to assist in training existing personnel with regard to the integrity, understanding, responsibility, and cultural norms of the country where the new operation is located. All employees must be treated equally, and any issues of inequality must be dealt with quickly, fairly, and in a manner that is satisfactory to all.

Today, more than ever before, consumers pay a great deal of attention to corporate governance and proper behaviour of businesses and their owners. Because the marketplace is flooded with numerous variations of the same businesses, promises must be fulfilled and the price and quality of products must be equal to what is advertised, or another business will step in to deliver. Therefore a code of ethics whether unarticulated or formally documented is vital to ensuring that a business will succeed.

A code of ethics that is both defined and acted upon is part of the business culture of every successful business and must become the mantra of every business owner. Growing a flourishing business through the use of sound ethical principles will reap not only the benefits of growth and prosperity, but also the satisfaction of being able to sleep soundly at night.

### **2. Ethics committee**

Ethics committee is formed in many organizations. They are wholly devoted at work places. These committees can raise concerns of ethical nature; prepare or update code of conduct, and resolve ethical dilemma in organizations. They formulate ethical policies and develop ethical standards. The committee evaluates the compliance of the organization with these ethical norms. The members of the ethical committee should be selected from those persons who have knowledge in their industry, their code of ethics and community standards. The committee members are also conscious about the corporate culture and ethical concise of the organization.

The following committees are to be formed :-

- (i) Establishing an ethics committee at the board level

The committee would be charged to oversee development and operation of the ethics management programme.

(ii) Establishing an Ethics Management committee

Ethics Management committee would be charged with implementing and administrating an ethics management programme, including administrating and training about policies and procedures, and resolving ethical dilemmas. The committee should be comprised of senior officers.

### **3. Ethics communication system**

The next step is the establishment of an effective ethics communication system. Ethics communication system plays an important role in making an ethics programme successful. It should allow employees to make enquiries, get advice if needed or report wrong doing. Ethics communication system is a necessity to educate employees about the organization's ethical standard and policies. It has the following objectives

- (i) To communicate the organizations' values and standards of ethical conduct or business to employees.
- (ii) To provide information to the employees on the company's policies and procedure regarding ethical conduct of business.
- (iii) To help employees to get guidance and resolve questions regarding compliance with the firm's standards of conducts and values.
- (iv) To set up the means of enquiry such as telephone hotlines, suggestion boxes and email facilities for employees to contact with and get advice from competent authorities.

Along with these means of communication there are other ways, that can be used to communicate an organization's moral standards to its employees. Top management can communicate the ethical standards to lower level managers and they can communicate it to operational levels. Sometimes the organization publishes newsletters. It can be used to expose company's code or ethics. If an organization has briefing and management meeting, these can be used as a means of communicating values. Certain companies use attractive multi coloured posters to publicize their codes and ethics, these posters are placed in most visible places of the organization premises.

### **4. Ethics office and officers**

Ethics offices are to be established to communicate and implement ethics policies among employees of the organization. For this purpose an ethics officer is to be appointed. The ethics officer should develop a reputation for credibility, integrity, honesty and responsibility through establishment of such ethics monitoring bodies.

#### **Functions of the ethics officers**

1. Ethics officers are responsible for assessing the needs and risks that an organization-wide ethics programme must address.
2. To develop and distribute a code of conduct or ethics
3. To conduct ethical training programme for employees
4. To establish and maintain a confidential service to answer employees questions about ethical issues.
5. To ensure that the organization is in compliance with governmental regulations
6. To monitor and audit ethical conduct
7. To take action on possible violations of the company's code

8. To review and update code in time

## **5. Ethics Training Programme**

To ensure a good ethical behaviour in the organization the employees are to be given training. For this purpose a corporate ethical training programme is to be devised. The main objective of an ethical training program is to offer assistance to employees to understand the ethical issues that are likely to arise in their work place. When new employees are to be recruited, the induction training should be arranged for them.

This training will help to familiarize with the company's ethical code of behaviour. Importance of abiding by the code should be dealt with at the induction meeting. A well developed and proper training programme will help the employees to understand the organization's policies and expectations, important and relevant rules, bye laws and regulations which are to be complied with in the organization by the employees. For the success of the training programmes, the senior executive from every department must involve fully in the training programme.

## **6. Disciplinary system**

Code of conduct or ethical behaviour codes should be properly enforced in the organization to achieve the organization's objectives. A disciplinary system should be established to deal with ethical violations promptly and severely. If unethical behaviour is not properly dealt with, it will threaten the entire social system that supports the ethical behaviour of the organization. While enforcing disciplines to ensure ethical conduct, companies should be consistent, i.e., the company should adopt a fair attitude towards every one without any discrimination or bias.

## **7. Establishing an ombudsperson**

The ombudsperson is responsible to help coordinate development of the policies and procedures to institutionalize moral values in the workplace. This position usually is directly responsible for resolving ethical dilemmas by interpreting policies and procedures.

## **8. Monitoring**

To make an ethical programme fruitful and successful, an effective monitoring committee is to be formed. It can be monitored through keen observation by ethics officers, internal audits, surveys, investigations and supporting systems.

### **Ethics in Compliance**

Compliance is about obeying and adhering to rules and authority. The motivation for being compliant could be to do the right thing out of the fear of being caught rather than a desire to be abiding by the law. An ethical climate in an organization ensures that compliance with law is fuelled by a desire to abide by the laws. Organizations that value high ethics comply with the laws not only in letter but even in spirit i.e. going beyond what is stipulated or expected of them.

### **Ethics in Finance**

The ethical issues in finance that companies and employees are confronted with include:

- In accounting – window dressing, misleading financial analysis.
- Related party transactions not at arm's length
- Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation.

- Bribery, kickbacks, over billing of expenses, facilitation payments.
- Fake reimbursements

### Ethics in Human Resources

Human resource management (HRM) plays a decisive role in introducing and implementing ethics. Ethics should be a pivotal issue for HR specialists. The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee.

The issues of ethics faced by HRM include:

- Discrimination issues i.e. discrimination on the bases of age, gender, race, religion, disabilities, weight etc.
- Sexual harassment.
- Affirmative Action.
- Issues surrounding the representation of employees and the democratization of the workplace, trade unionization.
- Issues affecting the privacy of the employee: workplace surveillance, drug testing.
- Issues affecting the privacy of the employer: whistle-blowing.
- Issues relating to the fairness of the employment contract and the balance of power between employer and employee.
- Occupational safety and health.

Companies tend to shift economic risks onto the shoulders of their employees. The boom of performance related pay systems and flexible employment contracts (hire & fire) are indicators of these newly established forms of shifting risk.

### Ethics in Marketing

Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. The ethical issues confronted in this area include:

- Pricing: price fixing, price discrimination, price skimming.
- Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.
- Misleading advertisements • Content of advertisements.
- Children and marketing.
- Black markets, grey markets.

### Ethics of Production

This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk.

- Defective, addictive and inherently dangerous products
- Ethical relations between the company and the environment include pollution, environmental ethics, and carbon emissions trading.
- Ethical problems arising out of new technologies for eg. Genetically modified food
- Product testing ethics.

The most systematic approach to fostering ethical behaviour is to build corporate cultures that link ethical standards and business practices.

### **Ethical Dilemma**

An ethical dilemma is a situation where one is in conflict between moral imperatives. Often rejecting either solution has major consequences. It is also known as ethical paradox or moral dilemma. Ethical dilemma is any situation in which guiding moral principles cannot determine which course of action is right or wrong. To obey one action, would result in transgressing another.

### **Dimensions of Ethical Dilemmas**

1. Choice between equally undesirable alternatives
2. Different courses of action possible
3. Involves value judgments about actions or consequences
4. Data will not help resolve issue
5. Different sources (psychology, theology) offer resolutions
6. Achieving objectives by ethical means may be difficult than achieving the same by unethical means
7. Unfavourable social outcomes may result in the course of fulfilling business objectives
8. Choices have far-reaching effects on persons, relationships and society
9. Resources which must be allocated are finite or limited
10. Can be resolved, not solved
11. There is no “right” and “wrong”

### **Ways to resolve Ethical Dilemmas:**

Organisations try to draft the Code of Ethics in as precise a manner as possible so that it serves as a good guidance for anyone in the business when there is ethical dilemma. However the Code of Ethics cannot envisage all the possibilities which may emerge in the business at any point of time. Therefore one has to resort to the general guidelines by asking following questions in order to overcome the dilemma in Business Ethics.

- 1) Is it Legal? If it is not then there is no question of going ahead & asking the remaining questions.
- 2) Is it balanced? Does it protect the interest of all the stakeholders or is it biased about any particular group?
- 3) How does it make me feel? This is necessary because ethics to an extent is personalised & hence subjective in nature.

This model was put forward by Kenneth Blanchard & Norman Peale.

**Business Ethos principles practiced by Indian Companies:-**

Indian companies are guided by certain rules of conduct in the form of ethical and moral standards. Some of the business ethos principles, practiced by Indian companies are listed below:

**1. Principle of 'sacrifice'**

An individual is trained by the principle of 'sacrifice' through the process of 'give and take' policy. A person, who is willing to sacrifice part of his bread or effort, commands a superior place in the organization.

**2. Principle of 'harmony'**

An individual is trained in such a way that to avoid conflicts and friction one should be guided by certain set of moral conducts and principles.

**3. Principle of 'non-violence'**

This principle protects an organization from strikes and lockouts, assaults and unnecessary avoidable conflicts.

**4. Principle of 'reward'**

The one who performs well are encouraged to do so. This implies that the activities of individuals need to be monitored and encouragement in the form of 'rewards' may cultivate the spirit of higher productivity among groups.

**5. Principle of 'justice'**

The one who works hard is 'rewarded' and the one who fails to do so is 'punished'. This is the essence of the principle of Justice.

**6. Principle of 'taxation'**

The one who is taxed more is encouraged to stay fit for a longer period by proper appreciation and encouragement. This principle applies to individuals who are hardworking and productive.

**7. Principle of 'Integrity'**

An integrated mind is more productive. Groups are encouraged to stay united in order to reap the benefits of division of labour.

**8. Principle of 'Polygamy'**

This is nothing but the wedding of two different cultures by absorption or takeover. The diversified culture arising due to absorption or take over is promoted rather than forcing one culture upon the other. This creates a healthy competition within the organisation.

### LESSON ROUND UP

- The term “ethics” is derived from the Greek word “ethos” which refers to character or customs or accepted behaviour.
- ‘Code of conduct’ is a set of principles and expectations that are considered binding on any person who is a member of a particular group.
- The alternative names for code of conduct are ‘code of ethics’ or ‘code of practice’.
- Advantages of business ethics - attracting and retaining talent, investor loyalty, customer satisfaction.– Scope of Ethics in Business is in the areas, like compliance, finance, HR, marketing and production.– Measures to improve ethical behaviour of business are framed at three levels: at institutional level; government level and societal level.
- There can be several challenges faced in various areas which may put one in ethical dilemma. In order to resolve the dilemma one needs to have proper set of guidelines in the form of robust Code of Ethics in the business world.–

### GLOSSARY

<b>Buzzword</b>	Trendy word or phrase.
<b>Stature</b>	Degree of development attained; level of achievement.
<b>Legitimate</b>	According to law; lawful; in accordance with established rules, principles, or standards.
<b>Infringing</b>	To commit a breach; violate.
<b>Articulated</b>	Made clear or distinct.
<b>Veteran</b>	A person who has had long service or experience in an occupation or the like.
<b>Aberration</b>	The act of departing or deviating from the right, normal, or usual course or deviation from truth or moral rectitude.
<b>Dilemmas</b>	A situation requiring a choice between equally undesirable alternatives; any difficult or perplexing situation or problem.
<b>Pivotal</b>	Of vital or critical importance.
<b>Whistle blowing</b>	The process where a person informs about another misdoings or makes a public disclosure of corruption or wrongdoing.
<b>Percolate</b>	Grow or spread gradually.
<b>Errant</b>	Pretense of having virtues, beliefs, principles, etc., that one does not actually possess; One who assumes a false appearance
<b>Manifest</b>	Evident; obvious; apparent; plain.
<b>Endeavour</b>	To attempt; try.

### SELF-TEST QUESTIONS

- 1) What can be an apt way of defining Business Ethics?
  - a) Those Ethics which maximise the profitability
  - b) Deciding what is right & wrong in the workplace

- c) Business Ethics is a Social Responsibility in business which brings down the profits  
d) All of the above
- 2) Business Ethics tries to protect the interest of \_\_\_\_\_  
a) Shareholders  
b) Promoters  
c) Consumers  
d) Stakeholders
- 3) Business Ethics & Effective Corporate Governance result in \_\_\_\_\_  
a) Short term profit maximization  
b) Reduced taxes  
c) Wealth maximisation  
d) Monopoly
- 4) One of the principles of Business Ethics, Human Dignity means \_\_\_\_\_  
a) Person should always be pardoned when he commits mistakes  
b) Anyone should not be treated as a mere factor of production  
c) Every employee should be promoted at periodic intervals  
d) None of the above
- 5) What is acceptable & unacceptable behaviour when one represents the organisation is usually explained in \_\_\_\_\_  
a) Mission Statement  
b) Vision Statement  
c) Code of Conduct  
d) All three above
- 6) Familiarising employees with the code of ethics of the organisation is undertaken as part of \_\_\_\_\_  
a) Ethics Training Programme  
b) Disciplinary system  
c) Formulation of Code of Conduct  
d) Grievance Redressal System
- 7) Which of the following statements is true?  
a) All ethical issues are dealt with by law  
b) Every legal act is ethical  
c) Legality does not necessarily mean Ethics are followed  
d) b & c both
- 8) Which of the following matters is related to Ethics in Finance?

- a) Abiding by law
  - b) Executive Compensation
  - c) Occupational Safety
  - d) All of the above
- 9) If doing unethical act appears to be lot easier & cheaper than the ethical one for achieving a certain business goal it is a situation of \_\_\_\_\_
- a) Ethical Dilemma
  - b) Financial Analysis
  - c) Weak organisation structure
  - d) None of the above
- 10) Promoting diversified culture under the overall code of Business Ethics is related to \_\_\_\_\_
- a) Principle of Sacrifice
  - b) Principle of Non-violence
  - c) Principle of Justice
  - d) Principle of Polygamy

**Answers key:** 1) b, 2) d, 3) c, 4) b, 5) c, 6) a, 7) c, 8) b, 9) a, 10) d

### Suggested Readings

- (1) The Ground of Professional Ethics – Daryl Koehn
- (2) Business Ethics – Revised Edition – Corporate Values and Society- Robert Almeder, James Humber
- (3) Companion to Business Ethics – Edited by Robert E Federick
- (4) Business Ethics and Business Communications – Ashok K. Nadhani
- (5) Ethics, Indian Ethos and Management – S. Balachandran, Raja, Nair
- (6) Business Ethics Decision Making and Cases – O.C. Farell, John Paul Fraedrich& Linda Ferrell
- (7) Business Ethics Concepts and Cases – Manuel G Velasquez.

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# PART C

## BUSINESS COMMUNICATION

### LESSONS

9.	Business Communication
10.	Essentials of Good English
11.	Business Correspondence- I
12.	Business Correspondence- II
13.	Administration
14.	Inter-department Communication
15.	Preparation of Press Releases
16.	E-Correspondence

Thousands years ago, people communicated orally. Greeks used a phonetic alphabet written from left to right. After that many books appeared on written communication principles. As a result of this, Greeks started their very first library.

When communism was ruling China, communication had become the biggest challenge within the vast government agencies as well as between the government and people. First in China and then in Rome postal service was launched. After that paper and printing press was invented in China that made communication easier.

Hence, today's principles of communication are founded on a mixture of ancient oral and written traditions.

Business Management is a broad based concept that describes any kind of communication concept that describes any kind of communication whose goal is to improve the value of a business. This could be internal communication, such as rules, guidelines and motivational material, or it could be external communication, including advertisements and press releases. Either way, the underlying principle is the same: adding value through information dispersal. Communication is the lifeblood of an organization.



# Lesson 9

## Business Communication

### LESSON OUTLINE

- Concept of Communication
- Features of Communication
- Importance of Communication
- Means of Communication
  - Verbal Communication
  - Non Verbal Communication
- Choice of Means of Communications
- Types of Communication
- Process of Communication
- Principles and Essential of Effective Business Communication
- Barriers to Communication
- Review Questions
- Channels of Communication
- Lesson Round Up
- Glossary

### LEARNING OBJECTIVES

The word communicate comes from the Latin verb ‘communicare’ which means to impart, to share or to make common. It is also the source of the English word ‘common’ which means that whatever is common is shared by all.

What is Communication? In layman's language, when a mother smiles at her child, when a teacher stares at her students, when two friends shake their hands communication takes place. Communication is a general phenomenon. It occurs in the universe, wherever life exists. We cannot survive without communicating. The only choice we can make about communication is to communicate effectively.

Heightened global competition has encouraged companies to move beyond familiar territories to emerging markets around the world. Successful communication in these new markets requires skills for developing cross-cultural sensitivity to deal with intercultural business transactions. Flattened management hierarchies, expanded team based management; innovative communication technologies and new work environments have laid stress on the importance of developing communication skills for managers.

Communication means an exchange of facts, ideas, opinions or emotions between two or more persons. Now when the message is finally received and understood completely in the sense that the sender wanted it to convey, that is called effective communication.

Thus, Business communication is means and channels of communication between the people in an organisation and outside organisation, for the purpose of carrying out business activities. It may be oral, written or verbal, etc.

The two words ‘information’ and ‘communication’ are often used interchangeably, but they signify quite different things. Information is giving out; communication is getting through.

Sydney J. Harris

## CONCEPT OF COMMUNICATION

The word 'communicate' has been derived from the Latin word 'Communis', which means to 'share'. Communication is a process by which information is exchanged between individuals through a common system of symbols, signs or behaviour. It is the expression of facts, opinions, ideas or feelings. It is an essential condition of our existence and the most important activity of human beings. Communication is a two way process. There must be at least two persons to allow the completion of the process. One takes up the role of a sender the other that of the receiver. Webster's dictionary states that "communication is the act of exchanging information and understanding from one person to another". For communication to be successful, the exchange of ideas and information must result in imparting and understanding its intended meaning. Its purpose is to effect desired changes in the behaviour of the receiver of the message. Thus communication is the transfer of information from one person to another person. Its goal is to have the receiver understand the message as it was intended.

Whether we communicate through writing or speaking, language continues to play an important role. The increasing use of telephone, mobile, recording devices, such as dictaphone, answering machines, live broadcasting and telecasting, and video conferencing have nowadays, shifted the focus from writing to speaking.

## Business communication

When one communicates to transact some commercial activity, that is, providing goods or services, with the intention of generating profits, it is termed as business communication. According to Scott, "administrative communication is a process which involves the transmission and accurate replication of ideas ensured by feedback for the purpose of eliciting action which will accomplish organization goals". The importance of communication to an organization, all the more so to a business organization, cannot be over emphasized. It links not only the various components of the organization but also its internal world with the external world. In order to be proficient in business communication, it becomes imperative to acquire skills of effective writing and speaking. Therefore, curriculums of most business schools the world over cover the subject of business communication extensively. It is also common for the prestigious companies to insist upon excellent communication skills as a requirement at the time of recruitment.

## FEATURES OF COMMUNICATION

- (i) Communication is essentially a two-way process. The success or the failure of communication is decided by the feedback we get. Hence, feedback is essential to communication.
  - (ii) Communication is an ongoing process. Communication is essential in all kinds of organizations and at all levels of management.
- No manager can be effective in his role unless he is able to communicate. Professional and result oriented organizations are always looking for managers who can communicate persuasively and competently.
- (iii) Communication consists not only of facts but ideas and emotions too. Communication is much more than words. The tone and facial expressions often carry a greater meaning than words. We can communicate a lot through signs, symbols and gestures. For example, a victory sign made by two fingers communicates better than words.
  - (iv) Communication is a dynamic process. It incorporates the changing shape of the participants and the environment.
  - (v) Communication is a goal-oriented process. Communication can be effective if both the sender and the receiver are aware of the goal of communication and there is congruence of their goals.
  - (vi) Communication is an inter-disciplinary science. Knowledge derived from several sciences is used in

communication. Anthropology (study of body language), Psychology (study of persuasion, perception and attitudes), Sociology and Political science (study of voting behaviour) have provided insights to make communication effective.

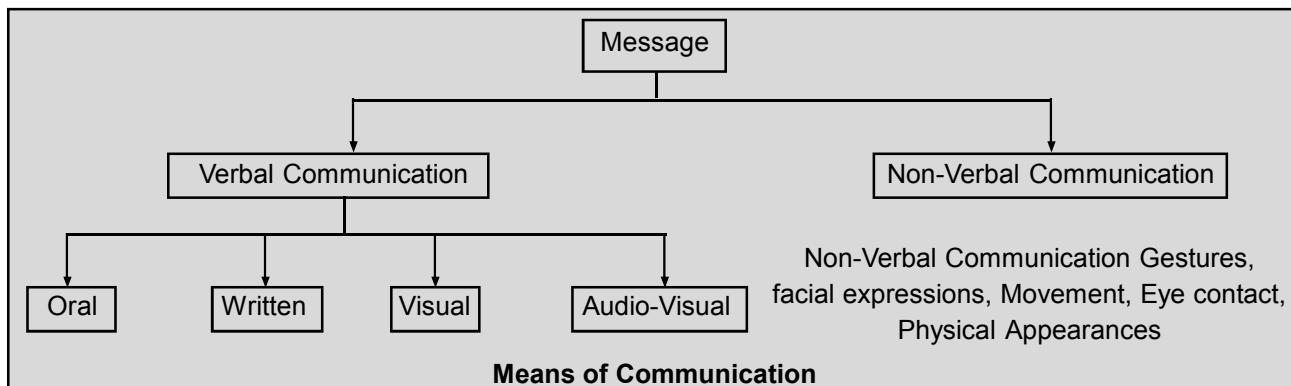
## IMPORTANCE OF COMMUNICATION

Effective communication has always been essential for success in business. In recent times, communication has become all the more essential due to the following reasons:

- (i) **Increase in Size:** Business firms have grown tremendously in scale of operations. A large business firm today employs thousands of people and has operations in different parts of the world. An efficient system of communication is required to carryout its activities across successfully.
- (ii) **Growing Specialization:** Narrow division of work results in different activities being handled by different departments. Sound communication is essential for ensuring mutual cooperation and understanding among different departments without which no organization can function smoothly. If, for example, there is no communication between production and sales departments, the sales department might book such orders that the production department fails to supply.
- (iii) **Cut-throat Competition:** Liberalization and globalization have resulted in severe competition among public sector, private sector and foreign banks. Persuasive communication in the form of advertisements, personal contacts and publicity becomes essential to survive in the race of competition.
- (iv) **Trade Union Movement:** In organisations, employee's unions are very strong and powerful. Management must consult union leaders on several matters. Regular exchange of information and ideas between managers and union officials helps them to maintain healthy relations with one another.
- (v) **Human Relations:** Effective communication between management and employees is necessary to develop mutual trust and confidence. Participation of employees in the decision-making process and other activities helps to develop among them a sense of belonging and loyalty to the organization.
- (vi) **Public Relations:** Society expects a sense of responsibility from managers. Business has to keep the Government, distributors, suppliers, investors and other sections of society well-informed about its contribution to society. Public relations help business to improve its image in society, and big enterprises employ professional experts for this purpose.
- (vii) **Personal Asset:** Communication skill is essential for success in every job. Managers are required to deliver speeches, write documents and conduct interviews. Teachers, advocates, journalists, receptionists need high degree of communication skill. The ability to communicate effectively is equally essential for promotion in career.

## MEANS OF COMMUNICATION

Business communication is generally interpersonal since business functions are discharged through interaction.



The means or methods of communication, as is evident from the given Figure, are broadly classified into:

- (i) Verbal communication which entails use of words to convey messages either in the form of speech or writing; and
- (ii) Non-verbal communication where messages are communicated through body language, facial expressions and gestures.

## Verbal Communication

The word ‘verbal’ means ‘connected with words or use of words’. Words are the most accurate and powerful set of symbols involved in communication. Hence, verbal communication involves a written or spoken message in which words are used to exchange ideas/information. Words are selected in phrases, sentences and paragraphs depending upon the results the verbal communication is trying to achieve.

The means of verbal communication are:

### **(1) Written Communication**

Written communication refers to the words that are written and structured in the form of a message. In organisations written communication is in the form of letters, memos, reports emails etc. whenever messages are transmitted in the written format, they acquire a formal nature. It is necessary to exercise caution when drafting written messages to reduce ambiguity. Even when simple language is used it can give rise to multiple interpretations.

The written form requires drafting of letters and circulars, proposals, memos and business reports of varying kinds and includes:

- Memo
- Report
- Office order
- Circulars
- Graphs/Charts
- Staff Newsletter
- E-mail
- Fax
- Form/Questionnaire
- Letter
- Notice, Agenda, Notes on Agenda
- Minutes of Meetings
- Advertisement
- Customer Newsletter
- Press Release
- Invitation
- Leaflet/Brochure/Handbills
- Manuals
- Telegram

## Requirements of Effective Written Communication

It may be mentioned here that, organizations have to depend mostly on written communication either to maintain a link with the different entities within the organization or with the outside world. It has been observed that executives of the organizations spend much of their working hours on communication and that too on written communication to maintain inter-departmental and intra-departmental links as well as links with the external bodies. In this matter they obviously depend upon letters, circulars, notes and explanations, memorandums, reports, etc. Incidentally, they have to keep in mind that the receivers belong to different sections of people, working class and expertise too. Obviously, in such a case the transmitter of written communication has to pay adequate attention to certain important factors, such as:

### (i) Choice of Appropriate Words

'Pen is mightier than the sword'-goes a well known saying. Words may bring you appreciation or alternatively rebukes and misunderstandings. Much depends upon how and when you have used the words. For instance, you write a letter to your superior as under :

"Kindly get this matter done at the earliest."

#### *Revised Example*

"Will you please take necessary action as you may deem necessary in the matter." *Feedback:*

In the first example, the superior may not appreciate your choice of words as it smacks an order on you. Instead the sentence in the revised example presents a polite way of expression.

There is a lot of difference between the two sentences. Similarly, when assessing your subordinate's performance you should use appropriate words.

One may not sound incorrect if the words 'he is dull, docile and sluggish' are used in an assessment, but it is better to say '*he is lethargic*'.

Therefore, use simple and familiar words. Award technical jargon as it is understood by a limited group. Moreover, avoid all ambiguities and words having double meaning.

### (ii) Clarity of Ideas

Clarity of ideas is a precursor to effective communication in all business correspondence. Read the following passage:

#### *Example:*

"It appears from the seemingly honest disposition of..... Company Ltd. that they would be in a position to pay the amount by August end. However, their present commitments indicate that their financial position may not be bright until October unless, a turn of events for the better occurs. Indications are that they would like to pay us at the earliest possible. It cannot, however, be said that they can be taken at face value."

#### *Revised Example*

"I visited..... Company Ltd. They promised to pay the amount by August end by which time they are sure to be in a much better position financially. They are honest, however, in trying to honour their commitment."

#### *Tips:*

Use of words like 'may' and 'seem' always suggest uncertainty and should be used only where warranted by facts and circumstances.

Good communication never 'happens'. It results from advance thinking and careful planning. The principles of clarity implies both clarity of thought and clarity of expression. Once the idea is clear in the sender's mind, it must

be expressed in clear and simple language. Clarity of expression requires proper encoding of the message and choice of appropriate words.

### **(iii) Inoffensive Language**

Inoffensive language is a sure way to build goodwill and reputation. Especially while writing business letters or communicating within the organization one should try to be as inoffensive as possible. Offensive language begets hatred, enmity and ill-feeling. Whereas, politeness begets politeness and encourages participative communication. Read the following ‘note’ from one department to another.

“We have for reference your note dated..... drawing our attention to the Service Rules regarding entertainment expenditure. Probably you are unaware of an amendment made to Rule No. 121(c) on 4th May, 2000. It is unfortunate that the circular amending the Rule was signed by you. It is ironical that you are raising a question of propriety of the amount spent on entertainment when the expense stands covered clearly by the amendment circulated on 4th May, 2000. Would you ensure in future that the queries raised by you are correct so that we are not put in an unfortunate position of replying to your notes where there is no warrant?”

Consider the language. Granting for a while that the objection to entertainment expenditure has been raised erroneously, don’t you think that the language needs to be a little more refined, less pungent, and in offensive. It would be better for you to write as follows:

“With reference to your note on entertainment expenditure incurred by the department, we feel that the expense is well within the Rule 121(c) as amended on 4th May, 2000. We are, however, not aware of any other amendment later than this date. We hope you would find our claim to accord with the Rule. Please let us have your views.”

Again, instead of writing to a customer, “You have not cared to remit the amount in payment of our bill. We fail to see any reason for your obstinacy in not replying to our earlier letter. It is therefore, clear that you do not intend to be honest”, you could write as follows:

“We are constrained to note that payment against our Bill No..... is yet to be received by us. Would you please let us know what is holding up the payment? Our experience with you in the past has been. Kindly let us know the factual position. We may be able to assist you in some way by suggesting. Some alternative modes of payment.”

In the first draft, you are bent upon losing an old customer for the reason of a single instance of non-payment. A business cannot afford it.

It is always good to be courteous. Always thank generously for a factor and apologize for an omission. It is always good to avoid irritating expressions.

### **(iv) Lucid Style**

‘Style’ is personal to each individual. There are executives who cultivate a style of writing from which they rarely depart. But style has to be uniform and lucid. Read the following :

“I am impressed with your performance for this quarter. As against the target sale of 150 tonnes it is heartening to note that you have achieved a total sale of 220 tonnes, far ahead of the target. I wish to inform that I am extremely happy over your sustained efforts to improve the sales. Will you accept my appreciation on this occasion?”

The style of writing, in the example is not lucid, nor is it uniform though there is apparently nothing incorrect. The same matter can be written as follows:

“I am impressed with your performance. You have exceeded the target sale by 70 tonnes for this quarter. I am happy over your sustained efforts to improve sales. My sincere appreciation.”

Consider the voice and length of sentences in the following passage. Don't you feel that a lucid style is perceptible :

"The target sale of 100 tonnes for the month of August, it is felt, is a little ambitious. The off-season for air coolers really begins in early July when the monsoon sets in. Reference to the targets and actual sales in the previous two years would suggest that in the month of August sales slacken. This year due to a lukewarm summer, the off take has been very low even in April, May and June, which are the best months for sale. Therefore, the forecast for the quarter ending 30th September should have been recast on the basis of the weather conditions prevailing in the summer months ending 30th June."

In the above passage, direct speech has been employed throughout and the style is lucid.

#### **(v) Coherent Presentation**

Coherent presentation is a virtue. Where the evidence tendered by a witness before a judge is true but incoherent, the judge would not be inclined to rely on it. Incoherence happens due to confused thinking, branching off from the mainstream of thought and lack of poise. In business, it is a virtue to be coherent while writing (or even while talking). Coherent writing facilitates easy understanding. Read the following passage:

"We have for reference your letter asking for information as to the credit and standing of M/s Sundar Electricals. M/s Sundar Electricals, though known to us for over a decade, has not had any significant dealing with us. The managing partner of Sundar Electricals, however, is known to be a very honest gentleman. This we came to know from one of our customers who has dealings with them for the past three years. Sundar Electricals are in the 'Electrical Goods' trade for a long time now and are very popular. We purchase our requirements from a reliable party at Delhi, whose address and particulars, if you are very particular, we would be glad to furnish. Coming back to the subject, we do not want to say anything adverse about Sundar Electricals. After all we are also in business. However, do not take it as a representation from our side about the credit worthiness of Sundar Electricals. Should you require our Delhi Suppliers' address referred to earlier, we will furnish the same to you. Please ascertain the factual position of Sundar Electricals from other sources. Meanwhile, send us a catalogue of your products. We deal with electrical wires and pipings".

The above example is muddled and mixed. While writing, it is vital to ensure that there exists a proper link between the sentences and paragraphs. One sentence should lead to another. All sentences should be in a logical sequence.

In fact brevity is the soul of good communication. We should use only relevant details in our messages. More words do not lead to clarity, they rather obscure the meaning. Brevity odds to coherence.

#### **(2) Oral Communication**

Research studies have shown that 80% of communication by executives of a company is done in the oral form.

The modes of Oral Communication include:

- Telephone/Mobile phone
- Messages
- Intercom
- Face-to-face discussion
- Meetings/Conferences
- Presentations
- Dictaphone/Dictation
- ConversationRadioTape-recorder

- Teleconferencing/Videoconferencing
- Speeches
- Brainstorming sessions
- Grapevine
- Interviews

### Factors affecting Oral Communication

Effective oral communication is a passport to success in business. No fixed norms can be set for effective oral communication. Factors like the audience, size of audience, the degree of significance attached to the information to be spoken, fear of the boss, fear of status, fear of one's own self-advancement, all affect oral communication.

### Effective Oral Communication

Often the Chief of a Corporation appearing on television or radio or at a meeting picks his words as if he is a tight-rope walker. He knows that a single word wrongly uttered may shatter his image or that of the corporation which he heads. It is true that all business managers should be adept at communication since they have to communicate with various people at various places about various facts and figures – financial or non-financial – implication of which may have significant impact upon the management of the business. Business communication itself is a difficult subject. It is also very difficult to separate it from everyday activities of business people as it has acquired special significance in their lives. It is imperative for a manager to have good speaking skills to make his assignments successful.

In the early days, much time was spent in generating data of all kinds. However, not much attention was given to the quality of transmission of information. It depends upon the presentation of information by using appropriate words and medium which upgrades the value of the information by the receiver.

As stated earlier, oral communication is the most frequently used means of transmitting messages in business. It is resorted to more often than any other type of communication. The reasons for the popularity of oral communication are its advantages. They are as follows :

- (i) *Oral Communication Saves Time:* It is said time is money. Wherever and whenever action needs to be taken instantly or immediately, the best way to expedite action is to transmit necessary messages orally. Oral communication helps busy people to reassign their workload quickly by giving necessary instructions, guidance and providing information to subordinates. Thus, it saves time and quickens the action.
- (ii) *Oral Communication Provides the Opportunity for Feedback and Clarification:* This process of communication helps the sender of the message to clarify each and every point instantly. The receiver, at the same time, can also express his opinion, views or emotions on the spot. He can ask for clarifications wherever required and get himself satisfied. Thus, clarity is better ensured and makes the communication more effective and purposeful.
- (iii) *Oral Communication Helps to Convey the Message more Appropriately with Suitable Tone, Voice and Use of Words:* It can instantly make the receiver of the message understand the content of communication and significance thereof assigned to any particular matter of communication.
- (iv) *Oral Communication is an Effective Tool of Persuasion in Management:* It gives a personal touch to the communication. For this reason, supervisors and executives in all sorts of business enterprises prefer to communicate their views, ideas and opinion orally.
- (v) *Oral Communication is very Effective in Communicating with Groups:* It helps the speaker to establish personal contact with a group of people and make them understand his opinion and views at a single point of time. The speaker can also hear about the group's reaction subsequently.

- (vi) *Oral Communication is Economical also:* It saves manhours to be spent in preparing notes, explanation, circulars, etc. It also saves the stationery of the organisation.
- (vii) *Withdrawal of Oral Communication is Comparatively an Easy Task:* There are at times situations in business when oral communication is preferred to written communication for the latter becomes an official record which can be used as evidence against the person on any legal matters arising later in point of time.

## Telephone Etiquettes

Whether at work, at home, or on your mobile phone, here are 8 solid telephone etiquette tips everyone should be displaying at all times.

**1. Always identify yourself at the beginning of all calls.**

- (A) When in the office, always answer a telephone by saying: "Hello/Good Morning, Accounting Department, Syndi Seid speaking."
- (B) From a cell phone, either simply say Hello, or state your name, Hello, Syndi Seid here. Do not answer by using words such as "yeah" or "yes."
- (C) When placing a call, always state your name along with the name of the person you are calling. Example: "Hello, my name is John Doe from XYZ Corporation. May I please speak with Ms. Jane Smith?"

**2. Be sensitive to the tone of your voice.** Do not sound overly anxious, aggressive or pushy. It is important your tone conveys authority and confidence. Do not lean back in your chair when speaking on the telephone.

**Tip:** Sit up in your chair or stand during the conversation. When at home, use a personal tape recorder to privately record your own conversations. You will then hear how your sound to others.

**3. Think through exactly what you plan to say and discuss BEFORE you place a call.**

**Tip:** Jot down the items you want to discuss and questions you want answered. In other words, anticipate and expect you will be placed into a voicemail system; plan your message to be as direct and specific as possible, asking the person to respond to specific alternatives or questions. Do not say, "Hello, it's Syndi, call me back." At least state the subject about which you want the person to call you back about.

**4. Do not allow interruptions to occur during conversations.** Do not carry on side conversations with other people around you. The person on the telephone takes precedence over someone who happens to walk in your office or passes by while you are on the phone.

**Tip:** If you must interrupt the conversation, say to the person, "Please excuse me for a moment I'll be right back." And when you return, say, "Thank you for holding."

**5. Especially when leaving messages, speak clearly and slowly.** Do not use broken phrases, slang or idioms. Always, leave your return telephone number as part of your message, including the area code . . . and S-L-O-W-L-Y, including REPEATING your telephone number at the end of your message.

**Tip:** Practice leaving your number, by saying it aloud to yourself as slow as you have heard an informational operator say it.

**6. Build the habit of always turning off your cell phone ringer when entering a meeting, restaurant, theater, training class, or other place** where the purpose of your visit would be interrupted or others would be disturbed by hearing your cell phone ring.

**Tip:** If you are expecting an important call, inform the caller you will be in a meeting during certain times and state you will monitor your message indicator for when it illuminates you will excuse yourself to leave the meeting and return the call.

**7. Always speak into the telephone receiver with an even and low tone of voice.** Especially when speaking on a cell phone out in public, be sure to monitor how loud you may be.

**Tip:** Move the phone ear piece just slightly away from your ear and listen to yourself speaking. Discover whether you are speaking too loudly or too quietly for the other person to hear you.

**8. Do not allow yourself to be distracted by other activities while speaking on the telephone,** such as rustling papers, chewing and eating, working on the computer, or speaking with someone else. Most importantly, do not use a hand held cell phone while driving. Get a headset or speaker phone for the car.

**Tip:** Always treat every caller with the utmost courtesy and respect by giving him/her your undivided attention.

### (3) Visual Communication

Visual communication could be with words or pictures or a combination of both. It includes the following :

- Graphs
- Tables/charts
- Maps
- Models
- Demonstrations
- Slides
- Flipcharts
- Neon Hoardings
- Printed/Painted Pictures, Posters, etc.
- Internet without use of multimedia
- Pagers

### Advantages and Disadvantages of Visual Communication

Visual communication is useful for conveying information in a manner that makes the data and any relationship between variables clearer and easier for the receiver to follow. Visuals can be used independently. But maximum benefit can be gained from them if they are used as a complement to the main message because then they are more capable of attracting and retaining the attention of the receiver than speech or written words. The main advantage of using visual communication is that the message conveyed using these modes is easily remembered by the receiver and it remains in his memory for a longer period too. However, using this mode is also expensive which is its major disadvantage.

### (4) Audio-Visual Communication

The rapid advancements taking place in the field of information technology have brought about unprecedented changes in the communication systems the world over. In this scenario the modes of audio-visual communication assume more importance.

The means of audio-visual communication include:

- Television/video/cable
- Cinema
- Internet with multimedia

- Video conferencing
- Presentation using visual aids or electronic presentation

The greatest advantage of this mode is that it aims at stimulating the senses of both sight and hearing simultaneously and thus enhances the effectiveness of the message. The other advantages are its wider reach and the fact that the message is remembered for a much longer time, than it would be, if it had been conveyed by any other mode of communication. Here again the high cost factor involved becomes greatest disadvantage.

## Non-Verbal Communication

Non-verbal communication includes:

- Facial expressions
- Gestures
- Movements
- Eye contact – Nodding of the head
- Physical appearances.

It is an unspoken or unwritten message that uses body language. It may be used by itself, e.g., just frowning or smiling at someone or gesticulating along with oral communication. In a situation involving the use of oral communication, non-verbal signs play an equally important role. While listening to someone, one may also be looking at the person. Their facial expressions such as a smile or a frown often strengthen the verbal message. The entire body language, from big gestures to proximity with the listener, may help to emphasise the contents of the message.

For example, it is perfectly in order to smile at a guest and escort him in without speaking a word. Secondly, this form of communication has a strong cultural content. The Arabs and Latin Americans are prone to move closer to the listener as well as maintain more eye-contact than the Europeans do. Similarly, physical contact is considered a powerful tool of communication. But touching an acquaintance, while shaking hands, is almost taboo among the British, insignificant among the Americans and common among Latin Americans.

For example, some African Americans tend to have expressive voices and are passionate about their speaking points, which can be mistaken for anger. Also, putting the accent on a different part of a word or a different word in a sentence can send very different meanings, as can shifts in tone at the end of the phrase (rising or falling).

For example, in most Western cultures, it's considered appropriate behavior to look someone in the eye during a conversation, and to comfortably hold that gaze with the other person. In fact, failing to make eye contact often raises suspicion about ulterior motives. In many Eastern cultures, however, making and maintaining eye contact can indicate disrespect when it involves people of different positions along the social hierarchy; it's considered impolite to look a teacher in the eye, for example.

## Choice of Means of Communication

Choosing of the right means and mode of communication plays a vital role in the effectiveness of the message being communicated. Such choice depends on various factors such as:

- (i) ***Organisational Size and Policy:*** If the organisation is small probably more communication will be oral, than in the larger organisations where it may be more in writing. The policy for communication will also play a major part in influencing one's choice of mode of communication.
- (ii) ***Cost Factor:*** The main point to be considered here would be to evaluate whether the cost involved in sending the message would commensurate with the results expected.

- (iii) **Nature of Message:** Whether the message is confidential in nature, urgent or important whether a matter would require hand-delivery or could be sent by registered post, etc. also influence the choice of mode and means of communication.
- (iv) **Distance Involved:** Where the message is to be sent is also another vital factor which could influence the choice of means and modes of communication. For example, if a letter is to be sent to a partner in a joint venture in Japan and is urgent, still you would not think of sending someone to personally deliver it.
- (v) **Resources:** The resources available to both the sender and receiver would also influence your choice. You can send a fax only if the other person/organisation has a fax machine.

Therefore, we can see that the choice of a particular mode and means of communication varies with situations involved and is influenced by various factors.

## PRINCIPALS AND ESSENTIALS OF BUSINESS COMMUNICATION

The key to success business partly lies in being able to communicate effectively; one should make a conscious effort to master it. Effective communication depends on three things: "Understandable messages, credibility of the sender, and how the message affects the receiver".

A thorough knowledge of the communication process is a prerequisite to learning effective communication. The employees in an organization should be aware of various barriers that exist in their way and hamper effective communication. Therefore, they should take conscious and relevant steps to overcome these hindrances and focus on the main objective of communication, i.e., who the communication is meant for and under what circumstances it is being made.

### Seven C's of Effective Communication

- Correctness of Facts
- Clarity of Expression
- Conciseness of message
- Completeness of information
- Consideration for the receiver
- Concreteness in presentation
- Courtesy towards recipient

#### 1. Correctness of Facts

At the time of encoding, if the encoder has comprehensive knowledge about the decoder of message, it makes the communication an ease. The encoder should know the status, knowledge and educational background of the decoder. **Correctness means:**

- Use the right level of language
- Correct use of grammar, spelling and punctuation
- Accuracy in stating facts and figures

Correctness in message helps in building confidence.

#### 2. Clarity of Expression

**Clarity demands the use of simple language** and easy sentence structure in composing the message. When there is clarity in presenting ideas, it's easy for the receiver/decoder to grasp the meaning being conveyed by the sender/encoder.

Clarity makes comprehension easier.

### **3. Conciseness of Message**

A concise message saves time of both the sender and the receiver. **Conciseness**, in a business message, can be achieved by avoiding wordy expressions and repetition. Using brief and to the point sentences, including relevant material makes the message concise. Achieving conciseness does not mean to loose completeness of message.

Conciseness saves time.

### **4. Completeness of information**

**By completeness means** the message must bear all the necessary information to bring the response you desire. The sender should answer all the questions and with facts and figures. and when desirable, go for extra details.

Completeness brings the desired response.

### **5. Consideration for the receiver**

**Consideration demands to put oneself in the place of receiver** while composing a message. It refers to the use of You attitude, emphasizes positive pleasant facts, visualizing reader's problems, desires, emotions and his response.

Consideration means understanding of human nature.

### **6. Concreteness in presentation**

Being definite, vivid and specific rather than vague, obscure and general leads to concreteness of the message. Facts and figures being presented in the message should be specific.

Concreteness reinforces confidence.

### **7. Courtesy towards recipient**

In business, almost everything starts and ends in courtesy. **Courtesy means not only thinking about receiver but also valuing his feelings.** Much can be achieved by using polite words and gestures, being appreciative, thoughtful, tactful, and showing respect to the receiver. **Courtesy builds goodwill.**

Courtesy strengthens relations.

The following guidelines ensure effective communication:

- (i) **Choose the Right Means and Mode:** It is most important to choose the right means and mode of communication. This would depend on the organisation, its size, its policy, cost involved, urgency, distance, resources available, confidentiality, safety, security, necessity for official record of the communication, the recipient and the resources available.
- (ii) **Own your Messages:** It is important to take responsibility for what we say. It is common to come across instances where the sender chooses vague or general terms to denote the sender. When you state that many shareholders are unhappy with the proposed merger of the company, you may or may not be speaking the truth. You do not specify who those shareholders are. Therefore, the officials of the company may not accept your statement at face value. Your message may be taken seriously if you are willing to own it. So use personal pronouns to lend credibility to your messages. Long business reports, commercial terms and conditions or legal provisions are an exception since they may be drafted using passive verbs and employing a formal tone.
- (iii) **Offer Complete and Relevant Information:** Messages must offer complete and relevant information in

order to become effective. Incomplete information makes it necessary to begin another cycle of communication to issue clarifications.

For example: It is not enough to just say that the register will remain closed from 28th to 30th March. It does not become clear to the receiver which register we are talking about and why it will be closed. Our message must state clearly that the register of shareholders will remain closed in order to determine the names of the shareholders entitled to receive the dividend.

- (iv) **Obtain Feedback:** Feedback is the culmination of the communication process. It confirms that the receiver has correctly understood our message. We may get a feedback through an appropriate closing. The closing line of a business letter often invites such a response. When sending out a cheque, we often ask the receiver to acknowledge its receipt. Similarly we ask the other party to confirm that the appointment is suitable to then for a proposed important business meeting.
- (v) **Think of the Recipient:** Effective messages are invariably “you-centered”. We do not address the President of our company in the same manner as we speak to a fellow manager. The rank of the former demands careful thought and respect. Familiarity with the latter may make them and us feel more at ease.

For example: A doctor may discuss a case with a specialist in medical terms but switches over to a layman's language when talking to the patient. A lawyer does not use the legal jargon with a client; he reserves it for the courtroom. Therefore, we must take into account the attributes of the receiver before drafting the message.

- (vi) **Verbal and Non-verbal Congruence:** As explained earlier, meanings are often communicated in more than one way. For example, our words as well as gestures simultaneously send out signals. A message of welcome should ideally be uttered with a smile. Angry words are spoken with a frown. To put it in another way, our words and facial expressions must send out similar messages. A reprimand administered with a smile would send out wrong and conflicting signals. It will leave the receiver guessing whether the sender is actually annoyed or is just pretending to be so.
- (vii) **Repeat if Necessary:** Repetition is generally avoided in order to save time and space. However, in exceptional circumstances, repetition ensures that the crucial part of the message is not ignored or overlooked. Telegraphic messages, which by nature are brief, often use repetition for good effect.

Example of a telegraphic message:

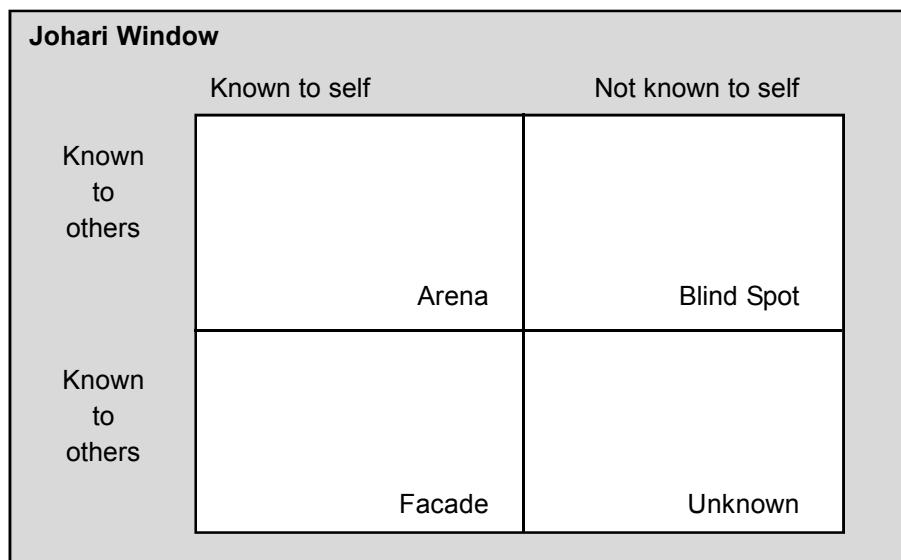
DO NOT REPEAT DO NOT DESPATCH GOODS TILL FURTHER NOTICE

In ordinary communication, we may state the same fact using different words to get the benefits of redundancy and ensure comprehension. Use of different channels of communication also ensures successful communication. For example, a telephonic message may also be sent in writing later just to confirm the same.

- (viii) **Do not Judge:** Unfavourable judgments provoke reactions and are better avoided. If a subordinate has not finished the work allotted to him on time, the boss has two options. He may either point out this fact in a plain and matter of fact tone or may reprimand him for being lazy, good-for-nothing guy who should be fired immediately. The first option is clearly preferable and strengthens the credibility and trustworthiness of the sender.
- (ix) **Rely on Facts:** Facts lend credibility to our communication since it is not possible to refute them. If a candidate claims that he has a typing speed of fifty words per minute, it is possible to verify this claim. Opinions on the other hand are subjective. A claim that one is a good typist is at best vague. It depends on what the claimant expects a good typist to be like. While it is not possible to exclude opinions from our messages, we can make them acceptable by quoting facts in their support. However, reliance on selective facts will only affect our trustworthiness.

## JOHARI WINDOW

The Johari Window, named after the first names of its inventors, Joseph Luft and Harry Ingham, is one of the most useful models describing the process of human interaction. A four paned “window,” as illustrated below, divides personal awareness into four different types, as represented by its four quadrants: open, hidden, blind, and unknown. The lines dividing the four panes are like window shades, which can move as an interaction progresses. In this model, each person is represented by their own window.



Adjectives selected by both the participant and his or her peers are placed into the **Arena** quadrant. This quadrant represents traits of the participant of which both they and their peers are aware. For example, I know my name, and so do you. It may also be called “open” quadrant.

Adjectives selected only by the participant, but not by any of their peers, are placed into the **Façade** quadrant, representing information about the participant of which their peers are unaware. It is then up to the participant whether or not to disclose this information. For example, I have not told you, what one of my favorite ice cream flavors is. This information is in my “Façade” quadrant. As soon as I tell you that I love “Ben and Jerry’s Cherry Garcia” flavored ice cream, I am effectively pulling the window shade down, moving the information in my façade quadrant and enlarging the arena quadrant’s area. Façade quadrant also called “hidden” quadrant.

Adjectives that are not selected by the participant but only by their peers are placed into the **Blind Spot** quadrant. These represent information of which the participant is not aware, but others are, and they can decide whether and how to inform the individual about these “**blind spots**”. For example, we could be eating at a restaurant, and I may have unknowingly gotten some food on my face. This information is in my blind quadrant because you can see it, but I cannot. If you now tell me that I have something on my face, then the window shade moves to the right, enlarging the arena quadrant’s area.

Adjectives which were not selected by either the participant or their peers remain in the **Unknown** quadrant, representing the participant’s behaviors or motives which were not recognized by anyone participating. This may be because they do not apply, or because there is collective ignorance of the existence of that trait. For example, I may disclose a dream that I had, and as we both attempt to understand its significance, a new awareness may emerge, known to neither of us before the conversation took place.

The process of enlarging the open quadrant is called **self-disclosure**, a give and take process between me and the people I interact with. Typically, as I share something about myself (moving information from my hidden quadrant into the open) and if the other party is interested in getting to know me, they will reciprocate, by similarly disclosing information in their hidden quadrant. Thus, an interaction between two parties can be modeled

dynamically as two active Johari windows. For example, you may respond to my disclosure that I like "Cherry Garcia" by letting me know what your favorite ice cream is, or where a new ice cream shop is being built, kinds of information in your hidden quadrant.

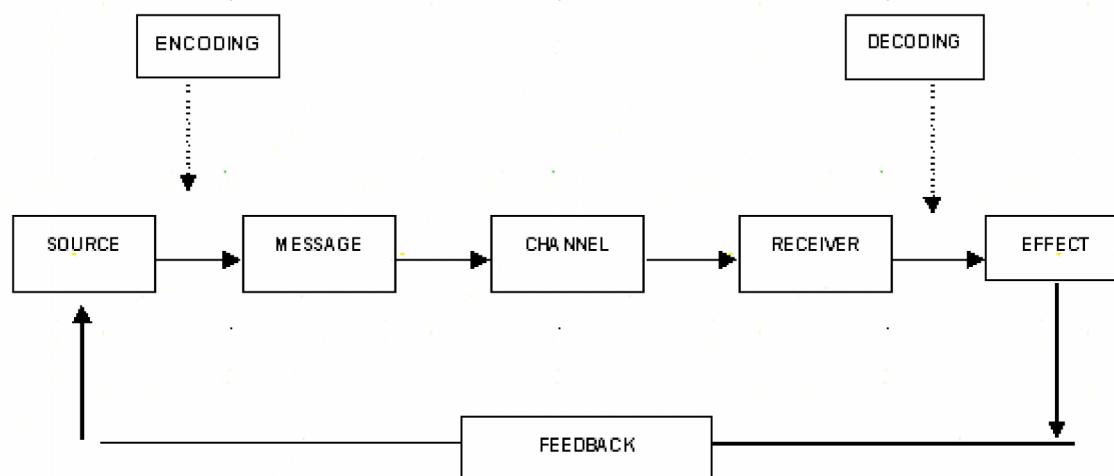
A Johari Window consists of 55 adjectives used to describe the participant, in alphabetical order:

- able
- accepting
- adaptable
- bold
- brave
- calm
- caring
- cheerful
- clever
- complex
- confident
- dependable
- dignified
- energetic
- extroverted
- friendly
- giving
- happy
- helpful
- idealistic
- independent
- ingenious
- intelligent
- introverted
- kind
- knowledgeable
- logical
- loving
- mature
- modest
- nervous
- observant
- organized
- patient
- powerful
- proud
- quiet
- reflective
- relaxed
- religious
- responsive
- searching
- self-assertive
- self-conscious
- sensible
- sentimental
- shy
- silly
- spontaneous
- sympathetic
- tense
- trustworthy
- warm
- wise
- witty

### Process of Communication

Aristotle in his *Rhetoric*, first gave a framework to the science of communication. He proposed a model of communication process with a sender, receiver and message. Lasswell extended the scope of Aristotle's model of communication by laying emphasis on the speaker, the message and the channel. However both the models proposed a one way process of communication.

Shannon and Weaver further integrated the concepts proposed in the earlier models and emphasised the importance of the encoding process prior to the transmission of the message. Additionally they also recognised the potential of noise in distorting the message. This model has a very vital component of feedback in it.



## MODEL OF COMMUNICATION

A sender source has a message in mind. The source intends to “encode” the message into language that will be understood by the receiver. Perhaps it is a statement of the sender’s preference for a particular outcome in a negotiation. The message may be encoded into verbal language or it may be encoded into nonverbal expression. Once encoded, the message is then transmitted –sent via voice or facial expression, or written statement, and through face-to-face interaction, video, letter, telegram, etc.- to the receiver. Thereceiver’s receptors pick up the transmission, and “decode” the message to give it meaning to the receiver. In a one way of communication cycle this would constitute a completed transmission. A source who puts his message in writing and sends it by mail to the receiver generally assumes that the message is received and understood. However, most communication –particularly in negotiation- involves continued dialogue and discussion between at least two parties. As a result, the receiver takes on a more active role in the communication process in two ways.

First the receiver provides information on how the message was received, and second, the receiver becomes a “sender” himself and response to, or builds upon, the earlier message of the sender. For the current discussion, we shall refer to both of these processes as “feedback”. In the feedback process, the receiver encodes the message –through reading or listening- to assure his own understanding and comprehension of what the sender said and what the message meant. He then ascribes “meaning” to the communication –a comprehension of the information content of the message, as well as an “interpretation” of that content. The receiver then becomes a “sender” of communication back to the source. The encoded message may take multiple forms: questions or other communications to obtain clarification or better understanding of the earlier message; exclamations or reactions to the information content of the message; or rebuttals to the content of the first message. All of these are encoded, transmitted through various channels, received, and decoded by the original source. The entire sequence may be as simple as a question by one person, “Want to go for a cup of coffee?” and an affirmative headshake by the other, to complex statements and responses used by negotiators in shaping a contract.

This model of communication “works” to the degree that a wide variety of information –facts, opinions, feelings, preferences, and experiences- are completely and thoroughly shared between parties. However, human communication systems seldom perform with this high degree of efficiency and effectiveness. Most of the linking elements in the model are subject to external factors that distort messages and their meaning, hampering them from getting through accurately.

### **Each elements in the sequence;**

#### **1. Senders and Receivers**

Senders and receivers each have goals and objectives –things that they want to accomplish. The sender may want to change the receiver’s mind, or secure concessions toward a negotiated agreement. The receiver may not want to have his mind changed, and not want to make concessions; moreover, the receiver may have the identical objective in mind for his opponent. The more diverse the goals of the sender and receiver, or the more antagonistic they are in their relationship, the greater likelihood of distortion and error in communication. Similarly, senders and receivers differ in their individual makeup –each is likely to have a different pattern of personal values, attitudes toward certain issues and objectives, previous experiences, life history, and personality characteristics. Each of these elements contributes to a different way of viewing the world.

#### **2. Transmitters and Receptors**

Transmitters and receptors are simply the equipment by which information is sent. Information can be sent verbally and nonverbally. The choice of transmitters can affect outcomes, i.e., some messages may be better spoken, while others need to be written. Moreover, when presenting information face-to-face, congruence or incongruence between multiple transmission channels is often a problem.

### 3. Messages and Channels

Messages and channels are the vehicles by which information is communicated. As noted by many writers on communication, human beings are unique in their ability to use “symbolic” forms of communication –primarily the written or spoken language- to transmit information. Some messages are direct expressions of meaning –I lean over the table and grab the pencil that I want- while others are “symbolic representations” –I ask the person seated across the table, “Please pass me the pencil.” The more we are prone to use symbolic communication, the more likely that symbols may not accurately communicate the meaning we intend. In the simplest example, if the person does not understand English, or if there are several pencils on the table, there is increased likelihood that the communication will be less than effective.

Channels are the vehicles by which messages are carried. If we speak directly, it is the airwaves; if we write, it is the paper and pen or type-writer; if we talk over the telephone, it is the telephone circuitry and microwaves. Both messages and channels are prone to distortion from “noise,” which we will use as a broad descriptive category of various forms of interference in the communication process. Messages can be transmitted more clearly in a quiet room than in a loud, distracting hotel ballroom. The greater the sources of distraction and confusion in the communication environment, the more that “noise” will interfere with accurate and complete message transmission.

### 4. Decoding, Meaning, and Encoding

Decoding, meaning and encoding are the processes that the individual uses to interpret the messages of others, and to formulate messages themselves. *Decoding* is the process of translating messages from their symbolic form into interpretations that we can understand.

If the parties speak the same language, or use the same common nonverbal gestures to communicate messages, the process is reasonably simple and error-free; if they do not, decoding is prone to contribute a high degree of error. While “translators” may help to decode the other’s messages, full translation may not be possible, i.e., understanding the other’s meaning or tone, as well as the words –or may introduce additional error into the communication.

*Meanings* are the facts, ideas, feelings, reactions, or thoughts that exist within individuals, and act as a set of “filters” through which the decoded messages are interpreted. If a party has asked the other to “please pass me that pencil,” and the other party has said “no,” the encoded “no” back to us is likely to stimulate a variety of reactions in the search for “meaning.” Did the other hear the message? Was the “no” a direct refusal to the request? Why did the other say “no”? Does he need the pencil too? Is he being obstinate and intentionally blocking me? Answers to these questions will vary depending upon a variety of other aspects of the communication sequence and the relationship between the parties, and will lead to different ascriptions of “meaning” to the word “no.”

Finally, *encoding* is the process by which messages are put into symbolic form. The encoding process will be affected by varying degrees of skills in encoding, e.g., fluency in language, skill at expression in written and verbal form, etc. It will also be affected by the meaning attached to earlier communication- what we want to communicate, how we have reacted to earlier communications, etc. Senders are likely to choose to encode messages in a preferred form; this form may not be the same preferred by receivers. Two managers may need to distinguish a negotiated contract; while one may prefer to “get together and discuss it over lunch,” the other may prefer to have each one prepare a written draft that they can exchange and revise individually. How this contract will eventually be prepared may thus be the subject of the negotiation itself.

### 5. Feedback

Feedback is the process by which the receiver “reacts” to the sender’s message. Even in a one-way communication cycle, feedback is essential. It is necessary to let the sender know that the message was (a) actually received, (b) encoded, and (c) ascribed with the same meaning that the sender intended. The absence of feedback can

contribute to significant distortions in communication, since senders never know whether their message is being received, much less understood. Anyone who has ever talked to a large audience may find himself directing his comments to the individual who is nonverbally shaking her head “yes”, or smiling, or in some other way acknowledging that the communication is being received and even appreciated. The sender is unlikely to direct comments to a receiver who is shaking his head “no”, or asleep, unless the comments are specifically designed to change the receiver’s disposition.

## BARRIERS TO COMMUNICATION

There are certain barriers that cause communication failures. Communication failures may have serious effects. They affect personal or professional relationship to the extent of causing a rupture. At the personal level, such failures may cause low self-esteem. As the confidence level falls, the productivity graph also plunges lower and lower.

Failure to communicate effectively within the organisation may cause disruption or delays in achieving targets. From the point of view of finances, a communication failure may mean higher project cost and thus affect profitability. In business, the role of communication is even more important. A failure to communicate effectively may result in financial loss. For example, a failure to explain the terms clearly may lead to the cancellation of an order. There may even be loss of goodwill if an aggrieved customer is not handled tactfully. Communication failures may be caused due to many reasons. A few of them are as follows:

- (i) **Lack of Planning:** Every message is conveyed with a specific purpose in mind. One needs to know one's own abilities to express the message well. Simultaneously, the personality and attributes of the recipient and the limitations of the medium also have to be considered. If a message is communicated without adequate planning, the desired result would not be obtained.

For example, an invitation to potential investors to deposit money in a mutual fund may not offer all the relevant details, such as entry and exit points and all the risks involved. This would lead to a loss of interest of the investors in the scheme. While drafting a message, one has the option of revising it. In oral communication, the words are comparable to arrows, once released, they do not return. Therefore, one must choose one's words with care.

- (ii) **False Assumptions:** In many communication situations, the sender starts with several assumptions, which may not be true. The receiver may also wish to be understood in a certain way and encourage false assumptions by the sender. Therefore, the result will be anything but along the expected lines.

For example, a Quality Control Manager should first check whether the workers are familiar with the Six Sigma Standards before pulling them up for non-adherence. Their silence during the verbal onslaught may only mean that they do not want to admit their ignorance.

One more example:

India's premier intelligence agency, Research & Analysis Wing invited IT experts from abroad to train its agents in cybercrime. After a grueling three-day session, those conducting the programme invited questions. A member of the audience raised his hand and asked without any expression on his face, “What is the difference between a phone and a modem?” – News report

- (iii) **Ambiguity:** We must remember that our intentions are strictly private. They are only known to us. Therefore, the receiver may not accurately understand the meaning intended by us. A wrong inference is often drawn when the message yields more than one meaning.

For example, the instruction that relevant details must be submitted for preparation of order by Saturday is ambiguous. It does not clarify whether the details are required by Saturday or that the order must be prepared by that day.

- (iv) **Distortions:** Many communications do not register because the receiver is busy or preoccupied with

other things. While the sender believes that he has delivered the message correctly and the desired action will follow. Truth is that the receiver has not understood it at all; or he may have done so in part only. It is also common for a receiver to distort the meaning to suit his expectations.

'Productivity linked bonus will be paid on the 7th of next month subject to realisation of outstanding payments' has a conditional clause. The workers could conveniently forget this when they storm the office to claim the money on the 7th.

- (v) **Passing Judgments:** Many communication failures are caused because the message tends to pass a judgment against the receiver. Therefore, it is not received at its face value. Giving precedence to expression of opinion over the facts and use of offensive or annoying expressions ensure that the receiver becomes guarded and defensive.

For example, a supervisor was aghast when he found a worker using a welding torch close to where the inflammable material was stored. He showered abuses at the worker, pushed him away and accused him of trying to destroy the factory. When he returned after ordering the removal of the material; the workers had proceeded on a spontaneous strike. It took half a day to assuage the feelings of the striking workers and to restore normalcy. Had the supervisor only stated the facts and explained the risks, the communication failure and the repercussions could have been avoided.

- (vi) **Implied Meanings:** Messages may not always convey a meaning in a straightforward manner. If the background of the sender and the receiver is not similar. In such a case it is possible for the latter not to uncover the implied meaning. For example, a reference to weather is often indicative of a desire to change the topic of discussion. Lack of familiarity with slang or colloquial expressions often causes communication failures.

- (vii) **Lack of Trust:** The relationship between the sender and the receiver plays an important role in an effective communication. If the two of them do not share trust and understanding, there is a strong possibility of a communication failure. The information shared by them will be minimal. Both of them will also tend to treat the information received with suspicion.

For example, even a compliment paid by a hostile boss is likely to be received by a subordinate with caution. He may wonder what the actual intention of the boss is.

## REVIEW QUESTIONS



### State True or False:

1. Anyone who talks communicates a message
2. Disturbances/distractions in the environment are a result of physical noise.
3. People all over the world have realised the importance of appropriate encoding of the message over feedback

**Answers:** 1. False 2. True 3. False

## TYPES OF COMMUNICATION

Communication may be divided into two types: Internal and External.

### ***Internal Communication***

When people within the organisation communicate with one another, it is said to be an internal communication. Employees of an organisation do so to work as a team and realise their common goals. Internal communication could be official or unofficial. It could be individual to individual, individual to group, group to individuals,

department to department, etc. Most of the internal communication is in the oral form and the tone is generally informal.

People also communicate within the organisation at a personal level. This is known as informal communication. A good example is that of grapevine, which is present in some measure everywhere. If the atmosphere is secretive, it encourages the spread of rumors and half-truths. Intelligent managers use this human weakness to their advantage by sharing favourable information with the employees.

Of the various modes of visual communication the most likely ones to be used in internal communication are slides, internet without use of multimedia and pager.

All modes of non-verbal communication may be used in internal communication.

Some of the modes of written communication are Memo, Report, Office order, Circulars, Staff Newsletter, E-mail, Fax, Notice, Agenda, Notes on Agenda, Minutes of Meetings, Manuals, etc.

Other than the Radio, all other modes of oral communication stated earlier, could be used in internal communication.

Internet with multimedia, video conferencing and presentations either electronic or with visual aids are the likely modes of audio-visual communication that can be used in internal communication.

### ***External Communication***

When the people in an organisation communicate with anyone outside the organisation it is called external communication. These people may be clients or customers, dealers or distributors, media, government agencies, general public, regulatory bodies, authorities, etc. Letters and circulars, Price-lists, Manuals, Purchase Orders, Customised reports, Brochures and service calls, Tender documents, Advertisements, Customer' feedback material are all external communication methods. Modern business houses spend considerable time, money and effort on improving their public image since they realise that they are dependent on external support. External communication has been mainly formal and largely documented, but there is an increasing trend to make it informal.

Some of the modes of written communication that may be used are Circulars, Graphs/Charts, E-mail, Fax, Form/Questionnaire, Letter, Advertisement, Customer Newsletter, Press Release, Invitation, Leaflet/Brochure/ Handbills, Manuals, Telegram, etc.

Other than intercom, dictation, teleconferencing, brainstorming sessions and grapevine, all other modes of oral communication stated earlier can be used in external communication.

All modes of visual and audio-visual communication stated earlier too may be used in external communication.

All modes of Non-verbal communication may also be used in external communication depending on the circumstances and means of communication chosen for the purpose.

### ***Channels of Communication in organisations***

The channel of communication in an organisation depends on its size, structure and philosophy. Smaller organizations, with fewer levels of hierarchy and people may be having fewer communication problems. In larger organisation with many hierarchical levels, the process is more complicated. However, a comprehensive organisational chart will help in clearly marking out the lines or channels of communication. The flow or pattern of communication may be downward, upward, diagonal or horizontal.

#### ***Downward Flow***

Traditional organisations have a vertical structure. All the important decisions are taken at the top. These are communicated through different levels of hierarchy to the workers. The disadvantages of such a chain of command are many. Firstly, it creates an authoritarian atmosphere in the workplace. Secondly, the message is often

distorted as it comes down through different levels. Thirdly, it also consumes a lot of time and leads to avoidable delays.

#### ***Upward Flow***

With the passage of time, management styles have also undergone a change. The role of employees in the progress of industry has begun to be appreciated. Employees' empowerment and their participation in management are the buzz-words. It is natural for the employees to feel involved in their organisations once they realise that their interest coincides with that of the management. The result has been an increase in the flow of upward communication.

#### ***Diagonal Flow***

Often there arise situations where tasks to be completed involve more than one department in the organisation and there is more often no obvious line of authority. In such circumstances the insistence on the use of proper channels in communication may affect the efficiency of management and may cause undue delays in the completion of the task.

Sometimes, it is just not possible to give or seek crucial information only through the right channel. It has also been found that information is suitably distorted or filtered by superiors before it is allowed to reach the decision makers. Therefore one has to enable people to talk to lower or higher ranks freely rather than wait indefinitely. Diagonal communication is based on cooperation, goodwill and respect between the parties concerned.

#### ***Horizontal***

This type of communication usually takes place between people of the same status/level of hierarchy in the organization. However, as flatter organizational structures have now become the order of the day, people of different ranks now manage to converse with less reserve and formality. There are many advantages of such openness. Policy decisions are no longer shrouded in mystery. Employees are encouraged to ask questions and understand the compulsions of tough decisions. There is better understanding and coordination. However, it is important to continue to respect the authority, use appropriate language and show good behavior.

#### **LESSON ROUND UP**

- Communication is a process by which information is exchanged between individuals through a common system of symbols, signs or behaviour. It is the expression and exchange of facts, opinions, ideas or feelings.
- When one communicates to transact some commercial activity, i.e., providing goods or services, with the intention of generating profits, it is termed as Business Communication.
- The means or methods of communication are broadly classified into verbal and non-verbal communication.
- Choosing the right means and mode of communication plays a vital role in the effectiveness of the message being communicated.
- Effective communication depends upon three things: understandable messages, credibility of the sender and how the message is affecting the receiver.
- Communication may be divided into two types: Internal and External.
- The flow or pattern of communication may be downward, upward, diagonal or horizontal.
- There are certain barriers that cause communication failures. Failure to communicate effectively in organisation may cause disruption or delays in achieving targets.

## GLOSSARY

<b>Intrapersonal</b>	Occurring within the individual's mind or self.
<b>Communication</b>	sharing of ideas, concepts, messages, and words expressed through a language which is easily comprehensible to the listener
<b>Decoder</b>	Receiver/Listener
<b>Encoder</b>	Sender/Speaker
<b>Feedback</b>	Response of the Receiver to the sender
<b>Intrapersonal</b>	Occurring within the individual mind or self
<b>Noise</b>	Physical or Psychological Disturbances
<b>Message</b>	Formulation/structuring of ideas and concepts in a form which can be transmitted

## SELF-TEST QUESTIONS

1. Communication word is derived from the Latin word \_\_\_\_\_
  - a) Communicare
  - b) Communis
  - c) Communion
  - d) None of the above
2. According to \_\_\_\_\_ "administrative communication is a process which involves the transmission and accurate replication of ideas ensured by feedback for the purpose of eliciting action which will accomplish organization goals".
  - a) Kotler
  - b) Drucker
  - c) Scott
  - d) None of the above
3. The process by which the receiver confirms the message and comprehends the intent of the sender is called \_\_\_\_\_
  - a) Channels
  - b) Base
  - c) Language
  - d) Feedback
4. \_\_\_\_\_ emphasises on the importance of interdepartmental communication in organisations
  - a) Growing Specialisation
  - b) Expanding roles
  - c) Role clarity
  - d) None of the above

5. Written communication is the means of \_\_\_\_\_ communication
- a) Non-verbal
  - b) Verbal
  - c) Direct
  - d) None of the above
6. Non-verbal communication includes
- a) Facial expressions
  - b) Gestures
  - c) Movements
  - d) All a) b) and c) options
7. The type of communication which usually takes place between people of the same status/level of hierarchy in the organization is called\_\_\_\_\_
- a) Upward
  - b) Downward
  - c) Horizontal
  - d) Diagonal
8. \_\_\_ is a requirement for effective communication
- a) E-mail
  - b) Office order
  - c) Innovative ideas
  - d) Clarity of ideas
9. \_\_ and \_\_\_\_\_ are forms of visual communication
- a) Messages; meetings
  - b) Graphs; maps
  - c) Speeches; grapevine
  - d) Gestures; postures
10. Known to self and known to others is called \_\_\_\_\_ in Johari Window
- a) Arena Quadrant
  - b) Blind Spot
  - c) Façade
  - d) Unknown

**Answer key:** 1. b; 2 c; 3 d; 4 a; 5 b; 6 d; 7 c; 8 d; 9 b; 10 a

## Suggested Readings

- (1) Business Communication – *K.K. Sinha*
  - (2) Communication for Business – *Shirley Taylor*
  - (3) Business Communication–Process & Product – *Mary Ellen Guffey*.

# Lesson 10

## Essentials of Good English

### LESSON OUTLINE

- Introduction-Enriching Vocabulary
  - Choice of Words
  - introduction-Enriching Vocabulary
  - Choice of Words
  - Homonyms
  - Synonyms
  - Antonyms
  - Single Word for Group of Words  
(One word substitution)
- Grammar and its Usage:
  - Parts of Speech
  - Articles
  - Sentence Construction
  - Spellings and Pronunciation
  - Stress and Rhythm
  - Prefixes and Suffixes
  - Combination Words
  - Punctuations
  - Abbreviations
- Idioms and Phrases
- Proverbs
- Review Questions
- Foreign Words and Phrases
- Abbreviated Form of Latin, French and
- Roman words
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

Communication is the process by which we exchange meanings, facts, ideas, opinions or emotions with other people. It is the first and foremost social activity. To carry out business of any kind, we have to interact with a large number of people. Unless we learn to communicate effectively, we cannot achieve the goals of business. In the modern global context, since technology has adopted English in a big way, English has emerged as the most commonly used medium of communication. Hence, it has become almost necessary to attain proficiency in English language.

The USP, i.e., the Unique Selling Proposition of any language is its simplicity. The other requirement is its clarity. Thus, language used should be such that it is understood clearly in the first attempt without any ambiguity. It is correctly said that ornamental language hinders understanding and delays response, whereas clear and functional vocabulary ensures speedy understanding, thus stimulating action.

Grammar is one of the key aspects of English language. Grammar is the system by which a language works. When we want to describe the way a language works, we talk about its grammar. Hence, there is the need to learn English Grammar.

Business English is English which is simple, straightforward and courteous. The objective of this study lesson is to enable the students to enrich their vocabulary and understand the usage of grammar.

The English language is nobody's special property. It is the property of the imagination: it is the property of the language itself.

Derek Walcott

## INTRODUCTION -ENRICHING VOCABULARY

Professionals who can write clearly and correctly are far more valuable to an organization than those whose business writing is filled with errors. Whether you need to refresh your knowledge of grammar and punctuation—or know what's grammatically correct but can't always explain why—this highly interactive and collaborative seminar is the perfect and painless solution. You'll learn the standard rules for proper usage and grammar, and then work with your seminar colleagues to apply what you've learned in hands-on exercises and activities. Return to your job with greater confidence and ability when writing any types of business correspondence.

### **Good to know!!!**

We should know the exact meaning of the words we propose to use. Many words, which are listed as synonyms or words with the same meaning have subtle differences. Consulting a good dictionary regularly helps us build a good repertoire of vocabulary. It is equally important to learn in what context a particular word can be used and what is its exact meaning, e.g., "erudite" means "having or showing knowledge or learning". You can say Mr. Nehru was an erudite speaker, but you cannot say that Mr. Nehru's speeches were erudite.

To enrich one's vocabulary following topics are discussed in details below:

- Choice of words
- Homonyms
- Synonyms
- Antonyms
- Single Word for Group of Words (One word substitution)

### **1. CHOICE OF WORDS**

The words you would choose to communicate with someone depend on the following factors:

- The range or repertoire of your vocabulary.  
Unless you know a word, you would not be able to use it.
- Your audience or person you are communicating with.

Firstly, you must assess the literacy level of the audience or person. Then try to find out what kind of situation you are in – whether the audience or person is senior or junior to you; whether you are formal or informal with them, etc., these considerations will help you greatly in the choice of words.

*You could hardly use a slang or a code word in describing a colleague in an official memo, Can you?*

- Type of communication.  
Whether it is formal or informal, oral or written, these factors will also influence your choice of words.
- The message you intend to convey.

The urgency, disappointment, the level of accuracy required, etc. can also be conveyed through the apt words. Therefore, these too will influence your choice of words.

- Context and usage.  
Certain words can only be used in a particular context, and if they are used otherwise, they would convey the wrong sense; hence influencing the choice of words.

- Regional or national differences in language or connotation also influence your choice of words.

*'Liberal' in Britain has a positive meaning. It means generous and open minded, whereas in America it is used as a term of political abuse.*

Improving Vocabulary – Try and understand the root/etymology of the words. Good dictionaries give all the changes that a root word can undergo.

### **Tips for choosing the right words**

However, some general points to remember in communication are:

- **Simplicity:** Simple language produces the best and the quickest response from everyone. But one must try not to sacrifice precision or dignity. However, there are occasions when easy comprehension must take a back seat. At times, long and unusual words have to be used because they are more precise. For example, legal language is far from simple. Hence the legal draftsman has to keep the complexity of situation in mind. He may end up using complex language.

Using familiar words does not mean using colloquial English. Colloquial English is perfectly polite and acceptable in informal conversation, but is avoided in formal writing. For example, haven't, won't and can't have no place in prose, unless you have reproduced the text of a conversation.

Apart from colloquialism, there is no set rule for using familiar words. The important thing is to avoid a show of pedantry (*an ostentatious and inappropriate display of learning*) and undesirable complexity.

- **Jargon:** Jargon is language that is unique to a particular field of knowledge, e.g., science, technology, art, trade or a profession. There is for instance legal jargon, military jargon, and political jargon. For e.g. the word 'Operation' takes on different meanings depending on the context in which it is used.

Should we avoid all jargon in our writing? The question is not easy to answer. Jargon has two parts: One is the private language that only the persons in that particular field can understand. The other is wider acceptance of certain words and phrases in the general language used by the public. There cannot be any objection if this kind of jargon is used in writing.

- **Avoid using superfluous words/Verbosity:** Verbosity (an expressive style that uses excessive or superfluous words) or using more words than necessary is a common weakness. The speaker/writer uses more words than needed in the hope of diverting/retaining audiences. This tendency is seen in writing too. It has been well defined as an extension of Parkinson's Law—words increase in number to fill the quantity of paper available. More words do not necessarily lead to greater clarity. Nor do difficult and high sounding words lend weight to the argument. They obscure meaning and tire the reader out.

## **2. HOMONYMS (Pairs and Groups of Words)**

There are several pairs or groups of words that have similar sound. But they are different in spelling and meaning. They may be as simple as *two-too*, *there-their*, *in-inn*, *ring-wring* or more difficult, like *principal-principle*, *stationary-stationery*, *except-accept*. These are called homonyms. These words have to be cautiously used while writing. Some examples:

### **1. Access-Excess**

**Access:** The workers could access the manager freely. (approach)

**Excess:** The production is far in excess to the target. (more than)

### **2. Advice-Advise**

**Advice** is a noun the end-sound is-s.

Anyone can offer *advice*.

**Advise** - is a verb and the end sound is-z.

My father *advised* me to work hard.

### 3. SYNONYMS

Synonyms are words that have very nearly the same meaning, for example:

- (i) easy, simple, light, effortless, facile, smooth.
- (ii) effort, exertion, pains, trouble,
- (iii) elastic, flexible, supple, springy, resilient.

It is extremely difficult, if not impossible, to find two words in English which have exactly the same meaning and usage. Words that seem to be identical on a closer examination can be distinguished by some shade of meaning or some manner of usage. Therefore, most of the time they cannot be interchanged. Finding and knowing synonyms is helpful in the sense that it enhances your vocabulary by increasing your stock of words. Moreover, it helps you to pick and choose the appropriate word which alone can convey the proper meaning.

*Begin, commence, start* and *initiate*, are all synonyms which mean ‘to set something going or in progress’. *Begin* is the most common word, *commence* is used on formal occasions, for court proceedings, religious and other ceremonies and military operations; *start* suggests a setting out from a particular point on a journey, course, etc., often but not necessarily after an action or waiting; *initiate* implies taking of the first step or steps as in a process. You can say:

They *started* from their home. The ship or *set out* on its voyage.

If you use another synonym in the place of ‘set out’ it would take on a different meaning. Two words may look alike and yet there may be a slight shade of difference in their meaning.

**Some examples –**

Word	Synonym
Adept	proficient, skilled
Abundant	plentiful, ample, copious
Ephemeral	Careless, unintentional, unplanned
Inadvertent	Breach, desecration, transgression
Violation	Transient, short-lived

### 4. ANTONYMS

Antonym is a word opposite or contrary in meaning to another word.

As has already been noted that there are no true synonyms, that is, no two words mean exactly the same thing. There is often some shade of difference in the meaning. In most cases exact meaning or appropriateness of a word depends upon the context in which it is used. It being so, a word may have more than one antonym. Example: The antonym of soft that comes at once to mind is hard. But there are many other possibilities.

*Soft* drinks against *hot* drinks

*Soft* colour against *bright* colour

*Soft* tones against *weird* tones

*Soft* texture against *rough* texture

*Soft* light against *glaring* lights Similarly the opposite of  
*aslender* cane would be a *thick* cane,  
*aslender* man would be a *fat* man,  
*aslender* chance would be a *bright* chance.

Some examples of Antonyms:

Word	Antonym
Ability	Inability
Able	Unable
Abnormal	Normal
Accurate	Inaccurate
Bankrupt	Solvent
Economical	Extravagant

## 5. SINGLE WORD FOR GROUP OF WORDS

The skill to substitute a single word for many helps the speaker/writer express herself better. Some examples:

To renounce a throne, high office, responsibility	Abdicate
To increase the speed/move faster	Accelerate
One who calculates insurance/annuity premium etc	Actuary
Position of choice between two equally undesirable choices	Dilemma
To show indecision/to sway to and fro in a decision	Vacillate

## UNDERSTANDING GRAMMAR AND ITS APPLICATION

### Good to Know!!!

Some words may be used as different parts of speech without any change in their form.

For example, the word beat remains unchanged in the following sentences; though it is a different part of speech in each sentence :

- The angry mob was beating the thief mercilessly. (verb).
- The beat of the drum sent people into frenzy (noun)
- The beat generation (young people with unconventional dress and behaviour as expression of social philosophy) has its own ethics. (Adjective)

Sometimes it is possible to use the same word, with a slight modification, as a different part of speech: For example, the root word confirm is used here as a noun in the first, as a verb in the second and as an adjective in the third sentence.

- We received confirmation of the order in writing yesterday. (Noun)
- The party confirmed the receipt of the consignment. (Verb)
- He is a confirmed defaulter. (Adjective)

## PARTS OF SPEECH IN ENGLISH

Words are divided into eight classes according to the work they do in a sentence. These classes form parts of speech. They are as follows :

- Nouns
- Pronouns
- Adjectives
- Verbs
- Adverbs
- Prepositions
- Conjunctions
- Interjections

### NOUNS

A noun is “naming word”. It names somebody or something.

**Rahul** took the **dog** to the **park**.

The **car** makes a lot of **noise**.

Look at the example above. A noun is the name of a person (Rahul), animal (dog), place (park), thing (car) or idea (noise).

### KINDS OF NOUNS

Nouns are further classified into Proper Nouns, Common Nouns, Abstract Nouns, Collective Nouns

**Common Nouns** are the names given in common to all persons, places or things of the same class. For example, bank, shop, market, etc.

**Proper Nouns** are the names of particular persons, places or things. For example, India, Larsen and Toubro, Delhi, January, etc.

**Collective Nouns:** Common nouns include another class known as collective nouns. A collective noun names a group of people, animals or things regarded as a whole., e.g., batch, company, university, crowd, flock, etc.

**Abstract Nouns:** Abstract nouns indicate words that convey intangible feelings, experiences etc. E.g. Joy, Sorrow, Excitement, Ambition

### PRONOUNS

Pronouns are used in place of nouns. They may be :

**Personal Pronouns:** To represent person or things., e.g., I, we, you, she, he, it him, us, them, etc.

**Relative Pronouns:** The most common relative pronouns are whom, which and that.

A relative pronoun acts as a pronoun and as a conjunction at the same time.

E.g. This is the boy **who** saved my life.

**Possessive Pronouns:** These show possession, e.g., mine, ours, yours, theirs, its and hers, his.

## ADJECTIVES

A word used to describe or point out, a person, animal, place or thing which the noun names, or to tell the number and quantity, is called an Adjective.

Rani is a *clever girl* (Girl of what kind?)

He gave me *six books* (How many books?)

Two or more words can be joined with a hyphen to form a compound Adjective, e.g., government-financed project.

## VERBS

A verb is a word that tells or asserts something about a person or thing. Verb comes from Latin Verbum, meaning a word. It is so called because it is the most important word in the sentence. You may have a sentence with a single verb – E.g. – ‘Write.’ ‘March.’ ‘Come.’

A verb tells us:

1. What action a person or thing does; as Rohit ***runs***.

The bell ***rings***.

2. What is done to a person or thing; as Ram has been ***beaten***.

The door was ***broken***.

Hence, a verb is a word used to tell or assert something about some person or thing.

## ADVERB

While **Adjectives qualify** or add to the meaning of nouns, **adverbs modify** the meaning not only of verbs, but also of adjectives, prepositions, conjunctions, etc.

The following sentences illustrate the varied use of adverbs:

Small investors find it ***very*** difficult to invest ***wisely***.

(The first adverb ***very*** modifies the adjective ***difficult***, and the second adverb ***wisely*** modifies the verb ***invest***).

The CEO is an ***exceptionally*** sharp manager.

(The adverb ***exceptionally*** modifies the adjective sharp).

The cash counter is ***right*** behind you.

(The adverb right modifies the preposition behind).

We have given this book to you ***only*** because you are a good reviewer. (The adverb ***only*** modifies the conjunction because).

## PROPOSITION

**A Preposition**, by definition is placed before a noun or its equivalent in order to show its relationship in terms of time, place, etc.:

The space ***above*** the room houses the conference facility.

(The preposition above explains the relationship between the room and the conference facility).

There are hardly any rules governing the use of prepositions, some people feel that it is inelegant to put them at the end of a sentence since they are basically used as link-words. However, as Fowler points out, "Almost all our great writers have allowed themselves to end a sentence or a clause with a preposition." The *thumb-rule is that the sentence should read well.*

It is largely the usage that determines the choice of a preposition. Americans tend to drop them but it is largely colloquial. A wrong preposition certainly changes the intended meaning. Therefore, we have to learn the use of prepositions carefully. All standard dictionaries list the root word along with different prepositions or adverbial phrases and also show the difference in meaning.

*For example:*

The root word **Get** conveys italicised meanings when used with:

- ...**about**, move or spread ...across, be understood
- ...**ahead**, make progress
- ...**along**, manage
- ...**at**, gain access to
- ...**away**, escape
- ...**over**, forget
- ...**round**, persuade

## CONJUNCTION

Conjunctions join words or even sentences conveying related ideas. Two commonly used conjunctions are

- *and*
- *but*.

We received your letter and telegram but regret our inability to attend the meeting.

Conjunctions may also be used in pairs, e.g. *neither-nor*, *either-or*, *not only-but also*, *both-and*, *whether-or* etc. Such conjunctions are known as **Correlative Conjunctions**.

## INTERJECTION

Interjections are words which are used in a sentence to express strong emotion or feeling. They may not form a part of its grammatical structure. Some of the common interjections are: *Hi !*, *Alas !*, *Oh !*, etc.

## VOICE

As a general rule, we should use **Active Voice** in our sentences. Such sentences are shorter, direct and emphatic.

*For example:*

Please place the order within sixty days of the receipt of the quotation.

An exception is however made when sending out negative messages or fixing responsibility.

For example, out of the two responses given below, the latter is likely to be received better:

You have failed to place the order in time.

Unfortunately, the order has been delayed.

**Passive Voice** is also found more suitable while drafting legal formulations as no identifiable subject can be mentioned or in cases where the subject is implied.

For example:

Follow the traffic rules, while driving. (Active Voice)

The traffic rules should be followed while driving. (Passive Voice)

## ARTICLES

The words ‘a’ or ‘an’ and ‘the’ are called Articles. They come before nouns. A or an is called the *Indefinite Article*, because it usually leaves indefinite the person or thing spoken of; as, A doctor; that is, any doctor.

The is called the *Definite Article* because it normally points out some particular person or thing; as, He saw the doctor; meaning some particular doctor.

The indefinite article is used before singular countable nouns, e.g., *A car, an apple, a table*.

The definite article is used before singular countable nouns, plural countable nouns and uncountable nouns, e.g., *The pen, the pens, the milk, the idea*.

The article ‘an’ is used when the noun to which it is attached begins with a **vowel sound** (a, e, i, o and u). It is the vowel sound and not the vowels that determines the use of ‘a’ or ‘an’. Vowels with consonant sound take ‘a’ and not ‘an’. For example, Bring me **an** apple.

He walks like **an** Egyptian.

She has planted **a** eucalyptus tree.

He is **an** honest man.

He has joined **a** union.

I have lost **a** one-rupee note.

## USAGE

Usage implies the manner in which the native speakers of a language use it. The “body of conventions governing the use of a language especially those aspects not governed by grammatical rules”, “habitual or customary use” often lays down new standards of acceptance.

For example, ‘**It is me**’ is generally accepted on grounds of usage even though ‘**It is I**’ is considered grammatically correct.

Usage may be learnt by reading standard texts and listening to educated speakers of a language.

## TENSES

“In Grammar – a set of forms taken by a verb to indicate the time (and sometimes the continuance or completeness) of the action in relation to the time of the utterance”; is the meaning that the Concise Oxford Dictionary assigns to the word ‘Tense’. The word *tense* comes from Latin word *tempus*, meaning time. Read the following sentences.

1. I **write** this letter to my mother
2. I **wrote** the letter yesterday.
3. I **shall write** another letter tomorrow.

In sentence 1, the verb write refers to present time. Hence a verb that refers to present time is said to be in the **Present Tense**.

In sentence 2, the **verb** wrote refers to past time. Hence it is said to be in **Past Tense**.

In sentence 3, the verb **shall write** refers to future time. Therefore, it is said to be in the **Future Tense**.

### **Tense**

Read these sentences:

1. I read a book every day. (simple present) – indicates a routine or a habit
2. I am reading a book. (Present continuous) – indicates the action going on at present
3. I have read a book. (Present Perfect) – indicates an action that is complete, but the effect is still felt.
4. I have been reading a book. (Present Perfect Continuous) – Indicates an action suspended for the present moment and to be continued.

The verbs in all of these sentences refer to the present time, and are therefore said to be in the present tense.

Thus we see that the tense of a verb shows not only the time of an action or event, but also the state of an action referred to.

Just as Present Tense has four forms, the Past Tense also has the following four forms:

1. I *jumped* from the window. (Simple Past)
2. I *was jumping* from the window. (Past Continuous)
3. I *had jumped* from the window. (Past Perfect)
4. I *had been jumping* from the window. (Past Perfect continuous)

Similarly, the Future Tense has the following four forms:

1. I *shall/will* jump (Simple Future)
2. I *shall/will* be jumping. (Future Continuous)
3. I *shall/will* have jumped. (Future Perfect)
4. I *shall/will* have been jumping. (Future Perfect Continuous)

Hence, we may define Tense as that form of a verb which shows the time and the state of an action or event.

## **SENTENCE CONSTRUCTION**

### **Various Purposes of a Sentence**

A group of words, which makes complete sense, is called a sentence.

Grammar also lays down rules for arranging words in a certain order to form meaningful sentences. Sentences may be formed to:

- Make a statement: *The government has decided to disinvest its stake in Air-India.*
- Pose a question: Would this step enable them to turn this PSU around?
- Give a command: *Bring about a change of ownership.*
- Make an exclamation: What a way to bridge the fiscal deficit!

A **sentence** consists of two parts:

**Subject :** The part which names the person or thing we are speaking about is called the subject of the sentence.

**Predicate :** The part which tells something about the subject is called predicate.

A **Phrase** is a group of words, which neither has a finite verb nor makes any sense by itself. Depending on its place in the sentence, it may be a

- **Noun**
- **Adjectival** or
- **Adverbial Phrase.**

Examine the following pair of sentences.

- (i) Raj is a *wealthy* man.
- (ii) Raj is a man *of great wealth*.

In the first sentence the word *wealthy* described the noun Raj.

In the second sentence *of great wealth* also tells us what sort of man Raj is. It qualifies the noun just as an Adjective does. Hence, it is called an *Adjective Phrase*.

### **Adverb Phrases**

Just as the work of an Adjective is often done by a group of words called an Adjective Phrase, so the work of an Adverb is often done by a group of words. Examine the following pair of sentences.

- (i) He answered rudely. (How?)
- (ii) He answered in a very rude manner. (How?)

Since the phrase *very rude manner* does the work of an Adverb, it is called an *Adverb Trial Phrase*.

### **Noun Phrase**

A **Noun Phrase** is a group of words that does the work of a Noun. For example,

- (i) ***My demat account*** has been closed.
- (ii) ***To win a prize*** is my ambition.

In the above sentences italicized phrases are noun phrases because they are playing the role of a noun.

### **Types of Sentences**

The basic knowledge of grammar helps us understand different sentence structures or patterns so that we can communicate in a clear, concise and correct manner.

A group of words that form a part of a sentence, and has a subject and a predicate of its own, is called a *clause*. The clause that makes good sense by itself, and hence could stand by itself, as a separate sentence is called a ***Principal or Main Clause***.

A clause which cannot stand by itself and makes good sense but not complete sense is called a ***Dependent or Subordinate Clause***.

A sentence which has only one finite verb and one independent clause is called Simple sentence. For example, This courage won him honour.

A *compound sentence* is made up of two or more *Principal or Main Clauses*. For example, Night come on and rain fell heavily and we all got very wet.

A complex sentence, Consists of one Main Clause and one or more Subordinate Clauses. For example, They serve good well who serve this exactness.

### **Sentence Construction**

Sentences can be constructed using different structures or patterns. The simplest sentence may have:

- a noun or a pronoun in the beginning,
- a verb in the middle,
- another noun or its equivalent in the end.

*For example:*

The budget affects the stock market.

This sentence structure may also be shown as:

Subject + verb + object

The structure of an imperative sentence is different. Here the subject is understood. For example,

*Mail this letter*, is the shorter form of *(You) mail this letter*.

**It is important to use varying sentences structures in your writing so that the interest of the reader is not lost.**

***Sentence Construction is based on the kind of writing in question.***

Sentences are also constructed on the basis of complexity of writing.

**Loose sentences** are suited to simple style of letter writing and are closer to the spoken form. They begin with the main statement and develop it to its logical conclusion.

*For example:*

The Reserve Bank of India intervened in the forex market as there were strong rumours about an intense speculative activity caused by the spurt in imports.

\* *Lesikar's Basic Business Communication*, Irwin, p. 44.

**Periodic Sentences** are decorous and emphatic but more difficult to write. The order is reversed and the main statement is made at the end.

*For example:*

As there were strong rumours about an intense speculative activity caused by the spurt in imports, the Reserve Bank of India intervened in the forex market.

Sentence Construction on the basis of Length

The length of a sentence is also an important factor in sentence construction.

**Shorter Sentences** are easier to write as well as understand. But a long sequence of short sentences may not make very pleasant reading:

Thank you for the order. The goods will be sent soon. The duplicate copy of bill is enclosed. The payment must be made early.

**Longer Sentences** are prone to grammatical errors and need careful thought and planning. A U.S. Government regulation is claimed to run into 308 words. Such efforts at constructing marathon sentences should be avoided.

It may be a good idea to mix the shorter and longer sentences to sustain the interest of the reader.

For example:

The conference opens on the tenth of June in Simla. More than two hundred company secretaries will take part. The purpose is to deliberate on the merits of the new Companies Act, 2013 and propose amendments. The discussions are likely to go on for three days.

### **Paragraph Construction**

The construction of a paragraph is equally important. If a good sentence should focus on a single thought, a good paragraph should restrict itself to a single topic or idea. The topic sentence of a paragraph sums up its central idea and develops it further. It is usually in the beginning or the end of the sentence; though, in some cases, it can be written somewhere in the middle too. Shorter paragraphs should be preferred because they enable the reader to follow the writer's plan.

## **SPELLINGS AND PRONOUNCIATION**

English is an infamously difficult language to spell and pronounce. Students are often bewildered by the seemingly anarchic sound/spelling system of English. There often seem to be more exceptions than the rules, and the mastery of accurate spelling and pronunciation appears a daunting and demotivating task.

Though there is a relationship between a sound and the way it is expressed in writing, the same sound is often conveyed through different spellings.

For example:

The sound in the middle of words 'steep' and 'breach' is the same and phonetically shown as [i] in the dictionary. The letter 'a' may be pronounced in several different ways. In words like *brag, flap, grab, have*, etc, the sound is phonetically shown as [ae], in *barge, false, half, ask*, etc. as [a:], in words *may, tray, stay, way*, etc. as [ei], and in *call, flaw, raw, talk*, etc. as [o:].

Good dictionaries also have a phonetic chart, which helps to learn the correct pronunciation of different words. Specialized dictionaries of pronunciation are also available for consultation.

### **Spelling Errors**

Adequate care should be taken to spell words correctly in all communications so that you are able to communicate effectively and impressively.

*Spelling errors are common when :*

- (i) certain alphabets/letters are repeated in a word. For example, **tomorrow, occasion, beginning, profession, etc.**
- (ii) one has to sometimes choose between 'ei' and 'ie'. For example, *receive* and *believe*. It is interesting to note that we always use 'ei' after 'c' (**conceive, deceive, perceive, etc.**) and 'ie' in the rest (**achieve, chief, convenience, etc.**)
- (iii) 'e' can be either dropped or retained when changing the root word. For example, *true* changes into *truly* but *sincere* changes into *sincerely*.
- (iv) an extra letter at times alters the meaning of the word. For example, **lose and loose**.
- (v) when noun and verb forms of the same word have different spellings. For example, **advice/advise or practice/practise**.
- (vi) words have the same pronunciation but different spellings. For example, **whether/weather, brake/break, there/their**.

- (vii) when a choice has to be made between *ise* (merchandise, enterprise, franchise, etc.) and 'ize' (size, prize, etc.). Some words are spelt differently by the Britishers and Americans, the latter prefer 'z' over 's', e.g. ***criticise/criticize, realise/realize, recognise/recognize, etc.*** Though both the spellings are acceptable, one should stick to either 's' or 'z' for the sake of consistency.
- (viii) when a word similarly spelt has two variants with different meanings in past and past participle forms. For example:
- Lie-lied-lied  
Lie-lay-laid.

## STRESS AND RHYTHM

A syllable is the minimum rhythmic sound of a spoken language. A word may have one or more syllables. For example, there is only one syllable in *fame, name, claim, train*, etc., two in *address, confess, redress, transgress*, and three in *credentials, sacrifice, tarpaulin*, etc., four in *retribution, satisfaction, transatlantic* and even five in words like *conglomeration*.

### Good to know!!!

Dictionaries generally show the main stress marks by putting the symbol // above and before the stressed syllable e.g. *re'port*. It is also important to know that the same word when used as a noun, is stressed differently e.g. '*re port*'. Only one syllable in a word carries the main stress; other syllables are unstressed.

In order to achieve good and clear speech, we must learn to recognize the stressed syllable in a word.

## PREFIXES AND SUFFIXES

An *affix* "is an addition to the base form or stem of a word in order to modify its meaning or create a new word". (*The Concise Oxford Dictionary, Tenth Edition*).

### Prefixes

If the affix or addition to the root word comes at the beginning, it is called a prefix. The word 'prefix' in itself is an apt example of a prefix as it is made up of the root word 'fix'-*'to join or fix'*, with the affix 'pre-' meaning 'before', added to it.

ante (before) - antecedent, antechamber, anteroom

circum (around) - circumvent, circumnavigate, circumlocution, circumambulate, circumlunar

cis (on this side) - cisalpine, cisatlantic, cislunar

extra(outside/beyond)-extracurricular, extrasensory, extraordinary, extra-terrestrial

fore (front/before) - forefinger, forecourt, forearm, forebear, forebrain, forecheck, forefront, foregather in, il, im, ir (in) - indoors, in-patient, inside, indebted

inter (between) - interbreed, interfere, interject, interracial, international, interdisciplinary, internet intra (inside/within) - intravenous, intramural, intranet

intro (inwards) - introvert, introspect

post (after/behind) - Post meridian (P.M.) postpone, postgraduate, postdoc, postscript

pre (before)-prearrange, preface, precaution, prefabrication, preamble

out (outside)-outdoor, out-patient, outhouse (surpass)-outrun, outdistance, outbid, outnumber

over (outer/above)-overthrow, overshadow, overcoat  
 retro (backwards)-retrograde, retrospection, retrospect  
 sub (below)-subway, subsoil, subconscious, submerge  
 (secondary)-sub-inspector, sub-editor, sub-committee, subtitle, sublet  
 (below the norm)-substandard, subhuman super (above)-superstructure, superimpose

### **Groups of Prefixes**

Prefixes fall into a number of distinct groups such as:

- |               |                  |
|---------------|------------------|
| – Supportive  | – Size           |
| – Opposing    | – Time           |
| – Negative    | – Number         |
| – Reversative | – Status         |
| – Derivative  | – Class changing |
| – Pejorative  | – Miscellaneous  |

**Supportive Prefixes** are prefixes that support or are for the root word.

*'Pro* is used with the meaning favouring/supporting as the prefix. *Pro*, as a prefix has other meanings too, such as '*in substitute of*' or '*before in time, pace or order*'.

Examples of *Pro* as a supportive prefix are Pro-choice, Pro-market, Pro-life.

**Opposing Prefixes** are prefixes that are opposed to the action denoted by the root word.

Anti (against) - antibody, antibacterial, antibiotic, anticlockwise, antidote, anti inflammatory, antioxidant, etc.  
 (Spurious) - antihero, antichrist, antiself (affected person)

Contra (against) - contraception, contraindicate, contravene, contramundum

(Contrasting) - contraflow, contra-active, contradict, contradistinction

Counter (opposition/retaliation) - counteract, counter-example, counter- attack, counterblast, counterbalance, counterclaim, counterculture, counter-insurgency, countermeasure, counterproductive, etc.

**Negative Prefixes** are prefixes that denote the absence of distinguishing features of the root word.

(The prefixes marked with\* can convey different meaning besides those specified herein.)

\*a (not, without) - amoral, ahistorical, atheist, asymmetric

\*an (not, lacking) - anaesthetic, anaemic, anaerobic

\*dis (not) - disloyal, disable, disarm, dishonest, distrust, disadvantage

\*in (not) - injustice, inactive, inconsiderate, consonant, incomprehensible, incomplete, incompetent, inconsecutive

\*il (this is another variation of the prefix 'in' and is used before a word beginning with 'l') - illegal, illiterate, illegible, illegitimate

\*im (this is a variation of the prefix 'in' which is used before a word beginning with 'b', 'm' or 'p'.) - imbalance, immaterial, immeasurable, immobile, immovable, impassable, impatient, impossible, imperfect

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These prefixes also have other meanings in which they can be used in, besides those specified herein.

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\*ir (this too is a variation of the prefix 'in' which is used before a word beginning with 'r') - irreplaceable, irregular, irresistible, irrational, irrecoverable, irreconcilable, irredeemable, irreducible

non (not) - non-aggressive, non-interference, nonconformist, nonentity, nonsense, nontoxic, non-stop (not regarded as) - non-person, non-event

un (not) - unproductive, unacademic, unselfish, unavoidable, unaware, unbearable, unbroken, unburnt

**Reversative Prefixes** are prefixes that denote the act of undoing the previous act that the root word denotes as being done.

de\* (reverses the meaning) - decriminalise, dehumidify, deselect, decontaminate dis\* (reverses the meaning) - disqualify, dishonest, disinvite un\* (reverses the meaning) - untie, unscramble, unlock

**Derivative Prefixes** are those that denote the meaning of removing something or depriving something or someone.

de (remove something)-debug, defrost de (depart from) - deplane, detrain, decamp

dis (remove something) - disarm, disillusion, disambiguate

un (remove something) - unleaded, unmark, unhouse, uncap, uncover

**Pejorative Prefixes** are those that express contempt, disapproval, bad or wrong.

mis (badly/wrongly) - miscalculate, misgovern, misspell, mismanage, misalign, misapply, misbelief

**Size Prefixes** denote size. They are:

mega (very large) megaphone, megastar, megalith, megawatt

midi (medium)-midi-computer, midi-bus

mini (small)-minibus, miniseries, minicab, minimarket

**Time Prefixes** denote time. They are:

ante (before)-antenatal, antedate

ex (former)-ex-wife, ex-president, ex-student

fore (before)-forenoon, foresee, foretell, forecast

neo (new, recent)-neo-conservative, neoplasia, neophyte

post (after)-post-war, post-modernism, postdate

pre (before)-prepay, pre-existing, predate, preschool

re (again)-reprint, reapply, replay, renew

**Number Prefixes** are those that denote number. They are:

mono (one/single)-monorail, monochrome, monopoly

uni (one)-unidirectional, unilateral, unicycle, unity

bi (twice/double)-bicycle, bilateral, bilingual

di (two, twice)-dioxide, dichromatic

duo/du (two)-duologue, duplex

tri (three)-triangle, triplicate, tripartite quadri/quadr (four)-quadrilateral, quadrangle tetra/tera (four)-tetrachloride, terameterpenta/pent (five)-pentagon, pentacle

sex (six)-sextant, textile, sextuple

hexa/hex (six)-hexapod, hexagram

hepta/hept (seven) heptagon, heptameter octo/oct (eight)-octopus, octuple

deca/dec (ten)-decade, decalogue, decinaldeci (a tenth)-decibel, decimal demi (a half)-demigod, demitasse

hemi (half)-hemisphere, hemistock

semi (half)-semiconductor, semidetached

hecto/hect (hundred)-hectogram, hectare

kilo (thousand)-kilogram

milli (thousand)-millisecond, millipede

mega (a thousand)-megahertz, megabuck, megabit poly (many)-polytechnic, polygon

**Status prefixes** are those that denote a status.

co (joint)-copartner, coauthor, cofounder

pro (deputy)-proconsul, pro-vice chancellor

vice (deputy)-vice president, vice admiral, vice chancellor

**Class Changing Prefixes** have the effect of changing the word class, like making transitive verbs from nouns, adjectives, intensifying force of the verbs used, etc.

be-besiege, bewitch, besmear, bewail, belittle, befoul, beribboned en/em-encode, endanger, ensure, enlist, enroll, embark, embitter, enrich

**Miscellaneous:** Some of the common prefixes that do not fall into the above categories are eco (abbreviation of ecology)- eco-friendly, ecosystem Euro (abbreviation of European)- Eurorail, Eurocurrencies para (ancillary)- paramilitary, paralegal, paramedic para (beyond)- paranormal quasi (like)- quasi-intellectual, quasi-judicial self-self-motivating, self-denial, self-satisfaction.

### Suffixes

It is a morpheme (*minimal meaningful language unit*) added at the end of a word to form a derivative. In other words an addition to the end of a word to form a derivative of the root word is a suffix.

**Groups of Suffix:** Suffixes fall into the following categories:

- Noun Suffixes      - Adjective Suffixes
- Verb Suffixes      - Adverb Suffixes

**Noun Suffixes** are as follows:

acy (indicates a quality and state of being)-audacity, capacity

ant (denoting attribution of an action or state)-appellant, informant, arrogant, (denoting an agent)-deodorant, oxidant

al (verbal action)-betrayal, dismissal, deferral

age (denoting an action or its result/function/state or condition/set of place or abode/aggregate number of) leverage, spillage, homage, bondage, baggage, postage, vicarage, mileage

ation/ion (denoting an action or its result)-collaboration, exploration, evolution, exaltation, inhalation, communion, oblivion, objection

cle/cule/ule (indicates small size)-minuscule, particle, molecule, capsule  
 ist (denotes a member of a profession, who uses something, etc.)-dentist, flautist, novelist, atheist  
 ity (quality/condition/degree of)-responsibility, technicality, publicity, humility  
 ling (smallness or lesser stature)-duckling, seeding, hireling  
 ment (means or result of an action)-arrangement, embarrassment, curtailment, bewilderment  
 ness (a state or condition)-usefulness, carelessness, willingness, kindness, wilderness  
 ship (quality or condition, status, tenure, skill, etc.)-scholarship, companionship, citizenship, workmanship, membership  
 tude (indicates condition or state of being)-exactitude, longitude

**Verb Suffixes** are as follows:

fy/ify (indicates or becoming)-beautify, purify, gratify, electrify, pacify, personify ise, ize (quality, state or function)-capitalise, modernise, popularise, terrorise, expertise

**Adjective Suffixes**-Some of them are as follows:

able/ible (inclined to, capable of, causing)-audible, uncountable, readable, reliable, terrible, peaceable, profitable  
 al/ial (kind of)-tidal, accidental managerial, musical ed (having, affected by)-cultured, heavy handed, talented ful (having the qualities of)-sorrowful, powerful, careful, resentful, fretful, forgetful ic-Arabic, aristocratic, dramatic  
 less (free from, without)-careless, harmless, restless, flavourless oid (resemblance)-ovoid, humanoid some (a tendency)-meddlesome, awesome  
 y (having quality of/inclined to)-messy, funny, sleepy, choosy

**Adverb Suffixes**: Some of them are as follows:

ly (forms adverbs from adjectives)-amiably, candidly, surprisingly, greatly wise (of manner or respect or direction)-clockwise, notewise, taxwise, anticlockwise.

## COMBINATION WORDS

These are word elements or combining forms that can be combined with other words that already exist to form new words. These combining forms have a singular form and a clear and consistent meaning, which is probably because they are of fairly recent origin. Many of them are also technical and therefore their meanings are less susceptible to change. Most combining forms are of Greek or Latin origin. Some of them are:

arch (chief)-archbishop; auto (self)- autopilot; bio (life)-bio-diversity; crypto (concealed)-crypto-forest, cryptogram; mal (improper/inadequate/faulty)-malpractice, malnutrition, macro (large)-macro-organism, macroeconomics micro (small/minute)-micro-organism, micro-computer; mid (middle)-mid-field, mid-air; tele (at a distance)-telescope, television, telephone, telephoto, telecommunications.

## PUNCTUATIONS

The marks, such as full stop, comma, inverted commas, hyphen and brackets are used in writing to separate sentences and their elements and to clarify meaning, are called punctuation marks.

The importance of punctuation in writing can be compared to the importance of pause, intonation and emphasis used in the spoken word.

Therefore, one can state that the chief purpose of using punctuation is to make the meaning of a written passage clear. The punctuation marks remove ambiguities, if any.

Punctuation can also serve other purposes such as:

- introducing delicate effects in style.
- altering the flow of a sentence.
- highlighting certain words.
- bringing about modulations in sentence.

Some aspects of punctuations are rule-governed, i.e., those that you have to follow, but usage of some becomes a matter of choice and judgment.

The various punctuations used in the English language are:

- |                   |                    |                   |              |
|-------------------|--------------------|-------------------|--------------|
| – capital letters | – colon            | – underline       | – space      |
| – full stop       | – dash             | – quotation marks | – italics    |
| – hyphens         | – stroke           | – bold emphasis   | – apostrophe |
| – asterisk        | – ellipsis         | – question mark   | – semicolon  |
| – paragraph       | – comma            | – abbreviations   | – numbers    |
| – brackets        | – exclamation mark |                   |              |

### **Uses of Punctuation Marks**

Let us see how some of these basic punctuation marks are used:

**Space** is the most basic form of punctuation which separates words, sentences, paragraphs and chapters.

Usually one alphabet space is used between words and punctuation, and also after sentences, unless it is the last sentence of a paragraph, when the rest of the space on that line is left blank.

Space of one line or more is left between paragraphs to distinguish them and at times a slight indentation is also used on the first line to distinguish the beginning of a new paragraph.

The amount of spacing used would depend on individual style and taste or a pattern followed in an organisation or the type of writing, e.g., letter, a presentation, a book, etc.

**The Full Stop (.)** also known as a stop, point or period (in American English) is used to end a declarative sentence, a sentence which is not a question or an exclamation.

Full stops are also used to end a request politely framed as a question such as:

Would you kindly fix an appointment with Mr. Sharma?

A full stop may also be used after initials or after a shortened form of a word to indicate an abbreviation.

For example – Mr. Prof. Etc.

- |      |             |
|------|-------------|
| B.A. | Fig.        |
| a.m. | I.K. Gujral |

However, increasingly the full stop after initials of names is being done away with, though both usages are correct.

A full stop is also used at times to denote abbreviated numerals, such as a date or a number, though at times full-stop, slash or hyphen is also used to denote date, such as:

However, this can be interpreted in two ways as 10th November 2012 by the Britishers and 11th October 2012 by the Americans. Therefore, it is advisable to always write the month and the date in words, e.g. *10th November 2012 or 10 November 2012*. Full stop is also used before decimal and between units of money:

*10.50 per cent; Rs.33.50*

### ***Omission of Full Stop***

In the following cases the full stop is omitted:

- after addresses that head letters and on the envelopes
- after dates
- after name that ends letters
- after title of books, newspaper headlines, chapter headings, sub-headings, page numbers – after acronyms which are pronounced as one word. For example:

AIDS (Acquired Immune Deficiency Syndrome) VAT (Value Added Tax)

- in between alphabets of the abbreviations that are a series of letters. For example:

WTO (World Trade Organisation)

GMT (Greenwich Mean Time)

BBC (British Broadcasting Corporation)

- in shortening of words where the first and last alphabets of the word are present.

Mr., Mrs., Dr., Rd., Ltd.

though it is correct to use a period after these words, the general practice today is to omit the full stop.

- space is used for the initials of personal names instead of a full stop. A K Singh, D S RAJAN
- abbreviations for measures, chemicals elements, etc. are used without a full stop.

Kg (Kilogram) s (Second) Hz (Hertz) Sq (Square) km (Kilometer) m (minute) amp (ampere) o (oxygen) H (Hydrogen)

- If a sentence ends with an exclamation mark, question mark, or an abbreviation that is followed by a period for the abbreviation the full stop is not used.

**Comma (,)** is easily the most important punctuation mark within a sentence. Commas separate or enclose subordinate clauses and phrases in sentences. Its most typical use is to separate two main clauses that are linked by a conjunction. Here the comma mark appears just before the conjunction.

The house was almost in ruins, but the tree studded avenue was lovely.

He is not rich yet he is very generous.

### **Uses of Comma**

Some other uses of comma are as follows:

- To separate main clauses even when they are not linked by a conjunction:

*The higher the price, the better the quality of goods.*

- Before tags/questions and comments:

*You were late for the meeting, weren't you? (tag)*

I was just joking, you see.

(comment) – To denote words left out:

*Romeo loved Juliet; Majnu, Laila.* (Here the comma denotes the word loved.)

- Enclose additional thoughts, qualification or information. Here the commas are used in pairs and they separate parenthetical elements in a sentence.

*My son, Ajith,* is the head boy of the school.

The movie was, I believe, well picturised.

- To set off direct speech:

*To quote Confucius, “He who learns but does not think, is lost. He who thinks but does not learn is in great danger”.*

“I’m tired”, he replied, “However, I will complete the work before leaving”. – To set off comparative or contrasting statements.

*The more he kept repeating that he did not steal the chain, the less the police believed him.*

- To separate adjectives, numbers into units, names, and title or honour, or degree, day, month and year in a date, etc:

*He is a smart, reliable, sincere and hard-working student.*

1,25,000.

Angelina Thomas, BA, MA, PhD.

*Pranab Mukherjee, the President of India.*

**Hyphen (-)** is used between words to clarify meaning. It also links words to form a compound word.

The use of hyphen varies in different places; therefore there are no complete set of rules that can be applied to the use of hyphen.

Therefore, only some general guidance on use of hyphens is given here. It is advisable to consult a good dictionary when one is in doubt to find out whether the word to be used should be hyphenated or not. A hyphen is usually used in these cases:

- After a few prefixes or other word elements.  
*ex-partner, half-truth, quasi-judicial, semi-government, self-appointed.* (We have already read about prefixes).
- Before a few suffixes where the last alphabet of the first word and the first alphabet of the second word are the same, in order to avoid an unattractive sequence.  
*Bull-like, get-together, profit-taking, self-financing, water-resistant.*

- When the main part of a word begins with a capital letter. *un-American, neo-Darwinism, neo-Nazism, anti-Indian.*
- When the prefix is repeated.

*Sub-subcommittee.*

- When a noun and a verb are combined to form a word.

*hand-operated, hand-pick, hand-held.*

- When an adjective and a noun are combined to form a word.

*blue-pencil, loose-leaf, long-grained open-air, simple-minded, middle-aged, community-oriented, high-fibre.*

- When two adjectives are combined to form a word. *old-fashioned, short-sighted, red-blooded.*

- When compound words express an ‘and’ relation.

*bitter-sweet, deaf-mute, socio-economic, secretary-treasurer.*

- When compound numbers between 21-99 are spelt out. This practice is gradually fading.

*fifty-five(55), six hundred and thirty-one(631).*

- It is also used to link the starting and ending point of a series.

*The Delhi-Jaipur Highway.*

- When a word has to be broken at the end of a line of print or writing.

- To avoid confusion or ambiguity.

*an Indian-history teacher/an Indian history-teacher.*

- To prevent confusion between a new formation and a conventional word with the same prefix.

*re-creation (recreation), re-formed (reformed).*

**Semi colon (;**) is used to separate two or more independent clauses that are placed together and which are of equal importance in the sentence. The use of semicolon emphasises or adds weight to the second clause.

To err is human; to forgive divine.

Semi colons are also used to:

- join words, group of words, sentences.

- separate word groups that already contain commas:

*Those present at the function included Mr. and Mrs. Jain, their children Usha, Amit and Raghu; Paul and Joe Thomas; Raj and Ravi Malhotra; Colonel and Mrs. James, and their children Jyotsna, Julie and James Junior; etc.*

- To provide pauses before certain adverbs such as none the less, however, etc.

*He worked very hard; however, he did not succeed in his endeavour.*

- To emphasise contrasts:

*It is a superb car; however, it is very expensive to maintain.*

**Colon (:**) is a punctuation mark that has three major functions:

- to introduce some kind of explanation.

*They did not sleep last night: they must be tired.*

- To introduce examples.

*Today they face another threat to their survival: starvation.*

- To introduce quotations or direct speech.

### **Functions of Colon**

Some of the other functions of the colon are:

- To point the reader's attention forward.

This function can be best explained through the words of the grammarian Henry Fowler. He says that the function of a colon is "that of delivering the goods that have been invoiced in the preceding words". What he meant by goods here might be a conclusion, summary, a list or a contracting statement.

- To introduce a number of items listed separately.

*The conference hall facility has everything: furniture, mikes, amplifier, projector, screen, generator backup, catering, dining hall and even a huge parking lot.*

- To present a conclusion.

*After sixty years in the business, Mr.Rajan realised that there was only one certainty in life: the inevitability of change.*

- To introduce a question.

*They all agreed that the essential issue was simply this: Will making an investment in Sweatland Limited be a mistake or not?*

- To link contrasting statements.

*Man proposes: God disposes.*

- To substitute a conjunction.

*Another Monday morning: and it is pouring.*

- After headings in correspondence.

*Subject:*

*Reference:*

- To introduce subtitles.

*Credit cards: Power of Plastic; Past Promises: Failure to deliver.*

- In bibliographical references, colon can be used after the place of publication.

*(Delhi: 2010).*

### **An Apostrophe (') is used**

- (i) to denote possession and other kinds of relationship. This is Walter's book.

- (ii) contractions of words.

*It was the court's order.*

*Isn't (is not) it a great day?*

*Can't (cannot) you come today?*

*O'er (over) the hills.*

### **Possession and other kinds of relationship:**

When apostrophe is used to denote possession and other relationships, the basic rules to remember are:

- The apostrophe comes before the 's' if the noun is singular.

*The girl's dresses (dresses belonging to one girl).*

- The apostrophe comes after the 's' if the noun is plural.

*Girls' dresses (dresses belonging to many girls).*

However, possessive personal pronouns ending in 's', e.g. its, ones, theirs, etc. do not take on an apostrophe.

- Indefinite pronouns, except for 'each' take on an apostrophe, *anyone's, either's, one's, someone's nobody's*, etc., when denoting possession or some relationship.
- In contractions of words, the use of apostrophe is required. Though words are generally contracted in informal writing and speech, it should be avoided in formal writing.
- The apostrophe takes the place of the missing letter or letters.

is not-isn't (o is the missing letter)

The apostrophe is also found in the contraction of some single words.

- 'of' is sometimes contracted especially in certain phrases:

*will-o'-the-wisp, seven o'clock*

- certain words that are in common use:

*ma'am (madam)*

- The apostrophe is at times used to denote omission of part of some number:

*the swinging '60s(1960s).*

Generally, nowadays the use of apostrophe in these cases is omitted.

- To denote certain names especially of Celtic origin:

*O'Connor, O'Sullivan.*

It comes from the Irish O'-which means a grandson or descendant.

*Mc'Donald.*

Here again Mc is the contraction of Mac which means 'son of.' It is important to remember that 'its' and 'it's' are differently used.

'Its' is a personal pronoun and does not need an apostrophe. Whereas 'it's' is a contraction of either 'it is' or 'it has' and therefore it takes an apostrophe.

The child wants its (personal pronouns) toy.

It's (it has) been a wonderful day.

**Quotation Marks (" / ' )** also known as quotes or inverted commas are used to enclose material that is introduced into a text from outside it, such as quotations or words used by other people.

For example:

The motto of the market was "Let the buyer beware"; now it is "Customer is king." There are two types of quotation marks single and double.

One can use either single or double quotation marks in enclosing introduced material. However, if you begin the quotation using double quotation marks, you have to close it also with the same and vice versa.

Both quotation marks are used in a single sentence when another quotation is inserted in the main quotation.

For example:

She asked, "Did he say 'diseased' or 'deceased'?" Some of the other functions of quotation marks are:

- to enclose cited words or expressions:

*What is the difference between an "order" and a "decree"?*

- to enclose expressions that the author does not take responsibility for:

*In 'good old days' the women in this village walked several kilometers to fetch drinking water.*

**Brackets** also known as parentheses are of two kinds:

- Crescent shaped ( )
- Square shaped [ ].

Brackets are used to enclose certain contents, which the writer sets out apart so that the flow of the sentence is not interrupted.

The contents set apart may be in the form of added information, like an explanation, an afterthought, a clarification, a comment, an illustration, or an expression of doubt, etc. For all these only round or crescent shaped brackets are used.

A number of (*unsuitable*) candidates had sent in their applications.

On the basis of their usage, brackets have been divided into three types. They are:

• **Crescent brackets**

Crescent brackets are used in the following:

- to enclose an abbreviation that is be subsequently used in the text, e.g.

The Department of Company Affairs (DCA) issued a circular on the matter.

- to enclose a translation or equivalent expression, e.g.

The agreement was void ab initio (from the beginning).

- to enclose references from other topics in a text, e.g.

For a detailed discussion on 'Recent Trends in Management' refer to Chapter 7 (p.140).

Example:

As depicted in (Fig. 1.1) it is obvious that the process of communication is quite complex.

- To enclose bibliographical references (square brackets can also be sometimes used in such cases).

• **Square Brackets** are used to enclose words that are not usually intended to be the part of a sentence, but only as an editorial or authorial interjection. They are also used at times to enclose parentheses within another parenthesis.

For example:

I appreciate it [the honour], but I must refuse.

We have not received [Sic] your letter (editorial interjection).

Sarah and Tanisha [Sarah's sister (as mentioned earlier)], went for a movie.

- **Other Brackets:** The other types of brackets are:

\***Brace brackets { }** Example: Select your animal {goat, sheep, cow, horse} and come to the market.

\***Angle brackets <>** Example: I found it on Games.com <<http://www.games.com./>>.

These brackets are used only in specialised texts, mathematics and technical works.

## Abbreviations

**Abbreviations** are the shortened form of a word, phrase or text.

Usually one uses abbreviations of words or names in private letters, while taking notes in between lectures or noting down some important points, thoughts, etc., as a means of saving time and also to be able to understand text at a later time.

However, in formal writing it is best to use only well-known abbreviations that are understood by all and are in frequent practice.

For example:

*Etc.* is the widely used abbreviation for ‘etcetera’, whereas someone may be in the habit of using ‘eta’ as an abbreviation for the same word, which only that person would understand to mean ‘etcetera’. Hence, such practice in formal writing should be avoided.

### Types of Abbreviation

- the first letters of two/three words or names are used to form an abbreviation. For example:

M.A. (Master of Arts)

P.M. (Post Meridiem)

BBC (British Broadcasting Corporation)

In the examples given above abbreviations can be used without the full stop also, according to the emerging trend.

Ms (Manuscript)

However, a shortening of a word can be used with a full stop at the end Prof., Capt., Maj., Gen.

- Acronyms are words formed from the initial letters of other words. UNICEF (United Nations International Children Emergency Fund)

FICCI (Federation of Indian Chambers of Commerce and Industry)

Note that these acronyms do not take on full stops in between and are frequently pronounced as a word.

Some abbreviations can be used with or without a full stop at the end, e.g.

- the first and last letters of a single word.

Mr./Mr (Mister)

Dr./Dr (Doctor)

- Scientific terms

Weights and measures are used both in full form as well as in abbreviated form.

Kg, lb, m, amp, ft, yd, mph.

- Chemical symbols

Abbreviated words are also used as chemical symbols, such as:

Ca (Calcium) H (Hydrogen), NaCl (Sodium Chloride) H<sub>2</sub>O (Water).

### **Plural in Abbreviations**

- The general rule to make an abbreviation plural is to repeat the same alphabet, such as: P-page, pp-pages
- It can be made plural by adding an ‘s’ if the abbreviation is of more than one alphabet, such as: MAs, MPs, Capts

However, there are some exceptions to these rules, e.g.:

- ‘Mr.’ which is ‘Messrs’ in plural and cannot obviously become Mrs.
- Abbreviations of scientific terms denote both singular and plural in the same form, for example: 1Kg. 4Kg., etc.
- To introduce a possessive relationship in an abbreviation apostrophe ‘s’ is added to the abbreviation. For example:  
M.P.’s or MP’s-These should not be mistaken as the plural of MP.

### **Numerals**

**Numerals** or numbers are something we have to use profusely.

Some of the general rules for using numbers are given below, along with other acceptable uses. One should however keep in mind that individual preference or the preference of an organisation, etc. should be followed in such matters. But, whatever the rule followed, it is best that the usage remains consistent throughout the whole text so as to avoid confusion. The choice of presenting the number in figure or in words is influenced largely on the effect one wants to achieve.

### **Rules for Numerals**

Rules for using numbers are categorized as follows:

- On the basis of spelling them out in words, e.g.

Three persons attended the seminar from my department.

However, if the same numbers are used with higher numbers then for the sake of uniformity they could be used in figure form.

- By using figures, e.g.:

We need about 7 to 15 days to complete the project in hand.

- Numbers may be spelt out in formal, literary or non-technical writing, where not many numbers are used and where using of figures does not flow smoothly along with the rest of the text. In this case it is best to–
- spell out the numbers from one to hundred.
- spell out higher numbers that are written in one or two words. (Note that hyphenated compounds like twenty-one are taken as one word).
- Spell out numbers in the beginning of a sentence, otherwise it would be better to reconstruct the sentence.
- Spell out indefinite numbers.

Hundreds of children; tens of thousands, etc.

- Spell out fractions that are straight forward, such as one-half, one-fourth, i.e., those numbers that do not have a whole number preceding them.
- Spell out numbers while quoting direct speech.

(ii) **Using figures:** Figures should be used:

- In informal writing while using any number above ten.
- In writing large numbers that require more than two words when spelt out.

*1,20,000 or 50,25,000*

However, a combination of words and figures can also be used.

*10.8 million*

- In depicting dates.

2nd October, 2012 – In depicting time.

10' clock, 12 noon, 7 a.m., etc.

- When depicting monetary numbers

\$10, ' 125.75/-

- In technical contexts

8.6 per cent

50-50 partnership

Even fractions having technical value are given in numbers. 3/4 inch pipe

- When stating age

2 years old baby; 1 year old project

The other general rules to be observed while using numbers are:

(i) **Use of commas:**

- While using figures, commas may be used for numbers that have more than four digits. 1,26,000
- Never use commas while writing page numbers or years.

Page 1345; 2012 (year)

(ii) **Use of zero:**

- The use of zero should be avoided when stating whole units of currency and time, unless the units of time and currency have fractions, e.g.

Rs. 20 (not Rs. 20.00)              7 a.m. (not 7.00 a.m.)

Rs. 10.50                                9.45 p.m.

Rs. 13.10                                11.20 p.m

- Zero is used before a decimal point to clearly state that no whole number is involved, e.g.: 0.5, 0.75

(iii) **Use of hyphens:**

- All compound numbers between 21 and 99, whether they are used alone or as part of a larger number are always hyphenated, e.g.

*Thirty-one, ninety-nine million*

- In sequencing consecutive numbers the hyphen may be used instead of the word “to”.

during the year 2011-2012...

on pages 234-267

However, when the sequence begins with “between” or “from”, the hyphen cannot be used. It will be as follows:

*Between 2011 and 2012*

From page 234 to page 267

From 10th October to 15th October, 2012 (iv) For clarity:

Certain numbers are spelt out for the sake of clarity

*Ten 100-page catalogues*

Six 5-room flats

Here the rule is to spell the first number unless the second number makes a much shorter word.

*3000 six-page brochures*

88 four-room apartments

## IDIOMS AND PHRASES

A simple word like go is a part of a child’s vocabulary, so much so that the primitive bushman had an equivalent for it in his language. But look at the following sentences:

(i) Ever got a Mumbai number at ***first go***?

(ii) He is always ***on the go***.

‘Go’ is no longer a simple word from a child’s vocabulary.

Take ‘fall’-***the sparrow’s fall***, and the Roman Empire’s ***fall***, and so on. Now combine ‘go’ with another simple word ‘down’. Look at ‘the boxer ***going down***’ on the first count. In the company of ‘down’, ‘go’ has changed beyond recognition. There is more to it. Think of Churchill who would ***go down*** in history as the man who saved England from total collapse. This time the meaning has changed without ‘go’ forming a new alliance.

A literal translation of this two-word combination ‘go down’ will not help. And this happens very often with many words in English. ‘Go down’ has to be understood in its own right and in its particular context. This is an ‘idiom’ which the dictionary defines ‘as the form of expression peculiar to a language.’

As such idioms are not peculiar to English language alone, they are found in other languages as well. But, as already said, they cannot be transliterated [to change (letter, words, etc.)] ***into corresponding characters of another alphabet or language*** from one language to another. All such combinations of words used in a ***peculiar fashion*** are called idiomatic expressions.

A **Phrase** is a group of words, a part of sentence which does not make a complete sentence, but has an independent meaning and makes some sense: ***on the hill, about town, under the tree***, etc.

A phrase is quite often equivalent to an adjective, adverb or noun. We would here, however, confine ourselves to phrases which are used ***idiomatically***.

In the language itself, therefore, idioms are the source of sparkle and polish. Very often an idiomatic expression has no exact equivalent in the language itself. Take for example, '***bring up***'. We know by long usage what it means. And yet the dictionary meaning '***rear***' is at best a poor substitute for it.

The list below is by no means exhaustive. Even so it is fairly long. A glance at them will brush up your memory. You would come across these expressions, and need them yourself, quite often in your career. Use of idiomatic expressions in writing enriches your language.

### ***Some Verbal Idioms***

We shall begin with idioms, each consisting of a verb and a preposition. A single verb can give us a number of idiomatic expressions by attaching different prepositions to itself. For example, *turn out* (to expel), *turn up* (to appear at some place), *turn down* (to reject some request or appeal), etc. You may have become familiar with the usage of most of the verbal idioms. To refresh your memory here are just a few:

1. *Beat back* (compelled to retreat) The firemen were *beaten back* by the flames and the building was reduced to ashes.
2. *Boil down to* (to amount to) His entire argument *boiled down to* the fact that he would not join the movement unless he saw some monetary gain in it.
3. *Cast aside* (to reject, to throw aside) People normally *cast aside* truth and honesty for immediate gains.
4. *Cut off with a shilling* (to give someone a mere trifle in the will) The father was so angry with the son over his marriage that he *cut him off with a shilling*.
5. *Gloss over* (to ignore) Even if you are an important person your faults cannot be *glossed over*.
6. *Labour under* (to suffer from some disadvantage or distress) Let us not *labour under* the delusion that our friends will come to our aid in times of difficulty.
7. *Play off against* (to set one party against another for one's own advantage). It best serves the interests of the super powers to *play off* one poor nation against another.
8. *Pull one through* (to recover, to help one recover) Armed with the latest medicines, the doctor will *pull him through*.

### ***Idiomatic expressions in which the principal word is the verb***

1. *Cast a slur upon* (by word or act cast a slight reproach on someone) Many a men *cast a slur on* their own good name by some mean act.
2. *To catch a Tartar* (to encounter a strong adversary) When Hitler marched on to Russia he hardly knew that he would *catch a Tartar* in the tough people of that country.
3. *To cut the Gordian knot* (to remove a difficulty by bold or unusual measures) The Indian Parliament threw out the Bill for Abolition of Privy Purses. The Government *cut the Gordian knot* by abolishing the purses through a Presidential Ordinance.
4. *To fall to someone's lot* (to become someone's responsibility) It has *fallen to the lot* of the eldest brother to pay off the debts of the father.
5. *To get the upper hand or to get the better of* (to prevail over) Hari *got the better of* Suresh in the Degree Examination.
6. *To give someone the slip* (to dodge someone who is looking for you) The police had nearly arrested the dacoits when the latter *gave them the slip* and hid himself in the Chambal ravines.

7. *A give and take policy* (a policy of mutual concessions) A *give and take policy* alone can restore peace between India and Pakistan.
8. *To go to rack and ruin* (reach a state of despair through neglect) If a big war comes, our economy will go to *rack and ruin*.
9. *To have a bone to pick with* (to have a difference with a person that has not yet been fully expressed) The extreme leftists *have a bone to pick with* the police and if ever they come to power.
10. *To have the whip hand* (to have a position of power or control) Even after the split in the party he *has the whip hand* in the party.
11. *To have too many irons in the fire* (to have so much work in hand that some part of it is either left undone or done very badly) His performance is poor because he *has too many irons in the fire*.
12. *To have the right ring* (to be genuine) The Americans' pronouncements of world peace do not usually *have the right ring*.
13. *To have an axe to grind* (have personal interests to serve) Bigger nations supply arms to the smaller ones primarily because the former *has their own axe to grind*.
14. *To keep a thing to oneself, to keep one's own counsel* (to be silent about one's intentions) A great leader must ultimately *keep his own counsel*.
15. *To keep the wolf from the door* (to keep away extreme poverty and hunger) Lakhs of people in India still have to fight daily to *keep the wolf from the door*.
16. *To make short work of* (to bring to sudden end) The locusts *made short work of* the standing ripe corn.
17. *To make amends* (to compensate or make up for a wrong doing) By being polite today, he has *made amends* for his past insolence.
18. *To make common cause* (to unite in order to achieve a shared aim) During the elections the princes *made a common cause with* the rightist parties. Both went down.
19. *To make a virtue of necessity* (Pretend or believe that something which one is obliged to do or accept is good for one's character, moral development, etc.) When a Minister knows that he is going to be booted out of the cabinet he *makes a virtue of necessity* and resigns 'on health grounds'.
20. *To make much ado about nothing* (to make a great fuss about a trifle) Crying over the loss of ten rupees is really *making much ado about nothing*.
21. *To make a cat's paw or a tool of someone* (to use someone as a means of achieving one's goal) The super powers have *made a cat's paw* of the smaller nations of Asia in their game of power politics.
22. *To put the cart before the horse* (reverse the proper order or procedure) Preparing the blue print of a project without analysing market potential is like *putting the cart before the horse*.
23. *To rise to the occasion* (show the daring, imagination etc., which fits a particular occasion) A flood threatened to burst the reservoir but the villagers *rose to the occasion* and did not relax till they had made all secure.
24. *To set store on* (to consider to be of a particular degree of importance) India did *set much store on* the Indo Soviet Treaty of friendship.
25. *To set one's own house in order* (to arrange one's affairs harmoniously) Let Pakistan *set his own house in order* before talking about the welfare of the Kashmiris.
26. *To take the bull by the horns* (deal decisively with a difficult or unpleasant situation) The doctor had to *take the bull by the horns* by deciding to amputate the patient's leg in order to save his life.

27. *To take a leap in the dark* (take a risky action/step in the hope that it is right) You took a leap in the dark in going into partnership with that man.
28. *To throw cold water upon* (to discourage someone from doing something) The doctor threw cold water upon my plans for a world tour by declaring that I would not be able stand the strain of it.
29. *To throw in the sponge/towel* (to give up a contest/acknowledge defeat) Faced with stiff competition from big companies, many a small companies throw in the sponge.
30. *To turn the tables* (gain an advantage after having been at a disadvantage) Pakistan started with a blitzkrieg but the superior tactics of our armed forces soon turned the tables on them.

### **Miscellaneous Idiomatic expressions formed with the help of verbs**

1. *To cook or doctor an account/a book* (to tamper with or falsify the facts of figures/ accounts) From the balance sheet presented to the shareholders, the company seemed to be flourishing, but later on it turned out that the management had cooked the accounts.
2. *To bear the brunt of* (to bear the main force or shock of) The infantry forces have to bear the brunt of a battle.
3. *To beard the lion in his den* (to oppose or challenge someone in his stronghold place) The Indian Army broke through strong Pakistan fortifications, and in the Shakargarh area bearded the lion in his own den.
4. *To blunt the edge of* (to make something less effective) Time blunts the edge of grief.
5. *To burn the candle at both ends* (to make too great a demand on one's physical or mental resources by overwork or overindulgence in some activity) In any kind of job, especially academic, you cannot afford to burn the candle at both ends, if you want to be productive every day.
6. *To cross the Rubicon* (to take an important action or step that cannot be reversed) The Government will have to think of many things before nationalising the textile industry for once they cross the Rubicon there will be no going back.
7. *To curry favour* (to win favour by gifts or flattery/try to flatter) He was trying to curry favour with the boss by offering him an expensive gift.
8. *To flog a dead horse* (waste one's energies on a lost cause) We will be flogging a dead horse if we try to make Sanskrit the national language of India.
9. *To feather one's nest* (to provide for oneself through dishonest means) Many bureaucrats feather their own nest while they have the opportunity.
10. *To eat humble pie* (to have to humiliate oneself) Since no one came to his support he had to eat humble pie and give in to their demands.
11. *To eat one's words* (to retract one's assertions under compulsion) It is hard for a haughty man to have to eat his words.
12. *To throw down the gauntlet, to take up the gauntlet* (to issue a challenge, to accept a challenge). In order to defend his title the young Brazilian wrestler threw down the gauntlet.
13. *To run the gauntlet* (to undergo severe criticism or ill treatment) Most books have to run the gauntlet of the literary critics.
14. *To burn one's fingers* (to get oneself into trouble through miscalculation/ foolishness) If you've never played the stock market in the past this is not the time to start, as you are likely to burn your fingers.

15. *To force one's hand* (to compel one to do something unwillingly or earlier than when one wished to do it) The Government wanted to do all that it could to meet the workers' demands. But the violence by the strikers *forced their hands* to declare a lockout.
16. *To haul over the coals* (reproach/reprimand someone severely) If your bad habits become known, you will get *hauled over the coals* and you richly deserve it too.
17. *To let the grass grow under your feet* (to unnecessarily cause delay in taking action) The authorities should listen to students' grievances. If they *let the grass grow under their feet* the situation would turn from bad to worse.
18. *To lord it over someone* (to behave in a superior or domineering manner with someone) The intoxication of power is so strong that when a man gains it he begins *to lord it over his fellows*.
19. *To mind one's P's and Q's* (to be punctiliously careful about one's speech or behaviour) The manager suspects his chief clerk of dishonesty, and if the clerk does not *mind his P's and Q's*, he will soon find himself out of job.
20. *To pass muster* (to be accepted as satisfactory) Though my work in college was not as good as it could have been, it *passed muster* and I got good results.
21. *To pay one back in one's own coin* (to give tit for tat; to retaliate) Howsoever revengeful you may be, unless you are strong enough you cannot *pay him back in his own coin*.
22. *To plough a lonely furrow* (to work without help or support) In the organised society of today no individual or nation can *plough a lonely furrow*.
23. *To rest on one's laurels* (to rest satisfied with one's achievement and make no further efforts) Even if he wins the biggest award, a film star will never *rest on his laurels*. He will try to reach greater heights of stardom.
24. *To harp on the same string* (to keep repeating the same things over and over again) This gentleman keeps *harping on the same string* that he is from Oxford and deserves the best.
25. *To rise like a phoenix from its ashes* (the phoenix is a mythical Arabian bird. It had no mate but when it was about to die, it made a funeral pile of wood and aromatic gums and burned itself to ashes on it. From the ashes a young phoenix is believed to have risen; to rise up to former glory after being totally destroyed) Germany was completely decimated in the Second World War. But she has *risen like a phoenix from her ashes*.
26. *To rule the roost* (be the one who directs others in a business, community, household, etc.) In rural areas it is normally the Sarpanch who *rules the roost*.
27. *To scatter to the winds* (to waste (i) to scatter) Whatever we had gained by independance we scattered *to the wind*.
28. *To see which way the wind blows* (to observe what influence, whether it is favourable or adverse, is likely to affect the existing state of things) In party-politics people sitting on the fence keep on watching *which way the wind is blowing* before deciding whom to support.
29. *To see a thing through coloured spectacles* (to regard something unfavourably because of one's prejudices) Pakistan has for long *looked at India through coloured spectacles* and never trusted even the most genuine of her peace moves.
30. *To see through something* (to understand the true nature of something beneath deceptive appearances) They *saw through* the game of the enemy.

31. *To speak volumes about* (to have abundant evidence about something) The success of democracy in India speaks *volumes* about the maturity of her people.
32. *To split hair* (quibble or argue on minor points) As the drought played havoc in Bihar, the authorities were busy *splitting hair* trying to decide whether there was 'scarcity conditions' or 'famine'.
33. *To steal a march on* (to do something so as to gain an advantage over another) While we were still debating the desirability of joint ventures with foreign concerns, Singapore and Malaysia *stole a march* over us and opened their gates to foreign investment in a big way.
34. *To stick at nothing* (behave in an unscrupulous way to get what one wants) An ambitious politician will *stick at nothing* if that serves high ends.
35. *To strain every nerve* (to use one's utmost efforts) We have to *strain every nerve* to get over the poverty line.
36. *To stretch a point* (to extend a regulation/definition to cover something not included in it) Targetting small bakeries as part of the drive to move polluting industries from residential areas to industrial ones is *stretching the point* a little too far.
37. *To strike while the iron is hot* (to take immediate advantage of an opportunity) By going in for general elections immediately after the war, the Congress *struck while the iron was hot*.
38. *To talk shop* (to discuss matters connected with one's trade or profession) During tea breaks at any seminar you will always find the participants *talking shop*.
39. *To tie somebody's hands* (to restrict somebody's activities) Although the management was aware about the severe financial crises one of their employees was going through, it could not pass the loan for it *hands were tied* by the Company's policy.
40. *To throw mud at* (to talk ill of) Some people specialise in *throwing mud at* others.

**Idiomatic phrases formed by the combination of a noun and an adjective each, noun phrases and adverbial phrases**

1. *Argus-eyed* (jealously watchful) The husband of a pretty wife has got to be *Argus-eyed*.
2. *Augean stables*: To clean *Augean stables* (to correct a great abuse-the myth is that the stables of King Augeas of Greece were not cleaned for thirty years) The law against prostitution has failed to clean *Augean stables*.
3. *Bad blood* (ill will towards each other, enmity) There has been *bad blood* between India and Pakistan since 1947.
4. *A bone of contention* (subject of dispute) Kashmir continues to be a *bone of contention* between India and Pakistan.
5. *A bosom friend/pal* (A very intimate and trusted friend) *Bosom friends* never betray one another.
6. *Like a bull in a China shop* (someone who is too clumsy, rough, coarse, etc. to suit his/her surroundings and company or to handle a delicate situation) Don't let him handle the labour problem, with his short tempered nature he will only be *like a bull in a China shop* and worsen the situation.
7. *A cold-comfort* (inadequate consolation) The mere promise of a better future is only *cold comfort* to the frustrated youth of today.
8. *Creature comforts* (material comforts that contribute to physical ease and well-being) A poor labourer is more concerned about *creature comforts* than spiritual development.

9. *A dog in the manger* (a person who prevents others from having things that he does not need himself) The affluent nations follow a *dog in the manger* policy. They would rather destroy what they can't use themselves than give it to the poor nations of Asia and Africa.
10. *Elbow room* (adequate space to move or work in) Too many rules and red-tapism hardly gives one *elbow room* to try out new methods that might prove more profitable for an organisation.
11. *A fair-weather friend* (a friend who deserts you in difficulties) A *fair-weather friend* disappears the moment your money disappears.
12. *French leave* (absence from work or duty without permission) Don't take too many *French leaves now*, it will mar your chances for a promotion.
13. *Good offices* (influence) One can get a good job only through the *good offices* of someone in power.
14. *A herculean task* (a job requiring greater effort) Eradication of poverty is a *herculean task* requiring the collective efforts of the entire country.
15. *Lynch law* (Mob law, law administered by private individuals and followed by summary execution) In African countries they often resort to *lynch law* to punish criminals.
16. *A maiden speech* (the first speech of a new member in a public body as in Town Hall or in Parliament) Every MP looks forward to his *maiden speech* because it is an opportunity for him to make a good impression.
17. *A nine-day wonder* (a person or event that attracts a lot of notice for a short time but is soon forgotten) The controversy of the match-fixing charges in the cricket match was but a *nine-day wonder*.
28. *The rising generation* (the young people). The rising generation is quite techno-savvy.
29. *Scot free* (without suffering any punishment or injury) Because he had influential connections, the culprit went *scot free*.
30. *A sheet anchor* (a dependable person, or thing relied upon in the last resort) In times of immense strain and problems, one's family and friends are one's *sheet anchor* who keep one from giving in.
31. *Tall talk* (boastful language) If we have no real accomplishments, we indulge in *tall talk* to delude ourselves and others too.
32. *A white elephant* (something expensive to maintain) I had to dispose off the car as it turned out to be a *white elephant*.
33. *A white lie* (a harmless lie told to avoid hurting someone's feelings) His *white lie* that everything was alright with him, helped soothe his agitated mother, who had heard that he had met with an accident.
34. *A wild-goose chase* (a useless search, investigation or enterprise) The hoaxter had sent the police on a wild-goose chase.
35. *An apple of discord* (a subject of dispute/rivalry) Kashmir continues to be the *apple of discord* between India and Pakistan.
36. *The gift of the gab* (eloquence, fluency in speech) The *gift of the gab* invariably makes for a successful politician.
37. *The ins and outs* (the full details, intricacies, complications of a thing) We are yet to learn the *ins and outs* of the Mao-Nixon agreement.
38. *The lion's share* (an unfairly large share) The big nations continue to have the *lion's share* of world trade.
39. *The three R's* (mastery in reading, writing and arithmetic) The *three R's* have been the main focus of

primary education for many decades now.

40. *Penelope's web* (a work which seems to be going on and yet never comes to an end) A housewife's chores are a *Penelope's web*.
41. *The powers that be* (any governmental, legislative, managerial body) Unless you agitate against *powers that be*, they will never do anything for your welfare.
42. *The pros and cons* (various points or arguments for and against someone or something) Before taking a major decision it is always best to weigh its *pros and cons*.
43. *Scylla and Charybdis* (In the straits of Messina between Italy and Sicily there is a rock on one side called Scylla and on the other is a dangerous whirlpool called Charybdis. Both are equally dangerous to a sailor. Hence to be between *Scylla and Charybdis* is to be between two dangers).  
A married P.A. is between *Scylla and Charybdis*. If he goes home early the boss gets annoyed. If he obliges the boss, he displeases his wife.
48. *By the skin of one's teeth* (narrowly escape or avoid by a small margin) The storm broke up the ship but the sailors escaped by *the skin of their teeth*.
49. *A storm in a tea cup* (a great fuss over a trifle) The commotion over the bomb explosion turned out to be *a storm in a tea cup*; it was a Diwali cracker burst by an urchin.
50. *Null and void* (invalid, valueless, no longer in force) The court declared the appointment of the managing director by 'X' limited *null and void*.

#### **Prepositional and other Phrases in English used with the verb "to be"**

1. *To be worth its weight in gold* (extremely valuable) In the desert a bottle of water is often *worth its weight in gold*.
2. *To be Greek or double Dutch to one* (unintelligible, incomprehensible language) He spoke so fast that all he said was *double Dutch* to the audience.
3. *To be at sea* (confused, uncertain) I am quite *at sea* as far as economics is concerned.
4. *To be at sixes and sevens* (in a state of confusion or disarray) I haven't had time to arrange everything, so I'm all *at sixes and sevens*.
5. *To be at one's wits end* (be completely at a loss as to what to do) With the master shouting from the bathroom and the mistress from the kitchen the servant was *at his wits end* as to who to attend first.
6. *To be in the doldrums* (feeling depressed; in low spirits or depression) He has been *in the doldrums* ever since his wife left him.
7. *To be on the wane* (becoming weaker or less vigorous) After the second World War, the British rule was *on the wane*.
8. *To be on the carpet* (being severely reprimanded by someone in authority) The unpunctual clerk was repeatedly *on the carpet*.
9. *To be on one's last leg* (near the end of life, usefulness or existence) With the increasing use of computers in offices, it seems the typewriter is at its *last leg*.

#### **Idiomatic expression belonging to particular subject**

- (i) **Money, debt, business, etc.**

1. *Ready money or cash* (money immediately available for use) Earlier it was time consuming to withdraw cash. Today ATMs provide *ready money* in no time.
2. *Bad debts* (debts regarded as irrecoverable) Every year the company compiles a list of *bad debts* and writes them off.
3. *In short supply* (not easily available) Sugar is *in short supply* because of the strike in sugar mills.
4. *To bring a thing under hammer* (to sell something by auction) If a person goes insolvent, his creditors bring everything that he owns *under hammer* to recover their money.
5. *To drive a hard bargain* (insist on the best possible price when negotiating with somebody) The Sheikh *drove a hard bargain* while selling oil to western countries.
6. *To pay one's way* (earn enough to cover one's expenses) While at college, he *paid his way* by working as a newspaper vendor.

#### (ii) Warfare

7. *To take something by storm* (to capture a place by sudden and violent attack) The men mounted an all-out attack from air and land and soon took the enemy country *by storm*.
8. *To strike one's flag or colours or to show the white* (to surrender) After the army surrounded their hiding place, the terrorists *showed the white* and were thereafter captured.

#### (iii) Sea and ships

Many of the expressions belonging to this group are used metaphorically, i.e., in areas other than that to which they belong.

9. *To weather the storm* (to come out of a crisis successfully) In a crisis it is unity which helps a nation *to weather the storm*.
10. *To sail before the wind* (sail in the direction in which the wind is blowing or act in a safe way) An opportunist is one who *sails before the wind* (its opposite is to sail close to the wind, i.e., behave or operate in a risky way).
11. *To cast anchor* (to settle in a place for the time being) After travelling around the world, he finally *cast anchor* in Paris because he liked the city.
12. *To give a broadside* (a naval phrase meaning to charge at once at an enemy by arranging all the guns along one side of a ship. Metaphorically it means to make a vigorous attack upon an opponent) The Prime Minister bore all criticism with patience and then *gave a broadside* that silenced all criticism.
13. *To be in the same boat* (be in the same difficult circumstances as others) In a nuclear war, the rich and the poor nations will be *in the same boat*. None will be able to protect itself.
14. *To take the wind out of one's sails* (upset or disturb an overconfident or pompous person) Before he goes any further, confront him with the evidence of his wrong doings and *take the wind out of his sails*.

#### (iv) Fire, light, candles

16. *The game is not worth the candle* (the advantage or enjoyment to be gained is not worth the time spent in gaining it) Journey to the moon is an elaborate and costly affair and some people with a pragmatic approach feel *the game is not worth the candle*.
17. *Not hold a candle to* something or someone (be inferior to someone) She writes quite amusing stories but she can't hold a candle to the more serious novelists.

## (v) Death

All the phrases given below mean, 'to die a natural death' as opposed to a violent or sudden death (from murder, in accident or in battle-field, etc.). These phrases also apply to death after a long illness.

*To pass away, to go the way of all flesh, to breathe one's last, to be gathered to one's fathers, to join the great majority, to kick the bucket.*

**PROVERBS**

Proverbs contain home truths as well as universal truths. Naturally, therefore, they are translatable-so far as their meaning goes-from one developed language to another. Their appeal is direct. Many of them had their origin in folk literature; hence they are simple and unadorned. They point out the incongruities (*inappropriateness*) of situations in life, throw light on the diversity in human life and character, and contain a grain of advice to the wayward, the forlorn and the common folk. They are everyman's philosophy. Every one of them tells a story in a single sentence. In fact, most of them have some history- legendary or real-behind them. Some of them are gems from the works of great masters, like Shakespeare, Dryden and Aesop, the Greek fable writer. Others go back to antiquity. Many of them come out of the Bible. Their meaning, often enough, is quite clear.

Here are some proverbs with their meanings:

1. Hope springs eternal in the human breast (*one never loses hope*).
2. Better late than never.
3. Fools rush in where angels fear to tread. (*Said of reckless persons*).
4. There is no fool like an old fool. (*An aged lover*).
5. A fool and his money are soon parted.
6. Example is better than precept. (*Precept means moral instruction*).
7. Well begun is half done.
8. He who pays the piper calls the tune. (*One has to act according to the wishes of one's master*).
9. You cannot make a silk purse out of a sow's ear. (*Said of something impossible*).
10. A bird in hand is worth two in the bush.
11. Birds of a feather flock together. (*People of like character come together*).
12. A little knowledge is a dangerous thing.
13. One man's meat is another man's poison. (*What is good for one may be harmful for another person*).
14. Out of the frying pan into the fire. (*From one trouble to another bigger trouble*).
15. It never rains but pours.
16. The last straw breaks the camel's back. (*The smallest addition to an already heavy task or burden makes it intolerable*).
17. Fore-warned is fore-armed. (*A prior warning should prepare one for the contingency*).
18. To err is human; to forgive, divine.
19. Out of sight, out of mind. (*Once you lose sight of a thing, you forget it altogether*).
20. Distance lends enchantment to the view. (*Things look nice and beautiful when they are not within reach*).

21. Render unto Caesar what is Caesar's. (*Be revengeful*).
22. Haste makes waste.
23. Look before you leap. (*Do not be reckless and impulsive*).
24. Make hay while the sun shines. (*To make full use of the given opportunity*).
25. Never look a gift horse in the mouth. (*There can be no choice about things given in charity or gift*).
26. Beggars can't be choosers.
27. Nearer the Church, the farther from God. (*The more opportunities you have the less you benefit from them*).
28. Two heads are better than one.
29. None but the brave deserve the fair.
30. All is well that ends well.
31. To rob Peter to pay Paul. (*To harm one person [or side] in order to benefit the other*).
32. Rome was not built in a day. (*Things take time to complete and to mature*).
33. One swallow does not make a summer.
34. You can't have the cake and eat it too.
35. Everyman for himself and God for us all.
36. To hit the nail on the head.

## REVIEW QUESTIONS



### State True or False:

1. Jargon means a language which is unique to a particular field of knowledge.
2. The same word cannot be used as different parts of speech.
3. As far as spelling of English Language is concerned, the British prefer 'z' over 's', i.e., criticize, realize, recognize and so on.
4. Full stop should not be omitted after acronyms which are pronounced as a word.
5. Apostrophe is never used in a single word.
6. Abbreviation and Acronyms are the same thing.
7. An abbreviation is a short way of writing a word or phrase that could not be written out in full.

**Answers :** 1. True 2. False 3. False 4. False 5. False 6. False 7. False

## FOREIGN WORDS AND PHRASES

English has borrowed generously from other languages, more so from Latin, Greek, French and German. Many of the borrowed words have been anglicised and today are an integral part of English vocabulary in their original or modified form, e.g., restaurant, rapport, viva voce. There are many other expressions which are liberally used in English and yet continue to retain their foreign flavour. They are still outsiders and, in print, are italicised.

Some examples given below are of a technical nature pertaining to law, philosophy, politics and 'officialdom'.

The language of origin is indicated after the word or phrase within brackets. Here 'L' stands for 'Latin'; 'F' for 'French' and 'G' for 'Greek'.

<i>ab initio</i> (L)	: from the beginning
<i>ab origin</i> (L)	: from the origin
<i>addenda</i> (L)	: list of additions (addenda to a book)
<i>ad libitum</i> (L)	: speak or perform in public without advance preparation. (Extempore)
<i>ad valorem</i> (L)	: according to value
<i>ad hoc</i> (L)	: a body elected or appointed for a particular work (ad hoc committee)
<i>ad infinitum</i> (L)	: to infinity, endlessly, forever
<i>alma mater</i> (L)	: a school or a college which one has attended
<i>a la carte</i> (F)	: according to the card/list (A la carte dishes are available here)
<i>a la mode</i> (F)	: according to the fashion
<i>alter ego</i> (L)	: the other self; alternative personality; intimate friend (He is my alter ego - we go everywhere together)
<i>amendehonorable</i> (F)	: a public or open apology, reparation
<i>amour propre</i> (F)	: self-love; self-esteem
<i>ancien regime</i> (F)	: the former order of things, a political or social system that has been displaced by a more modern one.
<i>a posteriori</i> (L)	: empirical, from effect to cause
<i>a priori</i> (L)	: from cause to effect (presumptive) Every science cannot be taught <i>a priori</i> .
<i>apropos</i> (L)	: with reference to ( <i>apropos</i> our talk)
<i>au courant</i> (L)	: fully acquainted with matters, well-informed, up-to- date
<i>au fait</i> (F)	: expert, having detailed knowledge
<i>au revoir</i> (F)	: until we meet again (to say <i>au revoir</i> at parting)
<i>avant-propos</i> (F)	: preliminary matter, preface
<i>avant-garde</i> (F)	: new, unusual or experimental
<i>beau ideal</i> (F)	: the ideal of perfection
<i>beau monde</i> (F)	: the world of fashion
<i>beaux esprits</i> (F)	: men of wit
<i>bete noire</i> (F)	: a special aversion (India has always been <i>bete noire</i> for Pakistan)
<i>bona fide</i> (L)	: genuine sincere (He is a <i>bona fide</i> citizen of India).
<i>bizarre</i> (F)	: strange, unknown
<i>bon voyage</i> (F)	: have a good journey
<i>casus belli</i> (L)	: that which causes or justifies war
<i>cause celebre</i> (F)	: a famous case in law, controversial well-publicised issue

<i>charge d'affaires</i> (F)	: a deputy to the Ambassador/a diplomatic representative to a minor country
<i>chef d' oeuvre</i> (F)	: masterpiece (Mona Lisa is Vinci's <i>chef d' oeuvre</i> .)
<i>circa</i> (L)	: approximately ('circa 1930')
<i>confere</i> (F)	: colleague
<i>contretemps</i> (F)	: a minor dispute or disagreement
<i>corrigenda</i> (L)	: a thing to be corrected (in a book)
<i>coup d'état</i> (F)	: violent change in government (There was a <i>coup d'état</i> in Cambodia and the King was overthrown.)
<i>coup de grace</i> (F)	: a finishing stroke (The <i>coup de grace</i> of the Russian Revolution brought about the total annihilation of the Czar family.)
<i>cul-de-sac</i> (F)	: a blind alley (The failure of the policy of non- alignment in 1962 saw our foreign policy reach a <i>cul- de-sac</i> .)
<i>debacle</i> (F)	: an utter failure or disaster (debacle of opposition in the election)
<i>de facto</i> (L)	: actual or infact ( <i>de facto</i> recognition to a state)
<i>de jure</i> (L)	: from the law, by right
<i>de novo</i> (L)	: anew, again (trial of a case)
<i>de' nouement</i> (L)	: the end of a plot or narrative (in a play)
<i>de profundis</i> (L)	: a heartfelt appeal or feeling
<i>dernierressort</i> (F)	: last resort
<i>detente</i> (F)	: easing of strained relations especially between countries
<i>dramatis personae</i> (L)	: characters of a novel, play or narrative
<i>elite</i> (L)	: select group or class (The <i>elite</i> of town)
<i>enfant terrible</i> (F)	: child who asks awkward questions; person or thing causing embarrasment by unruliness
<i>entreprenuer</i> (F)	: a person who sets up business taking greater financial risk
<i>en masse</i> (F)	: all together (They took leave en <i>masse</i> .)
<i>en rapport</i> (F)	: in harmony
<i>entourage</i> (F)	: group of people accompanying a dignitary (P.M.'s <i>entourage</i> )
<i>errata</i> (L)	: list of errors
<i>esprit de corps</i> (F)	: the animating spirit of a particular group like a regiment
<i>et cetera</i> (L)	: and the rest
<i>eureka</i> (G)	: I (have) found it !
<i>ex-officio</i> (L)	: by virtue of his office/status/position
<i>expose</i> (F)	: a report in the media that reveals something discreditable
<i>ex post facto</i> (L)	: with retrospective action or force

<i>fait accompli</i> (F)	: a thing already done/accomplished fact
<i>faux pas</i> (F)	: a social blunder
<i>gauche</i> (F)	: unsophisticated/socially awkward
<i>hoi polloi</i> (G)	: the common people
<i>impasse</i> (F)	: a deadlock (Talks reached an <i>impasse</i> .)
<i>in extenso</i> (L)	: in full
<i>in memoriam</i> (L)	: in memory of
<i>in toto</i> (L)	: entirely/as a whole (The Committee's recommendations were accepted <i>in toto</i> .)
<i>ipso facto</i> (L)	: by that very fact or act
<i>laissez-faire</i> (F)	: a policy of non-interference
<i>mala fide</i> (L)	: in bad faith (opposite of <i>bona fide</i> )
<i>malapropos</i> (F)	: ill-timed/inappropriately
<i>modus operandi</i> (L)	: a way of doing something (of a gang, group, etc.)
<i>mutatis mutandis</i> (L)	: with the necessary changes (Rules will come into force <i>mutatis mutandis</i> .)
<i>noblesse oblige</i> (F)	: privilege entails responsibility
<i>nota bene</i> (L)	: note well (Abbreviation-N.B.)
<i>par excellence</i> (F)	: better than the others of the same kind
<i>paripassu</i> (L)	: side by side, equally or equivalently per se (L) : by itself
<i>piece de resistance</i> (F)	: the important feature of a creative work or meal, etc.
<i>poste restante</i> (F)	: a department in the post office that keeps letters for a period till called for
<i>post mortem</i> (L)	: examination/analysis made after death/or an event has occurred
<i>prima facie</i> (L)	: at first view of consideration (It is <i>prima facie</i> a good case.)
<i>probonopublico</i> (L)	: for the good of the public
<i>pro forma</i> (L)	: denoting a standard document or form
<i>pro rata</i> (L)	: according to rate or proportion
<i>protege</i> (F)	: one under the protection/guidance of another older or experienced person (South Vietnam was U.S.'s protege.)
<i>quid pro quo</i> (L)	: a favour or advantage given in return for something
<i>raison d' etre</i> (F)	: the most important reason for a thing's existence
<i>resume</i> (F)	: a summary or curriculum vitae
<i>sanctum sanctorum</i> (L)	: holy of holies (temple, church, etc.)
<i>seriatim</i> (L)	: point by point
<i>sine die</i> (L)	: without a day being appointed (The meeting was adjourned <i>sine die</i> .)
<i>status quo</i> (L)	: the existing condition ( <i>status quo</i> on the border should be maintained)

<i>stet</i> (L)	: let it stand, do not deter
<i>sub judice</i> (L)	: under judicial consideration and therefore prohibited from public discussion (The case is <i>sub judice</i> .)
<i>sub rosa</i> (L)	: confidentially/done in secret
<i>sui generis</i> (L)	: in a class by itself
<i>summum bonum</i> (L)	: the chief good
<i>terra incognita</i> (L)	: an unknown territory
<i>tour de force</i> (F)	: a notable feat of strength or skill
<i>ultra vires</i> (L)	: beyond one's authority
<i>verbatim</i> (L)	: word for word
<i>vice versa</i> (L)	: conversely
<i>videlicet</i> (L)	: namely, more formal term for viz.
<i>vis-a-vis</i> (F)	: in relation to, as compared with, in a position facing one another
<i>viva voce</i> (L)	: an oral examination
<i>vox populi, vox Dei</i> (L)	: the voice of the people is the voice of God
<i>Zeigeist</i> (G)	: the defining spirit of a particular period or age

### ABBREVIATED FORM OF LATIN, FRENCH AND ROMAN WORDS

An **abbreviation** is a short way of writing a word or a phrase that could also be written out in full. The word "abbreviation" comes from the Latin word abbreviare(to shorten) which is related to brevi(short). While some people disagree, all methods of shortening words or phrases are subsets of abbreviation. Abbreviations when used properly, can enhance communication because they act as 'short-hand' and therefore increase the efficiency of communication. In other words, more meaning is conveyed in less time and fewer words.

*Abbreviation is defined as:*

A shortened form of a word or phrase used for brevity in its place consisting of the first letter, or the first few letters of the word, followed by a period (full stop).

Abbreviations are very rarely used in formal writing. Frequent use of unnecessary abbreviations makes the text irritating and complex to read. It is far more important to make the writing easy to read than to save a few seconds in writing out the complete word or phrase.

The rule about using these abbreviations is very simple: don't use them. Their use is only appropriate in special circumstances in which brevity is at a premium, such as in footnotes. It is a very poor style to spatter your pages with abbreviations. Moreover, it could be disastrous to use them without being quite sure of what they mean. If you do use one, make sure you punctuate it correctly. Here is an example.

*The recommended form is this:*

Several British universities were founded in the Victorian era; for example, the University of Manchester was established in 1851.

The following version is not wrong, but it is bad style:

Several British universities were founded in the Victorian era; e.g., the University of Manchester was established in 1851.

But this next version is disastrously wrong, because the punctuation has been omitted:

Several British universities were founded in the Victorian era e.g. the University of Manchester was established in 1851.

Using an abbreviation does not relieve one of the obligations of punctuating the sentence. Again, if one avoids abbreviations, one will not get into this sort of trouble.

Observe it is usual to write abbreviations in italics, but this is not strictly essential, and generally people don't do that.

Things to remember while using abbreviations:

- (1) Do not use an abbreviation if it can easily be avoided.
- (2) In an abbreviation, use full stops and capital letters in the conventional way.
- (3) Do not forget to punctuate the rest of the sentence normally.

### **Don't Abbreviate the following:**

In formal academic prose, it is undesirable to abbreviate words simply to save space, time, or energy. In the following cases, abbreviations should be avoided:

- Words such as through (thru), night (nite).
- Days of the week or months of the year (in the normal flow of text).
- Words at the beginning of a sentence.
- People's names, unless those abbreviations have come to be accepted as nicknames for those particular individuals.
- Courses such as eco (for economics) or pol sc (for political science).

### **LESSON ROUND UP**

- Building and enriching vocabulary by learning new words and their exact meaning is an essential element of effective communication.
- Synonyms are words that have very nearly the same meaning.
- Antonym is a word opposite or contrary in meaning to another word.
- Simple language produces the best and the quickest response from everyone.
- At times, long and unusual words have to be used because they are more precise.
- There are eight parts of speech for the basic understanding of English language. They are: Noun, Pronoun, Verb, Adverb, Adjective, Preposition, Conjunction and Interjection.
- There are various types of sentences such as: simple sentence, compound sentence and complex sentence.
- An idiom is defined as the form of expression peculiar to a language.
- A phrase is a group of words, a part of sentence which does not make a complete sense but has an independent meaning.
- Proverbs contain homely but universal truth. Therefore, they are translatable so far as their meaning

goes from one developed language to another.

- English has borrowed generously from other languages like Latin, Greek, French and German. Many of the borrowed words have been anglicized and today are an integral part of English vocabulary in their original or modified form.
- An abbreviation is a short way of writing a word or a phrase that could also be written out in full.
- The rule about using abbreviation is very simple: don't use them. Their use is only appropriate in special circumstances in which brevity is at a premium.

## GLOSSARY

<b>Erudite</b>	Characterized by great knowledge; learned or scholarly.
<b>Repertoire</b>	The entire stock of skills, techniques, or devices used in a particular field or occupation.
<b>Connotation</b>	The associated or secondary meaning of a word or expression in addition to its explicit or primary meaning:
<b>Colloquial</b>	Informal speech or writing.
<b>Pedantry</b>	Especially undue display of learning.
<b>Ostentatious</b>	Intended to attract notice.
<b>Explicit</b>	Fully or clearly expressed or demonstrated.
<b>Implied</b>	Involved, indicated, or suggested without being directly or explicitly stated, tacitly understood.
<b>Notorious</b>	Unfavourably known.
<b>Transgress</b>	To violate a law, command or moral code, etc., or offend or sin.

## SELF-TEST QUESTIONS

1. \_\_\_\_\_ join words or even sentences conveying related ideas
  - a) Interjection
  - b) Conjunction
  - c) Proposition
  - d) Adverb
2. In all there are \_\_\_\_\_ tenses that are used in English Language
  - a) 12
  - b) 14
  - c) 11
  - d) 10
3. The Principal complied \_\_\_\_\_ the student's request.
  - a) on
  - b) at

- c) with
- d) for
- e) all

4. Choose the word which is similar in meaning to the keyword given in capital letters

CONFERRRED

- a) Offered
- b) Divulgded
- c) Damaged
- d) Advised
- e) Borrowed

5. Choose the word which is opposite in meaning to the keyword given in capital letters

INCLEMENT

- a) Pleasant
- b) Stormy
- c) Feeble
- d) Dignified
- e) Expiate

Pick the most effective word from the given words to fill in the blank to make the sentence meaningfully complete

6. The proud king turned a deaf ear to the \_\_\_\_\_ of wise counsellors.

- a) Advices
- b) Advises
- c) Advise
- d) Advice
- e) Advisory

Choose the words that best fits in the meaning of sentence

7. He warned the workers against supporting these antisocial policies, which he declared would \_\_\_\_\_ rather than \_\_\_\_\_ the plight of the common people

- a) Rescue; Destroy
- b) Encourage; Defy
- c) Aggravate; Alleviate
- d) Empower; Improve
- e) Protract; Inhibit

Directions: Q 8 to Q10: fill the numbered blanks with the appropriate options.

The prices of domestic \_8\_ continue to rule high in the \_9\_ year despite the expectation of a \_10\_ production as compared to the previous year.

8.

- a) sector
- b) production
- c) area
- d) market
- e) flour

9.

- a) last
- b) first
- c) second
- d) current
- e) general

10.

- a) Higher
- b) Maximum
- c) Optimum
- d) Large
- e) Lower

**Answer key :** 1 b; 2 d; 3 c; 4 a; 5 a; 6 a; 7b; 8 d; 9 d; 10 a

### Suggested Readings

- (1) Word Power Made Easy – Norman Lewis
- (2) Modern English Grammar with Practical Exercises –Vikas Publishing House.
- (3) English Grammar–An Outline – Rodney Huddleston
- (4) English Grammar and Composition – G.S. Mudambadithaya
- (5) Business Communication and Organization management – Varinder Kumar and Bodh Raj
- (6) Business Communication – K.K. Sinha
- (7) A Good Dictionary
- (8) English Journals, magazines and Newspapers.
- (9) <https://owl.english.purdue.edu/>



# Lesson 11

## Business Correspondence

### LESSON OUTLINE

- Introduction
- Meaning of Business Correspondence
- Importance of Business Correspondence
- Essential Qualities of a Good Business Letter
- Types of Business Letters
- Human Resource Correspondence
  - Job Applications
  - Resume
  - Bio-data and Curriculum vitae
  - Interviews
  - Letters of Appointment and Confirmation
  - Miscellaneous Letters
  - Good will Letters
  - Purchase Correspondence
  - Enquiries and Replies thereof
  - Industrial Enquiries and Replies thereof
  - Tender Notices
  - Letter Orders
  - Making, Handling and Rejecting Complaints
  - Miscellaneous Letters
- Sales Correspondence
  - Sales Letter
  - Sales Circular
  - Advertisements
  - Classifieds
  - Public Notices
  - Appointments
- Accounts Correspondence
  - Invoice
  - Proforma Invoice
  - Delivery Challans
  - Statement of Account
  - Credit/Debit Notes
  - Collection letters
  - Lesson Round Up
  - Glossary
  - Self-Test Questions

### LEARNING OBJECTIVES

In our day to-day life we exchange our ideas, thoughts and other information with our friends, relatives and other people. Sometimes we directly talk to them and sometimes we also write letters to them. In letters we express our feelings in a few words, we may ask for any information or we may write about a complaint in connection with our problems. Similarly businessmen also exchange ideas, information by writing letters. They communicate business information to customers, suppliers and others and at the same time receive a variety of letters from them. This lesson elaborates on the different types of letters used in the process of business transactions.

After studying this lesson, you will able to:

- state the meaning of Business Correspondence;
- explain the importance of Business Correspondence;
- describe the essential qualities of a good business letter;
- identify the various parts of a business letter; and
- recognize the different types of letters used in business.

***"We train people to present – it's a business skill. So why don't we train them to write, clearly and persuasively? The case for teaching it seems so obvious."***      Jeremy Bullmore, former Chairman of JWT London, member of WPP Advisory Board

Good communication does not mean that you have to speak in perfectly formed sentences and paragraphs. It isn't about slickness. Simple and clear go a long way.

John Kotter

## INTRODUCTION

In our day to-day life we exchange our ideas, thoughts and other information with our friends, relatives and other people. Sometimes we directly talk to them and sometimes we also write letters to them. In letters we express our feelings in a few words, we may ask for any information or we may write about a complaint in connection with our problems. Similarly businessmen also exchange ideas, information by writing letters. They communicate business information to customers, suppliers and others and at the same time receive a variety of letters from them. In this lesson let us know about different types of letters used in the process of business transactions.

### Meaning of Business Correspondence

Communication through exchange of letters is known as correspondence. We communicate our feelings, thoughts etc. to our friends and relatives through letters that may be called personal correspondence. A Businessman also writes and receives letters in his day to-day transactions, which is called business correspondence. Business correspondence or business letter is a written communication between two parties. Businessmen may write letters to supplier of goods and also receive letters from the suppliers. Customers may write letters to businessmen seeking information about availability of goods, price, quality, sample etc. or place order for purchase of goods. Thus, business letters may be defined as a media or means through which views are expressed and ideas or information is communicated in writing in the process of business activities.

### Importance of Business Correspondence

Now-a-days business operations are not restricted to any locality, state or nation. Today production takes place in one area but consumption takes place everywhere. Since the businessmen as well as customers live in far off places they don't have sufficient time to contact each other personally. Thus, there arises the need for writing letters. In the past the situation was not so. Business letters were not essential in olden days. But now the importance of letters has increased because of vast expansion of business, increase in demand as well as supply of goods. Let us learn about the importance of business letters.

#### i) Help in maintaining proper relationship

Now-a-days business activities are not confined to any one area or locality. The businessmen as well as customers are scattered throughout the country. Thus, there is a need to maintain proper relationship among them by using appropriate means of communication. Here business letters play an important role. The customers can write letters to the businessman seeking information about products and businessmen also supply various information to customers. This helps them to carry on business on national and international basis.

#### ii) Inexpensive and convenient mode

Though there are other modes of communication like telephone, telex, fax, etc. but business information can be provided and obtained economically and conveniently through letters.

#### iii) Create and maintain goodwill

Sometimes business letters are written to create and enhance goodwill. Businessmen at times send letters to enquire about complaints and suggestions of their customers. They also send letters to inform the customers about the availability of a new product, clearance sale etc. All this results in cordial relations with the customers, which enhances the goodwill of the business.

#### iv) Serves as evidence

We cannot expect a trader to memorise all facts and figures in a conversation that normally takes place among businessmen. Through letters, he can keep a record of all facts. Thus, letters can serve as evidence in case of dispute between two parties.

#### v) Help in expansion of business

Business requires information regarding competing products, prevailing prices, promotion, market activities, etc. If the trader has to run from place to place to get information, he will end up doing nothing. It will simply result in loss of time. But through business letters, he can make all enquiries about the products and the markets. He can also receive orders from different countries and, thus enhance sales.

### Essential Qualities of a Good Business Letter

A letter should serve the purpose for which it is written. If a businessman writes a letter to the supplier for purchase of goods, the letter should contain all the relevant information relating to the product, mode of payment, packaging, transportation of goods, etc. clearly and specifically. Otherwise, there will be confusion that may cause delay in getting the goods. Again the quality of paper used in the letter, its size, colour etc. also need special attention, because it creates a positive impression in the mind of the receiver. We may classify the qualities of a good business letter as:

#### (a) Inner Qualities; and

#### (b) Outer Qualities

(a) **Inner Qualities** – The inner qualities of a good business letter refer to the quality of language, its presentation, etc. These facilitate quick processing of the request and that leads to prompt action. Let us discuss the various inner qualities of a good business letter.

- (i) Simplicity - Simple and easy language should be used for writing business letters. Difficult words should be strictly avoided, as one cannot expect the reader to refer to the dictionary every time while reading letter.
- (ii) Clarity - The language should be clear, so that they receiver will understand the message immediately, easily and correctly. Ambiguous language creates confusion. The letter will serve the purpose if the receiver understands it in the same manner in which it is intended by the sender.
- (iii) Accuracy - The statements written in the letter should be accurate to, the best of the sender's knowledge. Accuracy demands that there are no errors in the usage of language - in grammar, spellings, punctuations etc. An accurate letter is always appreciated.
- (iv) Completeness - A complete letter is one that provides all necessary information to the users. For example, while sending an order we should mention the desirable features of the goods, i.e., their quality, shape, colour, design, quantity, date of delivery, mode of transportation, etc.
- (v) Relevance - The letter should contain only essential information. Irrelevant information should not be mentioned while sending any business correspondence.
- (vi) Courtesy - Courtesy wins the heart of the reader. In business letters, courtesy can be shown/expressed by using words like please, thank you, etc.
- (vii) Neatness - A neat letter is always impressive. A letter either handwritten or typed, should be neat and attractive in appearance. Overwriting and cuttings should be avoided.

(b) **Outer Qualities** - The outer qualities of a good business letter refers to the appearance of the letter. It includes the quality of paper used, colour of the paper, size of the paper etc. Good quality paper gives a favourable impression in the mind of the reader. It also helps in documenting the letters properly. Let us discuss the various outer qualities of a good business letter.

- (i) **Quality of paper** - The paper used should be in accordance with the economic status of the firm. Nowa-days the cost of the paper is very high. Therefore, good paper should be used for original copy and ordinary paper may be used for duplicate copy.

- (ii) *Colour of the Paper* - It is better to use different colours for different types of letters, so that the receiver will identify the letters quickly and prompt action can be taken.
- (iii) *Size of the paper* – Standard size paper (A4) should be used while writing business letters. The size of the paper should be in accordance with the envelopes available in the market.
- (iv) *Folding of letter* – The letter should be folded properly and uniformly. Care should be taken to give minimum folds to the letter so that it will fit the size of the envelope. If window envelope is used then folding should be done in such a way that the address of the receiver is clearly visible through the transparent part of the envelope.
- (v) *Envelope* – The size and quality of the envelope also need special attention. The size of the letter should fit the size of the letters. The business firms use different types of envelopes i.e., ordinary envelope, window envelope, laminated envelope etc. In window envelope there is no need to write the address of the receiver separately on the envelope. It is clearly visible through the transparent part on the face of the envelope, which may be called as window. In laminated envelope a thin plastic sheet or cloth is pasted on the inner side that gives extra protection to letters from being damaged during transit.

### **Parts of a Business Letter**

We have discussed above the qualities of a good business letter. The quality will be maintained if we give proper attention to each and every part of the letter. Let us now learn about the different parts of a business letter. The essential parts of a business letter are as follows:

1. *Heading* – The heading of a business letter usually contains the name and postal address of the business, E-mail address, Web-site address, Telephone Number, Fax Number, Trade Mark or logo of the business (if any)
2. *Date* – The date is normally written on the right hand side corner after the heading as the day, month and years. Some examples are 28th Feb., 2003 or Feb. 28, 2003.
3. *Reference* – It indicates letter number and the department from where the letter is being sent and the year. It helps in future reference. This reference number is given on the left hand corner after the heading. For example, we can write reference number as AB/FADept./2003/27.
4. *Inside address* – This includes the name and full address of the person or the firm to whom the letter is to be sent. This is written on the left hand side of the sheet below the reference number. Letters should be addressed to the responsible head e.g., the Secretary, the Principal, the Chairman, the Manager etc. Example :

M/S Bharat Fans

Bharat Complex

Hyderabad Industrial Complex

Hyderabad Andhra Pradesh - 500032

The Chief Manager,

State Bank of India

Utkal University Campus Bhubaneswar,

Orissa- 751007

5. *Subject* – It is a statement in brief, that indicates the matter to which the letter relates. It attracts the attention of the receiver immediately and helps him to know quickly what the letter is about. For example, Subject: Your order No. C317/8 dated 12th March 2003. Subject: Enquiry about Samsung television  
Subject: Fire Insurance policy
6. *Salutation* – This is placed below the inside address. It is usually followed by a comma (,). Various forms of salutation are:

Sir/Madam: For official and formal correspondence  
 Dear Sir/Madam: For addressing an individual  
 Dear Sirs/Dear Madam: For addressing a firm or company.

7. *Body of the letter* – This comes after salutation. This is the main part of the letter and it contains the actual message of the sender. It is divided into three parts.
  - (a) Opening part - It is the introductory part of the letter. In this part, attention of the reader should be drawn to the previous correspondence, if any. For example with reference to your letter no. 326 dated. 12th March 2003, I would like to draw your attention towards the new brand of television.
  - (b) Main part - This part usually contains the subject matter of the letter. It should be precise and written in clear words.
  - (c) Concluding Part - It contains a statement of the sender's intentions, hopes or expectations concerning the next step to be taken. Further, the sender should always look forward to getting a positive response. At the end, terms like Thanking you, With regards, With warm regards may be used.
8. *Complimentary close* – It is merely a polite way of ending a letter. It must be in accordance with the salutation. For example: Salutation Complementary close i. Dear Sir/Dear Madam Yours faithfully ii. Dear Mr. Raj Yours sincerely iii. My Dear Akbar Yours very sincerely (express very informal relations.)
9. *Signature* – It is written in ink, immediately below the complimentary close. As far as possible, the signature should be legible. The name of the writer should be typed immediately below the signature. The designation is given below the typed name. Where no letterhead is in use, the name of the company too could be included below the designation of the writer. For example:

Yours faithfully  
 For M/S Acron Electricals  
 (Signature)  
 SUNIL KUMAR  
 Partner

10. *Enclosures* – This is required when some documents like cheque, draft, bills, receipts, lists, invoices etc. are attached with the letter. These enclosures are listed one by one in serial numbers. For example : Encl :
  - (i) The list of goods received
  - (ii) A cheque for Rs. One Thousand dtd. Feb. 27,2003 (Cheque No.....) towards payment for goods supplied.

11. *Copy circulation* – This is required when copies of the letter are also sent to persons apart of the addressee. It is denoted as C.C. For example:

C.C.    i. The Chairman, Electric Supply Corporation  
           ii. The Director, Electric Supply Corporation  
           iii. The Secretary, Electric Supply Corporation

11. *Post script* – This is required when the writer wants to add something, which is not included in the body of the letter. It is expressed as P.S. For example,

P.S. - In our offer, we provide two years warranty

### Type of Business Letters

Business Letters are basically of two types:

1. *Formal Business Letter* – Formal business letters are the typical or standard business letters meant for legal or official correspondence. These include letters regarding business deals, order, claim, dispute settlement, agreements, information request, sales report and other official matters.
2. *Informal Business Letter* – Informal Business Letter is used for casual correspondence but doesn't necessarily have to have a casual tone of language. These letters include memorandums, appraisals, interview, thanks, reference letters, cover letter, customer complaint letters, e-mails and others which are less important or regular.

## HUMAN RESOURCE CORRESPONDENCE

Personnel department deals with all matters relating to staffing right, from recruitment to retrenchment. In earlier times, the administration sections discharged these functions. Later on, it acquired the name of personnel department. With the passage of time, more and more CEOs realised that it is men and not necessarily the machines that change the fortunes of undertakings. So these departments were renamed yet again. Many of them now claim to be dealing with and developing Human Resources.

### How to Write Effective HR Letters

Sometimes called “employment letters,” “employer letters,” or “personnel letters,” human resource (HR) letters are an important form of communication between an employer and employee or prospective employee. In addition, they serve as documentation about the communication. They can cover a wide array of the employment relationship, such as:

- Acknowledging a receipt of a résumé
- Making a job offer
- Rejecting a candidate
- Welcoming a new employee
- Notifying an employee of a promotion
- Recognizing an employee for superior performance, *and*
- Disciplining an employee

These letters must be coherent, informative, and legally sound. In many cases, these letters must satisfy the goals of avoiding, reducing, or resolving liability. For example, it is in the employer’s interest to preserve the at-will relationship. Under the at-will doctrine, which is the standard in the vast majority of states, either the employer or employee may, subject to certain exceptions, terminate the employment relationship at any time, for any reason, or for no reason. Courts have found that statements made in offer letters and other written statements made to employees can create an implied contract that alters the at-will relationship.

In the case of offer letters, the most important thing an employer should do to preserve the at-will relationship is to include a disclaimer prominently in the offer letter. State courts have set different standards for how and when an implied contract may be created, and employers must make sure that the disclaimer contains the language required in their state. Employers should also have their legal counsel review letters.

### Job Applications

The job application letter is an opportunity to highlight a candidates most relevant qualifications and experiences, enhancing their resume, and increasing their chances of being called for an interview.

The letter should give detailsof specific qualifications for the position and the skills the candidate would bring to the employer.

### Tips for Writing a Strong Application Letter

Follow these strategies to write a strong letter:

- **Get off to a direct start:** In your first paragraph, explain simply why you are writing. Mention the job title and company name, and also where you came across the job listing. While you can also briefly mention why you are a strong candidate, this section should generally be short and to-the-point.

- **Offer something different than what's in your resume:** It's rare to send an application letter without also sending a resume. Your application letter, therefore, doesn't have to duplicate your resume. Your language can be a bit more personal than in resume bullet points — you can tell a narrative about your work experience and career.
- **Make a good case.** Your first goal with this letter is to move on to the next step: an interview. Your overarching goal, of course, is to get a job offer. Use your application letter to further both of these causes. Offer details about your experience and background that show why you are a good candidate. How have other jobs prepared you for the position? What would you bring to the position, and to the company? Use this space to emphasize your strengths.
- **Close with all the important details.** Include a thank you at the end of your letter. You can also share your contact information. If you'd like, mention how you will follow up.

Organizations may advertise the positions lying vacant with them. Some of them either maintain their own databank or rely upon those kept by placement agencies to call suitable candidates at the time of need. It is also becoming common for organizations these days to receive the Curriculum Vitae (CV) by fax or email. Some websites offer job-related services where one may submit details online for getting a position of one's choice.

One can get a job without applying for it in writing. For example: you can get a job through campus recruitment, an employment agency or a company's employment office. But when you cannot find a job through these routes you are likely to apply for jobs by using resume and letters. Actually, preparing a resume and writing an application letter is very much like preparing a sales letter. Both situations involve selling. In the latter case, you are selling a product or service; whereas in the former, you are selling your skills, expertise and qualifications and your strengths and weaknesses and your ability to perform well.

Applications may be drafted in response to advertisements or they may also be submitted unsolicited. One may write a comprehensive application, which contains all the details about one's education and experience and does not require a separate CV.

Your resume should:

- mention career goals and specific job objectives.
- reveal your adequate knowledge about the company being approached.
- explain how your qualifications and experience are suitable for the job you are seeking.
- give evidence of excellent writing skills.

### **Resume**

A resume (pronounced as rez-oom-ay) is a record of one's personal and professional details. It may be enclosed with the application for a job, may be handed over to a placement agency for storing it in their data bank or may be uploaded on various websites providing jobs. Terms like *Bio-data*, *Curriculum Vitae* or *data sheet* are also used to describe documents through which one may provide information about oneself-mainly one's education and work experience. Help is also at hand in the form of professional agencies and templates in word processors.

A good resume should not be very long. While one page is ideal, one should never let it go beyond three pages. Personal details, like age, sex, race or nationality are looked down upon these days and are therefore optional. Minor details should be omitted to make room for achievements and skills. One should be neither modest nor boastful. The choice of good quality paper is essential. The judicious use of white space in margins and between paragraphs improves the display. Using a word processor with letter-quality printer is desirable.

The following details are common to all types of CVs/Resume:

- (i) Personal particulars
- (ii) Academic qualifications
- (iii) Additional qualifications
- (iv) Experience:
  - Functional: emphasizing the skills and talent of the applicant
  - Chronological: emphasizing work experience, listing job descriptions;
- (v) Additional information may include languages known, anything worth mentioning, etc.
- (vi) References.

A variety of resume formats are available in books, on websites offering jobs and in the form of templates in word-processors. Usually, heading, contact number, job objective, education, experience, personal details, special interests and references form the content of a resume.

#### ***Comprehensive Application Letter***

Sector 17, House No. 1120,  
Chandigarh.

7 July 2011

The Manager (Human Resources)  
GE Services  
Sector 18, Goregaon-422 015  
Mumbai (India)

Dear Sir.

I am responding to your advertisement in the Ascent columns of The Times of India of 5th July seeking Secretarial Officers for your company. I wish to be considered for the same position.

I passed my Senior Secondary examination in Commerce stream from Mount Carmel School, New Delhi in 2004 scoring an aggregate of 89%. I joined B.Com (Hons.) at Sri Ram College of Commerce, Delhi University, in the same year, and simultaneously enrolled for the Foundation Course of The Institute of Company Secretaries of India. In 2009, I was accredited as a qualified Company Secretary and joined the Secretarial Department of MN Udyog Ltd.

My company gave me intensive on-the-job training for six months in Secretarial and Legal functions at the end of which I was absorbed as a Junior Secretarial Officer. My duties include share transfer and transmissions, filling and filing of statutory forms and returns, maintaining statutory registers, etc. I have been working for two years now and feel the time has come for me to accept wider responsibilities. I can provide names of referees, if you wish to know more about me.

My present annual package including perks is approximately, Rs. 5 lacs. I hope for a reasonable increase.

I look forward to an opportunity for a personal interview where I can explain my credentials in detail.

Yours faithfully,

Ms. Meghna Rasgotra

*[The above was a specimen of a detailed application letter which need not be accompanied with a resume or*

*Curriculum Vitae. It is however advisable to write a precise application letter and supplement it with a resume or curriculum vitae as an attachment to explain your academic and professional background in a more formal and presentable manner.]*

## Sample Resume Or CV

The essential elements of a sample resume includes:

1. Personal Data: Name; Address; Telephone Number; Date of Birth; Gender; Marital Status
2. Objective: Position of Executive-Recruitment and Manpower Planning

E.g.: A challenging management or generalist position in Human Resources where my in-depth knowledge of HRIS systems can broaden the base of expertise in your department

Why is this example good?

It offers a great deal of information about the job candidate immediately. The candidate knows the language of Human Resources, wants to make valuable contributions to the organization, likes to be challenged, is flexible (will look at more than one position), communicates well and has experience in vital areas.

3. Education: Include colleges/universities where you have been awarded a degree (or are where you are working on getting a degree). List the name of your degree (no abbreviations, please) and/or certification that you have obtained, or will obtain, the month and year of your graduation, and your major and minor(s).

4. Work Experience: List your job title, the name of the organization you worked for and the dates of your employment. Below this, detail your work-related tasks and accomplishments. Write clearly and use words that command attention, such as: operated, created, ensured, maintained, managed, provided, responded, and so on. List the activities and responsibilities that most closely match the prospective employer's needs first. Volunteer work should be listed in another section unless it is pertinent to the position you are applying for.

5. Honors/Activities/Achievements/Publications

6. Other Sections

According to your background, there may be other sections, which you will want to add to your resume. These sections could include:

- Summary of Qualifications
- Interests
- Computer Languages
- Languages
- Professional Memberships
- Volunteering

7. References

## Interviews

Some companies prefer to conduct initial interviews telephonically to shortlist candidates for the final interview.

If an interview letter is required, it should contain information about the position applied for, date, time and venue of the interview. If the prospective employer wishes to examine the original certificates of the candidate, then a mention can be made in the letter. Outstation candidates also like to know whether their expenses on travel and

stay will be met. Interview letters should give sufficient notice to the candidates to enable them to confirm their attendance.

***Specimen Interview Letter***

**AB&C Pvt. Ltd.**

Ansal Chambers, 7, Asaf Ali Road, Delhi-110006

Telephone: 3361357, Fax: 3361653

Website: <http://www.fc.com>

PUN/16/(P)

21st May, 2012

To,

Ms Anshu,

(-address-)

Dear Anshu,

Please refer to your application for the post of Manager Projects in our company.

You are invited to attend a personal interview with our General Manager on the 14th of June, 2012 at 3 p.m. in our corporate office which is located in Ansal Chambers, DLF Plaza, Gurgaon.

We regret to inform that we do not reimburse the traveling expenses of the local candidates.

Please confirm telephonically that this appointment suits you.

Yours sincerely,

Sd/-

Manager - Human Resources

***Short-listing Candidates***

Companies may shortlist candidates for absorption at a later date, if they are unable to find a suitable position for them at the time of interview. In such cases, their details are stored in the databank and a polite letter is addressed to them.

***Example:***

Dear Vivek,

We are pleased to inform you that you have been shortlisted for an offer of appointment in our company as soon as we can find a position in keeping with your qualifications and experience.

We thank you for evincing interest in our company and hope you will soon be a part of our organization.

Yours sincerely,

Manager - Human Resources

***Letters of Appointment***

Initial intimation of appointment may be given through a brief provisional letter. But the final document must be drafted carefully as the employment is governed by the terms stated in it. It should stand the test of law. The terms and conditions should be explicitly mentioned, and offer of appointment made subject to the acceptance by the candidate. A worker may seek reinstatement in a Labour Court, if the employer acts against the terms of

appointment. The executives, who are governed by a “*Master-Servant*” relationship, can only seek damages in the event of a *mala fide* dismissal.

The provisional letter of appointment intends to prepare the candidate for the detailed letter that follows. It may read like the following:

#### **Provisional Letter of Appointment**

Dear Vivek

Please refer to your application and the subsequent interview for the post of a Systems Manager in IBM (India) Ltd.

We are pleased to inform that you have been selected for the position. A detailed letter will be mailed to you soon.

Yours sincerely

Manager - Human Resources

#### **Terms of Appointment**

Detailed offers of appointment normally mention terms of appointment and seek the acceptance of the selected candidate. It is advisable to insert clauses which anticipate organisational changes and protect company's interests. But terms, which are one-sided to the extent of being inimical (*unfavorable or harmful*) to candidate's interests may not be received well. In fact, a good candidate may even turn down the offer. Therefore, a balance must be maintained.

#### **Appointment Letter: Terms and Conditions**

[Letterhead]

**Ref. No:**

**Date:**

**To,**

**Mr. Akhshay Mittal**

(-address-)

**SUB: Appointment Letter**

Dear.....

Please refer to our earlier letter of 11th November 2011. As stated earlier, we will be pleased to hire your services as a Systems Manager if you accept the following terms and conditions:

1. Place of operation: Your initial place of work will be at Hyderabad. However, you may be assigned to any location in India or overseas. On transfer, the rules, regulations and conditions of service applicable in that location shall apply on you.
2. Remuneration: You will be paid a monthly basic salary of Rs. 43,000/- plus perks and allowances as per company rules. The salary will increase after annual reviews. You will be paid an extra allowance in US \$ to cover your expenses when assigned duties abroad.
3. Duties: You will be responsible for the erection, upgradation and maintenance of all systems in use in the company and will report to the Director (Technical).

4. Probation: You will be on probation for a period of six months, which may be extended at the discretion of the company. At the satisfactory completion of Probation, you will be confirmed in writing.
5. Confirmation: During the Probation, either party may terminate this contract by giving a one month's notice or salary in lieu thereof. Post confirmation, the notice period will be three months or salary in lieu thereof.
6. Terms of leave: Unauthorised absence from duty or violation of company rules, procedures and policies as laid down from time to time may invite disciplinary action, including termination of services.
7. Retirement: You will retire at the age of 60 years or till such time you remain medically fit. Post retirement you will receive cash benefits and a medical insurance cover.

Please sign a copy of this letter and fax it to 040-7865479 in acceptance of the terms and conditions and report to the Human Resource Manager on 20th November 2011 at 9.30 a.m.

We welcome you to ABC (India) and wish you a successful career.

Yours sincerely

Manager - Human Resources

**Confirmation of an employee:** On successful completion of the probation period the employee is to be explicitly informed about his confirmation in the organization. This can be done by writing a confirmation letter to the employee.

***Specimen Letter of Confirmation***

Date: 10<sup>th</sup> January, 2012

Abhay Sahuja

Customer Service Department

Pune

Dear Abhay,

On successful completion of your probationary period on 9<sup>th</sup> January, 2012, I feel pleasure in confirming your appointment with us for the post of Relationship Manager in Middle management band, effective from 10<sup>th</sup> January 2012.

Yours sincerely,

Manager - Human Resources

**[A few more specimens of Written Test/Interview/Appointment/Regret letters are given for your information and guidance.]**

**Letter calling a candidate for written test**

*Example 1:*

**SUNDARAM CHEMICALS LTD.**

*Regd. Office: 12, Sansad Marg, New Delhi-110 001*

*Phone: 534212*

24th March, 2012

Ref./Call/23

Mr. Amar Singh

23, B.V. Nagar, New Delhi-110 089

Dear Sir,

**Sub: Written test for the post of Management Trainee-Law**

With reference to your application dated 10th February, 2012, for the post of 'Management Trainee-Law' you are requested to appear for a written test on 2nd April, 2012, at Indian Institute, Institutional Area, Lodi Road, New Delhi-110 003 at 10 A.M.

The test will be of 2 hours duration, followed by a group discussion.

No books will be allowed in the examination hall. Only blue or black pen is allowed while writing the answers.

No travelling allowance is payable for attending the test.

Thanking you,

Yours faithfully,

Sd/-

(R. Francis)

*Personnel Manager*

*Example 2:*

**ABA SUNDARAM CHEMICALS LTD.**

*Regd. Office: 12 Law Gardens, Ahmedabad-380 006*

*Tel: 6570018 Fax: (079) 6580182*

*E-mail: sunderchem@vsnl.net.in*

No. HRD/ACA/2010

12th June, 2012

Mr./Ms. \_\_\_\_\_

---

Dear Sir/Madam,

**Sub: Written Test for the Post of Accounts Assistant**

With reference to your application dated 1st June, 2012 for the post of 'Accounts Assistant', you are requested to appear for a written test on 30th June, 2012, at Law Institute Hall, Sabarmati Marg, Ahmedabad-380002 at 9.00 A.M. The written test will be of two hours duration. The test is intended to examine the candidate's general commercial knowledge and the grasp over practical accountancy.

Please note that no travelling allowance is payable for attending the written test.

Thanking you

Yours faithfully,

Sd/-

(W.R. Mehta)

Manager (Personnel)

[The heading, reference, inside address and salutations, in this case, will remain the same. The body of the letter will be as follows:]

**Letter intimating date of interview**

"With reference to your written test held on 2.4.2012, we are pleased to call you for a personal interview on 12.4.2012, at the Regional Office of our company, at the aforementioned address, at 10 A.M. sharp".

**Letter communicating passing of written test and intimating the date of personal interview**

**ALL MONEY BANK LTD.**

*Regd. Office:* 101, Parliament Street, New Delhi - 110 001

Tel.: 3031811, 3021821 Fax: 3031812

E-mail: allmoneybk@usa.net

Ref. No. HRD/1/2012

Date: 1.1.2012

To

(All successful candidates)

Dear Sir/Madam

**Sub: Recruitment of Probationary Officers - 2012**

We congratulate you for qualifying the written test conducted on 15th December, 2011 for the recruitment of Probationary Officers.

In this regard, you are hereby requested to be present for a group discussion and personal interview on 15th January, 2012 at AMB Hall, 101, Parliament Street, New Delhi-110 001, at 10.30 A.M. Please note that no travelling allowance/daily allowance is payable for attending the group discussion and the personal interview.

Thanking you

Yours faithfully

Sd/-

(P.A. Desai)

Manager (HRD)

**Letter intimating appointment**

Dear Amit,

With reference to the interview you had with us on 12.4.2012, we are pleased to offer you appointment as 'Management Trainee-Law' in our company.

You will be on an intensive training for two years in our Law Department. During the period of training you will be paid a consolidated salary of Rs. 6,000/- per month during the first year and Rs. 18,500/- per month during the second year. On satisfactory completion of the two years' training, you would be called upon to take up independent responsibilities in the Law Department. If, at any time during the period of training, your conduct is found unsatisfactory, your services are liable to be terminated forthwith.

During the course of the training period, if you desire to leave the services of the company, you shall be liable to indemnify the company by paying a lump sum compensation of Rs. 50,000/- only.

After the satisfactory completion of two years' training, you will be placed in the cadre of Dy. Manager in the scale of 30,000-200-40,000-250-50,000. You will be entitled to House Rent Allowance, Medical Claim subsidy, Leave Travel Concession, and other benefits as per the service rules, only on confirmation in the post.

You are requested to confirm your willingness to the above terms of appointment on or before May 20, 2012. You are expected to join the training by July 1, 2012.

**Specimen: Regret Letter**

**Letter politely informing the candidate about non-selection**

*Example 1:*

**SUNDARAM CHEMICALS LTD.**

*Regd. Office: 12 Law Gardens, Ahmedabad-380 006*

*Tel: 570018 Fax: (079) 6580182*

*E-mail: sunderchem@usa.net*

Mr. Bhogal Mehta,

34 A, Sankar Road,

Rajkot - 360 001

1 June, 2012

Dear Sir,

**Sub: Recruitment for the Post of Finance Manager**

We refer to your application dated 1st March, 2012 for the post of Finance Manager and the personal interview you had with us on 14th May, 2012. We regret to inform you that your application has not been successful. This, of course, has no reflection on your credentials. We thank you very much for evincing interest in our organisation and offer you our best wishes for a bright future career.

Yours faithfully,

Sd/-

(K.C. Lokhandwala)

Personnel Manager

*Example 2:*

The body, in this case, will be as follows:

With reference to your application for the post of 'Management Trainee-Law' in our company and the test and interview you had with us, we regret our inability to offer you an appointment at present. However, should any need arise in future, we shall get in touch with you.

**Consent letter from a selected candidate**

To:

Personnel Manager

Sundersan Chemicals Ltd.

23, B.N.C. Road,

Chennai - 600 025

March 20, 2012

Dear Sir,

**Sub: My appointment as 'Management Trainee-Law' in your organisation**

I thank you for your offer of appointment. I hereby agree to abide by the terms of appointment contained in your letter Ref. SA/34/2012 dated March 2, 2012. I will be reporting for duty on the forenoon of May 13, 2012.

Thanking you,

Yours faithfully,

Sd/-

R. Sundaram

**Letter declining the offer of appointment**

The heading, reference, inside address and salutation will remain the same as for the consent letter given hereinabove, the body will be as follows:

With reference to your letter Ref. SA/34/2012 dated March 2, 2012, I regret my inability to take up the appointment, as I have been selected for a job in the U.S.A. I, however, thank you for evincing interest in my candidature.

Yours faithfully,

Sd/-

R. Sundaram

**Body of letter requesting for change of place of posting (from the candidate)**

"I thank you for your letter of appointment dated March 12, 2012 directing me to join duty at your Chandigarh office. I request you to kindly consider posting me at your Mumbai office for at least two months, to start with. This is necessitated because of the need to attend to my father who is admitted in hospital after a serious car accident. It would take at least two months for him to get discharged after treatment for multiple fracture. I hope you would consider my request sympathetically. Awaiting your early reply."

**Body of letter declining the above request**

"We are very sad to know of the serious accident your father has met with.

We, however, regret that we are unable to consider your request for change of posting, as every candidate is required to undergo induction training only at the Head Office of the company at Chandigarh.

We are pleased to allow you time upto 2nd July for reporting for training at our Head Office at Chandigarh.

Please confirm this arrangement and your commitment to join at Chandigarh at the earliest".

**Miscellaneous Letters**

Miscellaneous letters are written out of corporate courtesy. These are exchanged with an intention to maintain presence in the market and create goodwill. They are also known as Goodwill Letters

**Goodwill Letters**

The best way to understand goodwill letters is to remember that there is no compulsion to write them. However, genuine sentiments, if sincerely expressed at an opportune time, create lot of goodwill. This goodwill does not refer to monetary gains. But it may translate into financial gain over a period of time since human relations form the backbone of business.

Goodwill letters should be brief. One should desist from sermonising and state one's sincere feelings in an appropriate tone and style. Use of stereotyped phrases should be avoided. The extent of formality is determined by the status of the recipient. For example, we should write informally to those people whom we have known closely. Use first or second person to give it a personal touch.

Goodwill letters must be sent promptly in order to be relevant and effective. The effect of emotions is transitory and tends to wear off after some time. They should preferably be handwritten. The typed letters should be at least signed by hand. Goodwill letters carrying signatures in facsimile make the receiver feel slighted (*disrespect*). If you do not have time even to sign a letter, you might as well not send it.

### **Types of Goodwill Letters**

Every business letter should be a goodwill letter. It should be drafted in a polite and courteous manner. It should respect the sentiments of the recipient to evoke a right response from him. We may, however, classify goodwill letters for the sake of convenience as:

- Thank you letters
- Congratulatory Letters
- Letters of Sympathy
- Condolence Letters
- Obituary Notices

They are explained as follows:

### **Thank you Letters**

There are several instances in our personal and professional lives when people do us favours. Unfortunately we take them for granted and ignore an opportunity to thank them and earn some precious goodwill. For instance, getting a large order or receiving payments on time calls for a message of thanks.

*Example 1:*

Dear Mr. Watson,

We are pleased to receive your order for the supply of 2,00,000 metric tonnes of Iron Ore. This is the largest order placed by you with us since our association began.

We are writing to express our grateful thanks for your continued patronage. We assure you that we will continue to serve you to the best of our ability.

Your sincerely,

Ms R. Perchani

*Example 2:*

Dear Ms. Khanna,

We are writing to express our appreciation of the fact that you have settled your account with us very promptly during the last financial year. This was a great help to us since we were diversifying into cement sector during this period and liquidity was our prime concern.

We are grateful to you. We assure you that we will strive to maintain the special relationship we have always had with you.

We thank you once again.

Yours sincerely,

Rajiv Seth

### **Congratulatory Letters**

A friend, colleague or a business associate may earn a promotion, recognition, honour or an award. The achievement may be in the personal or professional arena. It is possible to react to such a development in two ways. We may feel jealous and ignore the laurels won by others. Alternatively, we may send a message of felicitation and also earn some precious goodwill in the process.

*Example 1:*

Dear Pradeep,

I was delighted to learn that your work on cryogenic engine has been appreciated by the Indian Space Research Organisation. I am confident that it will be possible to manufacture these engines indigenously and our dependence on other countries will end soon.

I feel proud of your achievement and send you my best wishes for the future.

Yours sincerely,

K. Raghavan

*Example 2:*

Dear Mr. Jacob,

We are pleased to learn that your company has won the Best Exporter's award instituted by the Export Council of India for the third time in succession. This must be a record. We are sure it is the result of your vision and the hard work of your managers and workers.

We feel proud of having been associated with you and wish you more success in future.

Please accept our sincere felicitations,

Yours sincerely,

S.K. Taneja

*Example 3:*

Dear Mr. Chandna,

I am pleased to learn that you have recently joined Tatemet as a Vice-President. I know that this appointment has not come a day too soon. Tatemet has made the right choice and I am sure they will benefit from your dynamic leadership and corporate vision.

Please accept my warm congratulations on your appointment and best wishes for the future.

Yours sincerely,

S. Vasudevan

*Example 4:*

Dear Sir

We are pleased to learn that your company is celebrating its Golden Jubilee next week. It was a long and difficult journey, which has been covered with distinction. We are certain your company will do even better in the times to come.

Please accept our good wishes on the occasion.

Yours faithfully,

**Courtesy demands that congratulatory letters should be acknowledged. A brief letter of thanks is all that is required:**

*Example 5:*

Dear Mr. Vasudevan,

I am replying to your letter regarding my appointment in Tatanet.

I am grateful for your kind words and hope I will be able to justify the faith the company has placed in me.

Thank you once again for your good wishes.

Yours sincerely,

Akhil Chandna

### **Letters of Sympathy**

Life is a curious mix of happy and sad moments. It is important to share not only the joys but also the sorrows of your friends and associates. When someone known to you suffers some agony or a loss, your words of kindness and sympathy give him solace.

There is a word of caution. Such letters are only sent when someone suffers a major loss or illness. One should make an offer of financial help only after careful thought. To renege (*fail to fulfill a promise*) on an offer of financial assistance will only cause a loss of goodwill.

*Example 1:*

Dear Manpreet,

I learnt with dismay about the unfortunate accident you met with while travelling from Jaipur to Delhi.

I hope the injuries are superficial and you will be joining us at office soon.

Please get well soon and if you need me, I am just a phone call away.

Yours sincerely,

A.S.Sethi

*Example 2:*

Dear Mr. Reddy,

We are sorry to learn about the accidental fire that erupted in your factory a few days back. We hope the loss is not major and it will be possible for you to resume normal production in near future.

Please accept our heartfelt sympathies and let us know if we can be of some help.

Yours truly,

A.K.Antony

### **Condolence Letters**

These letters are the most difficult to draft since we are writing to people who have lost someone very dear to them. The strong sense of grief has to be shared in order to provide some relief. Our sentiments must be sincere. Reference to the details of tragedy must be avoided since it would only increase the sense of loss. The language and tone should be chosen keeping the relationship of the deceased with the recipient of the letter in mind.

Dear Sarah,

I am distressed to learn about the sudden passing away of your dear husband, Samuel during, my absence from

India. I find it very hard to believe it, and still feel he will suddenly show up in office and shake hand with me vigorously as he always did. I know that your loss is much greater and that it will be very difficult for you to forget him.

I pray to the Almighty to give you and your children courage to bear his loss.

May his soul rest in peace!

Yours sincerely,

Vinay Tyagi

### **Replies to Condolence Letters**

#### **Replies to messages of sympathy or condolence should be brief.**

Dear Mr. Grover,

My children join me to express our grateful thanks for your words of sympathy in our bereavement. We have been fortunate to receive the support of our friends and relatives during the time my wife was in hospital. It helped us cope with her loss.

Yours sincerely,

B.K.Kohli

### **Obituary Notices**

The following notices provide news about people who have just passed away. They are brief, factual and informative, and are published in Obituary columns.

#### **Obituary**

Delhi Land & Finance Consortium Ltd. announces with deep grief the passing away of its President, **Capt. Raghuvendra Singh** in a helicopter crash near Dehradoon on Sunday. His mortal remains will be consigned to flames at **Nigambodh Ghat, Delhi** on Monday, 15th January 2012 at 11.30 a.m.

Obituaries may also carry a life-account of the deceased. This is generally done in the case of those who have made significant contribution to a certain facet of life.

#### **Obituary**

The President of National Association of Software Companies (NASC), Mr. A.S. Mehta passed away on 12th of April in New Delhi. He suffered a massive heart attack in sleep and passed away peacefully.

Mr. A.S. Mehta was born on 10th August 1972 in the State of Gujarat. He did his schooling from Bhartiya Vidya Bhavan, New Delhi and joined Delhi University for an Honours Course in Commerce. He was a trained Chartered Accountant and majored in computer graphics from Imperial College, London.

Mr. A.S. Mehta was too much in love with India to remain abroad. He was a member of more than a dozen boards belonging to different States from Himachal in the North, Orissa in the East to Andhra and Karnataka down South. He was the IT advisor to the Govt. of India when he breathed his last. His priority was to use NASC as a catalyst for growth of software driven IT industry. But his long-term dreams were to provide basic amenities to people and to achieve hundred percent literacy through the power of IT. He sought the co-operation of like-minded people to achieve this herculean task. Now they will have to do it without his leadership.

May his soul rest in peace!

### **Acknowledgement Cards**

It is also common to get printed acknowledgement cards or to insert an advertisement in newspapers when a

large number of messages are received and it is not possible to acknowledge them individually.

**Mrs. M. Banerji** and her children, Ashish and Zoya express their grateful thanks to those who condoled the death of her husband, **Sushant Bannerji** of Cascade Ltd. in the recent **Lufthansa air crash** and express their inability to acknowledge the messages individually.

### Points to Remember

- The letter carrying positive news are called direct approach letters, whereas letters with unwelcome news written to decline an offer or reject someone for a job are called indirect approach letters.
- In all letters, whether long or short, careful planning is needed. For example, a letter of appointment must state service conditions carefully.

## INTRODUCTION- PURCHASE CORRESPONDENCE

Very few organizations manufacture everything they use. For most of their requirements, they are dependent on ancillary units or on what are known as OEMs or Original Equipment Manufacturers. They also look for vendors who have the machines, manpower and skills to make what they need, on a continuing basis. This involves creation of a full-fledged Purchase Department in a company.

Most people like to believe that only selling is the challenging part of business. The fact is that buying is equally difficult. There may be unexpected breakdowns or unacceptable deviations in supply. The technological inputs may become obsolete and require upgradation. The prices may become volatile and need constant monitoring. To keep the production line going at all times is not easy. It requires a constant hunt for sources from where quality goods and services may be procured at competitive prices.

### Enquiries

The first step of a commercial transaction is to make enquiries. Enquiries are the most common type of business communication. They are very important because an enquiry, if properly made, would bring valuable business information. Letters written for obtaining or furnishing information are classified as routine. We come directly to the purpose for which we have chosen to write. In other words, we use a direct approach.

An enquiry letter should be drafted clearly and the message to be conveyed should be complete, only then a satisfactory answer will come forward. Proper care should be taken in drafting a letter of enquiry. At times, an enquiry letter can originate big business deals. An enquiry should be straightforward, compact and courteous. It should be positive and confident in tone. It should be brief and to the point, complete and correct. It should avoid lengthy and unnecessary statements and repetitions. The opening paragraph of such a letter can give a hint about the nature of enquiry.

Since letters of enquiry can deal with a variety of questions, the importance of information sought and the situation which prompted the enquiry could be mentioned in the letter itself. Specifying the desired action in a positive manner and presenting the questions in a logical manner is also an essential requirement for such letters. Further, an assurance that the information passed on will be treated as confidential can also be suitably mentioned in such a letter.

A letter of enquiry should, therefore, be straightforward, courteous and to the point. Special care must be taken about the opening, of the letter since it sets the tone of urgency or the need for information, and the closing of the letter should reflect the writer's expectation for a quick response.

### Practical requirements of drafting a letter of enquiry

The following general tips should be remembered while writing a letter of enquiry:

- (i) The kind and quantity of goods required should be mentioned very clearly, besides requirements of packing, casting etc. must be given in full.
- (ii) In order to make the response undoubtedly sure and specific, the samples and their specifications could preferably be sent alongwith the letter.
- (iii) To facilitate proper handling and checking, the list of items, if any, may be send in a tabulated form with proper identification/specification of the product name/brand, etc.
- (iv) Letter of enquiry should indicate whether one would like to purchase goods for cash or on credit or on any other terms of payment. In such a letter, credit references may also be given, especially in case the intention is to get credit in is the first transaction itself.

*Example 1: Request for Catalogue/Price-List of Garments*

Dear Sir

We are a large departmental store located on College Road, Nasik. We deal in readymade garments and wish to market your wrinkle-free trousers and denim jeans in our city.

Please send us your catalogue and the price list. We would also like to know about the credit you would allow to us.

Yours faithfully

XYZ

*Example 2: Request for Washer-dryers*

Dear Sir

We own a motel on the Bombay-Pune highway and get a large number of guests in winter season. We are interested in installing a common Washer-dryer for their use. We need a machine with a capacity of at least 50 kg.

Please confirm if you manufacture a model suitable for our needs, its approximate price and the delivery period.

Yours faithfully,

XYZ

### Replies

Routine requests for only a catalogue or a price list may not need a covering letter. It may be sufficient to send the requested material with compliments. However, enquiries from big business houses deserve more attention. When requests are made for credit, the seller must clarify his stand. It is uncommon to grant credit at the time of a first transaction. But rejecting the offer outright is also undesirable. Instead, the seller may make a counter offer in some other than from, like a higher cash discount than the usual one.

*Example 1:*

Dear Sir,

We thank you for your letter showing interest in marketing our garments. We are enclosing the catalogue and the price list requested by you. This price list will remain valid till the end of the year.

You will appreciate the fact that we have not done any business before. Therefore it will not be possible for us to extend credit initially, but we can offer you a higher cash discount than we usually give.

We look forward to hearing from you soon.

Yours faithfully,

XYZ

*Example 2:*

Dear Sir,

We thank you for your enquiry about Washer-dryers and are confident that our model XL-60 will meet your requirement. This machine has the capacity of 60 kg. and carries an on-site warranty against manufacturing defects for a period of two years. Its current price is Rs. 1,25,000, excluding taxes. We may add that the prices are due for revision in three months' time.

We are enclosing our detailed brochure and trust you will find all the information you need for placing an order.

We look forward to your response.

Yours faithfully,

XYZ

### ***Industrial Enquiries***

It is not incorrect to use technical jargon regarding industrial enquiries for the receiver of the letter would be familiar with it.

In the example given below, EN-31 and P-20 are alloys used for making dyes for plastic components. A CNC machine is a Computerized and Numerically Controlled machine, which also detects and helps correct a deviation. FR indicates the fire retardant variety of ABS-a plastic compound. JIS refers to Japanese Industrial Standards in the same way as we have our Bureau of Indian Standards (BIS).

*Example 1:*

Dear Sir,

We are an Original Equipment Manufacturer of telephone instruments for supply to MTNL. We have been procuring the body of the instrument from outside. We wish to develop more vendors since we expect firm orders from parties intending to provide basic telephone services in different metros.

Please inform us whether you will be interested in developing moulds using EN-31 for outer plates and P-20 for core cavity. Our clients insist that all supplies should conform to JIS. We can also offer moulding jobs using FR ABS as raw material for execution on CNC machines of 80 tons of clamping pressures/60 gms. weight.

We look forward to a prompt reply.

Yours faithfully,

XYZ

### ***Example 2: Enquiry for Panels***

Dear Sir,

We have been contracted to erect a Pumping Station at Agra to augment the water supply to Taj Trapezium.

We require 12 cubical panels for main control board of the 8 V.T. pumping station. The panels must conform to Indian standards.

Please confirm whether you are in a position to deliver the panels in eight weeks time from the date of order.

We hope to receive a prompt reply.

Yours faithfully,

XYZ

### **Replies to Industrial Enquiries**

Enquiries for industrial products and raw materials merit a careful approach since it may be the beginning of a long and profitable business relationship. Therefore, a polite and expeditious reply may be desirable.

Replies to enquiries should begin with an expression of gratitude. It should be stated at the outset that the requested documents are being sent. The latter part of the reply may be used to provide brief information about other products or activities of the company.

*A reply should never begin with a refusal.* While communicating unwelcome news, we should first prepare the recipient by giving valid and convincing reasons. Before turning down a business offer, difficulties in accepting it should be explained.

Correspondence with companies or industrial houses generally contain technical and commercial terms. They help in classification, thus reducing the possibility of a dispute between the parties. A writer of business letters should become familiar with such terms. A quotation on CIF basis, for example, covers not only the cost of the product but also expenses incurred on insurance and freight. Erection jobs may involve a combination for readymade goods and services so the letter writer may call the price mentioned, a bid, a quotation or an estimate.

*Example 1:*

Dear Sir,

We are pleased to receive your letter of 9th December regarding moulding of telephone instruments.

We confirm that we are equipped to supply the product as per your specifications. We have been making computer cabinets and Auto dashboards for the use of OEM for the last ten years. We are confident of meeting your delivery schedules.

Our moulding capacity is being fully used at present. We also find it easier to assure quality when the moulds are made in our own Tool-Room. Therefore, we regret our inability to accept moulding job-works for the present.

We are enclosing information about machines available on our Shop Floor and details of the Tool Designers on our staff. A list of some of our clients is also included for your satisfaction and reference.

Our Commercial Manager is looking forward to meeting you at your convenience to discuss the details.

Yours faithfully,

XYZ

*Example 2: Reply to Enquiry About Panels*

Dear Sir,

Thank you for your enquiry about panels for Pumping Station.

We are over-booked till the end of December, and therefore unable to promise a delivery before the middle of January.

We would be glad to know if the third week of January would suit you. Hence, we will submit our estimate on hearing from you.

We appreciate your interest in our services and look forward to a prompt reply.

Yours faithfully,

XYZ

**Samples and Quotations: An Example**

Dear Sir,

We manufacture engineering components for use of varied industries ranging from automobiles to computers. We are looking for a reliable supplier of Delrin on a continuing basis.

Our annual requirement is approximately 1 Ton. We understand that you import it for actual users.

Kindly send us a sample of the material along with your lowest quotation for delivery at Sahibabad on CIF basis.

We shall appreciate an early reply.

Yours faithfully,

XYZ

**Estimates**

Estimates are sought and provided where services rather than off-the-shelf goods are involved. For instance, installation of ducting would require an estimate, whereas the air-conditioning plant may be bought on the basis of a quotation. It is of course possible for a customer to ask for a quotation for the complete job. A request for an estimate should be replied with giving necessary details to the party asking for it.

Dear Sir,

We are interested in replacing the vinyl flooring of our corporate office with square Italian floor tiles. The floor area is approximately 1200 sq. meters, excluding the skirting.

We would like to have information about different sizes and designs available ex-stock. Please indicate an estimate and the time you will need for completing the job using excellent workmanship.

We will appreciate a prompt reply.

Yours faithfully,

XYZ

**Tender Notices**

Organizations publish tender notices when they have to procure goods and services on a large scale to get projects executed. Tender Notices may be defined as invitations to submit "bids to provide such goods/services at quoted prices and subject to stated conditions".

- They may be prepared in a serial tabular or paragraph form.
- They may be open to all parties, often for the purposes of prequalification, or the limited ones, meant only for the registered parties. These parties may be short-listed on the basis of pre-qualification tenders.
- Jobs funded through foreign loans/assistance, involving sophisticated technology or heavy financial investment may be offered through global tenders.

Tender Notices include estimated value of goods/services and delivery details. The bids are made on non-transferable forms, or documents, printed and sold by the concerned organizations. These forms may be divided into separate sections dealing with general/commercial conditions and technical specifications.

Prequalification is not a form to apply for a tender. It precedes the process of filling a tender for the actual contract. It is used to identify contractors who would be eligible for filling the tender for actual contract therefore, an advertisement for prequalification does not amount to an advertisement of a tender. Only when a company is prequalified for a contract it becomes eligible to fill up the tender.

### **Tender Process**

- Tender forms have to be submitted by the stated time and date in sealed covers.
- Specified enclosures must accompany them, i.e., an EMD or Earnest Money Deposit, normally 2% of the estimated value. This is a kind of security deposit to keep out non-serious bidders. This deposit is refunded after finalisation of the successful bid.

The party getting the contract has to replace it with Performance Guarantees of upto 10% of the estimated value and Experience Certificates.

First the technical details mentioned by different bidders are taken up for discussion with the bidders or their authorised representatives. Once the bid is accepted, failure to sign the contract leads to the forfeiture of the EMD.

Usually the principle, of "lowest bid gets the contract", prevails.

To prevent fraudulent collusion between bidders, popularly known as a Cartel, organisations reserve the right to reject all bids without disclosing the reason. The court having jurisdiction in the event of a dispute may also be mentioned.

#### **Sample Prequalification Notice:**

#### **DELHI DEVELOPMENT AUTHORITY**

#### **Notice No. 27/FO/CE(DWK)/2011**

#### **INVITATION FOR PRE-QUALIFICATION**

1. Application for Prequalification are invited from firms/contractors of repute to carry out Mega-Housing Project of DDA involving construction of 2000 MIG/LIG flats at various locations of Delhi.

2. The work shall be executed on TurnKey Basis. DDA's liability shall be limited to providing undeveloped land and approval of designs and drawings.

3. The construction will have to be completed within two years of the award of contract using best quality material and fixtures and maximum use of machinery.

4. The contract will be awarded on lump-sum cost basis and payment will be made at different stages of construction.

5. Those fulfilling the following conditions are eligible to apply for Prequalification:

- (a) Experience of completing three similar jobs costing at least Rs.30 crores during the last five years.
- (b) Annual turnover of Rs.20 crores on civil construction jobs during the last three years.
- (c) Having solvency upto Rs.50 crores.
- (d) Requisite infrastructure and trained/qualified staff to carry out jobs of such nature and magnitude.

6. Eligible applicants may obtain Prequalification documents from the office of the undersigned on payment of Rs.5000/- in cash or DD, payable at Delhi and favouring Accounts Officer (C.A.U.) Dwarka D.D.A. upto 30.12.2011.

7. Completed documents with supporting evidence as prescribed will be accepted up to 16.00 hrs of 4th January 2012.

A.O.

**Limited Tender***Example 1:***HARYANA TOURISM****Notice Inviting Tenders**

Sealed Tenders are invited by the Executive Engineer, Haryana Tourism, SCO 17-19, Sector 17B, Chandigarh from approved contractors only for the construction of Urban Haat at Uchana, Karnal at an estimated cost of Rs. 60 lacs. The time for the completion of job will be six months from the date of award of contract. Tender Forms may be bought from the office of the undersigned on cash payment of Rs. 500 only, on any working day. Bids may be submitted with an EMD of Rs. 12,000/- in the form of a DD favouring Haryana Tourism and payable at Chandigarh upto 14.00 hrs. of 7th December 2011 and will be opened in the presence of bidders or their authorised representatives. Haryana Tourism reserves the right to reject any or all bids without assigning any reason. All disputes will be subject to the jurisdiction of Punjab and Haryana High Court, Chandigarh only.

Sd/-

XEN (Projects)

Haryana Tourism

11th November 2011

*Example 2:***EMCO ENGINEERING LIMITED****Tender Notice**

Offers are invited for the supply of the following items:

- (1) Metal spectroscope Table Model with accessories.
- (2) G.I. Pipes Medium quality size 15 to 150 mm.

Cost of the tender form is Rs. 75 for item (1) and Rs. 200 for item (2). Printed tender forms would be issued till 15th May, 2012. Completed tender forms alongwith a Demand Draft in favour of the company for Rs. 1,200 towards earnest money deposit should reach the undersigned at the following address on or before 25th May, 2012.

Chief Manager (Purchases)

Emco Engineering Limited

13, Sansad Marg, New Delhi-110 001.

The envelope should be superscribed "Tender–May 2012". The company will not be responsible for postal delays. Tender forms would be opened on 26th May, 2012 at 2.00 p.m. at the above address. The company reserves the exclusive right to reject a tender at its own discretion. Tenders accepted would be subject to the terms of the agreement mentioned in the tender form.

Sd/-

Prasad K.

Chief Manager (Purchases)

**Placing Orders**

Most companies use printed stationery bought on a regular basis. The advantages are numerous. These Order

Forms are generally pre-numbered, so one does not have to worry about a reference number. There are convenient headings and columns, which ensure that relevant information is not omitted. There may be multiple copies for the use of buyer, seller, and others. If terms and conditions are printed overleaf, then attention must be drawn to this fact.

A blank Order Form for routine purchases is shown for illustration:

Order Form

F.VI/00

**INDIAN LAW INSTITUTE**

7 Raisina Road, New Delhi-110001

<i>Messrs</i>	<i>Important</i>	
	<p>Please quote order number and reference on all invoices and correspondence relating to this order.</p> <p>Order No. _____</p> <p>Reference _____</p> <p>Date _____</p> <p>Please supply the following:</p> <p style="text-align: right;">Rs.              P.</p> <p style="text-align: center;">Total _____</p> <p>Terms : _____</p> <p>Delivery : _____</p> <p>Signed _____</p> <p style="text-align: center;">Approving Officer</p>	
For Office use only		
Estimated Cost _____	Goods checked _____	
Charge to _____		

***Letter Orders***

Occasional buyers place orders through letters. Such letters must contain:

- An authorization to the seller.
- An accurate description of goods.
- Catalogue number if ordering out of it.
- Quantity or number required.
- Price per unit and total amount involved in the transaction.
- Delivery details such as time and place.
- Payment terms agreed, i.e., whether on delivery or after availing credit. Routine Orders may be brief but must contain essential details. If several items are required, a tabular form may be preferred.
- Polite closing inviting a confirmation of acceptance.

**Sample Order Letter**

A Sample Order in the letter form is given below:

**HYDROTECH ENTERPRISES LTD.****Delhi (North) - 110039**

Order No. OA/09

Date: 4th January 2012

Oxon Controls Pvt. Ltd.

7, Circular Road

Calcutta

Dear Sir,

**LEVEL INDICATOR FOR 8VT STATION**

Please refer to your quotation dated 30.12.2011. We are pleased to confirm our Order for Levcon made capacitance type level indicator for use in clear water underground tank as per details given below:

Supply	:	230 AC 50 Hz
Indicator	:	LED direct in Meters
Mounting	:	Flush
Quantity	:	1 No.
Price	:	Rs. 8,900/-

**TERMS & CONDITIONS:**

1. Price :Ex-works, Calcutta
2. Discount : 10%
3. Excise Duty : As applicable
4. Sales tax : 4% extra against Form C.
5. Despatch : To site on CIF basis.

Please communicate acceptance by return post and enclose 5 sets of GA drawings to secure approval of the client/department.

Yours faithfully,

Dingra A.

Manager - Purchase

**Note:** It must be remembered that Orders once accepted are legally enforceable, so care should be taken in preparing them.

**Making Complaints**

A dissatisfied customer, whether an individual or a company, has every right to lodge a complaint and seek appropriate relief. We may receive wrong goods or the delivery may be delayed, or the goods may be damaged or of unacceptable quality. The following points may be kept in mind while making a complaint:

- A *bona fide* complaint should be made without delay since the passage of time complicates matters. The

seller has difficulty in digging up the records while the aggrieved buyer has to give a convincing reason for delay.

- It is also inappropriate to assume at the beginning that the seller alone is at fault, and to launch an angry offence against him without finding out the truth may be wrong. He may have a valid defense. So we should hear his side of the story before deciding whether he is guilty or not.
- The complaint should be based on factual information about the details of purchase, the grievance and the consequential inconvenience or loss of money and the relief expected.

*Example:*

Maninder Singh  
36, Green Park  
New Delhi - 110016

To  
The Manager  
S M Online  
20E, Okhla Estate  
New Delhi - 110 020  
25th October, 2011

Dear Sir

I bought a 50-hour Internet connection of your company from M/s Comways, F-17, Connaught Circus, New Delhi vide cash memo no.4150 dated 20th October 2011 (copy enclosed). It was registered on Saturday, 22nd of October 2011.

Within two days of activation, I was shocked to learn that 25 hours had already been used. When approached, the dealer expressed his helplessness in the matter and advised me to write to you.

I apprehend that either the package sold to me contained only 25 hours or my Internet time has been used by someone working in your organisation. I understand that the password, even when frequently changed, is known to the Internet Service Provider.

I expect you to give me the full hours for which I have made the payment. I may add that I shall have no option but to approach a Consumer Court if you do not provide the relief sought within reasonable time.

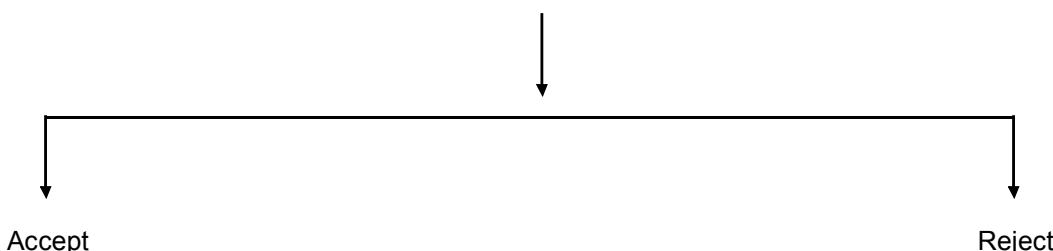
Yours faithfully,

(MANINDER SINGH)

### Handling Complaints

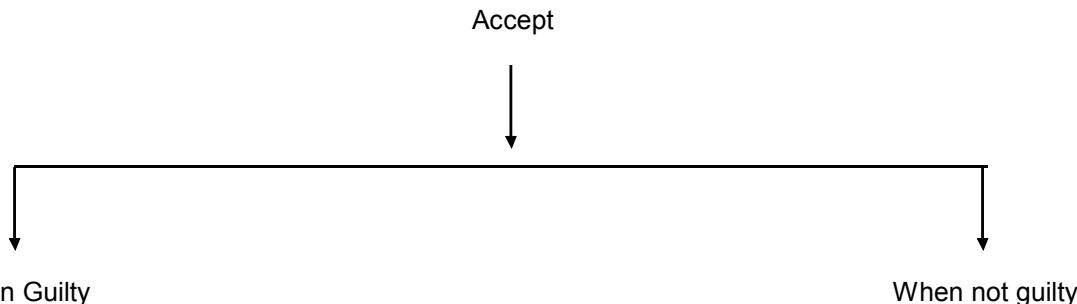
Though it would be nice to believe that a customer is always right, unfortunately it may not always be true. A complaint should be acknowledged and looked into at once.

Following are the different ways in which a complain can be handled



Companies sometimes offer relief, even when they have no legal liability, in order to generate goodwill. After all, a satisfied customer is the best advertisement. So some complaints can be accepted, even if the company is not at fault.

Following are the ways of dealing with a complain when it has to be accepted



In either case company can conduct an enquiry and then accept the complaint (whether guilty or not) or can accept the complaint without any enquiry

***Specimens for each case are mentioned below***

***Scenario 1 (conducting an enquiry)***

If you need some time to check the facts, send a polite letter to this effect.

Dear Madam,

We have received your letter of 25th October and we share your concerns.

We have ordered an internal inquiry to ascertain the facts of the unfortunate incident. We expect the findings of the inquiry to be available in a week's time. We request you to wait till then and also assure you that your legitimate interests will be fully protected.

We sincerely regret the inconvenience caused to you.

Yours faithfully,

XYZ

***Scenario 2***

If the complaint *prima facie* is genuine then we should willingly own liability and must state very clearly what relief we propose to offer. Care should be taken when accepting responsibility. It is pointless to fix the blame on your juniors as such an act may create problems within the organisation. Whereby, you ultimately create a second problem while trying to resolve the first.

In the following specimen we can see that though the company has no liability towards the customer for the matter under consideration, they are still offering some relief measures as a part of the good customer service practice followed by them.

***(Accepting after enquiry, though not guilty)***

Dear Sir,

We are sorry to receive your complaint of 25th October. We have looked into the matter and found that the dealer sold you the right package.

Your apprehension that our staff may have stolen your Internet time is also unlikely since we have fairly secure systems in force. Unfortunately, it is possible, though rare, for passwords to be hacked by outsiders. It is quite possible that someone managed to steal your password.

We have added 25 hours of Internet time you lost to your account free of charge. We also wish to assure you that we are constantly striving to make our systems more secure. May we suggest to you to change your password more frequently?

We sincerely regret the inconvenience caused to you and wish you happy surfing.

Yours faithfully,

XYZ

**Good to Know!!!**

A motorist was dismayed to learn that exactly two months after the warranty on his Maruti car expired, a vital component of the Alternator stopped working. He wrote to the manufacturer in Chennai pointing out that he expected it to last longer than the warranty period. The company not only expressed regrets but also sent a free replacement immediately with a request that the defective piece be returned. It promised to find the defect through extensive testing and remove it.

***Rejecting Complaints: Direct Approach***

Unfortunately, not all complaints are genuine. After looking into the facts, one may find that the company is not at fault. It is possible that the complainant may be trying to take undue advantage. In such a situation one should politely but firmly reject the claim and state the compulsions.

Letters rejecting a claim or refusing the relief sought are more difficult to draft. Many web-sites offer help in this regard. The sample given below has been downloaded from one such web-site and the details filled in:

**Sample Letter:**

Dear Madam,

Thank you for your letter of 6th January, 2012. I am afraid we cannot accept your claim that 100 pieces of audio cassettes delivered to you as part of order 2164 were damaged.

I have enclosed a photocopy of our delivery note, which was signed by H. Arora of your company, clearly stating that the delivery was made and the products were in good condition.

As you can appreciate, we do not feel we can take this matter any further.

Yours faithfully,

XYZ

The above specimen uses what is known as a direct approach and mentions immediately after the opening sentence that the claim is not being accepted. The tone also suffers from lack of friendliness. It is possible that many readers may not treat the rest of the letter sympathetically. Therefore, it may be preferable to prepare the reader for the eventual refusal or rejection by using an indirect approach.

***Rejecting Complaints: Indirect Approach***

Ready-to-send letters are a great help as they save on time and effort. But they may sometimes suffer from deficiencies. In addition, they do not carry the stamp of one's individuality. The example below treats the contents of the complaint with patience furnishes relevant facts and finally expresses inability to oblige. It may be received more favorably than a direct refusal to do what the complainant has requested.

Dear Sir,

**DEPOSIT No. 236415**

We received your letter of 20th December, 2011 regarding the interest rate on your deposit with our company.

We checked the records and have found that the deposit was for a period of three years ending 30th November, 2011. You had also authorized us to automatically renew it for a period of one year at the applicable rate of interest, if no instruction to the contrary was received by the maturity date. In the absence of any communication from you, the deposit has been renewed till 29th November 2011 at the prevailing interest rate of 10%.

We may add that we are unable to renew your deposit at the old rate of interest since the RBI has lowered the maximum rate of interest by 1% point effective from 1st October 2011. Should you be interested in a deposit for more than two years, we will be pleased to offer you a higher rate of interest.

We hope you will be satisfied with this information.

Yours faithfully,

XYZ

**[Some more examples of letters of enquiry are given hereunder.]**

**1. Enquiry for marketing the goods in a particular area**

Patel Computers Private Ltd.  
10th Floor, Patel Chambers, Ellisbridge, Ahmedabad - 380 009  
Tel.: 2120018 Fax: 2120211

Vision Computers Ltd.  
53, New Market, Indore (M.P.)  
2nd June, 2012

Dear Sir,

We have seen your new model of Personal Computer (PC) at the Information Technology Exhibition in Pragati Maidan, New Delhi. We are very much interested in this model. We would like to market the PC in Gujarat if you are prepared to give us the exclusive dealership for the entire State. As you know, we are the leading computer suppliers in Gujarat with branches in almost all the main towns. If this suggestion interests you, we shall be glad to know what prices and terms you can allow us. Please send your latest catalogue.

Thanking you

Yours faithfully  
Sd/Harish Patel  
*Managing Director*

**2. Letter of enquiry after a meeting**

**Varun Marketing Pvt. Ltd.**  
Kavi Nagar, Ghaziabad (U.P.)  
Tel.: 2121150 Fax: 3211187

Mr. Vinay Goel  
Golden Chemicals Ltd.  
Minto Street, New Delhi-110 001  
3rd June, 2012

Dear Sir,

Following my conversation with you at the Indian National Science Conference, I shall be glad if you could send me a catalogue of your new product range—Mosquito Repellants. If you can guarantee prompt delivery and can quote really competitive prices, we may be able to place an order. First class references about our credit standing

will be supplied with the order.

Thanking you

Yours faithfully

Sd/-

Vasu Rai

*Manager*

**3. Letter of enquiry for a particular type of goods**

**Torrel India Ltd.**

Lal Chowk, Jallandhar Tel.: 541811 Fax: 523871

Jain Hosiery Products Ltd.

Station Road

Ludhiana

4th June, 2012

Dear Sirs,

We have an export inquiry for woollen socks and gloves. Please send us an offer quoting your best terms and discount particulars. We shall be grateful for an early reply preferably before the month end. Thanking you,

Yours faithfully,

Sd/S.K. Bhalla

*Manager*

**4. Enquiry regarding supply of goods according to sample**

**Madras Handloom Stores**

1, Mount Road, Chennai-600 001

Tel.: 7181133 Fax: 7118224

M/s. U.P. Handlooms

Connaught Place, New Delhi-110 001

5th June, 2012

Dear Sirs,

We enclose a sample of a 'Khadi' cloth and we would be obliged if you can send us quotation of your products (Pyjama Kurta Suits, Gandhi Caps, etc.) made out of Khadi cloth matching with our sample. We have big orders to be executed immediately.

Thanking you

Yours faithfully

Sd/-

S. Ramanath

*Manager*

**5. Letter of enquiry in response to business advertisement**

**Sikkim Milk Products**

High Point, Gangtok

Tel.: 5181 Fax: 4812

M/s. Dara Dairy Farm  
 Sultanpur, Meerut (U.P.)  
 25th May, 2012

Dear Sirs,

We have been very impressed by your advertisement for "Whitex" skimmed milk powder. Your advertisement mentions that your products are highly acclaimed by Central/State Government agencies but states nothing about the shelf life of your product.

Will you please let us know about the shelf life of your product, its taste and quality certification received from Government Health Authorities?

Thanking you,

Yours faithfully,

Sd/-  
 Yonus Dong  
*Manager*

#### **6. A letter of enquiry with self introduction**

**GOOD FIX & Co.**  
 3, Rose Gardens, New Delhi-110 099  
 Tel.: 8111856, 8111843 Fax: (011) 8112816

M/s. Weegy Metal Screw Industries  
 Bada Mohalla, Aligarh (U.P.)  
 10th June, 2012

Dear Sirs,

We read with interest your advertisement in 'The Hindustan Times' dated 1st June, 2012. We are impressed by the description of aluminium screws and fittings made by you.

We are a leading building construction contractors and dealers in construction materials in this area. The demand for aluminium fittings is steadily increasing in these parts and we have a large number of enquiries, and orders too for them.

Kindly send us your catalogue and price list for wholesale purchases. Since our annual requirements in metal fittings of all kinds are large, we would like to place regular orders with you. Therefore, please quote the prices and terms most favourable to us.

Thanking you,

Yours faithfully,

Sd/Mg. Partner

#### **7. Enquiry regarding business reference**

**Premier Wire Ropes Ltd.**  
 Hari Plaza, Gurgaon (Haryana)  
 Tel: 89-11001 Fax: 89-12001

M/s Delite Distributors  
 Chandni Chowk,  
 Delhi-110 006  
 8th June, 2012

(CONFIDENTIAL)

Dear Sirs,

Messrs Verma Hardwares of your area have cited your name as reference. We shall be thankful if you will let us know whether your business dealings with the firm have been entirely satisfactory. In your opinion, can we deal with them on long term basis? Do they enjoy good reputation in business circles?

Any information you may supply us will be treated as strictly confidential and we would be pleased to reciprocate in similar matters. Thanking you,

Yours faithfully,

Sd/*Director*

**8. Asking a manufacturer to send the price list and catalogue**

**Katmal Khan Home Products**

Shafe Ali Lane, Mumbai-400 002

Tel.: 2715182 Fax: 2715611

M/s. Best Plastics  
8, Swati Society,  
Vadodara-390 002

9th June, 2012

Dear Sirs,

Kindly send us your latest and illustrated catalogue, and price list of plastic moulded furniture.

Thanking you,

Yours faithfully,

Sd/-

Kini Labox

*Proprietor*

**9. Enquiry from suppliers about the price and time of delivery of goods.**

**Himalaya Stationery Suppliers**

1-Park Street, Kolkata-700 071

Tel.: 5811411 Fax: 5824322

The Sales Manager

Hindustan Pencils Mfg. Co.

Rampur (U.P.)

15th June, 2012

Dear Sir,

We wish to introduce ourselves as general stationery merchants with 40 years' standing in the market.

Since major part of our clientele comes from urban and semi-urban areas of Bihar, Orissa and West Bengal, we are interested in quality goods. Please quote your best prices for colour pencils. Do let us know whether you can despatch the goods within 45 days of the receipt of the order.

You can be sure that your products will have a large market in this area and you will get regular orders from us

if your prices are competitive.

Thanking you and looking forward to an early reply from you.

Yours faithfully,

Sd/-

B.K. Mehta

*General Manager*

**Examples of Replies to Enquiries**

**I. A simple reply to an enquiry**

**XCON LTD.**

5th Lane IInd Street, Gurgaon (Haryana)

Tel. No.: 81-877150 Fax No.: 824111

No. RD/371/2012

Veeking Motors Ltd.

Dalhousie House,

Dehradun (U.P.)

15th April, 2012

Dear Sirs,

We thank you for your enquiry dated 10th April, 2012.

We enclose a copy of our latest catalogue and hope you would find it useful to select the right item(s) and place order(s) with us.

Thanking you,

Yours faithfully,

Sd/-

*Manager (Sales)*

Encl.: 'Catalogue-2012'

**II. Reply (quotation) to an enquiry in response to an advertisement**

**VOLECTRIC INDUSTRIES LTD.**

Phase-I, Shastri Nagar, Ghaziabad (UP)

Tel.No.: 91-818168 Fax: 91-776655

Ref.: VJ/81/2012

M/s. Clearvision Electronics

Lajpatrai Market

Faridabad (Haryana)

April 9, 2012

Dear Sirs,

We are pleased to receive your letter in response to our advertisement in the 'Hindustan Times'.

As requested, we enclose our detailed product catalogue. We would like to draw your kind attention to Item No. 24 in our catalogue—Electronic Regulator. It is the latest one available in the market.

We hope to receive a trial order from you and we assure you prompt services and full satisfaction.

Thanking you,

Yours faithfully,

Sd/-

*Manager*

Encl: As stated.

**III. Reply (quotation with special terms) to an enquiry**

**VESPA MUSIC LTD.**

6, Melody Street, Surat-395001

Tel.No.: 718187 Fax: 681116

Ref.No.: VML/585/2012

M/s. Birds Music Stores  
Juhu Market  
7, Vile Parle-Juhu Road  
Mumbai-400 049

11th April, 2012

Dear Sirs,

Thank you for your enquiry letter of 10th March, 2012.

First of all we are very sorry for the delay in responding to your letter. We have the pleasure to inform you that we have exclusive distribution rights for the music of Hindi Blockbuster—'New York'. We have cut out DVDs besides VCDs. The disc/cassette contains 14 hit songs of this film. Lyrics for the songs have been written by Dr. Vinod Kukrie. The music director of the film is Ram Gopal Verma.

On orders for 100 or more VCDs/25 or more DVDs, we would give you a special discount of 5% on the price mentioned in the enclosed leaflet.

We hope to hear from you very soon.

Thanking you,

Yours faithfully,

Sd/-

Mathew Cherian

*Manager (Sales)* Encl.: As above.

**IV. Reply to an Enquiry (Quotation) regarding ready availability of a particular product**

**GOODWORD TYPEWRITERS**

17, Hansal Towers, Prasad Nagar, New Delhi-110 008

Tel.No.: 5738192-95

M/s Lovely Stationers GoodLuck Chambers  
115, Karol Bagh  
New Delhi - 110 005

4th April, 2012

Dear Sirs,

We refer to your letter dated 1st April, 2012.

It gives us great pleasure to send you our catalogue which contains all technical details about the Electronic model in which you are interested.

Owing to very large number of orders we have already booked, we regret that we cannot promise delivery within four weeks. However, all efforts would be made to speed up the delivery in case your order is received within the next few days. Thanking you,

Yours sincerely,

Sd/-

*General Manager (Sales)* Encl.: As above.

#### V. Reply regretting supply/suggesting an alternative

##### MATADOOR FURNITURES

Khan Market, Lucknow (U.P.)

Tel.No. 442211 Fax: 443311

Mr. Satish Sharma

11, Alkapuri Housing Society

Godwin Street, Lucknow (UP)

16th April, 2012

Dear Sir,

We thank you for your letter dated 10th April, 2012 enquiring about the availability of T.V. stand (wooden) in Oakwood finish.

We regret to inform you that we do not fabricate TV stand nowadays. In case you are very keen to purchase one, you may contact our sister concern—Mathur Furniture Mart, New Market Junction, Azimabad, Lucknow (Tel. No. 771182). Mathur Furniture Mart is well known in this field and their rates are very competitive. Moreover, they do not compromise on quality.

Thanking you,

Yours faithfully,

Sd/Vinod Mathur

*Manager (Sales)*

Examples of Letters of Enquiry and Replies thereto

#### Enquiry 1

##### MERIDIAN DRESSES LTD.

*Regd. Office:* 12, M.M. Road, Chennai-600 002

Phone: 2345683 E-mail: meridian@vsnl.com

Ref.No. 23/84

Sindur Dress Materials Ltd.

123, Dr. B.N. Road

Mumbai-400 023

2nd May, 2012

Dear Sir,

We understand that you are specialize in innovation formulating designs for different dress material for indigenous as well as export markets.

We are one of the latest to enter the industry of garment exports to the USA.

We like to know whether you would be in a position to help us in any way. We would appreciate an early reply.

Yours faithfully,

Sd/-

Mangalchand  
*Marketing Officer*

**Reply to the above**

**SINDUR DRESS MATERIALS LTD.**

*Regd. Office:* 123, Dr. B.N. Road, Mumbai-400 023.

*Phone:* 546742 *E-mail:* sindur@vsnl.com

Ref.: P/1/2012

Shri Mangalchand,  
Marketing Officer, Meridian Dresses Ltd.  
12, M.M. Road,  
Chennai-600 002.  
10th May, 2012

Dear Sir

We thank you for your letter of 2nd May, 2012.

We are the pioneers in creating new designs for garments which are supplied in Indian as well as in foreign markets. Our designs are the result of study of current trends in vogue in foreign markets. For this purpose, we have our export design staff posted in six countries including the U.S.A. and the U.K.

Our designs are valid for eight months in the sense that our clients can reliably export without any fear of rejection on the ground of the garment being 'out of fashion'. The U.S. market is very 'design conscious' and we get our designs approved by the American Wholesale Vendors.

We are the suppliers of designs for garments to at least 25 exporters of garments in Mumbai alone.

Our charges are quite competitive too.

Let us know if you are interested in entering into a contract with us for at least six months to start with.

Yours faithfully,

Sd/-

Abhay Chand,  
*Senior Export Designer*

**Enquiry 2**

Dear Sir,

We are interested in purchasing electrical goods for our proposed new factory at Bilaspur. We have been given to understand that your company's goods meet the highest standards of quality and performance. Would you please let us know your terms for supply of the following items:

P.V.C. Tubes	...	12600 meters (length)
Wires (to carry 1000 volts current)	...	40500 meters
Bulbs (1000 watts)	...	4000 numbers
Switches	...	700 numbers
Wires (to carry 220 volts current)	...	3000 meters
Bulbs (500 watts)	...	270 numbers
Voltage Stabilisers	...	80 numbers

We would be happy to receive your reply by the return post.

Yours faithfully,

#### **Reply to the above**

"We thank you for writing to us regarding your requirements. We are one of the popular manufacturers of certain electrical goods, details of which are given in the enclosed brochure.

For the quality indicated in your letter we offer a discount of 10% to 23%, the details of which are given in the enclosed catalogue.

Our payment terms are cash down or negotiation of documents through banks, payment being required to be made on presentation of documents. Credit of one month is however made available on opening a letter of credit in our favour. Alternatively, bank guarantee is acceptable. Please let us know the name/s of your bankers.

Awaiting your reply."

#### **Enquiry 3**

"We are a leading construction contractor executing contracts of the value of more than 45 crores of rupees annually.

We understand that you deal in aluminium and steel slotted angles used particularly in commercial establishments. Due to our increased business this year and of that anticipated in the coming years, we would be requiring slotted angles worth over Rs. 20 lakhs.

Would you please let us have your catalogue and price list at the earliest."

#### **Reply**

"We thank you very much for your letter of enquiry dated..... We are suppliers of repute in the southern region. We are in this business for over 23 years now.

As on date we are booked for supply upto next six months. We would be able to supply goods only in the month of August, 2012, if the booking is done before March, 2012. Our price list and the catalogue are sent herewith for your perusal and action. As per our current policy, 10% of the cost of the order booked is payable at the time of booking of the order. The balance is payable at the time of delivery. Payments against presentation of documents through bank is permitted by us after securing necessary credit information.

Please let us know your requirement. Also furnish names of your bankers and two other references."

#### **Enquiry 4**

"We are one of the popular dealers in fans, refrigerators, electric grinders and electric washing machines.

We have come to know that you are looking for dealers for marketing your fans and grinders. We would like

to take up dealership of your goods as per the following terms: (a) Electric fans ... discount of 20% on the catalogue price (b) Grinders ... 18% discount on the catalogue price.

We do accept agency arrangements and in that case our commission will be 10% on fans and 15% on grinders.

We hope our terms are competitive and we look forward to receiving a favourable reply from you."

**Reply**

"We thank you for your letter dated..... expressing your desire to take up dealership in our company's goods.

Our company has appointed distributors for the Northern, Southern, Eastern and Western regions. Our distributors for the Southern region are:

Southern Agencies Limited,

22, Club House Road,

Mount Road, Chennai-600 002

You may please contact them in connection with your request for being appointed dealer of our company's goods. Meanwhile, we are forwarding a copy of your letter to them. We thank you for evincing interest in our goods."

**Status Enquiries and Replies**

Before extending any credit facility, enquiries are made about the prospective client. It is usual to find out the credit worthiness and standing of the prospective client from its bankers. Also, enquiries are sometimes made from other suppliers of the prospective client. The opinion given by a bank carries more weightage and authenticity. It is to be remembered that banks do not give opinion on credit worthiness and standing of a party except to fellow bankers by way of courtesy.

**Asking for references**

"We are thankful to you for evincing interest in our products. Before we can effect supplies, we would request you to furnish the names of your bankers and of any other party who will be in a position to furnish information about your credit and standing.

This is as per our business practice."

**Reply to the above**

"We thank you for your prompt reply. The names of our bankers are furnished below:

Canara Bank,

Bank of Baroda,

Parliament Street, East Patel Nagar Branch, New Delhi-110 001.

New Delhi-110 058.

M/s Harisson Associates with whom we have been dealings for over 10 years would also be able to furnish an authentic opinion about our credit worthiness and standing. You may write to the following address :

M/s Harisson Associates,  
134, B.N. Road, Chennai-600 023.

We sincerely hope that the above information meets your requirements. We would be happy to have your positive reply at the earliest."

**Points to Remember**

- ▶ A letter of enquiry is an information, seeking letter

- ▶ A letter of enquiry must clearly state the following:
  - (i) the purpose of the letter
  - (ii) Request for catalogue/price list
  - (iii) The details of the sender's business
  - (iv) Request for terms relating to discount, credit, mode of delivery etc.
  - (v) An idea of the quantity needed so that the supplier may quote the best price.
  
- ▶ A reply to an enquiry must take care of the following:
  - (i) a reference to the date and no. of the letter of enquiry
  - (ii) thanks to the party for showing interest in the receiver's products
  - (iii) courteous tone
  - (iv) all relevant information about goods, prices, discount, etc.
  - (v) whether the catalogue/price list is enclosed or is being sent separately
  - (vi) assurance of best service to the sender of enquiry.

## INTRODUCTION – SALES CORRESPONDENCE

*"A fool and his money are soon parted"*, claims a popular saying. But on the other hand it also highlights the fact that it is very difficult to make people spend their money by reading what we have written or listening to what we have said. Such writing encounters a natural resistance from readers. It is common to see a handbill being thrown away moments after it is thrust into someone's hands in a market. Sales persons often find doors being slammed shut on them just after they have spoken the first few words and declared the purpose of their visit. Therefore, it is important to choose the first few words with abundant care. Effective Sales writing demands following what is known as the AIDAS plan which stands for Attention, Interest, Desire, Action and Satisfaction. These are usually combined or blended so smoothly in the well-written persuasive message that it is difficult – and unnecessary – to separate them. Also, the parts do not always occur in the sequence given above.

### Strategic Marketing

#### Defining Segments

We buy for a variety of motives. For instance, cosmetics and contact lenses worth trillions of dollars would not sell if we did not want to look better. The health tonics and gym equipment would not find a market if people were not health conscious or did not want to remain slim. The insurance industry thrives on our fear of loss or death. The luxury cars and deluxe flats in prime locations partly sell because we want to display our status. Before we begin to write, it is necessary to understand why someone may buy our product.

It is also clear that all products are not meant for all the segments of society. Would it make any sense to offer a life-insurance package to a child? Or for that matter, a wrinkle-removal cream to a teenager. This is not to suggest that all products or services are segment-specific. Sales campaigns are launched to widen segments and use or lure those believed to be outside it. Children may be used to influence the choice of parents, say, about an expensive CD system they are going to buy. An old grandma may be presented as young enough to have a chocolate. The brand name is often repeated in order to ensure that it registers.

It is a good strategy to first define for ourselves as to what can be the motive of the buyer, the segment we are trying to target, and then write accordingly.

### Sales Letter

A sales letter is written to an individual keeping his specific needs in mind. For instance, a communication offering to sell a product or service to a particular entrepreneur is a sales letter. When it is drafted for circulation among a large number of people, it becomes a sales circular.

Let us first look at specimen of a sales letter.

Dear Mr. Khanna,

We thank you for choosing the ***Instant*** Internet package, which was brought to you by International Datamatics Ltd. of India. We are sure you enjoyed surfing the net and found the service fast and reliable.

Your *Instant* package contained 25 hours of Internet time out of which you have already used 20. We wish to offer you the same standard of fast and uninterrupted connectivity through our advanced ***Constant*** package.

The Constant package is offered to ***Instant*** users at a nominal conversion price of Rs.200 only. A ***Constant*** connection will enable you to surf the net at a special rate of Rs.5 per hour only. Being a privileged user, you do not have to register again. Just click your mouse on the switchover option on our website or call our customer care number 915359112 (toll-free).

Surf now and Pay later!

You do not have to make any payment now. The conversion price will be added to your first monthly bill.

We look forward to a long association with you.

Yours sincerely,

### Sales Circulars

The difference between a sales letter and a sales circular is subtle (small but important). A sales circular is drafted with a large number of people in mind. It may still address them with a singular salutation such as Customer, Subscriber, Investor or Client. This is done to create the illusion that it has been drafted with the recipient in mind. Every copy of a sales circular may even carry a different name and address by using the Mail-Merge facility. It would still be a circular because the same message is being circulated to all segments of people.

A Specimen circular selling a Mutual Fund to prospective investors is given below:

Dear Investor,

Are your funds still earning a low 4% interest in a savings bank account?

If yes, then we wish to offer you an investment option, which combines the liquidity of a bank account with comparable safety and possibility of higher returns.

***Revathi Mutual Fund*** opens for subscription on the New Years's Day. At least sixty percent of receipts will be invested in equities and the rest in debt instruments. To ensure a consistent return during volatile market conditions, twenty-five percent of receipts may be invested in derivatives. This will also act as a hedging measure.

The dividend will be tax-free in the hands of the investor. There will be no entry load and the minimum subscription will be Rs.5,000 only. To ensure liquidity, requests for redemption will normally be cleared within two days. The fund will offer the usual provisions for joint holding and nominations.

***Revathi Mutual Fund*** will be managed by the same experienced and skilled team of professionals, who have given very good returns in the past even in sluggish market conditions. Considering the performance of earlier schemes launched by the same group and the size of the promoters' corpus, the rating agencies have awarded it "High Safety Rating".

We are confident your idle funds can fetch you better returns through investment in ***Revathi Mutual Fund***. Please contact your Investment Advisor or call the nearest Customer Service center for a copy of the Prospectus and an application form. You may visit our web-site (***www.revathi fund.com***) for downloading the details.

Yours sincerely,

An analysis of the above draft shows that the writer is aware of the purpose of the circular i.e. to sell a scheme of Mutual Fund to a prospective investor. He understands that he has only a few seconds to capture the attention of the reader. Therefore he tosses a question at him and expects him to say "Yes". Most of us do leave our money in Savings Accounts where it earns very low interest. He then addresses himself to the question the reader is most likely to ask. "How does this scheme help me?"

The next two paragraphs give details of the scheme to arouse the investor's interest and create a desire in him to derive the likely benefits. However, the claims made must appear true and believable. Then come, the reference to other schemes and the results already obtained through them. The circular ends with multiple options, including a toll-free phone number, to obtain further information and application form.

#### **Circular informing Seasonal Discount**

##### **MEENU MACHINES LIMITED**

*Regd. Office:* 12, M.M. Road, Chennai-600 002

Phone: 34567

Circular 23/2012

12.7.2012

To

(Customers)

Dear Sir/Madam,

The off-season is about to set in. You would be eagerly awaiting announcement of the scheme of off-seasonal discount. The Government of India has to be complimented for its bold decision to reduce the duties of excise on some of the components of the electric fan and therefore, this season, we have something attractive to offer you by way of discounts.

Discount on pedestal fans	15%
Discount on table fans	20%
Discount on ceiling fans	18%
Discount on Mini fans	16%

The above rates of discount are valid upto 25th November, 2012. We hope you will fully avail of the discount offer and place your valuable order immediately.

Yours faithfully,

Sd/-

Mani S.

*Manager (Sales)*

**A circular letter to dealers announcing off season discount scheme**

**Sonal Home Appliances & Electronics**

Clock Tower Road, Ludhiana - 143 001

Phone: 668754, 668751 Fax: (0145) 658564

1st June, 2012

To

(All Authorised Dealers)

Dear Sirs,

**Sub.: Special Off-season Discount Scheme, 2012**

We are pleased to inform you that we are now offering a unique off-seasonal discount on showroom prices of our 'Penguin' refrigerators of 165 and 195 litres capacity. The scheme would be in operation with effect from 10th June, 2012 to 31st January, 2012. The details of the scheme are as under:

<i>A. Discount amount offered</i>	<i>Capacity of fridge</i>	
Rs. 1000	on 165 litre	
Rs. 1200	on 195 litre	
B. The discount is offered on showroom price of the fridge and is applicable only on full cash down payment by the customer.		
C. The scheme is not extended to purchases on instalment/hire purchase schemes.		

We are planning for a nationwide advertisement campaign both in the print and electronic media, on this occasion to publicise the off-season discount scheme, 2012.

We are sending through our company courier necessary publicity materials like banners, leaflets etc. which may please be exhibited prominently in your showroom to attract the attention of potential customers.

Looking forward to receiving your full cooperation to make a grand success of the scheme.

Thanking you,

Yours faithfully,

Sd/-

Asha Goyal

Manager - Sales

**A circular to stockists announcing special incentive scheme**

**Vishal Detergents Ltd.**

Clock Tower, Ludhiana

Tel.: 521811, 531811 Fax: 571819

1.1.2012

To

(All Authorised Dealers/Stockists)

Dear Sir,

### **Special Incentive Scheme – 2012**

We are pleased to inform you that we are now offering a unique Incentive Scheme for our dealers/stockists who achieve higher sales of our company's products during the Calendar Year 2012. Under this scheme, we offer to all our authorised dealers/stockists an additional incentive of a trade discount @ 5 per cent for registering higher sales during 2012. The details of the scheme are as under:

<i>Additional Incentive</i>	<i>Aggregate sales achievement</i>
<i>Discount offered</i>	(1.1.2012 to 31.12.2012)
	Rs.
Nil	Below 1,00,000
5 per cent	1,00,000 – 5,00,000
10 per cent	5,00,001 – 10,00,000
15 per cent	10,00,001 – 15,00,000
20 per cent	15,00,001 – 20,00,000
25 per cent	20,00,001 and above

Looking forward to receiving your valuable orders and continued cooperation and support for achieving higher sales of our products.

Thanking you,

Yours faithfully,

Sd/-

Shah Tannan

*Manager - Sales*

### **Circular informing increase in prices**

"We are thankful to you for your valuable orders for supply of various paints and enamels, all these years. The increased turnover of the company by 34% this year, 7 months after the close of last year, indicates the increasing popularity and acceptability of our products. True to our tradition, we are improving the quality and range of our products constantly with a view to become more and more innovative in combination of colours.

Due to our increased R & D activity, we have made considerable headway in new production processes. This has necessitated import of certain inputs. Obviously, this would lead to a marginal increase in prices.

We take you into full confidence in announcing an increase in price ranging from 2% to 6% on various items as shown in the enclosed price-list. We hope you would continue to patronise our goods as you have done in the past.

It pays to pay a little more for QUALITY."

### **Circular informing appointment of sole-selling agent**

"We thank you for having patronised our products all these years and sincerely hope that you would continue to patronise our products in the years to come.

To coordinate the supplies from different customers, we are pleased to announce appointment of Seethal Agencies Limited as sole-selling agent for our range of products w.e.f. 16th May, 2012.

We request you to place all your valuable orders with them henceforth. All orders received by us till now will

however be executed by the company.

We are hopeful that in the years to come, there shall be a considerable improvement in our services to you."

**Circular Informing Discontinuance of Services of a Sales Officer**

"We bring to your notice that Shri Narayan Dutt Yadav, our Sales Officer, ceases to be our employee. Shri Yadav has no right to represent the company any longer. You are requested not to deal with him as a representative of our company.

Any payment made to him on company's account would not be a valid discharge".

**Circular Informing Prize Scheme**

"We value the patronage you have been extending to the company's products all these years. We are sure that you would continue to extend the same brand loyalty in the years to come. You are aware that our company is very particular in ensuring quality and reasonable prices at the same time. The recent price hike by 15% in our products was necessitated mainly due to the imposition of new excise and customs duties.

With a view to encourage the sales performance, the company is glad to announce the following prizes:

First Price	–	Maruti SX4
Second Prize	–	Honda Jazz
Third Prize	–	Tata Nano

The first, second and third prizes would be drawn by lot from among those whose off take for the quarter Oct-Dec., 2011 is not less than Rs. 15 lakhs, Rs. 10 lakhs and Rs. 7.5 lakhs, respectively. We hope to receive your valuable orders."

**Circular Informing Special Concession**

"We are indeed very glad to know that you are one of our regular subscribers to our monthly "Corporate Law Reporter". You would be happy to know that the journal is entering its silver jubilee year.

On this occasion, we are pleased to inform you that on all renewal subscriptions to the journal, a discount of 25% is being allowed. You would, therefore, have to pay only Rs. 300 (as against Rs. 400) as subscription for the ensuing year. We have pleasure in extending this discount concession also to anyone whose name you recommend for subscription.

Kindly inform us regarding your decision by 30th April, 2012, so that we can plan our printing schedule accordingly.

Earnestly soliciting your patronage and assuring you of our valuable services at all times."

**Circular Informing Change of Address**

"On and from 12.5.2012 we would be functioning at the following premises

123, Jaleel Buildings,  
M.M. Road,  
Cuddalore - 601 023.

Our new telephone numbers are

65 65 67  
65 65 68  
65 65 69

Kindly ensure that in future all your correspondence is directed to the above address."

**Circular Announcing Opening of New Regional Office**

"We are happy to announce opening of our full fledged Regional Office at Patna in order to cater to the

requirements of various dealers in the States of Bihar and Sikkim, and also Nepal.

The Regional Office would function at the following address with immediate effect.

12, Asaf Ali Road

Patna – 800 007

Shri R. Sridhar is our Regional Manager. You may write to him for all your requirements. He would be pleased to serve you at all times.”

## INTRODUCTION- ACCOUNTS CORRESPONDENCE

A commercial transaction is a complex process. It begins right from the stage when raw material is ordered and ends with the delivery of finished goods to the customer. Companies follow the principles of ‘Supply-chain Management’. This means making the transaction cost-effective and efficient. It also facilitates quicker settlement of accounts, which is the final stage of a commercial transaction.

“Enterprises are paid to create wealth, not to control costs. But first year accounting students are taught that the balance sheet portrays the liquidation value of the enterprise and provides creditors with the worst-case information”.

— Peter Drucker in **Management Challenges for the 21st century**

Once the goods or services have been delivered in a satisfactory state, the buyer is expected to pay for them. From new or one-time customers, it is customary to demand advance payment in cash. But wholesale and international trade revolve around credit of varying kinds. Normally an invoice is sent along with goods or mailed after their dispatch. Bills of receivable amount may also be raised later for getting them discounted by the bankers. The facility is negotiable and is offered at a charge.

## Invoice

It is a document giving full details of goods being shipped, prepared by the exporter and sent to the importer.

An invoice may serve any of the following purposes:

- It gives an accurate description of the goods being sent and their prices to enable the buyer to check them.
- It states the total amount payable for the convenience of the buyer.
- The regular customers enter it in their account books and pay at the end of the credit period.
- It transfers the ownership of goods and helps in calculation of duties and taxes payable on them.
- An Invoice is a valid legal document in case of a dispute regarding payment.

## Proforma Invoice

A Proforma Invoice is different insofar as it is for the sake of form only. It is neither entered into books nor charged to the account of the recipients. It may be used for several purposes including:

- as a quotation.
- as a demand for payment when dealing with a new customer, or one with whom the company does not have any credit arrangement.
- to give details and prices of goods being sent on approval.
- to enable calculation of taxes and duties payable.

## Delivery Challans

It is interesting to note that invoices as well as delivery challans are similar insofar as both give the details of goods. While the former originate from the accounts department, the latter are issued by the store. The essential difference is that while a delivery challan only mentions the quantity and type of goods, an invoice includes the sale value as well.

Invoices when sent with the goods do not require a covering letter. An exception may be made when sending them to a new customer. In such cases, a brief letter is enclosed with the invoices:

### Letter enclosed with Invoices:

**Texport Pvt. Ltd.**  
7, M.G. Road, Bangalore  
Tel: 6236128

Ref: SP/529

Messrs Newlite Garments  
A-9 Connaught Circus  
New Delhi-110 001.  
11th November 2012

Dear Sirs,

We thank you for your Purchase Order No. 1266 of November 7th, 2012 for 1,000 wrinkle-free cotton trousers of assorted sizes and colours. Our invoice covering details of prices and applicable taxes on the same material is enclosed.

The shirts are available ex-stock and we will be pleased to dispatch them on the receipt of payment.

Yours faithfully,

Sales Officer

Encl.: Invoice

## Statement of Account

Their regular buyers often accept material on credit. They are also reluctant to invest their money in new products. Account between the two parties is settled periodically. They prefer to accept such material "On Approval". The regular buyers make payment for goods sold to them at fixed intervals. In all such cases, a Statement of Account is sent to the other party periodically showing the opening balance, details of transactions and the closing balance.

The format is similar and the change is confined to headings under which information is compiled. For instance, a bank may send a statement to their account holders listing entries under debit, credit and balance headings at the end of every quarter. These statements, if computer-generated do not require any signature.

Statements of Account do not need a covering letter. If you must send one, draft a brief one mentioning the period for which the statement is being sent and ask the recipient to report if there is any error or discrepancy. If the recipient fails to do so within a reasonable time, the statement is taken to be correct:

### Letter Regarding Statement of Account:

Dear Sir,

We are pleased to enclose the Statement of Account for the month, September 2012.

We may add that you may avail a Cash Discount of 2% by making a payment of the amount due within a fortnight.

Please report errors, if any, to our Accounts Department promptly.

Yours faithfully,

The Accounting system in the whole financial world is based on double-entry book-keeping system created by Luca Pacioli, an Italian genius-monk, in his book titled, *Summa de Arithmetica, 1494*.

Date	Details	Credit	Debit	Balance

### Credit/Debit Notes

Trading establishments are increasingly relying on calculating machines and accounting softwares. Cash registers print out Cash/Credit Memos in an instant. Companies use computers to store items, prices and taxes in memory to reduce incidence of errors in calculation. But most documents dealing with accounts mention the abbreviation "E&OE" meaning Errors and Omissions Excepted. Even the most efficient organisation may make accounting errors. Besides there may be short shipments, return of goods, part rejection due to quality, or mismatch to customer's order, dispute, fresh negotiation on price, etc.

Credit and Debit Notes are exchanged between the parties to adjust the amount of difference.

#### Letter regarding details of the error

If the seller has undercharged the buyer, he may send a Debit Note to the buyer. A brief letter gives the details of the error and the relief demanded:

Dear Sir,

We regret to inform you that our Invoice no. Z2346 dated September 27th carried an inadvertent error. The total price payable is Rs. 28,000/- instead of Rs. 23,000/- as stated.

We are enclosing a Debit Note of Rs. 5000/- to cover the amount of difference. We regret the inconvenience caused to you.

Yours faithfully,

#### Letter regarding returning of goods

It is also possible that the buyer may have been overcharged. In such a case, he may send a debit note and ask for a credit note in return. Credit Notes are also demanded when buyer returns goods already paid for on grounds of, say, unacceptable quality: Dear Sir,

We returned 500 pieces of Lever Handle Assembly to you on December 12, 2012 vide delivery challan no.2336. These pieces had been rejected earlier by our Inspection Department on grounds of unacceptable deviations.

Please issue a credit note for Rs.12,500/- in our favour to cover the cost of the returned material.

Yours faithfully,

#### Letter for refusing to issue Credit Note

The mere fact that a credit note has been demanded does not mean that the request will be complied with. The seller may still refuse to issue it. However, he is expected to give reasons for such an act:

Dear Sir,

Please refer to your letter dated..... regarding the Lever Handle Assembly.

We wish to emphasise that the deviations are within the tolerance limits mentioned in the original component drawings. We are taking up the matter with your Inspection Department.

We regret that it will not be possible for us to issue a credit note till the matter has been settled. Yours faithfully,

### **Collection Letters**

Collecting payments is the most difficult part of business. Good organisations understand the importance of making payments on time and the goodwill it creates for them. There are instances of companies paying up as soon as an amount becomes payable. Unfortunately, the number of defaulters is higher. Therefore, one has to learn to be persistent in pursuing them.

Collection letters must be written cautiously. One may not even write a letter in the first instance, but choose to make a telephone call to urge the other party to pay up. Alternatively, it may be sufficient to send another copy of the statement of account showing arrears of payment. It is good to remember that the buyer may have a legitimate ground for delay. Therefore, it will be tactless and imprudent to write the first collection letter in an angry tone. If the defaulting party does not pay up despite a reminder, a firmer tone may be adopted in subsequent letters:

#### ***Reminder Letter***

Dear Sir,

Please refer to our statement of account for the period ending December 2011, which was mailed to you on January 5, 2012, and a telephonic reminder was made later. We regret to inform that we have still not received the payment.

You will agree that delayed payments may affect schedules and cause avoidable inconvenience to both the parties. We shall be grateful if you remit the outstanding amount on the receipt of this letter. Yours faithfully,

#### ***Defaulters***

Wilful defaulters are unlikely to oblige soon. However, it is wiser to opt for even a part payment than rushing into time-consuming litigation. Habitual defaulters welcome it since it gives them an opportunity to defer payment even further. One may consider steps, which hurt the other party most. These may be suspension of further supplies or cancellation of credit. A stricter tone and style may be justifiably used against them:

#### ***Final Reminder***

Dear Sir,

This is further to our Statement of Account and several reminders to you to settle the account for the period October-December 2012. Unfortunately, you have not responded to them so far. In the circumstances, we are unable to continue with further supplies till the outstanding amount is cleared.

Please note that if you do not settle your account within seven days of the receipt of this letter, we shall have no option but to hand over the matter to our attorneys for suitable action.

We hope you will not force us to take extreme steps in this regard.

Yours faithfully,

#### ***Explaining Delays***

The defaulting party should be sensitive to the difficulties of the seller. A payment must not be delayed without a convincing reason. It may be a good idea to seek an extension of time from the seller. Normally a reputed business house does not take the risk of turning down a reasonable request from a regular customer:

Dear Sir,

Please refer to your Bill No. S3456 of February 2, 2012, which is due for payment on February 15, 2012. We are facing temporary liquidity problems due to delay in overseas payments. We may not be able to settle your bill for a fortnight.

We hope you will bear with us.

Yours faithfully,

### **Banking Correspondence**

Business without banking is unimaginable. A company begins its operations by opening a Current Account. These accounts come for a fee. They do not yield any interest like Savings Accounts but offer valuable services to a company. These include unlimited number of Payments and Receipts, Overdraft Limits, Term Loans, Credit References, Depository Services, etc. The company operates the account through one or more authorised signatories who may even be changed by the Board of Directors:

#### ***Change of Signatories***

Dear Sir,

The Board of Directors of our company decided at a meeting held on February 6, 2012 that our Current Account no.6619 with you will be operated jointly by the Managing Director and the Chief Accounts Officer with immediate effect.

A certified copy of the resolution of the Board and the specimen signatures of the authorised signatories are enclosed. Please acknowledge the receipt of this instruction.

Yours faithfully,

#### ***Stop Payment***

During the course of a day, a company mails a large number of cheques and other instruments. If the payee reports that he has not received the instrument, it is advisable to convey the details to the bank promptly and to request it to stop payment. Initial instruction may be given telephonically or telegraphically and a confirmatory copy sent later for their record. Though banks make all efforts to honour such instructions, they are not liable to compensate if the payment is made inadvertently.

Dear Sir,

We issued the cheque bearing number 456611 dated February 7, 2012 in favour of Messrs Flowline Enterprises. The amount of the cheque drawn on your branch is Rs. 93,475/- only.

Please stop payment of this cheque as it has reportedly been lost in mail.

We shall issue a duplicate cheque on getting your confirmation that you have received this instruction. Yours faithfully,

#### ***Overdrafts***

Companies are expected not to issue cheques without sufficient balance in their accounts. Failure to do so may lead to dishonouring of the instrument and loss of reputation and goodwill.

Banks routinely warn companies against overdrawn accounts and advise them to negotiate for a higher overdraft (OD) limit.

Dear Sir,

**CURRENT ACCOUNT No. 2332**

We regret to inform that your Account No.2332 with our branch has frequently been overdrawn in the recent past. The amount of overdraft was Rs. 67,000 at the end of Business Hours on February 3, 2012.

We wish to emphasise that it shall not be possible for us to clear your cheques in the absence of sufficient balance in your account.

Please arrange immediate credits to clear the overdraft. If you find that your working capital is inadequate, we advise you to negotiate a higher OD Limit.

Yours faithfully,

**Overdraft Limits**

Companies are allowed overdraft limits on payment of charges. These limits are negotiable on the basis of fixed and liquid assets, like plant and machinery, buildings, securities and even goodwill. Normally overdraft arrangements are secured against stocks - raw material, finished goods and trading stocks of the borrower. Temporary overdrafts are also allowed against securities, fixed deposits, etc., and in certain circumstances without any security also. Temporary overdrafts help companies cope with immediate problems. Applications must be supported by relevant documents.

Dear Sir,

**OVERDRAFT LIMIT**

Thank you very much for your letter of February 5, 2012.

We regret the unsanctioned overdraft and have transferred credits from another account to clear it.

Our recent diversification into automobile ancillaries has been delayed due to cost over-runs. We expect the unit to be commissioned in about two months and become viable by the end of the year 2012.

Therefore, an additional temporary overdraft limit of Rs. 50 lacs for a period of six months will be of a great help. We are enclosing a status report from the consultants and the last audited balance sheet for your perusal.

We hope to hear from you soon.

Yours faithfully,

**Term Loan**

Fixed term loans are usually secured against fixed assets, such as plant and machinery, land, buildings, etc. Most of the information is furnished by filling up forms made available by the banker. In the event of a delay, a letter may be dispatched:

The Chief Manager

ICICI Bank

Hitech City

Hyderabad-500 033

March 30, 2012

Dear Sir,

**DELAY IN SANCTION OF TERM LOAN**

We submitted an application on February 22, 2012 for a Fixed Term Loan of Rs. 60 Lacs against securities in the

form of land and building, and plant and machinery. The working capital as on date is Rs. 80 lacs. The details of existing liabilities and the past performance of the unit are on your record.

The term loan is to be used for the introduction of new technologies, like CAD/CAM in the manufacturing of our existing products. This is imperative to retain viability in the times to come.

We shall appreciate if the Term Loan is sanctioned expeditiously.

Yours faithfully,

### **Status Enquiries**

Parties often ask for credit and give the name of their banker as a referee. It is common for companies to secure the help of their own bankers to find out the creditworthiness of those parties. Bankers make such information available to their clients in confidence but without accepting any liability.

The Chief Manager

HDFC Bank

Greater Kailash I

New Delhi

July 17, 2012

Dear Sir,

We have recently received an order worth Rs. 65 lacs from Textronics Ltd., Chennai. The company has requested for a credit-period of 90 days. They have given the name of their banker, Indian Overseas Bank, T. Nagar, Chennai as their reference.

We shall be grateful if you find the creditworthiness of Textronics Ltd. from their bankers and advise us at the earliest.

Yours faithfully,

### **Insurance Correspondence**

The concept of insurance evolved around the time when sea trade had just begun. The early ships were unsafe and often sank in high seas. Unfortunately, they also took with them valuable cargo to the bottom of the sea. It was felt that some mechanism should be developed to compensate those who suffer such losses. Thus, the institution of insurance was founded.

Insurance is a contract between the company, called the insurer and the client known as insured. The insurer promises to compensate the loss the insured may suffer, against the payment of premium. The premium is calculated in % age terms, say 2 paise per hundred rupees for Fire Insurance. The calculation is made on annual basis though flexible payment plans may be offered for the sake of convenience. Risk perception plays a major role in determining the premium. An AAR or Against All Risks cover, for instance, will be more expensive than one against fire only. Premium enquiries are a common subject matter:

### **Policy Renewal**

Dear Sir,

We are interested in renewing the policy number S 233321456 for our bonded warehouse located at S-31, Sahibabad Industrial Area, UP with some changes.

The warehouse and goods stored in it are presently covered for a total value of Rs. 30 lacs only against fire. Following the earthquake in Gujarat, we would like to seek protection against all risks.

We shall be grateful if you quote your lowest premium rates for an AAR cover at the earliest, so that we may remit the charges.

Yours faithfully,

### **Null and Void Policies**

Non-payment of premium results in a policy being declared null and void. A policy must be in force at the time of the mishap in order to secure compensation. The insurer may, at his discretion, revive a lapsed policy on payment on missed premiums plus penal interest.

The amount of compensation is limited to actual loss suffered by the insured. In the event of over-insurance, relief is limited to the sum assured. The policy may be declared null and void if the insurer detects under-insurance.

Salvage is permitted during the accident. The premises are surveyed later by an expert chosen from the panel of the insurance company. Once the surveyor submits his report and an estimate of the loss suffered, the insurance company settles the claim by awarding compensation.

### **Reporting Loss**

Dear Sir,

**POLICY No. J 2343221**

We regret to report that our tool room located on the ground floor of Plot No.73, Wazirpur Industrial Area, Delhi was gutted in an accidental fire last night. The cause of the fire is not known and is being investigated.

The tool room, which was insured comprehensively with you under Policy No.J2343221, has been totally destroyed. The loss of plant and machinery is estimated to be Rs. 23 lacs.

Please arrange an immediate survey of the premises so that we may resume operations and file a claim expeditiously. Yours faithfully,

### **Reply to above letter**

It is unlikely that the insurer will accept the estimate of loss submitted by the insured. However, a convincing reason, should be given when contesting the figure mentioned by him. The response should also contain an expression of sympathy: Dear Sir,

We are sorry to learn from your letter of March 3, 2012 about the destruction of your tool room in a fire accident.

The initial feedback from our surveyor has confirmed that the damage to the plant and machinery is major. However, we are unable to accept Rs. 23 lacs as a fair estimate of loss since much of the machinery was obsolete. We shall indicate the liability acceptable to us after we receive the final report of the surveyor. We assure you that we shall make all efforts to settle the claim at the earliest. Meanwhile, please accept our sympathies.

Yours faithfully,

### REVIEW QUESTIONS



#### **State True or False:**

1. It is advisable to send a copy of the statement of account showing arrears of payment to the companies before sending the collection letter.
2. If the payee reports that he/she has received cheques, the seller should promptly request the bank to stop payment.

**Answers:** 1. True 2. False

### Provident Fund Correspondence

All business entities viz. Partnerships, Sole proprietorships, Corporate houses, Trusts, Government Bodies

employing more than twenty persons are covered under the Employees Provident Funds and Miscellaneous Provisions Act, 1952. The employees contribute a total of 12% of their basic salary plus dearness allowance to the funds established under the schemes prescribed by the Central Government. The employer with the addition of a matching share has to deposit it by the middle of the following month with the Regional Provident Fund Commissioner. A grace period of five days is allowed.

The monthly returns are filed in prescribed forms. These forms give details of subscribers or members, the individual deductions and the total amount being deposited.

Failure to do so may invite penal action including arrest. A company failing to deposit the money may receive a Show Cause Notice from the Provident Fund Commissioner's office:

**Reply to Show Cause Notice**

Compliance letter mentions the Code No. allotted to the company, details of payment, names of subscribers and the amount to be credited into each account in the prescribed form, say 12A. The covering letter with a delayed Return may read as follows:

To

The Regional PF Commission  
Employees' Provident Fund  
60, Skylark Building  
Nehru Place New Delhi

26 December, 2012

Dear Sir,

**RETURN FOR NOV. 2012/CODE No. DL/3523**

Please refer to your notice dated 21 December, 2012 regarding the delay in filing the Return for the month of November 2010.

We sincerely regret the delay and inform you that the contribution has since been deposited. We enclose Form No. 6A along with Revised Form No.3A in respect of 128 members.

Kindly acknowledge the receipt and send the Statement of Account of our members at the earliest.

Yours faithfully,

Encls: As above

Similar Returns of payment are also filed periodically by companies extending ESI or Employees State Insurance benefits under the relevant Act.

**Sales Tax/C Forms and Excise**

Companies engaged in the sale of goods, unless exempted, are also liable to pay Sales tax. The rates of tax vary. Tax payable on the sale within a State may be 10%. The Central Sales Tax Act, 1956 covers inter state sales and provides for a uniform charge of 4%.

Companies are expected to obtain separate Sales Tax Registration Numbers. The sale to registered buyers in other States may be made against production of Form C, wherein the buyer accepts liability to pay the Sales Tax and furnishes Form C to the seller. The Form C is obtained from the Sales Tax authorities:

The Assistant Commissioner ACA-1

U.P. Trade Tax Department

Ghaziabad (U.P.)

25th October, 2012

Dear Sir,

**Sub: APPLICATION FOR OBTAINING FORM C**

We wish to apply for 30 Form C to use in Interstate sales.

We were issued 10 forms, S. Nos. 201587 to 201596 on 15.9.2012 out of which 6 forms have been used and a balance of 4 is in hand. Up-to-date Returns have already been filed.

Details regarding CST Regd. No., the amount of sales against used forms and the court fee affixed are given in the enclosures.

Kindly issue the Form C and oblige.

Yours faithfully,

**Covering Letter for Filing Returns**

Returns are usually filed on prescribed forms with the Sales Tax Authority of the Circle/Zone having jurisdiction. They are evaluated with computers these days and may be enclosed with a covering letter giving necessary details:

The Sales Tax Officer  
Govt. of NCT of Delhi  
Indraprastha Estate  
New Delhi-110 002  
8th February, 2012

Dear Sir,

**Sub: Return for the Quarter ending December 2009**

We are pleased to enclose a copy of the ST/CST Return for the period ending December 2008 as under:

1. DST @ 3% Agst. "B" Tax Payable:	Rs. 9,849.84
2. CST @ 4% Agst. "C" Tax Payable:	<u>Rs. 9,371.16</u>
Total:	<u>Rs.19,221.00</u>

CH. No. 265321 dt. February 8, 2012    Rs.19,221.00

Kindly acknowledge receipt.

Yours faithfully,

For Amex Enterprises  
(J. Krishna)

Authorised Signatory

**Excise**

Excise is chargeable from companies engaged in production of goods at applicable tariffs. The Government has progressively moved towards a uniform basic excise rate of 16% but exemptions and surcharges still affect the actual rate. This rate is determined when the goods manufactured by a company are classified under standard headings. Exciseable goods can be taken out/removed only when an invoice certifying the payment of tax has been issued. Periodic returns are filed with the excise office under whose jurisdiction the factory/place of manufacturing falls. The covering letter may give details of relevant enclosures:

**Covering Letter**

The Central Excise Officer  
Range 11, Kanpur  
Cantonment (U.P.)

Dear Sir,

**RT-12 RETURN: QUARTER ENDING JUNE 2010**

We are pleased to enclose the following documents in respect of goods falling under subheadings given below:

1. RT-12 for the quarter ending June 2012.
2. P.L.A. Sheet No. 7 to 9 in triplicate.
3. RG-23D for Stock Account.

We hope you will find the documents in order.

We shall be grateful if you acknowledge receipt of the same.

Yours faithfully,

For Ordnance Equipment Factory  
S.K. Pandit  
AGM-Accounts

**Correspondence with IT and Corporates**

The advent of information technology has changed the face of the corporate world. The bulky Telex machines have lost their place to sleek Office Machines combining functions, like Fax, PBX, Scanner-cum-copier and Answering Machines. Modern corporate houses appreciate the importance of uninterrupted communication. The good old telephone line still remains indispensable. Companies have several options to pay their bills to avoid disconnection.

In the event of a disconnection an application has to be made to the SDO of the concerned zone:

Reconnection of Telephone Line

To

The SDO  
Andheri (East Zone)  
MTNL  
Mumbai.

March 22, 2012

Dear Sir,

**Sub: RECONNECTION OF PHONE No. 2234521**

We wish to inform you that phone number 2234521 was disconnected due to non-payment of bill.

The Bill No. 234213 of Rs.7,500 has since been deposited with the Office of the Accounts Officer of your zone (copy enclosed).

You are requested to reconnect the phone immediately as we are facing a lot of inconvenience. We thank you in anticipation.

Yours faithfully,

**Electronic Clearance Scheme**

To avoid such situations, subscribers have several options. Apart from cash or cheques, they may pay through Credit Cards or get their bills adjusted against interest yielding *Voluntary Deposits Under Electronic Clearance Schemes* under which the bills are automatically debited from the company's bank account. The application to avail the said service is given below.

To,

The Chief Accounts Officer  
MTNL  
Khurshid Lal Bhawan, Janpath  
New Delhi-110 001  
March 25, 2012

Dear Sir,

**Re: ESC Mandate for Tel. Nos. 6132261, 6237792-5.**

We, the subscribers of above telephone numbers hereby express our willingness to settle the payment of regular bi-monthly telephone bills of the telephone connections referred to above through participation in E.C.S. of National Clearing Cell of Reserve Bank of India, Delhi.

We hereby authorise Accounts Officer (ECS), MTNL, Delhi to raise the debits on such regular bi-monthly telephone bills as referred to above through this scheme electronically for adjustment against Debit in our Current Account No. 6223 with Punjab National Bank, Delhi Cantt.

A copy of a leaf of the MICR cheque-book bearing the nine-digit code of the bank and the mandate form duly signed by the Chief Manager are enclosed.

We understand that you will send us an advice about all the Bills being debited from our account.

Please confirm the receipt of this authority and oblige.

Yours faithfully,

**ISDN connection**

Correspondence is more about securing Integrated System Digital Network (ISDN) lines and Very Small Aperture Terminals (VSAT) facilities. While ISDN is used for transmitting voice and data, and the video enables uninterrupted transmission in digital form; whereas the VSAT connects the different branches of an organisation in a private, dedicated communication network. In addition, most companies host web sites where information and services are available at the click of a mouse.

The traditional exposure in print media has been enlarged with the registration of domain names and uploading information on Servers.

**An application for ISDN Connection**

To,

CGM (Commercial)  
MTNL  
New Delhi  
March 26, 2012

Dear Sir,

**Sub: APPLICATION FOR ISDN CONNECTIONS**

We are pleased to enclose the Application Form No. J3425 for an ISDN connection at our corporate office located in 77, Amba Towers, Barakhamba Road, New Delhi-110001.

We require four terminals namely for simple ISDN handset, PC Card, Video Conferencing and G4 Fax.

A Demand Draft of Rs. 16,500 (Rupees sixteen thousand five hundred only) in favour of MTNL, Delhi to cover the Registration fee, Advanced Rental and Network Terminal security is enclosed. The Articles of Association of the company and the specimen signatures of authorised signatories are also furnished herewith. We shall be grateful if the connections are provided at the earliest.

Yours faithfully,

**Specimen Letters**

Given herein below are a few specimen letters which show how to slowly progress towards the ultimate decision to file a suit in a court of law against a defaulting customer.

**Example 1**

"We thank you for your order for 200 numbers of table fans. We confirm having sent the same vide Speedways L.R. No. 2345 dt. 12.4.2012.

Please let us know the details of remittance against our earlier invoice No. 123 dt. 10.3.2012 for Rs. 6,000".

*(Note that in this letter the sender presumes that the payment against invoice no. 123 must have been sent and the reference to non-receipt of money appears to be incidental).*

**Example 2**

"We are in receipt of your letter placing a further order for supply of 400 pedestal fans.

We regret that we do not have ready stock thereof with us and hope to receive the supplies in about a fortnight. In the meantime, would you please let us know the payment particulars against our invoice No. 123 dt. 10.3.2012 for Rs. 6,000. We sincerely hope that you would have made the payment by now. If you let us know the particulars of payment, we would be able to check up whether we have received the same or not. Your reply in confirmation, by return of post, is solicited."

**Example 3**

"We draw your kind attention to our telegram dt. 16.5.2012 requesting you to let us have the particulars of remittance against our invoice No. 123 dt. 10.3.2012 for Rs. 6,000. We are sorry to state that we have neither received the payment nor any communication in respect thereof so far.

We fail to understand your inordinate delay in sending us at least a reply, stating the reasons for delay in remittance of the amount. We are constrained to say so because in our dealings for the past five years there has never been an occasion for us to remind you of outstanding payments. We believe that you might be having some genuine difficulty in making this payment. We request you to intimate us about the same so as to enable us to suggest an alternate viable proposal regarding the matter.

We hope, in the interest of maintaining our good relations as in the past, you would respond immediately on the receipt of this letter."

**Example 4**

"We are very sorry to note that in spite of our repeated requests through letters and a telegram we have not received any reply regarding payment of our outstanding bill against invoice no. 123 dt. 10.3.2012 for Rs.

### **312 FP-BMEE**

6,000. In the meantime, payment against our invoice no. 234 dt 10.5.2012 for Rs. 8,765.80 has also become overdue by fifteen days. We are totally at a loss to understand your continued silence in the matter.

We expect you to immediately remit atleast the amount of Rs. 6,000 outstanding against our invoice no. 123 dt. 10.3.2012.

We are sorry to say that despite our helpful attitude you are not availing the opportunity to regain our confidence in you."

### **Example 5**

"We are in receipt of your letter ordering a supply of 300 table fans and 450 pedestal fans.

We are sorry to state that we are not in a position to execute your order in view of the outstanding payments against our invoice nos. 123 and 234, despite our repeated reminders to expedite payment.

Even now, it is not late to intimate your reasons for the inordinate delay in settling our dues.

However, we are fully convinced that we had given you sufficient time to amend matters. We also sincerely believe that no prudent businessman would have taken the matter as lightly as we have.

We are constrained to state that in the event of the payment against our invoice nos. 123 and 234 not forthcoming latest by 5th July, 2012, we would be forced to view the matter seriously".

### **Example 6**

"We draw your attention to our letters dt..... We are sorry to note that despite our very benevolent attitude, you have not responded favourably to our repeated requests for payment of the amounts outstanding against our invoice no. 123 dt. 10.3.2012 for Rs. 6,000 and invoice no. 234 dt. 10.5.2012 for Rs. 8,765.80.

Under the circumstances, clause 5 of the sales contract providing for levy of interest on the outstanding @ 15%, stands invoked. You are, thus liable to pay interest from the expiry of 10th day of the credit period of 25 days from the date of invoice.

We have handed over the matter of recovery of the amount outstanding against the abovesaid invoices to our solicitors, Raman and Raman from whom you would hear shortly".

*(Note how the matter has proceeded from repeated requests to a poignant situation of taking the matter over to the lawyers for recovery through court process).*

### **Example 7**

#### **Advising to avoid litigation**

#### **FAITH PHARMACEUTICALS CO. LTD.**

15, Tank Road, New Delhi-110 055

Tel.: 5762031 Fax: 011 6538241

Basic Chemicals Ltd.

17 Hauz Khas

New Delhi - 110 016

May 20, 2012

Dear Sir,

We refer to your letter dated 16th May, 2012 threatening to sue us for alleged non-payment of your bill No. 18/2012 for Rs. 51,000.

First of all we wish to state that there is a dispute regarding the goods supplied under the aforesaid bill and the price charged therefore. We have already notified your Managing Director making our view points very clear to

him and he has accepted in principle that in view of the inferior quality of goods supplied by your factory, the amount billed would be reduced by 25%. We are yet to receive a revised bill and debit note as per the agreement reached with your Managing Director.

Since the bill is a disputed one and in view of the fact that the goods supplied were of inferior quality as per your own admission, you have no valid grounds to sue us.

We are sure you will reconsider your decision and avoid unnecessary litigation. We look forward to a positive response from your end in the matter.

Thanking you,

Yours faithfully,

For Faith Pharmaceuticals Co. Ltd.

Sd/-

(*Managing Director*)

Specimens of other letters relating to Finance and other matter discussed earlier are given herein:

#### **Example 8**

##### **Letter to a bank requesting credit facility**

Dear Sir,

We have plans for expanding our line of manufacture and a detailed project report has been finalised which has been favourably considered by the Industrial Development Bank of India, Mumbai. The working capital requirements in connection with the above project would be of the order of Rs. 3.5 lakhs for a quarter.

A copy each of the project report and feasibility report is enclosed for your ready reference. At present we are enjoying a credit facility of 3.5 lakhs rupees by way of overdraft, 2 lakhs rupees by way of cash credit and Rs. 4 lakhs by way of Bill of purchase from your bank. You would be happy to find from your records how satisfactory our performance has been all these years.

As in the past, we request you to grant us the credit facility for Rs. 3.5 lakhs also. We would offer our investments in shares as security for the overdraft facility upto Rs. 3.5 lakhs that we are requesting for now. The shares command a premium of 70% at the moment.

We sincerely hope that this would entirely meet your requirements."

#### **Example 9**

##### **Letter to bank requesting current account statement**

Dear Sir,

As our accounting year has come to a close on December 30, 2012, we request you to send the Current Account statement for the period November 1, 2011 to December 31, 2012, at the earliest, to enable us to reconcile the bank balance.

#### **Example 10**

##### **Letter to bank requesting bank guarantee**

Dear Sir,

We are your valued customer for over 15 years. The company has recently secured a State Government contract for the supply of items of the value of Rs. 1,50,000 per month. In this connection, they desire a bank guarantee to be executed by the company's bankers.

We are sure you would oblige us in this matter. Kindly let us know the security you will require for issuing the said bank guarantee.

**Example 11**

**Letter to bank asking for higher credit limits**

Dear Sir,

We are at present enjoying cash credit facility of Rs. 4 lakhs against hypothecation of the raw materials and stocks at our godown. Recently, due to an expansion programme, the average monthly production has registered an increase by 5%. This is vouched by the godown stock statements that the company has been submitting to you enter the last three months.

Under the circumstances we would request you to increase the cash credit limit to Rs. 5 lakhs. We assure you that our credit performance would remain as good as it was in the past.

**Example 12**

**Letter to the Insurance Company to assess the loss by fire**

Dear Sir,

We are to intimate to you that a fire occurred in our godown at 10 Rajendra Colony, 1st Street, at 10.30 p.m. yesterday the November 21, 2012. The fire service personnel have done a commendable job in minimising the loss to the stocks. The cause of the fire is not yet known. We request you to send your valuer to assess the loss and arrange for an early settlement. In the mean time a separate claim is being lodged by us.

**Example 13**

**Letter requesting a New Telephone Connection**

Dear Sir,

Ours is a company having over 300 branches all over the country and 3 overseas branches each in Malaysia, Singapore and Japan. Presently, we have ten telephone connections with 3 extensions for each. With the scale of operations increasing and the consequent increase in the number of staff members, we feel that the existing telephone connections are inadequate. We, therefore, request you to instal two more new connections with three internal extension lines for each, at the earliest and oblige.

**Example 14**

**Letter complaining excessive Telephone Billing**

Dear Sir,

We are shocked to learn from the latest telephone bill that we have been overcharged, particularly in respect of the trunk calls. We are at pains to know that the billing has been done in excess by at least 10 times than the charges that our calls would have actually attracted. We have remitted the amount as per the Bill, but would request you to please check your records/readings once again and make necessary adjustments in the Telephone Bill(s) to be issued in future.

**Example 15**

**Requesting rectification of telephone instrument**

**RUBY TRADING CO.**

17, Kalpi Industrial Area Kanpur-208 019.

Tel: 241123

General Manager,  
 Kanpur Telecommunications,  
 Green Park, Kanpur  
 June 10, 2012

Dear Sir,

**Sub: Telephone No. 241123 – Defect in telephone instrument**

We refer to our complaint number 181 dated 1.5.2012 made at G.T. Road Telephone Exchange and the subsequent reminders dated 15.5.2012 and 25.5.2012.

We, are sorry to note that inspite of several letters from our end, our telephone instrument has not been rectified till date. Due to non-functioning of our telephone, we have been totally cut off from our customers for the past several days and as a result, we are facing the risk of loss of business.

We, therefore, request you to arrange for rectification of defect in our company's telephone instrument without any further delay and oblige.

Thanking you and looking forward to a prompt response,

Yours faithfully,

Sd/-

(Manager)

**Example 16**

**Complaining against excess billing and replying to notice of electricity disconnection**

**CBC MILK PRODUCTS**

Food Products Industrial Area, Saharanpur (U.P.)  
 Tel.: 21945, 29148 & 22184 Fax: (0121) 29745

The General Manager  
 Saharanpur Electric Supply Undertaking  
 'Bijalee Bhavan'  
 Saharanpur (U.P.)  
 June 10, 2012

Dear Sir,

**Reg.: Complaint against excess billing**

We refer to your letter No. IV/SS-III/96 (18181) dated 1.6.2012 threatening to disconnect electric supply to our factory for alleged non-payment of bill for the month of March, 2012.

In this regard, we wish to state that your bill for Rs. 31,000/- for March 2010, is a highly inflated one since our average monthly bill amount comes to Rs. 8,000/- only. Since the bill is an inflated one, we have already made a complaint with your Divisional Office-IV on May 18, 2012, requesting to recheck the meter reading. It seems, instead of taking any action on our request, the Division Office has served the aforesaid letter of disconnection upon us.

Under the above circumstances, we request you to please look into the matter and give necessary instructions to your Divisional Office not to disconnect electric supply to our factory.

Further, we wish to state that we are ready to pay a sum of Rs. 8,000/- pending settlement of the matter.

Thanking you,

Yours faithfully,

Sd/Albert Pinto

*(Manager)*

### **LESSON ROUND UP**

- Preparing resume and writing application letters are the pre-requisite for finding a job.
- Interviews help companies in short listing the candidates. Interview letters should contain information about the position applied for, date, time and venue of the interview.
- The letter of appointment contains the terms and conditions that have to be followed by the employee after joining the organization. An employee gets a letter of confirmation, once he/she completes the probationary period.
- Purchase correspondence plays a vital role in keeping the production line going by ensuring timely procurement.
- A letter of enquiry is an information-seeking letter. There are two types of enquiries: sales related enquiry and status enquiry.
- The test of a good enquiry letter is that it should state the purpose of the letter clearly, completely, accurately and concisely.
- Industrial enquiries may use technical jargon. It is acceptable since the receiver of the letter will be familiar with it.
- Estimates are sought and provided where services rather than off the shelf goods are involved.
- Organizations publish tender notices when they have to procure goods and services on a large scale or get a project executed.
- Tender Notices include estimated value of goods/services and delivery details.
- Tender forms have to be submitted by the stated time and date in sealed covers. Specified enclosures must accompany them.
- Tabulated tenders are useful when more than one item is required by the buyer.
- Occasional buyers place orders through letters.
- A complaint should be acknowledged and looked into at once. If some more time is needed to check the facts a polite letter to this effect should be sent.
- Effective Sales writing demands: Attention, Interest, Desire, Action and Satisfaction.
- Before one begins to write a sales letter/circular, one should first define the motive of the buyer in mind and the segment being targeted to, and then write accordingly.
- A sales letter is addressed to an individual with his specific needs in mind, whereas a Sales Circular is drafted with a large number of people in mind.
- Advertising imparts information, develops attitudes, creates needs and initiates action beneficial to the advertiser.
- Classifieds, Public Notices and Appointments are the various forms of advertisement.

- Following four essentials are required in the advertisement copy:
  - The audience must be exposed to the communication.
  - The members of the audience must be able to perceive correctly as to what action the communicator desires.
  - The audience must remember or retain the message sought to be communicated.
  - The audience must respond to and act on the advertisement.
- Invoice is a document giving full details of goods being shipped, prepared by the exporter and sent to the importer.
- Delivery Challan only mentions the quantity and type of goods.
- Collection letters must be written cautiously. The first collection letter should be written in a polite manner, for it functions as a reminder.
- Banking requires letter writing for the following services: Stop payment, Overdraft limits, Term loan and Status Enquiries.
- Insurance Correspondence requires letter writing for the following: Policy renewal, null and void policies and Reporting Loss.
- Writing letters for the following services is also important : Sales Tax/C Form and Excise; Postal Authorities and IT & Corporates.
- A Company Secretary occupies an important place in a corporate set up.
- Public investment in a company is generally in the form of shares, debentures and deposits. Anyone can participate in the capital of a company through equity shares. The return on shares depends on the profitability of the company and is in the form of dividend.
- Dematerialization is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic format and credited in the investor's account with a Depository held through Depository Participant (DP). Investors are expected to open Demat Accounts with Depository Participants and deposit their shares certificates for the purpose of converting them to the electronic format.
- Re-materialization request is to be made to depository participant with whom the shareholder has a Demat account in the prescribed standard.

## GLOSSARY

<b>Evincing</b>	To show clearly; make evident or manifest; prove.
<b>Inimical</b>	Adverse in tendency or effect; unfavourable; unfriendly or hostile.
<b>Opportune</b>	Occurring or coming at an appropriate time; well timed.
<b>Sermonizing</b>	To give exhortation to; lecture.
<b>Illegible</b>	Impossible or hard to read because of the poor handwriting, faded print, etc.
<b>Slighted</b>	Of little importance, influence, etc.; trivial.
<b>Evoke</b>	To call up or produce (memories, feelings, etc.); to elicit or draw forth; to call up; cause to appear; summon.

<b>Accredited</b>	Officially recognized as meeting the essential requirements, as of academic excellence.
<b>Buttress</b>	Any prop or support.
<b>Patronage</b>	Clientele.
<b>Renege</b>	To go back on one's word.
<b>Dismay</b>	To surprise in such a manner as to disillusion.
<b>Bereavement</b>	A period of mourning after a loss, especially after the death of a loved one.
<b>Blended</b>	To mix smoothly and inseparably together.
<b>Thrives</b>	To prosper; be fortunate or successful.
<b>Heterogeneous</b>	Different in kind; unlike; incongruous.
 <b>Bankruptcy</b>	A legal condition where a person or a business in which liabilities exceed the assets and the debtor is unable to repay amounts owed.
<b>Capital</b>	The amount of money, invested in a business; available for working; manifest in tangible goods, like building and machinery or in the form of circulating assets. The term has several specific uses. Money spent on improvement of fixed assets and not chargeable against profits is known as Capital Expenditure.
<b>Credit Note</b>	A document sent by a seller to a buyer to rectify an error of overcharge in an invoice or to allow credit for goods returned. It is entered in the books of account.
<b>Debit Note</b>	A note sent by seller to buyer to rectify an undercharge in the original invoice. It is in the nature of a supplementary invoice.
<b>Debentures</b>	An instrument/security through which a company may borrow funds from public or public financial institutions and on which interest usually is payable on specific dates, and principal amount is repayable on a particular date on redemption of the same.
<b>Dematerialization</b>	Conversion of securities, such as shares/ debentures from paper or physical form to electronic form.
<b>Stock Exchange</b>	An organised market for the sale and purchase of securities. In India stock exchanges are regulated by the Securities & Exchange Board of India. The movement in prices of select active scripts is reflected in Sensex or sensitive index in terms of points. Trading in major exchanges is Screen-based these days where buying and selling is done online. Matching of trades is done on computers installed in Stock Exchanges.
<b>Warrant</b>	A tradable instrument giving the holder the right to buy from the issuer a fixed income security or equity stock under specified conditions after some period of time.

### SELF-TEST QUESTIONS

1. The following is/are the permanent records for business
  - a) Business Letters
  - b) Ledgers
  - c) Production Reports

- d) All of the above
2. \_\_\_ may be defined as invitations to submit bids to provide goods/services at quoted prices and subject to stated conditions
- Industrial enquiry
  - Tender Notices
  - Quotation
  - Enquiries
3. A communication offering to sell a product or a service to a particular entrepreneur is a \_\_\_
- Sales Circular
  - Sales Advertisement
  - Sales Enquiry
  - Sales Letter

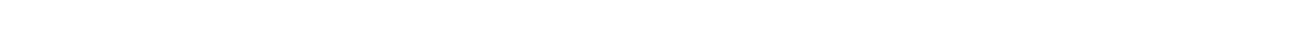
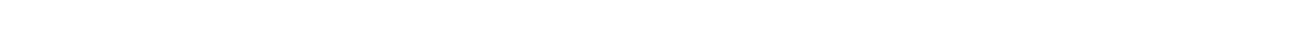
Q No 4- 10: Directions: Match the following

4. You are invited to attend a personal interview with our General Manager on the 14th of June, 2012 at 3 p.m.	a) Industrial Inquiry Letter
5 We are pleased to inform that you have been selected for the position. A detailed letter will be mailed to you soon.	b) Sales Circular
6 I learnt with dismay about the unfortunate accident you met with while travelling from Jaipur to Delhi.  I hope the injuries are superficial and you will be joining us at office soon. Please get well soon and if you need me, I am just a phone call away.	c) Provisional letter of Appointment
7 We require 12 cubical panels for main control board of the 8 V.T. pumping station. The panels must conform to Indian standards.  Please confirm whether you are in a position to deliver the panels in eight weeks time from the date of order.	d) Job Interview Letter
8 This message is drafted to address large number of people.	e) Letter of Sympathy
9 It gives an accurate description of the goods being sent and their prices to enable the buyer to check them.	f) Delivery Challan
10 This document mentions the quantity and type of good and is issued by the stores	g) Invoice

**Answer key:** 1. a; 2. b; 3. d; 4. d; 5. c; 6. e; 7. a; 8. b; 9. g; 10. f

**Suggested Readings**

- (1) Business Communication – K.K. Sinha
- (2) Business Communication – M.S. Ramesh, C.C. Pattanshetti & M. Kulkarni Essentials of Business Communication – Reddy, Appannaiah, Nagaraj & Raja Rao.



# Lesson 12

## Inter-Departmental Communication

### LESSON OUTLINE

- Introduction to Inter -Departmental Communication
- Memorandum
  - Memo Forms
  - Memo Reports
- Office Circulars
  - Specimen Office Circulars
- Office Orders
  - Specimen Office Orders
- Review Questions
- Office Notes
- Representations to Management
- Correspondence with Regional/Branch Offices
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

In a small organization communication within the organization is very simple; however in a large organization communication needs are different. Large organizations need an efficient system by which they can communicate and disseminate information quickly within the various departments or sections situated in different locations. The telephone is no doubt an instant method, but it is often necessary to have some written records of requests, instruction, actions suggested or taken, etc. For this purpose organizations use memos, circulars, orders, notes, etc., for communication.

Therefore, the objective of this study lesson is to help the students draft memos, office circulars, office notes, office orders, suggestions, various representations to management, and learn how to correspond with regional/branch offices.

“What is the shortest word in the English language that contains the letters: abcdef?

Answer: feedback.

Don’t forget that feedback is one of the key elements of effective communication.

## INTRODUCTION- INTER- DEPARTMENTAL COMMUNICATION

Inter and intra-departmental communication has largely been a formal affair. The chief executives assumed that they were expected to be direct, brief and functional, wasting little time on niceties. Employees were usually taken for granted - bound by archaic service rules to listen and to comply unquestioningly. No wonder the documents produced were staid and standardised.

Over the years, there has been greater appreciation of the important role the staff plays in an organisation. Their stake in the organisation has also gone up with schemes like Employee Stock Option Plans becoming popular as one of the means of compensation. Now, they take a greater interest in policy framing, get more respect and enjoy higher confidence levels. To that extent, intra-company communication is becoming more informal. Being an internal communication, stationery showing just the logo and name of enterprise is preferred over the formal letter-head.

## MEMORANDUM

A memorandum (memorandums or memoranda in plural) plays a convenient and flexible role. While much of inter and infra-office communication is being done over the phone, memorandums are preferred when one needs to convey information in writing.

There are minor variations in format but most memos have the similar headings. The difference with the letter format is obvious. Inside name and address are done away with. Nor are salutation and complimentary close used. Informal tone and use of personal pronouns is allowed. Numbering is optional. Titles such as Interoffice Communication, Office Memorandum or Interoffice Correspondence may be used in place of more commonly used word Memorandum. When addressed to all employees, a memorandum is as good as an Office Circular, e.g. :

### SUPER SOLUTIONS LTD.

#### Interoffice Memo

TO	:	All Employees
FROM	:	General Manager
DATE	:	15/3/2012
SUBJECT	:	TDS

#### REPLY/CIRCULATE URGENT FILE

It has been reported to me that many employees do not furnish details of savings to avail concessions under Section 80 cc of Income Tax Act in time.

It may be noted that employees must report details of savings to be made by them by 15th of April and submit evidence in support by 20th March every year. The Accounts department will not be able to allow deductions on savings brought to its notice later.

JKB

## Memo Forms

Companies often use printed Memo-forms as they are convenient to use. The provision of headings rules out exclusion of relevant information. They are not signed but may be initialed for authenticity.

IT offers help in the form of Memo templates or macros. Wizards in Word Processors give step by step guidance to help fill relevant information in them and format it later.

### **Memorandum**

To : R.L. Gupta, QCM  
 From : R. Bhagat, MD  
 Date : January 3, 2012

#### **Subject: Rejection of Level Assembly**

The rejection rate of Lever Assembly has increased alarmingly and the client has conveyed a warning. Please ensure stringent quality control checks down the line immediately. If necessary, submit fresh samples for inspection. Ensure compliance and keep me updated through weekly reports.

R.B.

### **Memo Report**

Short reports are often prepared in the form of a memorandum. Periodic reports of sales personnel are a case in point. Many companies in fact use special stationery for the purpose. A report in the memorandum form should carry a heading to this effect. The subject line of the following memorandum does the same job:

**JAYCEE PVT. LTD.**

### **Memorandum**

To: MD No: LA/2  
 From: QCM Date: 5 Feb. 2012

#### **Sub: Report on Supply of Lever Assembly**

As directed, I am submitting below the details about supply of Lever Assembly during week ending 3rd Feb.:

Number dispatched	:	2,100
Number accepted	:	1,900
Rejection if any	:	200
Reason for rejection	:	Shrinkage

*Additional comments:*

The defect was caused by coil burnout resulting in under-heating of raw material prior to moulding. I am tightening in-house quality checks to bring down the rejection rate and finally eliminate it.

QCM

Memos are also issued in the cases of disciplinary actions to be taken against employees and replies thereto. These include memos relating to show-cause notice, charge-sheet, etc. Another example for a memo is given below:

**BEEM ELECTRONICS LIMITED**

**BANGALORE**

Ref: 81/C/2012

11th January 2012

**Office Memorandum**

With reference to his request for grant of Special Casual Leave, Shri P. Sachdeva is informed that Special Casual Leave has been granted to him for four days from 23rd January to 26th January 2012 to enable him to participate in the District Level Athletic Meet.

Sd/-

Ramesh Kumar

*Administration Manager*

To

Shri P. Sachdeva

Secretarial Department

Through: Company Secretary

### **Office Circulars**

Office circulars are for disseminating information to a large number of employees within the organisation. Since it is an internal communication, therefore, it has traditionally been brief, business-like, formal and devoid of salutation.

A specimen office circular is reproduced below:

#### **Circular No. 3/44**

It is brought to the notice of all employees that the canteen facilities are being extended to S-31 building located in Sector 44 with immediate effect. The existing practice of providing packed lunch courtesy Air Kitchen is being discontinued. Suggestions about fare and quality may be made to the undersigned or dropped in the box provided on the premises.

Sd/-

*Hospitality Manager*

### **New Developments**

Most companies in the post-liberalisation period are changing track and understand the value of their human resources. The popularity of Employee Stock Option Plan (ESOP), in which part of the compensation is paid to employees in the form of stock, has accelerated the process. They are treated with the same attention and courtesy that used to be reserved for the clients. As a result, their in-house circulars are longer, "you-centred" but uncompromising where quality is involved.

*A specimen is reproduced below:*

Dear Employee,

You must be aware of the changes being brought about in the dot.com industry. Many of them were formed under heightened expectations and have since been wound up due to poor customer response. Surveys indicate that at least 40% of such ventures did not prove viable during the last two years and had to close down.

It is satisfying that your enterprise not only managed to survive the downturn but has also increased its customer base. However, this is not the time to relax. The dot.com industry is certainly under pressure and we need to put in our best in order to stay in business.

Therefore, we have decided to raise the minimum performance levels and we solicit your cooperation in reaching them. The achievers will get higher perks to be notified shortly, while defaulters will have to go for re-training.

Let us be partners in progress.

Yours sincerely,  
*Manager-HR*

*A few specimens of office circulars are given below:*

**Specimen 1**

**Inviting Suggestions**

**SUMAN ELECTRICALS LIMITED**

**PUNE - 411 004**

3rd February, 2012

Circular No. 345/2012

The manual of instruction which was last revised in June 2005 is proposed to be updated. Constructive suggestions are welcome from employees. Suggestions are to be sent to the undersigned latest by 3rd March, 2012.

Sd/-

*Manager O&M Cell*

**Specimen 2**

**Warning against strike**

**TIGER SPORT MANAGEMENT LTD.**

**AMRITSAR - 141 003**

1st January, 2017

**Circular No. 78/2017**

It has been reported that a section of employees working in Packing Department of the company are proposing to go on a day's token strike on 31st January, 2017. It is hereby made known to all concerned employees that the proposed token strike is illegal and unlawful and those employees who participate in such a strike shall be subjected to disciplinary action as per the company's service rules and other applicable laws.

Sd/-

*Ram Lakan*

General Manager (Factory)

To: All Employees of Packing Department.

**Specimen 3**

**Cleanliness at workplace**

**SANGEETA ELECTRONICS LIMITED**

**MUMBAI - 400 003**

5th February, 2017

**Circular No. 23/2017**

It is observed that waste papers, empty ink bottles, cigarette butts, left overs of lunch, etc. are not properly disposed of by some of the employees. In the interest of maintaining a clean working environment, it is impressed upon all employees that they should ensure proper disposal of all wastes and refuse matter.

Sd/-

V.K. Singh

*Manager (Personnel)*

**Specimen 4**

**Sale of old furniture and fittings**

**ARISTO PLAST LTD., BANGALORE**

5th March, 2017

**Circular No. 2/90**

It is proposed to dispose of the old furniture and fittings to the employees of the company who submit their tenders latest by 2.00 p.m. on 7th February, 2017. The items intended to be sold are:

(1) Armless steel chairs	—	24 Nos.
(2) Wooden chair (armless)	—	6 Nos.
(3) Cushioned steel chairs (with arms)	—	8 Nos.
(4) Steel tables	—	8 Nos.
(5) Wooden tables	—	12 Nos.
(6) Tube light fittings (steel)	—	22 Nos.
(7) Curtain Cloth	—	23 Nos.
(8) Room Coolers	—	6 Nos.
(9) Desert Coolers	—	12 Nos.
(10) Calculators	—	3 Nos.
(11) Type-writers (Halda) (Remington)	—	3 Nos. 2 Nos.
(12) Water Coolers	—	2 Nos.

The company reserves the right to accept the offer at its own discretion. The price of the items shall be required to be tendered in cash within one hour of the acceptance of the offer.

Items can be inspected at any time on the 5th and 6th June, 2012.

Sd/-

Sukan Lal

*Manager (Premises)*

To: All Employees

*Manager (Personnel)*

**Office Orders**

The format for Office Orders is similar to that of memoranda. What makes them different is the purpose and tone employed. They generally deal with matters affecting rights and privileges of employees. The language used is formal and legally common. Passive verbs are preferred. They carry a number since they remain in force till revoked and are filed for future reference. In addition, they carry a bold, underlined heading to help us identify them. Copies are sent to concerned people:

*A specimen office order is given below:*

**Specimen 1**

Order No. 34/4

7th March, 2017

**OFFICE ORDER**

Mr. J.K. Saxena, Manager (Credits), Friends Colony branch is transferred to the Regional Office on the same rank and pay. He shall hand over charge to the Chief Manager and report at the Regional Office by 10th April, 2017.

Sd/-

*Personnel Officer*

cc:

Chief Manager, Friends Colony branch,

Mr. J.K. Saxena, Manager (Credits)

**Specimen 2****Administrative Changes****J.K. ENTERPRISES LTD.****Office Order**

No. 22/4

20.12.2016

The existing practice of internal promotions from Grade I to III on the basis of seniority will be replaced with a Merit-cum-seniority scheme with effect from 1st January, 2017. Promotions from Grade III to IV will continue to be based on performance reviews only.

Sd/-

*General Manager*

**Specimen 3****Order Instituting enquiry****PERIWAL PLASTICS LIMITED****NEW DELHI - 110 002**

Ref: Per/23/2017

30th January, 2017

**Office Order**

Shri Arun Lal, Senior Officer, is appointed enquiry officer to conduct proceedings against allegations of misappropriation of cash of Rs. 12,000 by Shri Shiv Gupta, Accounts Assistant. He is authorised to call those

employees of the company as witnesses as he may feel proper for a fair conduct of the enquiry proceedings.

Shri Arun Lal is hereby directed to complete the enquiry as expeditiously as possible and submit his report to the undersigned latest by 28th February, 2017.

Sd/-

Sunil Upadhyaya

*Manager, Administration*

cc: Notice Board

***Specimen 4***

**Order reinstating a suspended employee**

**MANIRAM BAKERIES LIMITED**

**MUMBAI - 400 004**

Ref.: 23/93/PF

3rd January, 2017

**Office Order**

Pursuant to the findings contained in the report of the Enquiry Officer, Shri Devan Verma, Shri Gurudev Chand, Junior Assistant, Accounts Department, is reinstated in the services of the company. The order number 19/93/PF dated 12th December, 2016 suspending him from services, is revoked with immediate effect.

Sd/-

Maniram Bagri

*Manager (Administration)*

**REVIEW QUESTIONS**



**State True or False:**

Memoranda are preferred when one needs to convey information in writing.

**Answer:** True

**OFFICE NOTES**

Office Notes are an exchange between two different departments. Companies follow a particular format for 'notes' of this type. The actual layout of the 'Note' may differ from company to company. It is a matter of style and individual preference. A few formats are given below.

***Specimen 1***

**LATEX BALLS LTD.**

**T.T. PURAM - 695 001**

Ref.: LD/ST/3

Date: 18th January, 2017

From: Legal Deptt.

To: Admn. Deptt.

**Subject: Additional Stenographer**

The Extraordinary General Meeting of the company is to be held on the 18th February, 2012 to transact some urgent business. Therefore, two very urgent Board meetings are to be held in quick succession for discussing a detailed agenda.

The preparation of the relevant papers and other documents in connection with the above is to be given top priority. Considering the workload likely to arise on account of this, an additional stenographer may please be posted to this department for a period of one month.

Sd/-

T. Viswanath

*Manager (Law)***Specimen 2****SUDARSHAN CEMENT COMPANY LIMITED**

Ref: AT/2/93

Date: 27th August, 2016

From: Accounts Deptt.

To: Admn. Deptt.

**Subject: Misconduct on the part of Mr. Sunil Kumar Goel****CONFIDENTIAL**

Shri Sunil Kumar Goel, Accounts Assistant, working in this department since 1st June, 2016 is not punctual. This is despite of the repeated oral advices made to him. He appears to be very callous and does not even listen to what is being said to him. He is found to frequently indulging in gossip and thus marring the decorum of the Department. Inspite of repeated advice that he should not leave the department without obtaining my prior permission, he continues to absent himself after 4 p.m., without informing his whereabouts.

This is a serious matter and as per the HR Policy, a written warning is immediately required.

Sd/-

Mangaldas Jain

Accounts Manager

**REPRESENTATION TO MANAGEMENT**

In the previous chapter, we had already seen certain representations made by the corporates to public bodies, civic authorities or bodies of trade and commerce.

However, at times there may also arise situations when members of the staff of a company may want to represent their cause to the management. These could include suggestions for transfers, representations against transfer, for special holiday, for promotion, etc. The challenge in drafting various documents like memoranda, representations etc. is to ensure that representations are made in a constructive and positive tone, while highlighting the core issues honestly.

Some examples of such representations are given below:

**Specimen 1**

**Representation for Canteen facilities**

**CSI EMPLOYEES ASSOCIATION (Regd.)**  
**C/o 15-Software Complex, Kolkata - 700 021.**

Managing Director

Date: 10.3.2017

Cad Software (India) Ltd.

Bentick Street, Kolkata - 700 071

Dear Sir,

Our company has successfully completed 10 years of its existence. The software division of company has more than 50 employees excluding managerial personnel on its rolls. We would like to bring to your notice that our company's software division does not provide any canteen facilities to its employees and therefore the employees have to depend upon outside eateries which are not hygienic. Moreover, the prices charged by them are very high. On behalf of the employees, we request you to please consider sympathetically our long pending demand for establishment of in-house canteen facilities at the software division and oblige.

Thanking you,

Yours faithfully,

Sd/-

*Vikram Singh*

General Secretary, CSIEA

**Specimen 2**

**Representation against transfer**

Dated: 12.3.2017

From:

Pyarokhan M.V.

Jr. Accountant,

Tobaco Division, Bakhra,

Hyderabad-500 162

To

Personnel Manager,

Vilas Tobacco Ltd.

Wazirpur, New Delhi-110 025

Dear Sir,

First of all, I sincerely express my gratitude to the Management for promoting me to the post of Sr. Accountant. I have been asked to resume duties as Sr. Accountant at Cuttack Procurement Office within a month. In this regard, I wish to state that recently my wife has developed cardiac problem and as per doctor's opinion she has to be under a specialist doctor's treatment at Apollo Heart Hospital, Hyderabad. For undergoing treatment, it is necessary for her to stay at Hyderabad. My shifting to Cuttack would upset the plans for medical treatment of my wife. Under the circumstances, I request you to retain me in Hyderabad Divisional Office for the time being.

I hope my request would receive your sympathetic consideration.

Thanking you.

Yours faithfully,

Sd/-

Pyarokhan M.V.

Submitted through Division Manager.

Replies to such representations can be in any of the following ways/means:

1. The management could accept the request and go ahead in implementing the request. For example, arranging for canteen facility in the office.
2. The management may give an oral reply or say that they are considering the request.
3. The management could issue an office order giving effect to the request of the representee. For example, they could promote a person or stop/delay his transfer.

## CORRESPONDENCE WITH REGIONAL/BRANCH OFFICE

Growth is an index of prosperity in trade and industry. An organisation, therefore, feels the necessity for setting up a Branch Office/Regional Office to serve the clients in and around a particular locality/region. The Head Office and the Branch Office/ Regional Office would have to be in correspondence with each other on various aspects. It is not necessary that these letters should be on the Letter Head. Any other format indicating that the letter is emanating from the Head/Branch/Regional Office is sufficient. Following are a few specimens of the letters that may be written by Head Office/Branch Office/Regional Office:

### ***Specimen 1***

#### **Letter from Head Office to the Branch**

The stock statement for the week ending 30th November has not been received in this office yet. Would you please expedite dispatch of the same.

### ***Specimen 2***

#### **Letter from Branch office to Head Office**

I refer to my telegram regarding the strike which employees of the Mumbai Branch have suddenly launched. Their main demand is that Mumbai Branch should be treated on a separate footing in the matter of granting house rent allowance in view of the high rentals in Mumbai. I have already apprised the Union representatives of the Management's views on the issue. I hope to resume normalcy soon. I would keep you informed of critical developments, if any, on the matter.

### ***Specimen 3***

#### **Letter from Head Office to the Branch**

On verifying the monthly return of debtors we find the following amount outstanding beyond the due date:

– Fisherman's Cove Ltd.	Rs. 12,003.50
– Steamlines Ltd.	Rs. 31,773.80
– Forms Aquatics Ltd.	Rs. 25,830.00

Please advise whether the amounts have been realised by now, if not, let us know the reasons for the delay in recovering these amounts.

**Specimen 4****Letter from Branch to Head Office**

Due to incessant rains, a part of the godown building gave way resulting in the rain water entering the godown. Rescue work was hampered by the torrential downpour coupled with gale winds reaching a speed of 80 km. per hour.

It is feared that the entire stock of goods is beyond redemption. The insurance company has been informed of the loss and soon the value of the loss would be *determined. However, the godown stock records have been kept securely.*

**LESSON ROUND UP**

- A memo is different from a letter, both in format and in its effect on the addressee. It is important to note that a memo does not have a salutation and complimentary close. But the subject is clearly written and underlined.
- Memos are used commonly for issuing instructions to the staff, change in the policy inviting suggestion, giving information, making requests, etc.
- Whatever be the subject matter, the language of the memo should be polite and courteous.
- Apart from memorandum, office circulars, office orders, office notes, suggestions, complaints and representations are the various forms of intra-organizational communication.
- Correspondence with Regional/Branch offices is also an important part of intra-organizational communication.

**GLOSSARY**

<b>Niceties</b>	Exactness or precision; the quality of being nice; niceness.
<b>Memorandum</b>	A record or written statement of something; an informal message, especially one sent between two or more employees of the same company, concerning company business.
<b>Interoffice</b>	Functioning or communicating between the offices of a company or organization; within a company.
<b>Disseminate</b>	To scatter or spread widely; disperse.
<b>Accelerated</b>	To cause faster or greater activity, development, progress, advancement, etc.
<b>Courtesy</b>	Excellence of manners or social conduct; polite behavior; a courteous, respectful, or considerate act or expression.
<b>Solicit</b>	Earnest or respectful request.
<b>Gaiety</b>	The state of being gay or cheerful; gay spirits; merrymaking or festivity.
<b>Fervour</b>	Great warmth and earnestness of feeling.
<b>Tendered</b>	Soft or delicate in substance; not hard nor tough; weak or delicate in constitution; young or immature; delicate or soft in quality.
<b>Bipartite</b>	Divided into or consisting of two parts; shared by two; joint.
<b>passive</b>	Not participating readily or actively; inactive; not involving visible reaction or active participation.

<b>Probation</b>	The act of testing; the testing or trial of a person's conduct, character, qualifications, or the like.
<b>meritorious</b>	Deserving praise, reward, esteem, etc.; praiseworthy.
<b>Reinstated</b>	To put back or establish again, as in a former position or state.
<b>Revoke</b>	To take back or withdraw; cancel, or reverse.
<b>Slack</b>	Not tight, taut, firm; loose; negligent; careless; sluggish, or indolent; not active nor busy; dull; not brisk.
<b>Callous</b>	Made hard; hardened; insensitive; indifferent; unsympathetic.
<b>Perceptible</b>	Capable of being perceived; recognizable; appreciable.
<b>Thrust</b>	To push forcibly; shove; put or drive with force; to put boldly forth or impose acceptance of.
<b>Lapse</b>	An accidental or temporary decline or deviation from an expected or accepted condition or state; a slip or error, often of a trivial sort; failure.
<b>Emanating</b>	To flow out, issue, or proceed, as from a source or origin; come forth; originate.

### SELF-TEST QUESTIONS

1. Memorandum (Memos) is \_\_\_\_\_
  - a. A note or record
  - b. A mode for internal communication
  - c. A document to initiate disciplinary proceedings
  - d. A report of organizational updates
  - e. An order for internal transfers
2. Various document types for internal communication are:
  - a. Memorandum, office circulars, office orders, office notes, suggestions, complaints and representations
  - b. Reports, press releases, advertisements
  - c. Presentations, E-mails, Social Media reports, blogs
  - d. Notices, Circulars etc
  - e. Letters
3. When the factory workers wish to reach out to the Management for implementation of certain policy changes they will write a \_\_\_\_\_
  - a. Memo
  - b. Office Order
  - c. Internal Circular
  - d. Representation
  - e. Application
4. The management is thinking of expanding and wishes to invite referrals for recruitment, they will write a \_\_\_\_\_.

- a. Note
  - b. Letter
  - c. Application
  - d. Internal Circular
  - e. Office Order
5. When the Finance Department wishes to reach out to the Marketing Department regarding certain Data that is required, they will write a \_\_\_\_\_.
- a. Office Order
  - b. Memorandum
  - c. Application
  - d. Representation
  - e. Notice
6. The HR Department is organising a CSR activity in a nearby village and wants to invite participants and volunteers. They will write a \_\_\_\_\_.
- a. Circular
  - b. Office Order
  - c. Application
  - d. Representation
  - e. Memorandum
7. The Purchase Department wishes to purchase expensive factory equipment. As per the rules, tenders are to be invited from various vendors and suppliers. This will be done through \_\_\_\_\_.
- a. Tender Notice in newspapers
  - b. Letters
  - c. Memorandum
  - d. Notice
  - e. Application
8. Invitation for tenders will be a form of
- a. Internal Communication
  - b. Inter-departmental Communication
  - c. Inter-branch Communication
  - d. External Communication
9. Smartphones are being increasingly used in organizations for various purposes like employee feedback etc. Etiquette for reaching out to senior management membersfor an appointment demands that \_\_\_\_\_
- a. One should send a text message
  - b. Directly call and talk

- c. E-mail
  - d. Write a memo
  - e. Write an application

10. Office orders are documents where

  - a. Information is passed on to external stakeholders
  - b. Information is passed on to employees
  - c. Information is passed on to media
  - d. Information is passed on to Senior Management
  - e. Confidential information is shared with employees

## **Answer Key :**

## Suggested Readings

- (1) Essentials of Business Communication – *Reddy, Appannaiah, Nagaraj & Raja Rao*
  - (2) Communication for Business – *Shirley Taylor*



# Lesson 13

## E-Correspondence

### LESSON OUTLINE

- Concept of E-Correspondence
  - What is the Web?
  - What is the Internet?
  - What is E-Correspondence?
- E-mail
  - Features of E-mail
  - Electronic Mail System
  - Email Etiquette
  - Advantages and Disadvantages of Email
  - Points to Remember
  - Intranet
  - Review Question
  - Benefits of Intranet
  - Purpose of Intranet
  - Lesson Round Up
  - Glossary
  - Self-Test Questions

### LEARNING OBJECTIVES

Present era is an era of Information Technology. The IT Revolution, which the world has experienced in the last decade, has transformed the business communication tremendously and with multidimensional effects.

Therefore, today when most of the business communication is done on internet or correspondence, it becomes imperative to understand its concept and main features. Hence, it is essential to understand the etiquettes to be followed while engaging in such correspondence. On the other hand one has to be aware of the limitations of the internet and e-correspondence.

Therefore, the objective of this lesson is to enable the students to understand that modern telecommunication has developed a new paradigm, breaking all geographical barriers, across all countries and continents, and has integrated everything under a united network.

## CONCEPT OF E-CORRESPONDENCE

Professionals, non-professionals, experts or students, we are all turning increasingly to the internet in our daily lives. Whether we want to find educational openings abroad, do banking operations online, find research material on any issue, send corporate e-mails, internet is the place where we go most often. From the trivial to the highly complex, we look for answers to most of our questions in the vast ocean of knowledge called World Wide Web (www).

The World Wide Web is a system of interlinked hypertext documents accessed via the Internet. With a web browser, one can view web pages that contain text, images, videos, and other multimedia and navigate among them via hyperlinks.

Many people use the terms Internet and World Wide Web interchangeably, but in fact these two terms are not synonymous. The Internet and the Web are two separate but related things.

### What is The Web?

The World Wide Web, or simply Web, is a way of accessing information over the medium of the Internet. It is an information-sharing model that is built on top of the Internet. The Web uses the HTTP protocol (one of the languages spoken over the Internet) to transmit data. Web services, which use HTTP to allow applications to communicate in order to exchange business logic, use the Web to share information. The Web also utilizes browsers, such as Google Chrome, Internet Explorer or Firefox to access Web documents called Web pages that are linked to one another via hyperlinks. Web documents also contain graphics, sounds, text and video.

The Web is just one of the ways through which information can be disseminated over the Internet. The Internet, not the Web, is also used for e-mail. So the Web is just part of the Internet, albeit a large part, but the two terms are not synonymous and should not be confused.

### What is The Internet?

The Internet is a massive network of networks - a networking infrastructure. It connects millions of computers together globally forming a network in which any computer can communicate with any other computer as long as they are both connected to the Internet. Information that travels over the Internet does so via a variety of languages known as protocols.

The terms Internet and World Wide Web are often used in everyday speech without much distinction. The Internet is a global system of interconnected computer networks. In contrast, the Web is one of the services that runs on the Internet. It is a collection of textual documents and other resources, linked by hyperlinks and URLs, transmitted by web browsers and web servers. In short, the Web can be thought of as an application "running" on the Internet.

Viewing a web page on the World Wide Web normally begins either by typing the URL of the page into a web browser or by following a hyperlink to that page or resource. The web browser then initiates a series of communication messages, behind the scenes, in order to fetch and display it.

"The letters written by one party to another, and the answers thereto, make what is called the correspondence of the parties. Such correspondence if done through electronic signals via internet is called E-correspondence"

### What is E-Correspondence?

E-Correspondence is commonly known as 'email-correspondence' or 'electronic-correspondence'. It is an electronic method of providing you with important information on your email address. You must supply a valid email address in order to receive information via email. For example: [johndoe@company.com](mailto:johndoe@company.com).

## CONCEPT OF EMAIL

“Electronic mail” or “e-mail” as it is commonly called is the process of sending or receiving a computer file or message by computer modem over telephone wires to a pre-selected “mail box” or “address” on another computer. E-mail can also be sent automatically to a large number of electronic addresses via mailing lists (through ‘mail-merge’ option). E-mail messages can range from the simplest correspondence to business presentations, engineering blueprints, book chapters, or detailed contracts. Graphics, files of artwork or photography can be transmitted via this technology as well, though text messages comprise the vast majority of e-mail transmissions.

Today, e-mail stands as a central component of business communication, both within business enterprises and between business enterprises, because of the many advantages it offers over regular mail in terms of efficiency, speed, and 24-hour availability.

Since e-mail is accepted today as a vital tool in business communication, it is important for small business owners to know how to use this technology effectively.

Electronic mail, known commonly by its abbreviation ‘email’, is probably the most used medium of communication today. In fact, the e-mail is complemented by other media like digital marketing tools, social media, video conferencing for virtual meetings. Smartphones and tabs have multiplied the use of the Internet. Smartphones facilitate instant messaging, video calling, citizen reporting, digital payments, paperless and cashless transactions etc. The world is moving towards a paperless era of digital communication.

## Features of Email

- *Electronic*: It is an electronic mode of message transmission as it is sent using HTML (Hyper Text Markup Language) – the computer code used to create web pages.
- *Cost-Effective*: It is one of the cost-effective modes of fast communication. Today with the advent of smart-phones, communicating through emails has become even more cost-effective.
- *Packages*: Packages like ‘Messenger’ and ‘Outlook’ help us compose new mails or forward the received ones to one or all of the people whose email addresses are stored in the ‘Address Box’. They allow us to change font, sizes and colour of the text; highlight, delete, store or save; align, center or justify the text; italicize, bold, underline or even print what we write or receive as email.
- *Interface*: An interface between email programme and word processing programme allows us to cut, copy and paste material from one place to the other.
- *Attachments*: The ‘Attach’ option allows us to share documents, worksheets, presentations, pictures and videos along with the mails.
- *Spam*: Unsolicited or Junk mails can be filtered by using the ‘spam’ option which prevents unwanted mails from entering your inbox. These unwanted mails may be advertisements, job offers, competition forms, etc. which one does not want to receive frequently.
- *Signature*: We can customize our signature as we want it to appear in the complimentary closure of every email. Once you add your signature – your name, designation, co-ordinates, it automatically appears at the end of every mail that you compose. This saves time and effort.
- *Search*: The search option helps us to locate old email communications. This can be achieved by typing the sender’s name in the search box and clicking the search button. It will reflect all mails containing the name so typed.
- *Cloud Storage*: A more recent feature is cloud storage. Data can be stored on cloud. This facilitates access and instant updates to multiple users. Google Drive, Dropbox etc are examples companies offering cloud service solutions to enterprises.

- *Changes at the Workplace:* This trend of online work has brought about other changes like virtual workplaces, work from home, flexi-time etc.

## ELECTRONIC MAIL SYSTEM

Today companies customize their e-mail services to meet their own unique communication needs. E-mail management tools in the market can help entrepreneurs and managers address a wide array of issues from excessive volumes of e-mail and/or excessively large file attachments – both of which can clog e-mail gateways or create network storage burdens – to virus detection, spam blocking, and search ability of e-mail data stores. Each company creates a web domain. Official correspondence is accepted only through the domain name. E.g. Government departments create their ids specific to their functions – goidirectory@nic.in; grievance.solutions@icsi.edu. Private companies too, invest in domain space and storage.

### Optimizing Personal Email Use

Experts in the fields of business and electronic communication agree that managers and small business owners can take several steps to maximize the efficacy of their company's e-mail systems. These tips extend from patterns of personal e-mail use to guidelines for companywide e-mail policies.

Professional appearance and content are paramount in an e-mail. Some basic guidelines and action points to be followed are:

- The standards of professionalism that dictate postal correspondence stay – Proper Grammar, correct spelling, tone, courtesy, structure, content etc.
- Avoid ‘Emoticons’ – smileys, winks etc in official correspondence.
- Maintain separate accounts for official and personal e-mails. Many organizations have firewalls against personal mails like Yahoo, Gmail etc.
- Avoid ‘spamming.’ Maintain a proper distribution list of recipients for your mails.
- Limit the size of attachments to be received or sent out by e-mail. Organizations have policies and limits for the size of attachments. This helps monitor data security, virus attacks etc.
- Have a standard signature for your official e-mails – Name, Designation, Phone numbers. This helps in accurate identification.
- Respond promptly to official e-mail messages – less than 24 hours. In case the response takes more detailed information, write a short reply explaining how long it would take for you to give a proper response. Non-response sends out wrong signals.
- Set up efficient daily e-mail practices. Today, e-mails are configured on the smartphones, further reducing the expected response time.
- Delete old messages that can clutter up your inbox. Ensure that your inbox is not cluttered and allows for incoming messages without delay.
- Review incoming e-mails only at two or three set times a day, rather than peeking at each one as it comes in; and
- Invest in supplementary tools that can block e-mail spam that clogs many systems.
- Use the “Reply/Reply All” features with care. Your response may be intended only for the sender and not to all included in the mail.

**Important –**

Use the fields ‘to,’ ‘cc,’ and ‘bcc’ appropriately. The recipients in the ‘to’ are those who need to take action based on your e-mail; those in ‘cc’ are included for information; those in ‘bcc’ are included when the recipients are not known to each other and their e-mail ids are to be kept confidential.

This is important, because spammers love to see a whole slew of e-mail addresses that they can send spam to. Your friends will have good intentions, but those you may only know from a list may not. Hackers now have the addresses of everyone who will be receiving your e-mail. This is neither appropriate nor safe. Instead, choose to send a group or list of people the same message using BCC, which is the kindest and least obvious way to send mail short of encryption.

Also remember that all e-mail sent through normal channels can be intercepted. Therefore, only write what you want the world to see.

Again, the desire to say what we feel must be overcome with the desire to be courteous and professional, which we all know in our hearts, is the better way to communicate.

### **Proper E-mail Correspondence**

Most of us e-mail back and forth every day, so we all deal with different types of e-mail correspondences. Whether it be for business, for personal use or for school, we all need to know the proper ways of sending e-mails to other people. Keep reading to see if you’re being professional about it or not.

As stated above, e-mail correspondence comes in various colours and designs and it is as creative as the sender makes it. E-mail a decade ago was definitely not the same as the e-mail today. We must be more careful about what we say and how we say it. Words used in an e-mail are like a small, lit match; they can be used to mend fragile relationships, warm the heart and light the way, or they can ignite whole forest aflame that could cause havoc and destruction.

Here is one scenario that may influence varied responses:-

#### **Example**

*You just paid for some software over the Internet with your credit card. You were told that the software would reach your house in a few days. The item does not reach you in promoted time. No problem, you think. You will just call the 1-800 number they have on their Website but after redirecting your call four times, you hear the dial tone. You are upset, but you try calling again.*

*Now, after this phone calling nightmare for almost 45 minutes, you are angry that no one is answering. After all, you paid for the item and you want it. Should you not be angry? Of course you should be, but you can’t get hold of them, so you decide to write an e-mail explaining your mounting frustration about how their customer service was always unavailable over the phone. You are careful to tell them that you have not received your purchase and also include the invoice statement as proof of what you bought. Three days go by and counting. You cannot get this dilemma off your mind. Another e-mail lands you nowhere. You do not know what to do. You tried contacting them, but you got no reply. You decide that you no longer want their software and want your money back. You swear not to deal with this company again, right?*

*So, you write a third e-mail, but you are not so polite this time. You say, “I will never do any business with you again. You are deaf to my phone calls and e-mails and insult my intelligence. I demand my money back. You are a thief and should not be in business and I will get to the bottom of this.”*

*Surely, this is a letter you can write, but do you really think you should? Would it make you feel any better? Maybe, but will it get you what you want? Not likely. In so many cases, we are obliged to overcome how we feel by an act of the will to do what we ought to do.*

*Now, let's take the same scenario and use a different technique. Instead, say something like, "Gentlemen, I am writing this e-mail as an addition to my other two. I have not received the item I paid for. It should have arrived two weeks ago. I am concerned that it may have gotten lost in transit or perhaps was overlooked with the many deliveries you are responsible for at your warehouse. I have also tried to contact you by phone twice, but there was some difficulty and my calls never got through. I would appreciate hearing from you regarding this matter. Thank you."*

*A reply from the company finally comes and it says, "We apologize for not being able to get back to you about your purchase. Our servers were hacked into and we just got back online. It was also very alarming that we found our customer backup data was deleted. Please accept our apologies. Because of this delay, we are sending your purchase free of charge and we hope that this might retain you as one of our loyal customers."*

There are many occasions however, when you simply do not hear back at all from a vendor. What do you do then? There is one more example of the proper way to send an e-mail.

### Email Etiquette

While a lot of people understand the importance of following certain rules when writing a business letter, they often forget these rules when composing an email message. Here's a refresher.

- **Mind Your Manners:** Think of the basic rules you learned growing up, like saying please and thank you. Address people you don't know as Mr., Mrs., or Dr. address someone by first name only if they imply it's okay with them to do so.
- **Watch Your Tone:** Merriam-Webster defines tone as an "accent or inflection expressive of a mood or emotion." It is very difficult to express tone in writing, but make sure that your should come across as respectful, friendly, and approachable. You should not sound curt or demanding.
- **Be Concise:** Get to the point of your email as quickly as possible, but don't leave out important details that will help your recipient answer your query.
- **Be Professional:** This means, stay away from abbreviations and don't use emoticons (those little smiley faces). Don't use a suggestive email address for business communications.
- **Use Correct Spelling and Proper Grammar:** Use a dictionary or a spell checker — whichever works better for you. While you can write in a conversational tone (contractions are okay), pay attention to basic rules of grammar.
- **Wait to Fill in the "TO" Email Address:** Career Planning Site visitor Larry Batchelor says, "I never fill in the 'TO' email address until I am completely through proofing my email and I am sure that it is exactly the way that I want it. This will keep you from accidentally sending an email prematurely. In the past, I have accidentally clicked on the send icon, when I really meant to click on the attachment icon."

### ADVANTAGES AND DISADVANTAGES OF EMAIL

Email has changed the way we do business. Sure, people complain about the amount of Email they receive. But when all is said and done, use of Email has made a positive impact on business and has an edge over other methods of communication.

Here are five advantages of using Email:

- (i) **Managing Email is Easy:** You can manage all your correspondence on screen and so can your customers. Your proposal can be answered, revised, stored, and sent to others, all without reams of paper involved.
- (ii) **Email is Fast:** Mail is delivered instantly from your office to anywhere in the world. No other method of delivery can provide this service. Timely buying and selling decisions can be made in one heartbeat.

- (iii) **Email is Inexpensive:** Compared to telephone calls, faxes, or over night courier service, Email is less expensive.
- (iv) **Email is Easy to Filter:** The subject line on an Email makes it easy to prioritize messages. The reader can identify critical correspondence quickly and deal with it immediately. Unlike regular mail which needs to be opened and reviewed, or voice mail which requires you to either listen to or scan all your messages for those that require immediate attention.
- (v) **Transmission is Secure and Reliable:** The level of security in transmitting e-mail messages is very high and the industry continues to strive towards tighter security.

However, there are some disadvantages.

- (i) **Time Consuming:** Writing an email takes less time than it takes to print a letter and mail it off the ease with which an e-mail is sent implies that an average person may do more correspondence electronically than he would if all correspondence was done by postal mail. Sometimes the message is better communicated over the telephone or directly. Organizing and reading through emails can also eat up a great deal of time and prove an obstacle in the way of a worker's productivity.
- (ii) **Security:** Sensitive information can be easily shared and distributed within a business through email. It does not matter if the email is sent accidentally or deliberately, the damage remains the same. Moreover, when someone hands you a business letter, you are the only person who receives that letter. An email can be intercepted by a hacker or go on an incorrect email address and wind up in someone else's inbox. Your sensitive information and messages are easily accessible to hackers and to even unsuspecting recipients.
- (iii) **Impersonal Communication:** While email can be faster, the meaning of the message is often lost in the text. It can make customers or employees forget there are people involved in the transaction, which can affect customer service. Since email recipients cannot see one another, the emails do not have any voice inflection or emotion that can help in proper interpretation.
- (iv) **Misunderstanding:** Pronouns and popular jargon can lead to conflicts in emails. In addition, email is filled with abbreviations and short descriptions, which can often be misunderstood and/or interpreted the wrong way.
- (v) **Vulnerability:** It would take a manual effort on the part of someone to access all his important printed documents and destroy them. But all of your emails and important information can be lost with a simple hard-drive crash. Even if you store your email information on another server, you could lose your data if that site goes down or gets out of business.
- (vi) **Whether an organisation depends on internet connectivity:** E-mail depends on the internet connectivity which can get disturbed or disconnected due to various reasons.

### POINTS TO REMEMBER

- Email cannot be considered a confidential mode of communication.
- Email should not be considered as a replacement for direct, face-to-face communication.
- Email cannot be relied in case of emergency messages as the receiver may read it at his own convenient time.
- Email depends on the internet connectivity which can get disturbed or disconnected due to various reasons.

### INTRANET

The word 'intra' means within or internal. It is like the internet, except that it contains information specific to the particular organization. External people, who are not on the network cannot access the intranet.

The intranet is the most effective of all the types of electronic communication.

A company intranet helps to keep employees atleast with various happenings within the company, and it can be used to communicate within the company by posting various newsletters, articles, and company training documents.

The intranet implies that only the company employees who are set up on the server can access the company pages. It is different from the Internet which is open to everyone who has an Internet connection.

Most companies use their intranet in place of paper and emails because it gives information to everyone within the company, regardless of their location. Thus, all employees in an organisation get to know about the carried happenigs.

Intranets for companies are very secure in the sense that no one outside the company can access it once the security is set in place.

The benefits of an intranet are that it allows a central communication area for the entire company. Many people work in remote locations; therefore, it helps them in having a sense of connectedness with the company as a whole, regardless of the place someone is located in.

Intranets have been quite effective in keeping communication open to all employees, but of at the sametime, it is essential that they log into the intranet several times each day. Many companies make the intranet the default start-up page from any browser within the company, which makes it easier for employees to remember to log in for important information.

## REVIEW QUESTIONS



### Fill in the Blanks:

1. Which protocol is used by the web .....
2. Unsolicited or Junk mails are filtered through the option of .....

**Answers:** 1. HTTP    2. Spam

## Benefits of Intranet

The intranet is a great tool that may be used in order to get messages across to the staff members. There are many creative ways in which one could use the intranet to one's advantage within the company. One can promote the workplace issues on just about any topic on an intranet.

Below are the benefits of the intranet:-

- **Workforce Productivity:** Intranets can help users to locate and view information faster and use applications relevant to their roles and responsibilities.
- **Time:** Intranets allow organizations to distribute information to employees on an *as-needed* basis. Employees may link to relevant information at their convenience, rather than being distracted indiscriminately by electronic mail.
- **Communication:** Intranets can serve as a powerful tool of communication within an organization, vertically as well as horizontally. From the communication standpoint, intranets are useful to communicate strategic initiatives that have a global reach throughout the organization. By providing this information on the intranet, staff has the opportunity to keep up-to-date with the strategic focus of the organization. Some examples of communication are chat, email, and blogs. A great real world example is of Nestle. Nestle had a number of food processing plants in Scandinavia. Their central support system had to deal with a

number of queries every day. When Nestle decided to invest in an intranet, they quickly realized the savings. McGovern says the savings from the reduction in query calls was substantially greater than the investment in the intranet.

- **Web Publishing:** It allows cumbersome corporate knowledge to be maintained and easily accessed throughout the company using hypermedia and Web technologies. Examples include: employee manuals, benefits documents, company policies, business standards, news feeds, and even training can be accessed using common Internet standards (Acrobat files, Flash files, CGI applications). Because each business unit can update the online copy of a document, the most recent version usually becomes available to the employees using the intranet.
- **Business Operations and Management:** Intranets are also being used as a platform for developing and deploying applications to support business operations and decisions across the internetworked enterprise.
- **Cost-effective:** Users can view information and data via web-browser rather than maintaining physical documents, such as procedure manuals, internal phone list and requisition forms. This can potentially save the business money on printing, duplicating documents, and the environment as well as document maintenance overhead. For example, people using internet services “derived significant cost savings by shifting HR processes to the intranet”.
- **Enhance Collaboration:** Information is easily accessible by all authorized users, which enables teamwork.
- **Promote Common Corporate Culture:** Every user has the ability to view the same information within the Intranet.
- **Immediate Updates:** When dealing with the public in any capacity, laws, specifications, and parameters can change. Intranets make it possible to provide your audience with “live” changes so they are kept up-to-date, which can limit a company’s liability.
- **Supports a Distributed Computing Architecture:** The intranet can also be linked to a company’s management information system, for example a time keeping system.

### Purpose of Intranet

The purpose of the intranet is for internal communication. Increasingly, intranets are being used to deliver tools and applications, e.g., collaboration (to facilitate working in groups and teleconferencing) or sophisticated corporate directories, sales and customer relationship management tools, project management, etc., to advance productivity.

Intranets are also being used as corporate culture-change platforms. For example, large numbers of employees discussing key issues in an intranet forum application could lead to new ideas in management, productivity, quality, and other corporate issues.

When part of an intranet is made accessible to customers and others outside the business, that becomes part of an extranet. Businesses can send private messages through the public network, using special encryption/decryption and other security safeguards to connect one part of their intranet to another.

Intranet user-experience, editorial, and technology team work together to produce in-house sites. Most commonly, intranets are managed by the communications, HR departments of large organizations, or some collaboration among these.

**Web communication is here to stay and will only grow in use and importance.**

### LESSON ROUND UP

- E-Correspondence is commonly known as ‘email-correspondence’ or ‘electronic-correspondence’. It is an electronic method of providing you with important information on your email address.
- E-Correspondence is an electronic, cost-effective and fastest mode of communication as of today.
- Users of electronic mail are encouraged to adopt the same standards of professionalism that dictate the tone and appearance of postal correspondence.
- Email etiquette must be strictly adhered to in order to keep the communication authentic and graceful.
- Like every coin has two faces, similarly being one of the most sought after method of communication e-correspondence also bears certain disadvantages, like lack of confidentiality and vulnerability.
- The word ‘intra’ means within or internal. It is like the internet, except that it contains information specific to a particular organization. People outside the organisation who are not on the network cannot access the intranet.
- The intranet is one of the most effective of all the types of electronic communication within an organisation.
- The internet implies that only the particular company’s employees who are setup on the server can access their company’s pages. It is different from the internet where the access is open to all those who have an internet connection.

### GLOSSARY

<b>Albeit</b>	Although; even if.
<b>Trivial</b>	Of little significance or value.
<b>Hypertext</b>	A computer-based text retrieval system.
<b>Protocols</b>	A standard procedure for regulating data transmission between computers.
<b>Forgery</b>	Illegal activity, fraud.
<b>Spammer</b>	Someone who sends unwanted email.
<b>Intriguing</b>	To arouse the interest or curiosity of.
<b>Interface</b>	The point of interaction or communication between a computer and any other entity, such as a printer or a human operator.
<b>Flurry</b>	Sudden commotion, excitement or confusion; a sudden gust of wind.
<b>Unsolicited</b>	Not asked for.
<b>Forbid</b>	To command not to do something.
<b>Spam</b>	Unsolicited e-mail.
<b>Vulnerability</b>	Susceptibility to attack or injury.
<b>Slew</b>	A large number of quantity.
<b>Mounting</b>	Rising, climbing, increasing, ascending.
<b>Inflection</b>	Alteration in pitch or tone of the voice.

<b>Astray</b>	Away from the correct path.
<b>Jargon</b>	The specialized or technical language as used in specific fields.
<b>Hypermedia</b>	A multimedia system in which related items of information are connected and can be presented together.
<b>Encryption</b>	Conversion of data into a code.
<b>Intercepted</b>	To stop or interrupt the course, progress or transmission.

### SELF-TEST QUESTIONS

1. E-mails can be filtered using the \_\_\_\_\_ option which prevents unwanted mails from entering your inbox.
  - a. Junk Mail
  - b. Spam
  - c. Trash
  - d. All of the above
2. The \_\_\_\_\_ option in e-mail helps us to retrieve old email communications.
  - a. Find
  - b. Search
  - c. Settings
  - d. None of the above
3. Through e-mail companies are offering \_\_\_\_\_ service to its employees that help them use tools like Google drive drop box etc.
  - a. Accounts
  - b. Package
  - c. Cloud Storage
  - d. All of the above
4. Identify which statement is not a feature of a professional e-mail
  - a. Correspondence through e-mail should use Proper Grammar, correct spelling, tone, courtesy, structure, content etc.
  - b. It is suggested to use of ‘Emoticons’ – smileys, winks etc. in official correspondence.
  - c. Maintain separate accounts for official and personal e-mails. Many organizations have firewalls against personal mails like Yahoo, Gmail etc.
  - d. Avoid ‘spamming.’ Maintain a proper distribution list of recipients for your mails.
5. Conversion of data into a code is called .....
  - a. Encryption
  - b. Hypermedia

- c. Intercepted
  - d. Interface
6. The specialized or technical language as used in specific fields is called \_\_\_\_\_
- a. Codes
  - b. Jargon
  - c. Trivial
  - d. Hypertext
7. Which of the following protocol is used by the web
- a. HTPT
  - b. HTPH
  - c. HPTH
  - d. HTTP
8. Which of the following is a system of interlinked hypertext documents accessed via the internet
- a. Intranet
  - b. Extranet
  - c. World wide web
  - d. None of the above
9. Which of the following is a web browser
- a. Google Chrome
  - b. Internet Explorer
  - c. Firefox
  - d. All of the above
10. It allows cumbersome corporate knowledge to be maintained and easily accessed throughout the company using hypermedia and Web technologies.
- a. Web Publishing
  - b. Web Communication
  - c. Web Circulars
  - d. None of the above

**Answer Keys :** 1 b; 2 b; 3 c; 4 b; 5 a; 6 b; 7 d; 8 c; 9 d; 10 a

### **Suggested Readings**

- (1) The Executive Guide to E-Mail Correspondence – *Dawn-Michelle Baude*
- (2) Office Correspondence Made Easy – *Learning Express*
- (3) Business Communication – *K.K. Sinha*.

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# PART D

## ENTREPRENEURSHIP

### LESSONS

14.	Entrepreneurship
15.	Entrepreneurship – Creativity and Innovation
16.	Growth and Challenges of Entrepreneurial Venture

Entrepreneurship is one of the driving forces of the modern global economy. It is a primary source of job creation, prosperity, and economic competitiveness. Economy, if it is to remain competitive, needs more entrepreneurial people. In particular, it needs the creativity of people of the economy. Entrepreneurship, in its widest sense, is any enterprise or effort that adds value to the lives of the people on whom, it has an impact. Change that adds value to peoples' lives, lies at the heart of entrepreneurship. Entrepreneurship is popularly understood as the setting up new business ventures. In this context, the emphasis is on business start-ups and on identifying and helping those with the determination so as to develop the competencies to set up and manage a business enterprise. Entrepreneurial people are innovative problem solvers. Everything all around us in some way has its roots in entrepreneurship. Products, systems, and ideas are all part of an entrepreneurial ecosystem. No society can exist without entrepreneurship. Every society depends on entrepreneurs. The subject of entrepreneurship requires understanding of the specific conditions faced by entrepreneurs. The above are pertinent issues which require focus that this part on entrepreneurship will address.



# Lesson 14

## Entrepreneurship

### LESSON OUTLINE

- Introduction
- Four Key Elements of Entrepreneurship
  - Innovation
  - Risk taking
  - Vision
  - Organising skills
- Who is an Entrepreneur?
- Characteristics
- Why Entrepreneurship?
- Types of Entrepreneur
- Entrepreneur vs. Manager
- Intrapreneurship
- Difference between an Entrepreneur and an Intrapreneur
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

Entrepreneurship is central for enhancing the economic opportunity of nations and organizations. Entrepreneurs create and exploit change, are innovative and have the ability to mobilize resources to create value by invention of, or improvement of existing products or services. One reason for the emerging need of Entrepreneurship is because it constitutes, in many respects, the factors requisite for economic development.

The idea of starting a business is appealing to many people. This is the trait for entrepreneur temper. Entrepreneurs must be able to sustain the drive and energy required to form something new and to manage the new enterprise. McClelland concluded that a high need for achievement leads individuals to engage in entrepreneurial behavior.

This is where this lesson on entrepreneurship will help develop entrepreneurial learning among students either entering industry or setting up their own businesses. Entrepreneurial learning concerns knowledge, skills, abilities and attitudes of actual or potential entrepreneurs. It concerns the development of entrepreneurial capabilities through life and work.

Enterprise is living a few years of your life like most people won't so you can spend the rest of your life like most people don't.

A Student in Warren G. Tracy's Class

## INTRODUCTION

Entrepreneurship is defined as the process of making money, earning profits and increasing the wealth while posing characteristics such as risk taking, management, leadership and innovation. The term Entrepreneurship is a complicated term and gives various meaning depending on the situation.

The word entrepreneur has a French origin. It originated during the Middle Ages when the term entrepreneur was applied to “*the man in charge of the great architectural works: castles and fortifications, public buildings, abbeys and cathedrals*”. It is derived from the French word, *entreprendre*, which means “to undertake.” In a business context, it means to undertake a business activity or simply to start a business. The Merriam Webster Dictionary defines an entrepreneur as ‘one who organizes, manages, and assumes the risks of a business or enterprise’.

The concept of Entrepreneurship has wide range of meanings. On one extreme an entrepreneur is a person of very high aptitude who pioneers change, possessing characteristics found in only a very small fraction of the population. On the other extreme, anyone who wants to work for himself is considered to be an entrepreneur. That is, entrepreneurship is equated to simply starting one’s own business. Most economists believe it is more than that. To some economists, the entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit. Others emphasize the entrepreneur plays a role of an innovator who markets his innovation. Still other economists say that entrepreneurs develop new goods or processes that the market demands and are not currently being supplied.

The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since. Various economists and philosophers termed this differently in their own unique ways.

Cantillon referred entrepreneurs as one of the classes of ‘landowners’ who are financially independent aristocrats. For him; individuals who purchased a good at a certain price, used that good to produce a product and then sold that product at an uncertain price could be considered ‘entrepreneurs’. Risk and uncertainty play central parts in his theory of the economic system. Successful entrepreneurs were those individuals who made better judgments about changes in the market and who coped with risk and uncertainty better than their counterparts. The entrepreneurial motivation is one of the most important factors which accelerate the pace of economic development by bringing the people to undertake risk bearing activities.

## Four Key Elements of Entrepreneurship

- Innovation
- Risk taking
- Vision
- Organising skills

In many of the developing countries a lot of attention is being paid to the development of entrepreneurship because it is not the proprietary quality of any caste and community. The entrepreneurship is usually understood with reference to individual business. Entrepreneurship has rightly been identified with the individual, as success of enterprise depends upon imagination, vision, innovativeness and risk taking. The production is possible due to the cooperation of the various factors of production, popularly known as land, labour, capital, market, management and of course entrepreneurship. The entrepreneurship is a risk taking factor, which is responsible for the end result in the form of profit or loss.

The early history of entrepreneurship in India reflects from the culture, customs and tradition of the India people. The Baliyatra Festival of Cuttack, Orissa reminiscence of past glory of International trade. The process of

entrepreneurship, therefore passed through the potential roots of the society and all those who accepted entrepreneurial role had the cultural heritage of trade and business. Occupational pursuits opted by the individual under the caste system received different meaning of value attached to entrepreneurship, which is based on social sanctions.

As society grew and the process of business occupation depended and the value work tended towards change and the various occupational role interchanged with non-role group and sub-groups. People from different castes and status also entered into the entrepreneurial role. The emergence of entrepreneurship in this part of the country got localized and spread effect, took its own time. The concept of growth theory seems to be closely related in explaining the theory of entrepreneurship development as well.

In the 20th century, economist Joseph Schumpeter (1883-1950) focused on how the entrepreneur's drive for innovation and improvement creates upheaval and change. Schumpeter viewed entrepreneurship as a force of "creative destruction." The entrepreneur carries out "new combinations," thereby helping render old industries obsolete. Established ways of doing business are destroyed by the creation of new and better ways to do them. According to A Schumpeter "The entrepreneurship is essentially a creative activity or it is an innovative function".

After the Second World War, entrepreneurship received new meaning for attaining economic development within the shortest possible time; as concern for economic development became all-pervasive. There was a growing concern for economic development and this strengthened interest in enterprises. This led to the development of the entrepreneurship in India.

Business expert Peter Drucker (1909-2005) took this idea further, describing the entrepreneur as someone who actually searches for change, responds to it, and exploits those changes as an opportunity. For instance; a change converted from typewriters to personal computers to the Internet. According to Peter P Drucker, "Entrepreneurship is neither a science nor an art. It is a practice. It is knowledge based. Knowledge in entrepreneurship is a means to an end, that is, by the practice."

The culture of a community also may influence how much entrepreneurship there is within it. Different levels of entrepreneurship may stem from cultural differences that make entrepreneurship more or less rewarding personally. A community that accords the highest status to those at the top of hierarchical organizations or those with professional expertise may discourage entrepreneurship. A culture or policy that accords high status to the "self-made" individual is more likely to encourage entrepreneurship.

In crux these are various interchangeable meanings of what is entrepreneurship.

- A theory of evolution of economic activities.
- A continuous process and an ingredient of economic development.
- Essentially a creative activity or an innovative function.
- A risk taking factor which is responsible for an end result.
- The name given to the factor of production, which performs the functions of enterprise.
- Creates awareness among people about economic activity.
- Generates Self-employment and additional employment.

### **TRAITS OF AN ENTREPRENUER**

- He is a person who develops and owns his own enterprise.
- He is a moderate risk taker and works under uncertainty for achieving the goal.
- He is innovative.

- He peruses the deviant pursuits.
- Reflects strong urge to be independent.
- Persistently tries to do something better.
- Dissatisfied with routine activities.
- Prepared to withstand the hard life.
- Determined but patient.
- Exhibits sense of leadership.
- Also exhibits sense of competitiveness.
- Takes personal responsibility.
- Oriented towards the future.
- Tends to persist in the face of adversity.
- Convert a situation into opportunity.

### **Who is an Entrepreneur?**

Entrepreneurship is a very famous word amongst the business community life. But, there are many common people still cannot get the definition and the meaning for who is the entrepreneur. ‘One who undertakes an endeavor’ is the meaning of the French word entrepreneur. There is no one definitive profile. Successful entrepreneurs come in various ages, income levels, gender, and race. They differ in education and experience. But research indicates that most successful entrepreneurs share certain personal attributes, including: creativity, dedication, determination, flexibility, leadership, passion, self-confidence, and “smarts.”

Creativity is the spark that drives the development of new products or services or ways to do business. It is the push for innovation and improvement. It is continuous learning, questioning, and thinking outside of prescribed formulas.

Dedication is what motivates the entrepreneur to work hard, 12 hours a day or more, even seven days a week, especially in the beginning, to get the endeavour off the ground. Planning and ideas must be joined by hard work to succeed. Dedication makes it happen.

Determination is the extremely strong desire to achieve success. It includes persistence and the ability to bounce back after rough times. It persuades the entrepreneur to make the 10th phone call, after nine have yielded nothing. For the true entrepreneur, money is not the motivation. Success is the motivator; money is the reward.

Flexibility is the ability to move quickly in response to changing market needs. It is being true to a dream while also being mindful of market realities. A story is told about an entrepreneur who started a fancy shop selling only French pastries. But customers wanted to buy muffins as well. Rather than risking the loss of these customers, the entrepreneur modified her vision to accommodate these needs.

Leadership is the ability to create rules and to set goals. It is the capacity to follow through to see that rules are followed and goals are accomplished.

Passion is what gets entrepreneurs started and keeps them there. It gives entrepreneurs the ability to convince others to believe in their vision. It can't substitute for planning, but it will help them to stay focused and to get others to look at their plans.

Self-confidence comes from thorough planning, which reduces uncertainty and the level of risk. It also comes from expertise. Self-confidence gives the entrepreneur the ability to listen without being easily swayed or intimidated.

"Smarts" consists of common sense joined with knowledge or experience in a related business or endeavour. The former gives a person good instinct, the latter, expertise. Many people have smarts they don't recognize. A person who successfully keeps a household on a budget has organizational and financial skills. Employment, education, and life experiences all contribute to smarts.

Every entrepreneur has these qualities in different degrees. But what if a person lacks one or more? Many skills can be learned. Or, someone can be hired who has strengths that the entrepreneur lacks. The most important strategy is to be aware of strengths and to build on them.

### **Characteristics of an Entrepreneur**

- (i) **Mental Ability:** entrepreneur must have creative thinking and must be able to analyse problems and situations. He should be able to anticipate changes.
- (ii) **Business Secrecy:** he should guard his business secrets from his competitors.
- (iii) **Clear Objectives:** he must have clear objectives as to the exact nature of business or the nature of goods to be produced.
- (iv) **Human Relation:** he must maintain good relations with his customers, employees etc. to maintain good relationship he should have emotional stability, personal relations, tactfulness and consideration.
- (v) **Communication Ability:** he should have good communication skills means both the sender and the receiver should understand each others message.

### **Why Entrepreneurship**

What leads a person to strike out on his own and start a business? The answer lies in the advantages of entrepreneurship.

#### **1. Doing What You Love**

If an entrepreneur is going to start his business it is assured he will get better odds to succeed if he is doing something he loves. Why? Because, passion is the fuel that is needed to face all the obstacles.

It is natural to feel fearful to fail. But to start with ones own business is like leaving Comfort Zone and entering a Twilight Zone. It is an activity where it should be ensured to strike balance between the business what you love to do and which is profitable as well.

Additionally in the business jungle; it is of utter most importance to survive being one of the best and that is easier if the entrepreneur is passionate about what he is doing.

Therefore, one of the advantages of being an entrepreneur is doing what one loves.

"Choose a job that you like and you will never have to work a day in your life."

– Confucius

#### **2. Independence and Freedom**

Entrepreneurship allows undertaking the activities of one's choice and comfort which offers independence and freedom in return. Many people think independence and freedom means going to work or take vacations when you want or need. The truth is that is not possible at least in the earlier years of business. On the other hand, when business is mature, strong and self sufficient, it begins to offer independence and financial freedom.

"Entrepreneurship is living a few years of your life like most people won't, so that you can spend the rest of your life like most people can't"

– A Student in Warren G. Tracy's Class

### 3. Recognition and Self Fulfilment

Entrepreneurship provides the ability to be involved in the total operation of the business, from concept to design and creation, from sales to business operations and customer response.

It offers the prestige of being the person in charge.

In line with the Maslow's hierarchy of needs, it is human to desire for recognition and strive for self fulfillment and achievement. Entrepreneurship offers excitement compared to being regular employees. Entrepreneurs enjoy much excitement beginning from the planning stage of the business up to development and realization. Thrill-seekers obviously love being entrepreneurs as they are exposed to too much risk.

"What a man can be, he must be. This need we call self actualization."

— Maslow

"I have wandered all my life, and I have also traveled; the difference between the two being this, that we wander for distraction, but we travel for fulfillment."

— Hilaire Belloc

### 4. Income Potential

Entrepreneurship offers a greater possibility of achieving significant financial rewards than working for someone else.

This is a big one because when you're an entrepreneur you can create a direct relationship between your efforts and your income. In other words: if your efforts are higher your reward should be higher too. Of course that happens if your efforts are well planned, effective and well focused.

Many people really believe that of all the advantages of being an entrepreneur this is the best. That's probably because in comparison to a job where employer, the company's financial budget, the Board and the economy decides salary. In case of an entrepreneur nobody except the market forces defines returns and income.

"A large income is the best recipe for happiness I ever heard of."

— Jane Austen quotes

### 5. Own Boss

Entrepreneurs are their own bosses. They make the decisions. They choose whom to do business with and what work they will do. They decide what hours to work, as well as what to pay and whether to take vacations.

"Your real boss is the one who walks around under your hat."

—Napoleon Hill

### 6. Innovation

Entrepreneurship creates an opportunity for a person to make a contribution. Most new entrepreneurs help the local economy. A few – through their innovations – contribute to society as a whole. One example is entrepreneur Steve Jobs, who co-founded Apple in 1976, and the subsequent revolution in desktop computers.

It gives an individual the opportunity to build equity, which can be kept, sold, or passed on to the next generation.

## TYPES OF ENTREPRENEUR

Starting and growing one's own business requires many skills to be successful. One could be a visionary like Bill Gates or a superstar like Peter Sematimba. The entrepreneur personality types are the traits and characteristics that blend with the needs of the business. Understanding the types of entrepreneur personality type helps in enjoying business as well as providing with what it needs to grow in best.

Each entrepreneur personality type can succeed in the business environment if it is true to character. Identifying strong traits is essential and can act as a compass for the business.

**1. Idealist**

The idealist entrepreneur is the most common type of entrepreneur. He likes innovation and enjoys working on something new or creative. He is guided by more ideals while keeping in view the ideas that are formulated by him in order to pursue his innovation.

**2. Optimizers**

The optimizer entrepreneur comes in a close second and is content with the personal satisfaction of simply being a business owner. It is derived from being optimistic.

**3. Hard Workers**

The hard workers entrepreneur category includes persons who enjoy putting in long hours to build a larger and more profitable business. They like to challenge themselves and strive harder to attain the same. They reap the most rewards if the business turns out to be a multi-million dollar enterprise.

Hard work comes with all businesses but not everyone works hard for the business to grow as this type of entrepreneurs does.

**4. Sustainers**

As the meaning of the word itself implies, sustain is to maintain; the sustainer type of entrepreneurs comprise of people who like to maintain a balance between work and a personal life. Most often, they do not wish the business to grow too large where it will cut into their personal life. These people just need enough to survive.

**5. Improver**

The improver types of entrepreneur are the ones who predominantly are focused to start a business to improve the world. Their motto is to work in a manner which is morally and ethically correct so as to contribute to a noble cause. Improvers have an unwavering ability to run their businesses with high integrity. At the same time, these people need to be aware of their tendency of being over critical of employees and clients in order to be a perfectionist.

**6. Advisor**

These types of people believe in consumer sovereignty where they indulge excessively in providing customer services. This business personality type will provide an extremely high level of assistance and advice to customers. They want to please their customers. Their businesses soon become customer oriented business which involves providing advisory services to them at a cost to themselves.

**7. Superstar**

This type of entrepreneur is lead by charisma, charm and high energy. An entrepreneur like this has an overwhelming personality which works in his favour so does in the favour of business. This personality often will cause to build business around own personal brand. However, such people tend to become too competitive and workaholics; which can sour the workplace and the market. Entrepreneur example is Peter Sematimba, CEO of Super FM.

**8. Artiste**

These are creativity oriented entrepreneurs. Thus, the type of business also are those which demand huge levels of creativity such as; advertising agencies and people in the music industry. The artist involves in business

activity which is centered around their talents and creative fields. The limitation faced by such entrepreneur is that of over sensitively reacting to the customers feedbacks if such is a negative one.

### **9. Visionary**

Normally, all the businesses are founded keeping a vision in mind. The founding members who visualize a dream and materialize the same are known as visionary. These are thinkers who pursue to make their vision come true. Such people are curious in nature and have a long sighted vision which helps them in understanding the world around better thereby to set up plans to avoid pitfall and hurdles. At the same time, these people lack to relate their dreams with reality which might result in opposite results when it comes to starting up all new. Thus it is advisable to act before visualizing.

### **10. Analyst**

These types of entrepreneurs excel at problem solving in a systematic way. Thus businesses involving complications suit them a lot. They are able to crop up the solution at no cost and less time. The challenge is to realize that too much analysis can result in no action being taken. Secondly, they might get caught in analysis paralysis.

### **11. Fireball**

Fireball is a casual word used for an energetic person so does it imply for entrepreneurs. A business owned and operated by a fireball is full of life, energy and optimism. Such businesses are life energizing and makes customers feel the firm has a get it done attitude. Since every coin has two sides, such people have a downside too. In being too outright and energetic, they may over commit and act too impulsively. Maintaining a balance for impulsiveness with sensitive planning is of utter most importance.

### **12. Jugglers**

A juggler conventionally means entertainer who keeps several plates, knives, balls, or other objects in the air at once by tossing and catching them. The art of juggling has been practiced since antiquity. The juggler entrepreneur likes the concept that the business gives them a chance to handle everything themselves. They are usually people with lots of energy and exist on the pressure of meeting deadlines, paying bills and of course making payroll.

### **13. Hero**

Hero like entrepreneurs are the people with great willingness and efficient leadership. He inspires others. He has an incredible will and ability to lead the world and the business through any challenge. He is the essence of entrepreneurship and can assemble great companies. Over promising and using force full tactics to get the way out are the bane sides of being a hero entrepreneur; which definitely is not fruitful in long term.

### **14. Healer**

Healer as the name suggest, nurtures the business by bringing harmony with a surprising ability to survive with an inner calm. Healer is closely related to calmness which lets him avoid the outside harsh realities of business. One must keep a scenario planning to pre prepare for any kind of turmoil.

## LESSON ROUND UP

- Entrepreneurship is defined as the process of making money, earning profits and increasing the wealth while posing characteristics such as risk taking, management, leadership and innovation. The term Entrepreneurship is a complicated term and gives various meaning depending on the situation.
- The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since.
- The entrepreneurial motivation is one of the most important factors which accelerate the pace of economic development by bringing the people to undertake risk bearing activities.
- Four Key Elements of Entrepreneurship:
  - Innovation
  - Risk taking
  - Vision
  - Organising skills
- One who undertakes an endeavour is an Entrepreneur. Most successful entrepreneurs share certain personal attributes, including: creativity, dedication, determination, flexibility, leadership, passion, self-confidence and smarts.
- What leads a person to strike out on his own and start a business:
  - Doing What You Love
  - Independence and Freedom
  - Recognition and Self Fulfilment
  - Income Potential
  - Own Boss
  - Innovation
- Each entrepreneur personality type can succeed in the business environment if it is true to character. Identifying strong traits is essential and can act as a compass for the business.
- The terms Entrepreneur and Manager are considered same; but these have different meanings altogether. These cannot be used interchangeably.
- Intrapreneurship is a combination of entrepreneurship and management skills. Intrapreneurship is the practice of entrepreneurship by employees within an organization.

## GLOSSARY

<b>Idealist</b>	One whose conduct is influenced by ideas.
<b>Optimizers</b>	One who is optimistic and has a drive for positivism.

<b>Sustainers</b>	Sustainers are survivors who need just as much to sustain; keeping balance between different needs.
<b>Improver</b>	One who is devoted to the promotion of any noble cause.
<b>Advisor</b>	One who advices people on entrepreneurial ventures.
<b>Superstar</b>	One who with his charm establish and manages business to take it to unimaginable heights.
<b>Artiste</b>	These are the entrepreneurs who have an overstated inclination towards bringing creativity in the system.
<b>Visionary</b>	The visionary who starts a business with a fresh idea, to make something better or less expensively, to make it in a new way or to satisfy a unique need, is often not primarily interested in making money.
<b>Analyst</b>	These entrepreneurs work on analyzing the system and fixing problems in a systematic way.
<b>Fireball</b>	One who is never dull in terms of enthusiasm, energy and attitude.
<b>Healer</b>	One who nurtures his business with harmony.

### SELF-TEST QUESTIONS

1. This type of Entrepreneur likes innovation and enjoys working on something new or creative.
  - a) Idealist
  - b) Optimizer
  - c) Sustainers
  - d) None of the above
2. These types of people believe in consumer sovereignty where they indulge excessively in providing customer services:
  - a) Advisor
  - b) Superstar
  - c) Artiste
  - d) Visionary
3. What leads a person to strike out on his own and start a business:
  - a) Doing What You Love
  - b) Independence and Freedom
  - c) Recognition and Self Fulfilment
  - d) All of the above

4. One who has a drive for positivism.
  - a) Improver
  - b) Superstar
  - c) Optimizer
  - d) Adviser
5. \_\_\_\_\_, nurtures the business by bringing harmony with a surprising ability to survive with an inner calm.
  - a) Fireball
  - b) Improver
  - c) Adviser
  - d) Healer
6. This type of entrepreneur is led by charisma, charm and high energy.
  - a) Superstar
  - b) Artiste
  - c) Fireball
  - d) None of the above
7. The key elements of entrepreneurship are:
  - a) Innovation
  - b) Risk Taking
  - c) Vision
  - d) All of the above
8. \_\_\_\_\_ is an important motivation to start a business for an entrepreneur
  - a) Recognition and self-fulfilment
  - b) Rewards & Increments
  - c) Networking
  - d) None of the above
9. \_\_\_\_\_ is the practice of encouraging innovation by employees within an organization.
  - a) Intrapreneurship
  - b) Creativity
  - c) Risk taking
  - d) Incentive schemes
10. The individual who starts a business with a fresh idea, to make something better or less expensively, to make it in a new way or to satisfy a unique need, and is often not primarily interested in making money is called\_\_\_\_\_

- a) Innovator
  - b) Determined
  - c) Challenger
  - d) Visionary

**Answer Keys :** 1. a; 2. a; 3. d; 4. c; 5. d; 6. a; 7. d; 8. a; 9. a; 10. d

## Suggested Readings

- (i) Entrepreneurial Development – by C. B. Gupta and N.P.Srinivasan, Sultan Chand & Sons, 1992.



# Lesson 15

## Entrepreneurship – Creativity and Innovation

### LESSON OUTLINE

- Introduction
- Creativity
- Principles of Creativity
- Innovation
- Principles of Innovation
- Environment Scanning
  - SWOT Analysis
  - PEST/ PESTEL Analysis
  - Industry Analysis
- Environmental Scanning Process
- Types of Environmental Scanning
- Market Assessment
- Review Questions
- Assessment of Business Opportunities
- Developing Effective Business Plans
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

Innovation is tool of entrepreneurship. In addition, both of the stated demands creativity. Creativity and innovation by definition involves the creation of something new which is central to the entrepreneurial process. Creativity and innovation are considered inseparable from entrepreneurship, which is in turn manifested in the act of starting up and running an enterprise. Entrepreneurs and their start-ups are considered to be important agents of innovation, not simply in terms of the products and services they provide, but also in terms of the technologies and processes that they utilize. Start-up entrepreneurs could, thus be argued to be, by their very nature, the essence of creativity and innovation.

Creativity is applied because it connects, innovation is required because it implies progress and both play role in entrepreneurship. These fill in the vacuum created between an idea and an opportunity.

This lesson explores ways in which start-up entrepreneurs are creative and innovative, the ways in which such innovation and creativity can be explored better to derive entrepreneurial motivation which helps in setting up a business.

People always overestimate how complex business is. This isn't rocket science; we've chosen one of the world's more simple professions.

**Jack Welch**

## INTRODUCTION

Innovation is the tool of entrepreneurship. In addition, both innovation and entrepreneurship demand creativity. Creativity is a process by which a symbolic domain in the culture is changed. Creativity is the ability to make or otherwise bring into existence something new, whether a new solution to a problem, a new method or device, or a new artistic object or form. Creativity is moving from the known to the unknown. No entrepreneur or enterprise, however successful and big, can continue to hold a place of leadership unless it recognizes that modern business operates in a world of galloping change which creates new problems, risk and opportunities and for which they have to mobilize the enterprise's resources before changes make their impact felt. All innovation begins with creative ideas. Creativity is the starting point for innovation. Creativity is however necessary but not sufficient condition for innovation. Innovation is the implantation of creative inspiration.

## CREATIVITY AND INNOVATION IN AN ENTREPRENEURIAL ORGANIZATION

Growth and development cannot be sustained without additional innovations. Additional innovations make firms look glamorous in terms of new products, new marketing techniques, and newer ways to reach out to customers in satisfying their needs. These are usually seen as part of the process of innovation, which is itself seen as the engine driving continued growth and development. The 'winning performance' of the entrepreneur and the organization focuses on

- Competing on quality, not prices
- Domination of a market niche
- Competing in an area of strength
- Having tight financial and operating controls
- Frequent product or service innovation

Entrepreneurship is, therefore, the innovative process involved in the creation of an economic enterprise based on a new product or service which differs significantly from products or services offered by other suppliers in content or in the way its production is organized nor in its marketing.

In today's environment where competition requires business enterprises to be distinct and meet customer needs with better or newer products and organization becomes critical necessity. Thus, entrepreneurs and enterprises are continuously creative and innovative to remain relevant to the customers, which is the purpose of every business.

This requires to study the environment thoroughly and scan it from the view point of stakeholders and customers in line with the strengths, opportunities, threats, etc; so as to bring in the picture before any entrepreneurial activity is started with.

## ENVIRONMENT SCANNING

Environment Scanning is careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans. Environmental scanning is a concept from business management by which businesses gather information from the environment, to better achieve a sustainable competitive advantage. To sustain competitive advantage, the company must also respond to the information gathered from environmental scanning by altering its strategies and plans when the need arises.

When entrepreneurship is taken into consideration; environment scanning is another important factor to be taken care of with regards to developing a new plan which comprises of innovative ideas and creative ends so that the same may be developed and offered in the market after a careful analysis for its possibility of acceptance, opportunity in the same, and prospective threats.

## Importance of Environmental Scanning

Entrepreneurs need to carry out environmental scanning to anticipate and interpret the results that their business innovation would result in. The term environmental scanning refers to the screening of large amounts of information in order to detect emerging trends and to create a set of scenarios. Companies which scan their business environment are proven to achieve higher profits and revenue growth compared to companies which do not.

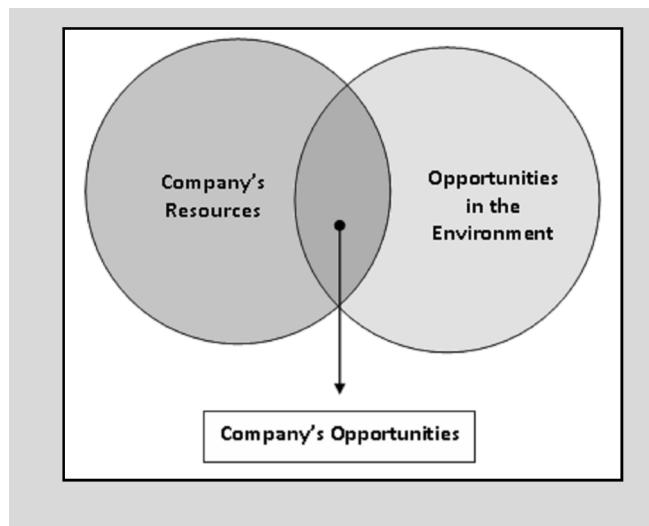
The importance of environmental scanning was first recognized by life insurance firms in the late 1970s. For instance; at that time, the demand for life insurance was declining, and the insurance firms had failed to recognize that there was a fundamental change in family structure in the U.S. Young families in the late 1970s tended to be dual-career couples and they increasingly prefer to remain childless for a longer period of time. Because the families were smaller, the demand for life insurance declined. This is one of the examples as to how scanning of environment is helpful in analyzing the factors for the behaviour of the entrepreneurial activity conducted.

There are various techniques which may be used in environment scanning namely;

- SWOT Analysis
- PEST/ PESTEL Analysis
- Industry Analysis

## SWOT ANALYSIS

Originated by Albert S Humphrey in the 1960s, SWOT Analysis is as useful now as it was then. SWOT is the analysis of a company's **Strengths**, **Weaknesses**, **Opportunities**, and **Threats** to identify a strategic niche that the company could exploit. SWOT Analysis merges the external factors (environment analysis, opportunities and threats identification) with the internal factors (company's resources analysis, company's strengths and weaknesses identification).



**SWOT Analysis**

SWOT analysis is very important. The entrepreneur is able to access the feasibility of his goals and objectives using the outcome of SWOT analysis and identification of the company's opportunities. The entrepreneur who has conceived an idea in his minds would then be able to evaluate whether such plans, mission and objectives are even close to realism or are in the wave of air only. If they are realistic, the entrepreneur can continue to

formulate strategies. But if they are not realistic, the entrepreneur should amend and modify plans or discard the same to originate a new one which has more odds of the success.

This tool can use it in two ways - as a simple icebreaker helping entrepreneur to analyze the plan and judge the feasibility, or in a more sophisticated way as a serious strategy tool wherein the entrepreneur checks SWOT every stage of his formulating the plan and then put forward the idea as a business.

There are four components to this analysis. Strengths and weaknesses are often internal to your organization, while opportunities and threats generally relate to external factors. For this reason the SWOT Analysis is sometimes called Internal-External Analysis and the SWOT Matrix is sometimes called an IE Matrix.

All four components cover certain basic questions that need to be answered. These are as follows:

### **Strengths**

- What advantages does your idea have?
- How does it serve the society better than anyone else?
- How do you use unique or lowest-cost resources to your idea that others can't?
- What would be your strengths in the market ones this idea is materialized?
- What factors mean that you "get the sale"?
- What is your innovation's Unique Selling Proposition (USP)?

Consider your strengths from both an internal perspective, and from the point of view of your customers and people in your prospective market.

### **Weaknesses**

- What is the further scope of improvement?
- What are the things that need to be avoided?
- What are people in your market likely to see as weaknesses?
- What factors lose you sales?

### **Opportunities**

- What good opportunities can you spot in relation to the innovative idea you have?
- What interesting trends are you aware of?

*Useful opportunities can come from such things as*

- Changes in technology and markets on both a broad and narrow scale.
- Changes in government policy related to your field.
- Changes in social patterns, population profiles, lifestyle changes, and so on.
- Local events.

### **Threats**

- What obstacles are likely to be faced?
- What are your competitors doing?

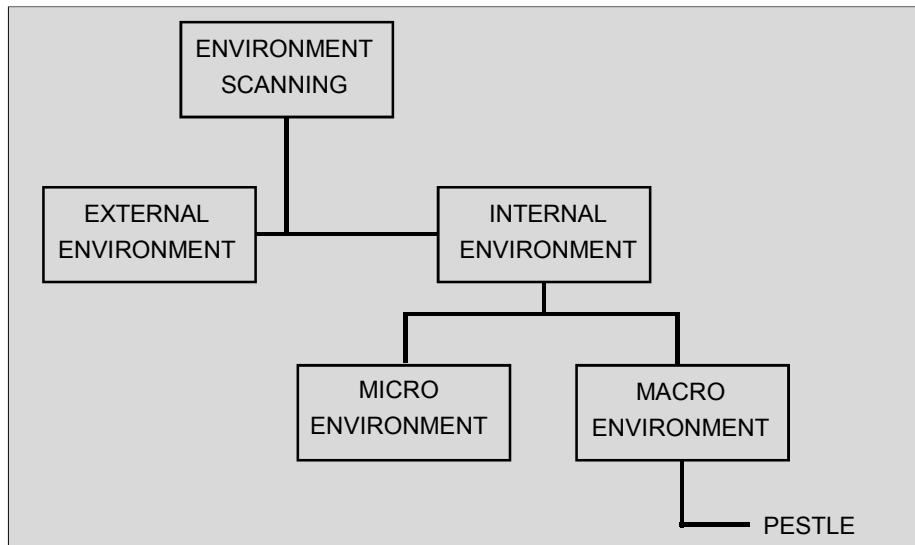
- Are quality standards or specifications for your job, products or services changing?
- Is changing technology threatening your position?
- Could any of your weaknesses seriously threaten your business?

When looking at your strengths, think about them in relation to your competitors. For example, if all of your competitors provide high quality products, then a high quality production process is not strength in your organization's market, it's a necessity.

A useful approach when looking at opportunities is to look at your strengths and ask yourself whether these open up any opportunities. Alternatively, look at your weaknesses and ask yourself whether you could open up opportunities by eliminating them.

When looking at opportunities and threats, PESTLE Analysis can also help to ensure that you don't overlook external factors, such as new government regulations, or technological changes in your industry. This is another technique of environment scanning.

## PESTLE ANALYSIS



PESTLE stands for - Political, Economic, Sociological, Technological, Legal, and Environmental. The term PESTLE has been in regular use for last 10 years.

PESTLE analysis is in fact, an audit of environmental influences on the business idea with the purpose of using this information to preascertain the factors affecting the likely project and thereby guide strategic decision-making in accordance. The assumption is that if the entrepreneur is able to audit his influencing environment and assess potential threats to his project, it will be better placed in the market, and be able to accommodate the influencing factors.

PESTLE analysis is a useful tool for understanding the 'big picture' of the environment in which an entrepreneur is planning to operate. Specifically, a PESTLE analysis is a useful tool for understanding risks associated with several forms of markets, growth or decline, and as such the position, potential and direction for an individual business or organisation. This is often used as a generic 'orientation' tool, which finds out the stand of the prospective business plan of the entrepreneur in the external environment in terms of the components so mentioned that will at some point affect the internal environment of the business ones it is set up. The six elements form a framework for reviewing a situation, and can also be used to review a strategy or position, direction of a company, a marketing proposition, or idea.

It is important to clearly identify the subject of a PESTLE analysis (that is a clear goal or output requirement), because an analysis of this type is multi faceted in relation to a particular business unit or proposition – if the focus is diluted as to what is exactly required from the technique, the picture so produced would be unclear and ambiguous.

A scan of the external macro-environment which are likely to influence the business idea can be expressed in terms of the following factors:

- Political Factors
- Economic Factors
- Social Factors
- Technological Factors
- Legal Factors
- Environmental Factors

### **1. POLITICAL FACTORS**

- tax policy
- employment laws
- environmental regulations
- trade restrictions and tariffs
- political stability
- government type and stability
- freedom of press, rule of law and levels of bureaucracy and corruption
- regulation and de-regulation trends
- environmental and consumer-protection legislation

### **2. ECONOMIC FACTORS**

- current and projected economic growth, inflation and interest rates
- exchange rates
- stage of business cycle
- unemployment and labor supply
- labor costs
- levels of disposable income and income distribution
- impact of globalization
- impact of technological or other change on the economy

### **3. SOCIAL FACTORS**

- health awareness
- population growth rate

- age distribution
- career attitudes
- emphasis on safety
- population health, education and social mobility, and attitudes
- population employment patterns, job market freedom and attitudes to work
- press attitudes, public opinion, social attitudes and social taboos
- lifestyle choices and attitudes

#### **4. TECHNOLOGICAL FACTORS**

- R&D activity
- impact of emerging technologies and research & Development activity
- impact of internet, reduction in communications costs and increased remote working
- impact of technology transfer

#### **5. LEGAL FACTORS**

- licensing framework
- employment laws
- competition laws
- foreign transaction laws
- taxation laws

#### **6. ENVIRONMENTAL FACTORS**

- environmental impact
- environmental legislation
- energy available and costs
- waste disposal

This checklist of the factors is inclusive in nature. Other related aspects that have a bearing in respective factor may also be considered based on the stance of the idea that is being converted into business.

#### **PORTER'S APPROACH TO INDUSTRY ANALYSIS**

Another important tool for environment scanning is to conduct industry analysis which is to take a survey of the existing industry if any, before setting up an entrepreneurial endeavour. An entrepreneur is most concerned with the intensity of competition to which his idea is exposed. The level of this intensity may be determined by basic competitive forces. In scanning the industry, the entrepreneur must assess the importance to its success of each of the five forces.

The Porter's Five Forces tool is a simple but powerful tool to evaluate the power of business. This is useful, because it helps to understand both the strength of current competitive position, and the strength of the position moving into.

With a clear knowledge of where power lies, fair advantage can be taken in case of situation of strength, and contrarily improve a situation of weakness, and avoid taking wrong steps. This forms an important part of planning toolkit of business endeavor.

Conventionally, the tool is used to identify whether new products, services or businesses have the potential to be profitable. However it can be very illuminating when used to understand the balance of power in other situations.

Porter's Five Forces Analysis assumes that there are five important forces that determine competitive power in a business situation. These are:

- (i) *Supplier Power*: This assesses how easily suppliers may drive up prices. This in lieu depends upon the number of suppliers of each key input. The uniqueness of their product or service, their strength and control over the entrepreneur's cost of switching from one to another, and so on are significant factors to measure suppliers powers. The fewer the supplier choices, and the more is the need of suppliers' help, the more powerful suppliers become.
- (ii) *Buyer Power*: This evaluates how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers; the demand for the new product or service. The importance of each individual buyer to business, the cost to them for accepting the new product launched, and so on are influencing factors to know how much buyers can affect the success of business plan.
- (iii) *Competitive Rivalry*: What is important here is the number and capability of competitors. If there are many competitors to the new product, who offer equally attractive products and services, then the product will most likely have little power in the situation, because suppliers and buyers will have alternate choices to make in case they do not get a good deal. On the other hand, if no-one else can do what you do, then you can often have tremendous strength.
- (iv) *Threat of Substitution*: This is affected by the ability of your customers to find a different way of doing what you do – for example, if you supply a unique software product that automates an important process, people may substitute by doing the process manually or by outsourcing it. If substitution is easy and substitution is viable, then this weakens your power.
- (v) *Threat of New Entry*: Power is also affected by the ability of people to enter your market. If it costs little in time or money to enter your market and compete effectively, if there are few economies of scale in place, or if you have little protection for your key technologies, then new competitors can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favorable position and take fair advantage of it.

### **Environmental Scanning Process**

Environmental scanning begins with gathering information about the internal and external environments. This information can be obtained from various sources, both internal and external to the organization.

Scanning includes a broad range of activities. It is a process of screening a large body of information for some particular bit of information that meets certain screening criteria. This process has several distinct steps:

1. searching for information resources
2. selecting information resources to scan
3. identifying criteria by which to scan
4. scanning
5. determining special actions to take on the scanning results

### Types of Environmental Scanning

(i) **Passive Scanning:** Everyone scans continually. Ongoing scanning at an almost unconscious level is passive scanning. No effort is made to select a particular information resource to scan. The criteria of passive scanning are obscure, unspecified, and often continuously changing. Only ad hoc decisions are made on the results of this type of scanning.

Passive scanning has traditionally been a major source of information about the external world for most entrepreneurs for decision making on the new product. The continuous scanning only helps them arrive at an innovative altogether new solution to business.

(ii) **Active Scanning:** The components of active scanning are quite different from those of passive scanning. For example, the searching or screening process requires a much higher level of attention. The information resources scanned are specifically selected for their known or expected richness in the desired information.

A dimension of scanning concerns the time element of the information source being scanned. Information sources are either already existing resources, such as “the literature,” or continuing resources, which continue to come in, such as a magazine subscription. Active scanning involves the conscious selection of continuous resources and, from time to time, supplementing them with existing resources as needed.

(iii) **Directed Scanning:** The active scanning of an existing resource for a specific item is directed scanning. Usually this scanning continues until the items are located, not necessarily until the resources are exhausted. As the specific desired item is known and the resource can be specified, the scanning committee can delegate whatever directed scanning is necessary.

### MARKET ASSESSMENT

Whether it is about starting a new business or launching a new product, conducting a market assessment is essential to know whether there exists any demand to the idea. Knowing of the market's needs provides with key information that is essential in further molding the idea and to develop the plan map. Too often, businesses spend thousands of dollars launching a “new” idea with a limited market because of competition. The owner is forced to reevaluate his strategy and determine if there is room for another player.

Conducting a market assessment helps to:

- Prepare to enter a new market
- Launch a new product/service
- Start a new business

The marketing assessment process can be laid down into six steps:

1. Defining the problem
2. Analysis of the situation
3. Obtaining data that is specific to the problem
4. Analysis and interpreting the data
5. Fostering ideas and problem solving
6. Designing a plan

#### 1. Defining the Problem

Defining the problem is crucial to conducting a successful marketing analysis. This may require a great deal of

time but it is well worth the time and energy employed. Defining the objectives is defining the problem which is tantamount to a successful marketing campaign. Many entrepreneurs tend to waste valuable time performing good research on the wrong problem.

## 2. Analyzing the Situation

An analysis of the situation is an informal survey of what information is available in the problem area. The analysis will help define the problem and ascertain the need for additional information. This process entails informal talks with informed people. Informed individuals can be others in the company or outsiders with knowledge about the industry or product. In some instances, customers are contacted to provide information.

When the marketing manager is unfamiliar with the situation, the analysis step is of primary importance. It is important to understand the problem area - including the nature of the target market, competition, the marketing mix and the external environment.

The analysis should focus on both primary and secondary research.

### *Primary and Secondary Market Research*

Primary research is research that is proactively created for a specific purpose. Primary research may include focus groups, qualitative surveys and phone interviews.

In contrast, secondary research is research that has already been conducted for other purposes. From it valuable information can be gleaned. Secondary research can be found in libraries, online, through periodicals, books, etc.

Once all the information required is known, make sure market should be receptive to the product or service. The widget might be the most innovative on the market, but if the target market doesn't think so, it leads to nowhere zone. Thus a comprehensive primary market research study is essential.

## 3. Obtaining Data Specific to the Problem

The next step requires gathering primary research and performing a formal research project. Many approaches can be used to collect primary data. The purpose is for the research to identify customer's behaviour patterns in response to particular product good or any idea. Research can be done in person or through a survey. Questioning can be qualitative or quantitative. Another research option is to use observation of customers and their purchases or utilization of a product or service.

## 4. Data Analysis and Interpretation

Data analysis and interpretation is critical in analyzing the market. By merely conducting the research work and collating the data is of no help unless analyzed. The data needs to be used in a constructive way to define the problem and then establish a plan. In quantitative research, this step most often involves statistics. Marketing managers must be able to draw valid and solid conclusions from the conducted study. Despite use of the correct statistical tool and accurate calculations, the interpretation could be wrong. It is therefore required that the analysis be done in the support of experts and right results are crafted.

## 5. Fostering Ideas and Problem Solving

At this step, the research results are used to make marketing decisions. The findings should be applied in marketing planning. If the research doesn't provide the information necessary to make these decisions, the company, whether small or large, has wasted its time, money and manpower on unnecessary data. The final step must be anticipated throughout the entire process.

## 6. Marketing Plan

This six-step process of market analysis is critical in designing a marketing plan that is tailored to the product or service. The process can be extremely helpful in disclosing a significant but previously unrecognized problem. By finding and focusing on the real problem, the researcher and business owner can move quickly to a useful solution.

A marketing plan shows the specifics of how the entrepreneur will market or attempt to sell his product or service.

### REVIEW QUESTIONS



#### State True or False:

1. Change is an organizational reality.
2. The marketplace is an external force of change.

**Answers:** 1. True 2. True

### ASSESSMENT OF BUSINESS OPPORTUNITIES

Whenever business people are suggested about starting a Business Plan, they invariably have one of two replies – “We’re too small to have a fancy business plan” or “We should, but we’re too busy to go through the process right now”. There are two basic misconceptions for business plans.

- Too much work for little or no benefit
- Business plans are for larger, fancier companies

**Business Plan:** The process of producing a business plan is, in itself, a beneficial undertaking. It facilitates management’s focus on the future as well as the present. In the process of preparing the plan, they have a chance to step back and assess where they are now in terms marketing, production, and finances. This assessment can be cause for “pats on the back” and honesty about past errors.

Looking to the future, the process allows a business person to look out five or ten years and say, “In my dreams, this is where I want this company to be”. The business plan forms the road map to get to those dreams. It gives interim targets to hit. It highlights the many challenges. It points out the company’s strengths and how to capitalize on them. It does all this by forcing the business person to objectively think things through. When they think through one area, the process requires them to think through the impact on other areas of the company. For example, given sales targets, they must now consider equipment and personnel requirements to reach those targets. Next, they must realistically analyze how they can finance these necessary resources.

The most significant benefit of a business plan is in the periodic review of actual results. A manager/owner should take out the business plan on a quarterly basis and review their actual results to the forecast. In financial terms, this involves comparing actual numbers to budget numbers. In marketing, it involves comparison of unit sales, department sales, penetration of targeted markets, etc. This feedback allows the person to assess what worked, what went wrong, and proactively make changes to move toward their goals.

Business plans do not have to be fancy documents full of charts and graphs. They have to be documents useful in communicating what the business person has in mind. As such, they can take the form of a simple outline with budgets attached.

Several key areas to include are:

**Goals:** Obviously long term goals are necessary. Just as importantly, include interim goals that form the milestones of progress. It is critical that time lines be stated for the accomplishment of each goal.

**Functional Strategies:** A basic strategy in each functional area of the company will show how to accomplish the goals. A well developed marketing plan will show how to achieve the sales goals. An operating plan will show how to fill the sales orders. A financial plan will show how to pay for it all. Each of these plans can be written up as simple outlines with little integrating text. The content and thought process are what is important, not the form and complexity.

**Budget and Cash Flow Projections:** This is where small business people feel most intimidated. It is, however, the most important reality check on the rest of the plan. Can we pay for it? In the simplest form, analyze revenue and expense accounts under the projections of the plan. Given recent payment and collections history, extrapolate the impact on cash in the bank. This simple analysis will uncover any glaring critical financial problems well in advance.

**Regular Reviews** of the goals, objectives, and interim targets bring everyone back in focus with what they are trying to accomplish. It provides a point of reflection. It redirects actions that have strayed. It facilitates proactive management of the chaos, rather than allowing the chaos to manage the company.

Business plans are for small companies as well as large. The small company can benefit from even a simple plan that is prepared in earnest. To facilitate completing the plan, an objective third party can effectively guide a business through the process. Thus, the company gets the benefits without the administrative burden. In the end, planning to open for business tomorrow is a plan. A good business plan just takes that process to a higher, more useful level.

There are a few things to be kept in mind for initializing the business venture. First, there is no such thing called short cut. There is no easy way to success, security, independence, money whatever the case may be. Any entrepreneurial venture requires a great deal of hard work, patience, dedication, passion etc. looking for a short cut would imply offering oneself to others to take upon the opportunities that knocked your door. (That's their opportunity niche).

Second, recognize the business opportunities and start with customer, not with know-how, not with the "bright" idea. As an inventor-entrepreneur, the best approach to make the creative innovative business idea a success is to find someone who'll pay for the development of something they need and also let the entrepreneur keep the right to sell it to others.

Third, the essential resources for exploiting opportunities are the fundamental business skills. Given these skills, all else flows automatically. And so closely is true for vice versa; without the skills, all the attempted ventures are doomed to fail. These skills are in the form of people; which is the essence of business. A single man army is no more real. Business requires a set of people who are equally good in the other skills.

There are four skills necessary to successful business.

- Engineering Skills- the skill to invent, create, innovate and develop new products (or services).
- Manufacturing Skills- the skill to deliver them, consistently and reliably, with quality, service, and price.
- Selling Skills- the skill to sell them.
- Business Skills- the skill to make a profit doing the above three.

The skills necessary to start a business are Engineering and Selling. The skills of Manufacturing and Business determine, more, how long one stays in business. The level of quality needed in these skills is determined by the level at which one wishes to compete.

The fourth part of preparing for opportunities, is preparing the entrepreneur. Set some goals. Build a productive and a proactive approach.

Don't get trapped in false notions as to say that all the information comes from education and experience. There is a blinder appended to all the knowledge. The set of information that is acquired all this long is the solution to yesterday's problem and may not efficiently apply to those of today and further less likely to fit in for those of tomorrow; unless a good deal of creativity resulting innovation is applied.

The final part of preparing for opportunities is to quit preparing and start to act. Plans are best executed than just laying them down on paper leaves.

## **DEVELOPING EFFECTIVE BUSINESS PLANS**

The process of starting a new venture is embodied in the entrepreneurial process, which involves more than just problem solving in a typical management position. An entrepreneur must find, evaluate, and develop an opportunity by overcoming the forces that resist the creation of something new.

The process has four distinct phases:

- identification and evaluation of the opportunity
- development of the business plan
- determination of the required resources
- management of the resulting enterprise

### **Identification and Evaluation of the Opportunity**

Opportunity identification and evaluation is a very difficult task yet very primary. Most good business opportunities do not suddenly appear, but rather result from an entrepreneur's alertness to possibilities, or in some case, the establishment of mechanisms that identify potential opportunities. For example, one entrepreneur surveys the possibility of developing a new product. This person is constantly looking for a need and an opportunity to create a better product. Another entrepreneur may be monitoring the activities or habits of the target customers, some others may be indulged in experiments of sample product. This is the way of looking for any unique product niche for a new venture. Although most entrepreneurs do not have formal mechanisms or identifying business opportunities, some sources are often fruitful: consumers and business associates, members of the distribution system, and technical people. Often, consumers are the best source of ideas for a new venture. Many a times it is observed that consumers know what they want; they do not know how to produce that. This survey can result in the creation of new business. One entrepreneur's evaluation of why so many business executives were complaining about the lack of good technical writing and word-processing services resulted in the creation of her own business venture to fill this need. Her technical writing service grew to 10 employees in two years. Due to their close contact with the end user, channel members in the distribution system also see product needs.

One entrepreneur started a college bookstore from the observation of all the students complain about the high cost of books and the lack of service provided by the only bookstore on campus. Many other entrepreneurs have identified business opportunities through a discussion with a retailer, wholesaler, or manufacturer's representative.

Finally, technically oriented individuals often conceptualize business opportunities when working on other projects.

*The most famous example is of Steve Wozniak - Apple Computers*

Steve got interested in science and technology around 4th grade after reading a book about this young guy who was an engineer who could design anything, and he owned his own company, and he would entrap aliens, and

build submarines, and have projects all over the world. Steve would later create the first personal computer in 1977. Jobs had a passionate belief in bringing computer technology to everyone. So in 1977, Jobs and Wozniak started a company to build and distribute their invention. In true American-dream fashion, their company began in a garage. To finance their venture, Jobs sold his Volkswagen van and Wozniak sold his programmable calculator to raise \$1,300. Weeks later, Jobs secured the company's first sale: 50 Apple I computers at \$666 each. In a mere six years, Apple was listed in the Fortune 500, becoming the youngest firm on this prestigious list.

Whether the opportunity is identified by using input from consumers, business associates, channel members, or technical people, each opportunity must be carefully screened and evaluated. This evaluation of the opportunity is perhaps the most critical element of the entrepreneurial process, as it allows the entrepreneur to assess whether the specific product or service has the returns needed compared to the resources required. This evaluation process involves looking at the length of the opportunity, its real and perceived value, its risks and returns, its fit with the personal skills and goals of the entrepreneur, and its uniqueness or differential advantage in its competitive environment.

The market size and the length of the window of opportunity are the primary basis for determining the risks and rewards. These risks reflect the market, competition, technology, and amount of capital involved. The amount of capital needed provides the basis for the return and rewards. The methodology for evaluating risks and rewards frequently indicates that an opportunity offers neither a financial nor a personal reward commensurate with the risks involved.

Finally, the opportunity must fit the personal skills and goals of the entrepreneur. It is particularly important that the entrepreneur be able to put forth the necessary time and effort required to make the venture succeed. Although many entrepreneurs feel that the desire can be developed along the venture, typically it does not materialize. An entrepreneur must believe in the opportunity so much that he or she will make the necessary sacrifices to develop the opportunity and manage the resulting organization.

Opportunity analysis, or what is frequently called an opportunity assessment plan, is one method for evaluating an opportunity. It is not a business plan. Compared to a business plan, it should be shorter; focus on the opportunity, not the entire venture; and provide the basis for making the decision of whether or not to act on the opportunity.

An opportunity assessment plan includes the following:

- a description of the product or service
- an assessment of the opportunity
- an assessment of the entrepreneur and the team
- specifications of all the activities and resources needed to translate the opportunity into a viable business venture
- the source of capital to finance the initial venture as well as its growth

## **Developing a Business Plan**

A good business plan must be developed in order to exploit the defined opportunity. This is a very time-consuming phase of the entrepreneurial process. An entrepreneur usually has not prepared a business plan before and does not have the resources available to do a good job. A good business plan is essential to developing the opportunity and determining the resources required, obtaining those resources, and successfully managing the resulting venture.

Effective business planning is critical to an entrepreneurial company's long-term success and its ability to raise capital and grow successfully. Business planning is the process of setting goals, explaining the objectives and

then mapping out a document to achieve these goals and objectives. A well-written Business Plan lays out the best growth path and strategy, as well as the rationale for the selection of the strategy over other alternatives. In essence, a Business Plan is the articulation and explanation of why the chosen game plan for building the company makes sense, what resources it will need to implement the vision, who will be the appropriate team that will have the skills and leadership to execute the vision, and what path they will follow to get there.

Nobody has a crystal ball to predict what will work and what won't, not even a savvy investor or veteran entrepreneur. The better the analysis, the better the chances that most of the goals set forth in the business plan will be achieved. It is essentially an articulation of the entrepreneurial company's plan for managing the risks and challenges involved in building or expanding the business. As such, it should acknowledge that growth and success are moving targets by anticipating as many future events or circumstances that will affect the company's objectives.

In developing a Business Plan and a Business Model, entrepreneurs are generally found apprehensive of myths and misconceptions about the process. These myths need to be aware of and the realities be known in well before conceiving a wrong plan. Among these the most common are the following:

*1. Business plans are only for start-up companies*

**Reality:** Companies at all stages of development need to prepare Business Plans either for the planning and financing of a specific project, general expansion financing, mergers or acquisitions, and the overall improvement of the company's financial and managerial performance. A company operating for 15 years or more will need to draft a Business Plan in order to raise the necessary capital to reach the next stage in its development.

*2. Business plans should be as detailed as possible; the longer the plan, the better chance that the company will be financed*

**Reality:** The plan must be concise, well-written and should focus on the lender's or investor's principal areas of concern, and not be cluttered with lots of exhibits or irrelevant market studies. Investors only look at relevant details. Although a Business Plan ought to be presented professionally, a very expensive binder or overly lavish presentation will often demonstrate inefficient resource management.

*3. Business plans should emphasize ideas and concepts, not people*

**Reality:** Financiers and venture capitalists prefer to invest in a company that has great people and only a good concept, rather than one with a great concept and a weak management team.

*4. Only the founding entrepreneur should prepare business plans*

**Reality:** this myth has no grounds since a business plan is as technical aspect as the business itself. Thus it should be developed by a team of managers within the company and then reviewed by qualified experts, such as accountants, attorneys and the board of directors.

*5. Optimism should prevail over realism*

**Reality:** The Business Plan should demonstrate the enthusiasm of the founders of the company as well as generate excitement in the reader; however, it should be credible and accurate. Investors will want to know all of the company's strengths and its weaknesses. In fact, a realistic discussion of the company's problems, along with a reasonable plan for dealing and mitigating these various risks and challenges, will have a much more positive impact on the prospective investor. Unrealistic or unsubstantiated financial projections and budgets will reveal inexperience or lack of attention to detail, or even lead to litigation by disgruntled investors if there are wide disparities between what was represented and reality.

### Determine the Resources Required

The resources needed for addressing the opportunity must also be determined. This process starts with an

appraisal of the entrepreneur's present resources. Any resources that are critical need to be differentiated from those that are just helpful. Care must be taken not to underestimate the amount of variety of resources needed. The downside risks associated with insufficient or inappropriate resources should also be assessed.

An entrepreneur should strive to maintain as large an ownership position as possible, particularly in the start-up stage. As the business develops, more funds will probably be needed to finance the growth of the venture, requiring more ownership to be relinquished. Alternative suppliers of these resources, along with their needs and desires, need to be identified. By understanding resource supplier needs, the entrepreneur can structure a deal that enables the recourses to be acquired at the lowest possible cost and the least loss of control.

### **Manage the Enterprise**

After resources are acquired, the entrepreneur must use them to implement the business plan. The operational problems of the growing enterprise must also be examined. This involves implementing a management style and structure, as well as determining the key variables for success. A control system must be established, so that any problem areas can be quickly identified and resolved. Some entrepreneurs have difficulty managing and growing the venture they created.

### **CONCLUSION**

Successful entrepreneurs require an edge derived from some combination of a creative idea and a superior capacity for execution. The entrepreneur's creativity may involve an innovation product or a process that changes the existing order. Or entrepreneur may have a unique insight about the consequence of an external change. Entrepreneurship is the vehicle that drives creativity and innovation. Innovation creates new demand and entrepreneurship brings the innovation to the market. Innovation is the successful development of competitive edge and as such, is the key to entrepreneurship. Creativity and Innovation are at the heart of the spirit of enterprise. It means striving to perform activities differently or to perform different activities to enable the entrepreneur deliver a unique mix of value. Thus the value of creativity and innovation is to provide a gateway for astute entrepreneurship. This results in actively searching for opportunities to do new things, to do existing things in extraordinary ways. Creativity and Innovation therefore, trigger and propel first-rate entrepreneurship in steering organization activities in whatever new directions are dictated by market conditions and customer preferences, thereby delighting the customers to the benefit of the stakeholders. Innovation also means anticipating the needs of the market, offering additional quality or services, organization efficiently, mastering details, and keeping cost under control.

### **LESSON ROUND UP**

- No entrepreneur or enterprise, however successful and big, can continue to hold a place of leadership unless it recognizes that modern business operates in a world of galloping change which creates new problems, risk and opportunities and for which they have to mobilize the enterprise's resources before changes make their impact felt.
- Creativity is marked by the ability to create, bring into existence, to invent into a new form, to produce through imaginative skill, to make to bring into existence something new.
- Within every individual, creativity is a function of three components:
  - Expertise
  - Creative Thinking Skills
  - Motivation

- Expertise encompasses everything that a person knows and can do in the broad domain of his or her work- knowledge and technical ability. Creative thinking refers to how you approach problems and solutions- the capacity to put existing ideas together in new combinations.
- Motivation is the drive and desire to do something, an inner passion and interest.
- Entrepreneurship is, therefore, the innovative process involved in the creation of an economic enterprise based on a new product or service which differs significantly from products or services offered by other suppliers in content or in the way its production is organized nor in its marketing.
- Environmental scanning is a concept from business management by which businesses gather information from the environment, to better achieve a sustainable competitive advantage.
- There are various techniques which may be used in environment scanning namely;
  - SWOT Analysis
  - PEST/ PESTEL Analysis
  - Industry Analysis
- Environmental Scanning Process
  - searching for information resources
  - selecting information resources to scan
  - identifying criteria by which to scan
  - scanning
  - determining special actions to take on the scanning results
- Environmental Scanning Types
  - Passive Scanning
  - Active Scanning
  - Directed Scanning
- The marketing assessment process can be laid down into six steps:
  - Defining the problem is crucial to conducting a successful marketing analysis.
  - An analysis of the situation is an informal survey of what information is available in the problem area.
  - The next step requires gathering primary research and performing a formal research project
  - Data analysis and interpretation is critical in analyzing the market. By merely conducting the research work and collating the data is of no help unless analyzed.
  - The findings should be applied in marketing planning
  - This six-step process of market analysis is critical in designing a marketing plan that is tailored to the product or service. A marketing plan shows the specifics of how the entrepreneur will market or attempt to sell his product or service.
- The process has four distinct phases:
  - identification and evaluation of the opportunity

- development of the business plan
- determination of the required resources
- management of the resulting enterprise

## GLOSSARY

<b>Creative Destructions</b>	The act of a newly created thing destroying its predecessors. This is a common occurrence in business processes that thrive on innovation to keep their businesses successful. The term was coined by Joseph Schumpeter in his work entitled "Capitalism, Socialism and Democracy".
<b>Environment Scanning</b>	Careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans.
<b>SWOT Analysis</b>	SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have essentially no control.
<b>PEST/ PESTEL Analysis</b>	PESTLE is an analytical tool which considers external factors and helps to evaluate their impacts on the internal business.
<b>Passive Scanning</b>	Ongoing scanning at an almost unconscious level is passive scanning.
<b>Active Scanning</b>	Active scanning involves the conscious selection of continuous resources and, from time to time, supplementing them with existing resources as needed.
<b>Directed Scanning</b>	The active scanning of an existing resource for a specific item is directed scanning.
<b>Primary Research</b>	Research which is proactively created for a specific purpose.
<b>Secondary Research</b>	Research which has already been conducted for other purposes and is reorganized for specific purpose.

## SELF-TEST QUESTIONS

1. \_\_\_\_\_ is an analytical tool which considers external factors and helps to evaluate their impact on internal business
  - a) SWOT
  - b) PESTLE
  - c) PORTERS Five Forces Model
  - d) Environmental Scanning
2. Identify the Incorrect Statement
  - a) Companies at all stages of development need to prepare Business Plans
  - b) Business Plans should emphasise people, not ideas or concepts

- c) Business plans must be concise and well-written  
d) None of the above
3. \_\_\_\_\_ is the first step in Market Assessment  
a) Analysis of the situation  
b) Competitive rivalry  
c) Supplier power  
d) Defining the problem
4. \_\_\_\_\_ of the environment is an on-going scanning at an almost unconscious level  
a) Passive Scanning  
b) PESTEL Analysis  
c) Opportunity Analysis  
d) Primary Research
5. \_\_\_\_\_ helps in periodic review of actual results  
a) Marketing Plan  
b) HR Plan  
c) Business Plan  
d) All of the above
6. An opportunity assessment plan includes the following:  
a) A description of the product or service  
b) An assessment of the opportunity  
c) An assessment of the entrepreneur and the team  
d) All of the above
7. The act of creating new products/innovations by destroying its predecessors is called \_\_\_\_\_  
a) Creative Energy  
b) Discovery  
c) Creative Destruction  
d) All of the above
8. Active Scanning of the environment involves \_\_\_\_\_ of continuous resources and from time to time, supplementing them with existing resources as needed.  
a) Conscious Selection  
b) Subconscious Selection  
c) Analysis Threats to the business  
d) None of the above

9. \_\_\_\_\_ is a research which is pro-actively created for a specific purpose

  - a) Primary research
  - b) Secondary Research
  - c) Directed Research
  - d) Proactive Research

10. \_\_\_\_\_ is review of information taken from the already existing past research on the topic

  - a) Primary research
  - b) Secondary Research
  - c) Active Research
  - d) Passive Research

Answer Key: 1.b); 2.b); 3.d); 4.a); 5.c); 6.d); 7.c); 8.a); 9. a); 10.b)

## Suggested Readings

- (i) P. Nagendra Singh- Emerging Trends in Entrepreneurship Development

# Lesson 16

## Growth & Challenges of Entrepreneurial Venture

### LESSON OUTLINE

- Entrepreneurial Opportunities in contemporary business environment
- Strategic Planning for Emerging Venture
- Financing the Entrepreneurial Business
- Resource Assessment
- Managing the Growing Business- Effecting Change
- Modernisation
- Expansion
- Diversification
- Lesson Round Up
- Glossary
- Self-Test Questions

### LEARNING OBJECTIVES

A decision to start up an entrepreneurial venture involves various crucial decisions like choice between own business and present career, apart from the decision that both external and internal factors make new venture creation possible.

A whole new set of challenges crop up when it comes to starting up a venture.

The desirability of starting one's own company is strongly influenced by factors such as culture, sub-culture, family, teachers, and peers. These may function as a source of encouragement for entrepreneurship and vice versa. Every business moves through several stages of growth and faced challenges during that growth. Nothing can be static. It is infact said that without change; some form of development completely dies.

Sometimes, it is required to not 'reinvent' the wheel but to just have the willingness to learn from what is already been presented to you by others.

The objective of the lesson is to brief on the entrepreneurial strategies which involves planning, opportunities and challenges.

Our business in life is not to get ahead of others, but to get ahead of ourselves — to break our own records, to outstrip our yesterday by our today.

**Stewart B. Johnson**

## ENTREPRENEURIAL OPPORTUNITIES IN CONTEMPORARY BUSINESS ENVIRONMENT

Increasingly open markets, a shift to service-driven economies and concerns about employment are now the backdrop to discussions as to how governments, enterprises, and labour policy specialists respond in the bid to meet competition. Central to the debate is the role and contribution of education systems in promoting productivity and sustainable economic growth, and in particular the quality of education through-out, increasingly considered essential to equip economies to head off the challenge in the global market place.

### **Future of Entrepreneurship**

Both, the Central Government and various State Governments are taking increased interest in promoting the growth of entrepreneurship. Individuals are being encouraged to form new businesses and are being provided such government support as tax incentives, buildings, roads, and a communication system to facilitate this creation process. The encouragement by the central and state governments should continue in future as more lawmakers are realizing that new enterprises create jobs and increase the economic output of the region. Every state government should develop its own innovative industrial strategies for fostering entrepreneurial activity and timely development of the technology of the area. The states should have their own state-sponsored venture funds, where a percentage of the funds has to be invested in the ventures of the states.

Society's support of entrepreneurship should also continue. This support is critical in providing both motivation and public support. A major factor in the development of this societal approval is the media. The media should play a powerful and constructive role by reporting on the general entrepreneurial spirit in the country highlighting specific success cases of this spirit in operation.

Finally, large companies should show an interest in their special form of entrepreneurship-intrapreneurship-in the future. These companies will be increasingly interested in capitalizing on their Research & Development in the hyper competitive business environment today.

### **Supply of Entrepreneurship and Economic Development**

British economists such as Adam Smith, David Ricardo, and John Stuart Mill, briefly touched upon the concept of entrepreneurship, though they referred to it under the broad English term "business management". Whereas the writings of Smith and Ricardo suggest that they undervalued the importance of entrepreneurship, Mill goes out of his way to stress the significance of entrepreneurship for economic growth. In his writings, Mill claims that entrepreneurship requires 'no ordinary skill', and he laments the fact that there is no good English equivalent word to encompass the specific meaning of the French term 'entrepreneur'.

The necessity of entrepreneurship for production was first formally recognized by Alfred Marshall in 1890. In his famous treatise Principles of Economics, Marshall asserts that there are four factors of production: land, labour, capital and organization. Organization is the coordinating factor, which brings the other factors together, and Marshall believed that entrepreneurship is driving element behind organization. By creatively organizing, entrepreneurs create new commodities or improve "the plan of producing an old commodity". In order to do this, Marshall believed that entrepreneurs must have a thorough understanding about their industries, and they must be natural leaders. Additionally, Marshall's entrepreneurs must have the ability to foresee changes in supply and demand and be willing to act on such risky forecasts in the absence of complete information.

Marshall also suggests that the skills associated with entrepreneurship are rare and limited in supply. He claims that the abilities of entrepreneur are "so great and so numerous that very few people can exhibit them in all in a very high degree". Marshall, however, implies that people can be taught to acquire the abilities that are necessary to be an entrepreneur. Unfortunately, the opportunities for entrepreneurs are often limited by economic environment, which surrounds them. Additionally, although entrepreneurs share some common abilities, all

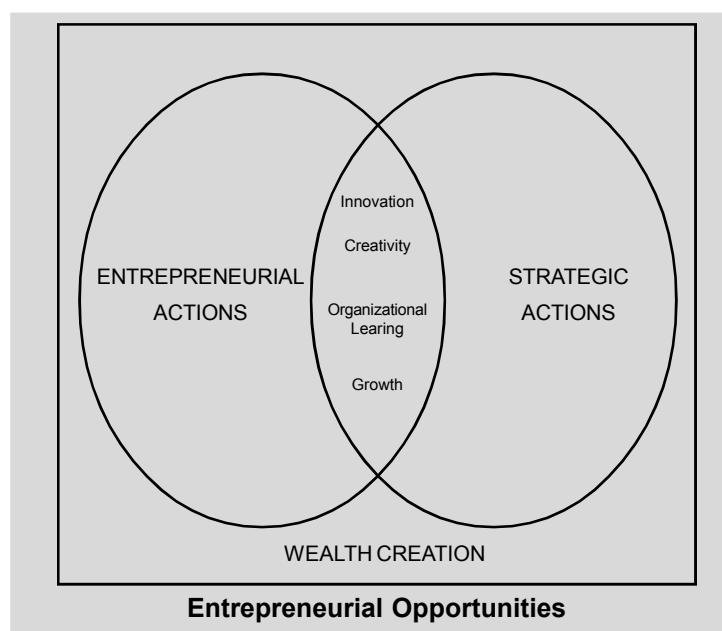
entrepreneurs are different, and their success depend on the economic situations in which they attempt their endeavours.

One school of thought on entrepreneurship suggests that role of the entrepreneur is that of a risk-bearer in the face of uncertainty and imperfect information. Knight claims that an entrepreneur will be able to bear the risk of a new venture if he believes that there is a significant chance of profits. Although many current theories on entrepreneurship agree that there is an inherent component of risk, the risk-bearer theory alone cannot explain why some individuals become entrepreneurs while others do not. Thus, in order to build a development model of entrepreneurship it is necessary to look at some of the other characteristics that help explain why some people are entrepreneurs; risk may be a factor, but it is not the only one.

Modern school of thought claims that the role of the entrepreneur is that of an innovator; however, the definition of innovation is still widely debatable. Kirzner suggests that the process of innovation is actually of spontaneous "undeliberate learning". Thus, the necessary characteristics of the entrepreneur is alertness, and no intrinsic skills-other than that of recognizing opportunities-are necessary. Other school of economists claims that entrepreneurs have special skills that enable them to participate in the process of innovation. Leibenstein claims that the dominant, necessary characteristics of entrepreneurs is that they are gap-filers i.e. they have the ability to perceive where market fails and to develop new goods or processes that the market demands but which are not currently being supplied. Thus, entrepreneurs have the special ability to connect different markets and make up for market failures and deficiencies.

Though the idea that entrepreneurs are innovators is largely acceptable, it can be difficult to apply this theory of entrepreneurship to less developed countries (LDCs). Often in LDCs, entrepreneurs are not truly innovators in the traditional sense of the word. Entrepreneurs in LDCs rarely produce brand new products: rather they imitate the products and production processes that have been invented elsewhere in the world (typically in developed countries). This process, which occurs in developed countries as well, is called "creative imitation". Creative imitation takes place when imitators better understand how an innovation can be applied, used, or sold in their particular market niche (namely their own countries) than do the people who actually created or discovered the original innovation. Thus, the innovation process in LDCs is often that of imitating and adapting, instead of traditional notion of new product or process discovery and development.

By combining the above thoughts it can be generalized that entrepreneurs are risk-bearers, coordinators and organizers, gap fillers, leaders, and innovators or creative imitators. Thus, by encouraging these qualities and abilities, governments can theoretically alter their country's supply of domestic entrepreneurship.



## Creating Indian Entrepreneurs

Today's knowledge based economy is fertile ground for entrepreneurs, in India. It is rightly believed that India has an extraordinary talent pool with virtually limitless potential to become entrepreneurs. Therefore, it is important to get committed to creating the right environment to develop successful entrepreneurs. To achieve this, India must focus on four areas.

- (i) *Create the Right Environment for Success:* Entrepreneurs should find it easy to start a business. To do so, most Indians would start slow with capital borrowed from family and friends, the CEO playing the role of salesman and strategist, a professional team assembled months or perhaps years after the business was created, and few, if any, external partners. Compare this with a start-up in Silicon Valley: a Venire Capitalist (VC) or angel investor would be brought in early on; a professional management team would drive the business; a multifunctional team would be assembled quickly; and partnerships would be explored early on to scale up the business. A major challenge for India is to create a handful of areas of excellence—the breeding ground where ideas grow into businesses. For example, Gurgaon and Hyderabad for remote services, or Bangalore for IT. One way of strengthening these areas is to consider the role of universities and educational institutions—places where excellence typically thrives.
- (ii) *Ensure that Entrepreneurs have access to the Right Skill:* A survey conducted by McKinsey & Company last year revealed that most Indian start-up businesses face two skill gaps: entrepreneurial (how to manage business risks, build a team, identify and get funding) and functional (product development know-how, marketing skills, etc.) India can move toward ensuring that the curriculum at universities is modified to address today's changing business landscape, particularly in emerging markets, and to build 'centres of entrepreneurial excellence' in institutes that will actively assist entrepreneurs.
- (iii) *Ensure that Entrepreneurs have access to 'Smart Capital':* For a long time, Indian entrepreneurs have had little access to capital. It is true that in the last few years, several Venture Funds have entered the Indian Market. And, while the sector is still in infancy in India (with estimated total disbursement of less than US\$0.5 billion in the year 2003), VCs are providing capital as well as critical knowledge and access to potential partners, suppliers, and clients across the globe. However, India has only a few angel investors who support the idea in the early stages before VCs become involved. While associations such as TIE are seeking to bridge the gap by working at creating a TIE India Angel Forum, this is India's third challenge creating a global support network of 'angels' willing to support young business.
- (iv) *Enable Networking and Exchange:* Entrepreneurs learn from experience—theirs and that of others. The rapid pace of globalization and fast growth of Asian economies present tremendous opportunities and challenges for India. Through planning and focus, India can aspire to create a pool of entrepreneurs who will be the region's—and the world's—leaders of tomorrow.

Developing an entrepreneur depends largely on the thought process. The mind set of people has a significant role to play in cropping up of an idea and thereafter bringing it to market and selling it.

There are mainly two mindsets, that of 'employee' and that of 'entrepreneur.' Bear in mind that the discussion is on the way people think, not what they are doing.

An employee is used to thinking of value in terms of time and effort. For instance, if an employee takes an hour to create a tool or device, he would sell his creation for the value of the hour he spent making it, plus the cost of materials and 'a little extra' for profit. If he thinks of himself as worth A25/hour and raw materials cost A10, then A40 would probably be close to his asking price.

An entrepreneur would realize that his device can save someone five hours of work. So the value he perceives for his device is attached to its utility. How long it took him to create it would be irrelevant. An entrepreneur might see the same device as worth A200 if the person using it is able to avoid A250 or A300 of expenses he would otherwise incur.

For an employee, time is money. For an entrepreneur, leverage is money. Employees ‘work hard,’ and their efforts and rewards are linear. Entrepreneurs ‘work smart’ and their efforts and rewards are exponential. For instance, an employee makes a widget in an hour, two widgets in two hours, ten in ten hours. An entrepreneur would be more inclined to sell widgets or teach people about widgets, because these activities are scalable. That is, he can teach just one person about a widget in an hour, or in that same hour he could teach a thousand people the same thing. It takes no more effort to teach a thousand people than it does to teach just one. However, with more students comes greater benefit. The entrepreneur understands these economies of scale and takes advantage of them. Employees don’t, and may even think that this sort of leverage is, somehow, dishonest or immoral. He might reason that since the effort of the teacher didn’t change with the size of the class, the benefit to the teacher shouldn’t grow with the number of students.

Employees tend to think win-lose. There’s a saying, “Employees work just hard enough to not get fired, and employers pay them just enough to keep them from quitting.” An attitude of ‘just getting by’ is common for someone in the employee mindset, but is unthinkable for the successful entrepreneur. Unfortunately, many budding entrepreneurs are deceived by unrealistic promises and projections, and they may expect their new venture to run on auto-pilot after they get a web site up and run a few ads. Doing as little as possible, and doing as much as possible, are polar opposites. Successful entrepreneurs are always in the latter group.

Employees tend to think of getting, where entrepreneurs tend to think of giving. What are the main concerns that a prospective employee brings to the interview? “How much will you pay me, what are the medical benefits, how much time for vacation?” Entrepreneurs are more focussed on, “What are your needs? How can I help you? How can I help you save money?” Again, these are polar opposite ways of thinking.

Entrepreneurs hire employees, not the other way around. And employees get by while entrepreneurs get rich. Which would you rather be?

Finally, employees tend to think short-term, and entrepreneurs think long-term. An employee wants to get paid this week, and an entrepreneur realizes it may be months, or maybe even years, before his business is paying well enough to support him. It’s the difference between pumping water and planting seeds. If you start pumping, you will get water quickly, but the flow stops when you stop working. If you plant seeds, you will eventually get fruit. And you will continue to get fruit long after you’ve planted your last seed.

There are other challenges, to be sure: uncertainty, financial struggles during start-up, long hours, non-supportive spouse or friends, changing markets, etc. But the biggest single reason that entrepreneurs struggle is because they haven’t learned to think like entrepreneurs. It’s not technique, or the ‘opportunity’ or the market. It’s attitude.

Fortunately, there is no great mystery in overcoming this one major challenge. It’s a matter of desire and discipline. Simply find successful entrepreneurs and ask them what books they recommend. Then, turn off your TV and start reading. Saturate your mind with the wisdom of those who have already succeeded. Read about what they have done and how they did it, then model your own efforts after theirs. At the same time, shield yourself as much as possible from the ‘employee’ mindset. Be aware that your thinking habits are deeply entrenched, and it will take consistent effort over time to change.

The Bible speaks directly to this when it says, “For as he thinketh in his heart, so is he”, and “Keep thy heart with all diligence; for out of it are the issues of life.” Many are the testimonies of people who thought success was “out there” – some goal to be reached or thing to be obtained, and then discovered afterward what God has been telling us all along.

In short, if you think like a successful entrepreneur, and work like a successful entrepreneur, you will be a successful entrepreneur. The only person standing in your way is you.

### Challenges before Entrepreneur

- No rules protecting employers

- Global competition
- Changes around the globe
- Lack of balance between projects and personnel
- Delayed payments
- Uncertain return to the investor

In lieu of above challenges the entrepreneur must possess the following characteristics:

- (i) ***Innovation:*** Entrepreneur innovate, i.e., introduce something new to maximize the interests of business. According to Peter F. Drucker, innovation is a means by which entrepreneurs exploit change as an opportunity for a different business or a different service.  
Paul H.Wilken in his work, '*Entrepreneurship – a comparative and historical study*' lists the following innovations by changes brought out by entrepreneurs:
  - Initial Expansion- Original production of goods.
  - Subsequent Expansion – Subsequent changes in the amount of goods produced.
  - Factor Innovation – Increase in supply or productivity of factors.
    - *Financial:* Procurement of capital from new source or in new form.
    - *Labour:* Procurement of labour from new source or of new type; upgrading of existing labour.
    - *Material:* Procurement of old material from new source or use of a new material.
  - Production Innovation – Changes in the production process.
    - *Technological:* Use of new production technique.
    - *Organizational:* Change of form or structure of relationships among people.
  - Market Innovations- Changes in the size or composition of the market.
    - *Product :*Production of new good or change in quality or cost of existing good.
    - *Market:* Discovery of a new market.
- (ii) ***Risk Oriented:*** Assumption of all possible risks exposed by business environment is an important feature of entrepreneurship. An entrepreneurship has to undertake and bear all possible risks that may arise out of implementation of his plans or project. Some of the examples of risks are change in consumer preferences, taste and habits, possible changes in technology, government policies, availability of raw materials and other uncertain elements.
- (iii) ***Achievement Orientation:*** McClelland emphasizes that achievement orientation is the prime factor that explains economic behavior of entrepreneurs. Achievement orientation means the quest for success in relation to preset standards of excellence. He measures interest of entrepreneurs in terms of profit or achievement motive which remains constant regardless of change in events.
- (iv) ***Involves Managerial Skills and Leadership:*** Mere building entrepreneurship process is not enough, entrepreneurs need to manage the business efficiently and effectively as well. Leadership and managerial skills are interwoven in entrepreneurship right from infant stage of an enterprise. Initial business decisions determine the success and failure of an enterprise. An entrepreneur devoid of these qualities is bound to fail.
- (v) ***Impact of Cultural and Religious Factors:*** Cultural and religious factors determine the mental attitude towards work and desire to acquire money or wealth. Societies wherein people are more influenced by

religion seldom feel attracted to materialistic goals. Such societies are prone to have lower degree of adventurism and entrepreneurship.

- (vi) *Entrepreneurship is a Practice:* According to Peter Drucker, “*Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed, what constitutes knowledge in practice is largely defined by the ends, that is, by the practice.*” Thus, entrepreneurship is applying the entrepreneurial traits. It apart from individual abilities is determined by the constituents of environment to which an enterprise is exposed.
- (vii) *An Economic Activity:* Entrepreneurship involves establishing and running an enterprise. Enterprises are established to produce and distribute goods and services. Therefore, entrepreneurship is an economic activity.

## STRATEGIC PLANNING FOR EMERGING VENTURE

Strategic planning is the formulation of long range plans for the effective management of environmental opportunities and threats in the light of venture's strength and weaknesses. It includes defining the venture's mission, specifying achievable objectives, developing strategies and setting policy guidelines.

Thus strategic planning is a primary step in determining the future direction of a business. These are five basic steps involved in strategic Planning:

1. Examine the internal and external environments of the venture (strengths, weaknesses, opportunities and threats).
2. Formulate the ventures long range and short range strategies (mission, objectives, strategies and policies).
3. Implement the strategic plan (programs, budgets and procedures).
4. Evaluate the performance of the strategy.
5. Take follow-up action through continuous feedback.

## FINANCING ENTREPRENEURIAL BUSINESS

Finance is the base of all business activities. The entrepreneurship also depends upon the financing activities. Obtaining adequate access to capital is one of the biggest hurdle of business. The entrepreneur must take all financial activities on one to one basis. Entrepreneur in its day to day function have to plan for resource assessment, then check the fixed and working capital requirements, funds flow, sources and means of finance.

### Resource Assessment

It is the most important activity of the entrepreneur to allocate the resource of the finance. The resource may be self-financed or it may be from some other ways like loan etc. But, the main focus is to have finance. The factors affecting business may be financial or non-financial. Financial factors include the source and cost of finance. The non-financial factors have also bearing over the resource assessment.

### Fixed and Working Capital Requirement

Fixed and working capital requirement depends upon many factors like industry, place of business, credit limits etc. Some business requires more fixed capital and some more working capital. The business like manufacturing or production requires more fixed capital and trading activities need more working capital.

### Funds Flow

It is one of the activity of the entrepreneur to analyse the funds and cash with it. These tests show the enterprises

day to day functioning and also the income, expenditure and the status of the flow of the funds.

### Sources of Finance

An enterprise may use any of the source to finance its activities. There are two types of sources of finance. One is internal and other is external. It depends upon the need of the business to take the help of any source of the finance for enterprise. The external type of source of finance may be from relatives, friends or banks etc.

### Means of Finance

Means by which a budget deficit is financed or a surplus is used. Means of financing are not included in the budget totals. The primary means of financing is borrowing from the public. In general, the cumulative amount borrowed from the public (debt held by the public) will increase if there is a deficit and decrease if there is a surplus, although other factors can affect the amount that the government must borrow. Those factors, known as *other means of financing*, include reductions (or increases) in the government's cash balances, changes in outstanding cheques, changes in accrued interest costs included in the budget but not yet paid, and cash flows reflected in credit financing accounts.

### Managing the Growing Business

Entrepreneurship has gained greater significance at global level under changing economic scenario. Global economy in general and Indian economy in particular is poised for accelerated growth driven by entrepreneurship. Amidst environment of super mall culture we find plenty of scope for entrepreneurship in trading and manufacturing.

An entrepreneur is a person who is able to look at the environment, identify opportunities to improve the environmental resources and implement action to maximize those opportunities (Robert E. Nelson) it is important to bear in mind the entrepreneurial skills that will be needed to improve the quality of life for individuals, families and communities and to sustain a healthy economy and environment. Taking this into consideration, we will find that each of the traditional definitions has its own weakness.

Entrepreneurship as a stabilizing force limits entrepreneurship to reading markets disequilibrium, while entrepreneurship defined as owning and operating a business, denies the possibility of entrepreneurial behaviour by non-owners, employees and managers who have no equity stake in the business. Therefore, the most appropriate definition of entrepreneurship that would fit into the rural development context, argued here, is the broader one, the one which defines entrepreneurship as: "a force that mobilizes other resources to meet unmet market demand", "the ability to create and build something from practically nothing", "the process of creating value by pulling together a unique package of resources to exploit an opportunity". Most economists today agree that entrepreneurship is a necessary ingredient for stimulating economic growth and employment opportunities in all societies. In the developing world, successful small businesses are the primary engines of job creation, income growth, and poverty reduction. Therefore, government support for entrepreneurship is a crucial strategy for economic development.

As the Business and Industry Advisory Committee to the Organization for Economic Cooperation and Development (OECD) said in 2003, "Policies to foster entrepreneurship are essential to job creation and economic growth. "Government officials can provide incentives that encourage entrepreneurs to risk attempting new ventures. Among these are laws to enforce property rights and to encourage a competitive market system.

The culture of a community also may influence how much entrepreneurship there is within it. Different levels of entrepreneurship may stem from cultural differences that make entrepreneurship more or less rewarding personally. A community that accords the highest status to those at the top of hierarchical organizations or those with professional expertise may discourage entrepreneurship. A culture or policy that accords high status to the "self-made" individual is more likely to encourage entrepreneurship.

Economic structure is very dynamic and extremely competitive due to the rapid creation of new firms and the exit of 'old' stagnant and declining firms redefining entrepreneurship and innovation. Succeeding as an entrepreneur and an innovator in today's world is vastly different from what it was earlier. Organizations will face seven trends in the next decade as they fight to survive, grow and remain competitive.

- Speed and uncertainty will prevail.
- Technology will continue to disrupt and enable.
- Demographics will dictate much of what happens in business.
- Loyalty will erode.
- Work will be done anywhere, anytime.
- Employment as we know it will disappear.

The entrepreneurs provide a magical touch to an organization, whether in public or private or joint sector, in achieving speed, flexibility, innovativeness, and a strong sense of self-determination. They bring a new vision to the forefront of economic growth.

### **Effecting Change**

The fostering entrepreneurship and business growth is clearly important for economic development. When a planned economy transforms to free-market system, the importance of entrepreneurship is emphasised, since such a tradition did not previously exist in the business culture. In most cases, the transformation includes privatisation of publicly owned property and therefore, changes in ownership structure in the economy. Several challenges exist in changing ownership structures in an optimal fashion. Appropriate physical and institutional infrastructure will be needed to attract private investment, and well-designed strategies and policies should be introduced to provide a welcoming environment for businesses. As transformation is much more than an economic process. It is change.

### **Modernisation**

The development in business needs modernising. This is the reason why we must take into account several tips for improving the material base of our organisation.

The first step is to take is research - try to find the pros and cons of production - what gives the most of benefits and what might be afforded to remain the same. This makes to take reasonable steps to renew the most crucial sectors of production process.

The next step is the resources required for modernization - modernizing is expensive and even though it is a good investment. This is the reason why to rely on what we have earned from our company so far. The better option is to find a proper creditor - this might be a bank or another financial organisation be beware of the conditions of the loan about to take - do not take risks that cannot be afforded and not to miss any good opportunity.

The last step but also that important is the efficient modernizing approach. The company cannot afford wasting time in modernization while using outdated methods – there is a need to get the newest improvements for production process and install them as quickly as possible. This would not only save time - this would give opportunity to renew the production and start earning immediately - this is the cost of a good modernization. For example, if the industry is Hotels in Shimla and considering moving to internet booking then you need to consider: how will this fit in with the current system; will it increase the number of people staying at our hotel; and will it decrease costs in the long term?

By following these essential steps in modernization, the company would not only expand, but will have an

improved and modern material base that would both motivate employees additionally and will strengthen the production process and product quality.

### **Expansion**

The expansion of venture is its period of unfolding and maturation. In everyday speech, there is little difference in meaning between “growth” and “expansion.” In business parlance, the terms sometimes differ, with “growth” having the connotation of an internal or vertical surge, whereas “expansion” refers to external or horizontal growth, such as that exhibited by a firm that successfully engages in mergers and acquisitions. In reality, however, very few ventures reach the latter stage of operation; most entrepreneurs are quite content to aim for some degree of vertical growth, to settle for a comfortable position in the market place.

### **Diversification**

The term ‘diversification’ is usually used to mean the introduction of a new product or service to meet the need of an old market. How improvement should take place for the old product have to be considered before? Pleitner’s interpretation is useful: diversification is an expansion of the range of product. This broad definition can embrace offerings of an existing product (or service) in a new market; a new product into an established market; and a new product in a new market.

All these moves have a common thing that is an attempt to increase sale by expanding selling possibilities. And the expansion of sales is a key goal in the firm’s growth phase.

### **LESSON ROUND UP**

- The main objective of business planning is to provide and implement the formal and systematic business plan. The objective of formal business plan is to be in the circle of contemporary business standard formality and the requirements in the region where business is operating.
- Strategic plan formulate that the effective management concentrates on opportunities and threats in longrange plans.
- Operational planning translates that strategy into the everyday execution tactics of the business that will ultimately produce the outcomes defined by the strategy.
- Both the Central Government and various State Governments are taking increased interest in promoting the growth of entrepreneurship.
- Individuals are being encouraged to form new businesses and are being provided such government support as tax incentives, buildings, roads, and a communication system to facilitate this creation process.
- It is believed that India has an extraordinary talent pool with virtually limitless potential to become entrepreneurs. India must focus on four areas:
  - Create the Right Environment for Success
  - Ensure that Entrepreneurs have access to the Right Skill
  - Ensure that Entrepreneurs have access to ‘Smart Capital’
  - Enable Networking and Exchange.
- Finance is the base of all business activities. The entrepreneurship also depends upon the financing activities. Entrepreneur in its day to day function have to plan for resource assessment, then check the fixed and working capital requirements, funds flow, sources and means of finance.

- Risk taking ability, Self-confidence, Decision making ability, Knowledge of cumin growing to harvesting technology, Economic motivation, Market orientation, Risk factors, Soil and firm condition of experiences, Water resources, Water quality and volumes, need to cumin for all technical factors, Ability of co-ordination to cumin related activities, Achievement, Motivation, etc. indicators are behaviour of entrepreneurial.

## GLOSSARY

**Business Plan** A business plan is a document that summarizes the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives are to be realized.

## SELF-TEST QUESTIONS

1. When an entrepreneur introduces a new product or service to meet the need of old market it is called:
  - a. Allocation of new resources
  - b. Product development
  - c. Diversification
  - d. Market expansion
2. When a firm successfully engages in Mergers and Acquisitions it is called :
  - a. Expansion
  - b. Growth and expansion
  - c. Business Planning
  - d. Modernisation
3. The document which summarises the operational and financial objectives of a business and contains the detailed plans and budgets showing how the objectives are to be realised is called
  - a. Strategic Plan
  - b. Long term plan
  - c. Developmental plan
  - d. Business plan
4. \_\_\_\_\_ translates strategy into the everyday execution tactics
  - a) Operational planning
  - b) Technical Planning
  - c) Goal Setting
  - d) None of the above
5. To leverage upon the extraordinary talent pool of the potential entrepreneurs, it is essential to create the Right Environment for Success by ensuring that\_\_\_\_\_
  - a) Entrepreneurs have access to the Right Skill
  - b) Entrepreneurs have access to 'Smart Capital'

- c) Enable Networking and Exchange.  
d) All of the above
6. Increase in supply or productivity of factors such as financial, labour and material is called \_\_\_\_\_  
a) Factor Innovation  
b) Resource Innovation  
c) Expansion  
d) All of the above
7. Changes in the size or composition of the market is called \_\_\_\_\_  
a) Market Development  
b) Market Expansion  
c) Market Segmentation  
d) Market Innovation
8. Identify which of the statements are true:  
a) Leibenstein claims that the dominant, necessary characteristics of entrepreneurs is that they are gap-fillers  
b) Knight claims that an entrepreneur will be able to bear the risk of a new venture if he believes that there is a significant chance of profits.  
c) Marshall, implies that people can be taught to acquire the abilities that are necessary to be an entrepreneur.  
d) All of the above statements are true
9. \_\_\_\_\_ suggests that the process of innovation is actually of spontaneous “undeliberate learning”.  
a) Adam Smith,  
b) David Ricardo,  
c) John Stuart Mill  
d) Kirzner
10. The necessity of entrepreneurship for production was first formally recognized by Alfred Marshall in the year \_\_\_\_\_  
a) 1890.  
b) 1889  
c) 1892  
d) 1891

**Answer Key :** 1. c; 2. a; 3. d; 4. a; 5. d; 6. a; 7. d; 8. d; 9. d; 10. a

### Suggested Readings

- (i) Entrepreneurship, Growth and Development – by Rashi Ali, Chugh Publication.





# Lesson 17

## Social Entrepreneurship

### LESSON OUTLINE

- Introduction
- Definition of Social Entrepreneurship
- Who is a Social Entrepreneur
- Why “Social” Entrepreneur?
- How to identify a Social Entrepreneurship Opportunity
- Creating a Social Business Model
- Funding social ventures: Strategies for success
- Social Enterprise’s New Balance Sheet
- Innovation in Practice
- Loan guarantees
- Quasi-equity debt
- Pooling
- Social Impact Bonds
- Challenges for the Indian Social Enterprise Sector

### LEARNING OBJECTIVES

To understand the concept of Social Entrepreneurship.

To equip the students with the process of setting up a Social Entrepreneurship.

## INTRODUCTION

Any organization that uses business methods to address a social or environmental problem in an innovative way is called Social Entrepreneurship. Social Entrepreneurship is a revolution occurring around the world today, where people from all walks of life are developing and implementing innovative, effective, and sustainable solutions in response to social and environmental challenges. These solutions include products, services, frameworks and interventions brought to market by both new startups and existing organizations, whether for-profit or non-profit.

### Definition of Social Entrepreneurship

Greg Dees, co-founder of the Center for the Advancement of Social Entrepreneurship at Duke University and a member of the Impact Entrepreneurs advisory board, wrote the definitive definition:

### Who is a Social Entrepreneur

Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change.

Rather than leaving societal needs to the government or business sectors, social entrepreneurs find what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to take new leaps.

Social entrepreneurs often seem to be possessed by their ideas, committing their lives to changing the direction of their field. They are both visionaries and ultimate realists, concerned with the practical implementation of their vision above all else.

Each social entrepreneur presents ideas that are user-friendly, understandable, ethical, and engage widespread support in order to maximize the number of local people that will stand up, seize their idea, and implement with it. In other words, every leading social entrepreneur is a mass recruiter of local changemakers—a role model proving that citizens who channel their passion into action can do almost anything.

Over the past two decades, the citizen sector has discovered what the business sector learned long ago: There is nothing as powerful as a new idea in the hands of a first-class entrepreneur.

### Why “Social” Entrepreneur?

Just as entrepreneurs change the face of business, social entrepreneurs act as the change agents for society, seizing opportunities others miss and improving systems, inventing new approaches, and creating solutions to change society for the better. While a business entrepreneur might create entirely new industries, a social entrepreneur comes up with new solutions to social problems and then implements them on a large scale.

#### *Historical Examples of Leading Social Entrepreneurs:*

Susan B. Anthony (U.S.): Fought for Women's Rights in the United States, including the right to control property and helped spearhead adoption of the 19th amendment.

Vinoba Bhave (India): Founder and leader of the Land Gift Movement, he caused the redistribution of more than 7,000,000 acres of land to aid India's untouchables and landless.

Dr. Maria Montessori (Italy): Developed the Montessori approach to early childhood education.

Florence Nightingale (U.K.): Founder of modern nursing, she established the first school for nurses and fought to improve hospital conditions.

Margaret Sanger (U.S.): Founder of the Planned Parenthood Federation of America, she led the movement for family planning efforts around the world.

John Muir (U.S.): Naturalist and conservationist, he established the National Park System and helped found The Sierra Club.

Jean Monnet (France): Responsible for the reconstruction of the French economy following World War II, including the establishment of the European Coal and Steel Community (ECSC). The ECSC and the European Common Market were direct precursors of the European Union.

Social entrepreneurs play the role of change agents in the social sector by:

1. Adopting a mission to create and sustain social value (not just private value) Recognizing and relentlessly pursuing new opportunities to serve that mission
2. Engaging in a process of continuous innovation, adaptation, and learning
3. Acting boldly without being limited by resources currently in hand
4. Exhibiting heightened accountability to the constituencies served and for the outcomes created.

### How to identify a Social Entrepreneurship Opportunity

Social entrepreneurship is developing dynamically in Europe, solving the problems of unemployment, social security, civic engagement. The main mission of social entrepreneurship is to bring benefits to society. Nowadays social entrepreneurship in many countries is a common thing. This is a dynamic social economic activity with its ideology, mission and definitions. Entrepreneurship with a social aspect has great potential around the world and in Ukraine as well. Social enterprises operate in a complex environment. Some may be competing against fully commercial businesses and some against state subsidized services. It is clear, however, that social enterprises tend to gather around niche markets to which their hybrid business models are best suited and where competition from the state and market is less forceful. It may therefore be helpful to try and identify niche areas where greatest opportunities for social enterprise may exist and, incidentally, where the efforts and resources of social enterprise promoters may be most justified and most useful.

It must be said that opportunities in social enterprise are normally based on the need to create some type of social value that is to benefit the local community by solving a social problem or providing assistance in an area/sector of need or disadvantage. Thus, creating social value (rather than personal or stakeholder wealth) becomes the main driver for social entrepreneurs, alongside achieving the relevant financial sustainability to maintain that value. Several types of market niche filled by social enterprises can include:

- Markets serving the very poor, where business margins are low and risks tend to be high. In some sectors, such as microfinance, there is an on-going debate as to whether a fully commercial operation can fulfill the needs of the poorest client groups more effectively than modified NGO models. Examples of social enterprises which are operating in this market niche are micro-clinics run in low income areas; selling affordable irrigation tools to poor, smallholder farmers.
- Other new and challenging markets where high costs may be incurred to stimulate demand and create new opportunities due to the need to overcome stigma, acclimatize clients to more complex technology, challenge perceptions that services should be provided by the state. Examples of social enterprises which are operating in this market niche are providing counseling services to people living with HIV/AIDS and other socially marginalized groups; providing microinsurance products to farmers; providing relatively intensive support for farmers to adopt new and unfamiliar crop cultivation techniques.
- Markets for products producing environmental benefits but which may not be fully commercially competitive. Clearly, many environmentally beneficial business lines are fully commercially viable. Others, however, are marginal and remain particularly suitable for hybrid social enterprise models.

Thus, it can be stated, that social entrepreneurs - as individuals, groups, or organizations - are innovative, proactive risk takers, attempting to create sustainable community, social, or industry-wide change for addressing endemic social problems. They identify, evaluate, and exploit opportunities with the aim of creating social value by using a wide range of market-driven and other resources to create social transformation.

### **Creating a Social Business Model**

Social enterprises apply business solutions to social problems. Since there are no shareholders in a non-profit organization, the profits from the related social enterprise are completely re-invested in the work of the organization.

The emergence of revenue-generating activities for non-profits has created a new operating model where business principles, market characteristics and values (competition, diversification, entrepreneurship, innovation, and a focus on the bottom line) co-exist and work with traditional public sector values like responsiveness to community and serving the public interest. Essential to the success of a social enterprise is an effective business model.

A business model includes two key elements:

1. an operating strategy that includes internal organizational structure and external partnerships that are crucial for creating the organization's intended impact; and,
2. a resource strategy that defines where and on what terms the organization will acquire the resources (financial and human) it needs to do its work.

The business model for a social enterprise is the channel that the social entrepreneur converts inputs into outcomes; the generation of both social value (measurable impact) and economic value (revenue).

A social enterprise can be integrated with the non-profit organization in one of several ways:

#### **Embedded:**

- The enterprise and the social program are one and the same
- The business is created to serve clients (central to the mission)

#### **Integrated:**

- The business activities overlap with the social programs
- The business is created as a funding mechanism and to expand/enhance the mission of the organization

#### **External:**

- Social and business activities are separate and may or may not be related to the mission of the organization
- The business is created mainly as a funding mechanism to support social activities

The various types of business models are summarized in the table below. These social enterprise business models can be applied equally to institutions, programs, or service delivery. These models are designed in accordance with the social enterprises' financial and social objectives, mission, marketplace dynamics, client needs or capabilities and legal environment. Most of the business models are embedded within the organization.

<b>Business model</b>	<b>How it works</b>	<b>Examples</b>	<b>Key success factors</b>
Entrepreneur support	Sells business support to its target population.	Microfinance organizations, consulting, or tech support	Appropriate training for the entrepreneur
Market intermediary	Provide services to clients to help them access markets.	Supply cooperatives like fair trade, agriculture and handicraft organizations	Low start-up costs, allows clients to stay and work in their community

Employment	Provide employment opportunity and job training to clients and then sells its products or services on the open market.	Disabilities or youth organizations providing work opportunities in landscape, cafes, printing, or other business	Job training appropriateness and commercial viability
Free-for-service	Selling social services directly to clients or a third-party payer.	Membership organizations, museums, and clinics	Establishing the appropriate fee structure vis a vis the benefits
Low-income client	Similar to fee-for-service in terms of offering services to clients but focuses on providing access to those who couldn't otherwise afford it.	Healthcare (prescriptions, eyeglasses), utility programs	Creative distribution systems, lower production and marketing costs, high operating efficiencies
Cooperative	Provides members with benefits through collective services.	Bulk purchasing, collective bargaining (union), agricultural coops, credit unions	Members have common interests/needs, are key stakeholders, and investors
Market linkage	Facilitates trade relationships between clients and the external market.	Import-export, market research, and broker services	Does not sell clients' products but connects clients to markets
Service subsidization	Sells products or services to an external market to help fund other social programs. This model is integrated with the non-profit organization; the business activities and social programs overlap.	Consulting, counseling, employment training, leasing, printing services, and so forth	Can leverage tangible assets (buildings, land, employees) or intangible (expertise, methodologies, or relationships)
Organizational support	Similar to service subsidization, but applying the external model; business activities are separate from social programs	Similar to service subsidization— implement any type of business that leverages its assets	Similar to service subsidization.

### Funding social ventures: Strategies for success

Social enterprises are entrepreneurial organizations that innovate to solve problems. They include nonprofit and for-profit ventures, and their returns blend social benefit and financial revenues. They come in many flavors, but they all face the same fundamental question: Can they generate enough revenue and attract enough investment to cover their costs and grow their activities?

Some social enterprises can earn a profit that is sufficient to get the business funded by investors. They might provide goods and services to customers willing to pay a premium for a socially beneficial product—green energy, say, or organic food. They might sell an essential service to poor customers at a decent profit while still providing that service more affordably than other suppliers do. But many, if not most, social enterprises cannot

fund themselves entirely through sales or investment. They are not profitable enough to access traditional financial markets, resulting in a *financial-social return gap*. The social value of providing poor people with affordable health care, basic foodstuffs, or safe cleaning products is enormous, but the cost of private funding often outweighs the monetary return. Many social enterprises survive only through the largesse of government subsidies, charitable foundations, and a handful of high-net-worth individuals who will make donations or accept lower financial returns on their investments in social projects. The ability of those enterprises to provide their products and services rises or falls with the availability of capital from these sources, and their fundraising efforts consume time and energy that could be spent on their social missions.

The lack of funding opportunities is one of the major disadvantages social enterprises face. A conventional business can use its balance sheet and business plan to offer different combinations of risk and return to many different types of investors: equity investors, banks, bond funds, venture capitalists, and so on. Not so for many social enterprises—but that is changing. An increasing number of social entrepreneurs and investors are coming to realize that social enterprises of all sorts can also generate financial returns that will make them attractive to the right investors. This realization will dramatically increase the amount of capital available to these organizations.

Essentially, the insight is that you can treat the funding of a social enterprise as a problem of financial structuring: The enterprise can offer different risks and returns to different kinds of investors instead of delivering a blended return that holds for all investors but is acceptable to very few. This new approach to structuring can close the financial-social return gap.

### Social Enterprise's New Balance Sheet

To see how the process works, imagine that a social enterprise operating in Africa requires an investment of \$100,000 to build new health clinics and expects the clinics to earn \$5,000 a year—a return of 5% on the investment.

Unfortunately, 5% is too low to attract private sources of capital. Traditionally the enterprise would obtain the \$100,000 from a charitable foundation instead. But suppose the enterprise asked the donor for only \$50,000. It could then offer a financial investor a 10% return on the remaining \$50,000. The donor would receive no repayment—but it would have \$50,000 to give to another socially worthy enterprise.

You can think of a charitable donation as an investment, just as debt and equity are investments. The difference is that the return on the donation is not financial. The donor does not expect to get its money back; it expects its money to generate a social benefit. It considers the investment a failure only if that social benefit is not created. And with a donor-investor willing to subsidize half the cost, the social enterprise becomes valuable and less risky to conventional investors. The traditional model of social enterprise leaves this value on the table. Donors lose out because they fully subsidize a project that could have attracted investment capital, and investors do not participate at all.

What we've just described is, of course, analogous to the way conventional companies are financed. By raising a portion of the capital it needs from equity investors, a risky business can then borrow money from debt investors who seek predictable returns.

In the emerging model of social enterprise capital markets, donors play the role of equity holders, providing capital that supports an enterprise and that makes the debt taken on by financial investors safer, with better expected returns. Let's look at the tools that are taking social enterprises in this direction.

### Innovation in Practice

Some of the more forward-thinking foundations and social investors have realized that the current methods of financing social enterprises are inefficient, for the enterprises and themselves, and have started working to broaden the access to capital. Here are some of the mechanisms they're employing.

## Loan guarantees

The Bill & Melinda Gates Foundation now issues loan guarantees, rather than direct funds, to some of the enterprises it supports, recognizing that this is an efficient way to leverage its donations and provide organizations with more-certain funding. Its first guarantee allowed a charter school in Houston to raise \$67 million in commercial debt at a low rate, saving the school (and its donors) almost \$10 million in interest payments.

## Quasi-equity debt

Some organizations have developed financial vehicles that combine the properties of equity and debt. A quasi-equity debt security is particularly useful for enterprises that are legally structured as nonprofits and therefore cannot obtain equity capital. Such a security is technically a form of debt, but it has an important characteristic of an equity investment: Its returns are indexed to the organization's financial performance. The security holder does not have a direct claim on the governance and ownership of the enterprise, but the terms and conditions of the loan are carefully designed to give management incentives to operate the organization efficiently. Social investors purchase these securities, which perform the function of equity and make it possible for social enterprises to offer banks and other profit-seeking lenders a competitive investment opportunity.

Consider the Bridges Social Entrepreneurs Fund—one of several social funds of the UK investment company Bridges Ventures. The fund has some £12/ million to invest in social enterprises. Recently it committed £1 million to a social loan to HCT, a company that uses surpluses from its commercial London buses, school buses, and Park & Ride services to provide community transportation for people unable to use conventional public transportation. This social loan has a quasi-equity feature: The fund takes a percentage of revenues, thereby sharing some of the business risk and gains. Because the loan is tied to the top revenue line, it provides HCT with strong incentives to manage the business efficiently. Covenants on such loans are often added to avoid mission drift from the social goals.

## Pooling

Techniques that involve pooling funds have also opened new financial doors to social enterprises, because the pooling institution can tailor its liabilities to the needs of different kinds of investors. The Switzerland-based social capital investor Blue Orchard, for example, assembles portfolios from many microlenders and bundles them into three tranches. The bottom tranche is BlueOrchard's equity, which offers high returns but takes the first loss. The next tranche offers a lower expected return but has less risk. It takes the second loss, after equity is wiped out, and is analogous to a convertible bond. The top tranche promises a low but relatively safe return; it is purchased by conventional debt investors. The pooling model has spread globally, with innovators such as IFMR Trust, in Chennai, engaged in the securitization and structured finance of microfinance loan portfolios in which they retain an investment share.

## Social Impact Bonds

Another innovation, the social impact bond, deserves special notice for its ability to help governments fund infrastructure and services, especially as public budgets are cut and municipal bond markets are stressed. Launched in the UK in 2010, this type of bond is sold to private investors who are paid a return only if the public project succeeds—if, say, a rehabilitation program lowers the rate of recidivism among newly released prisoners. It allows private investors to do what they do best: take calculated risks in pursuit of profits. The government, for its part, pays a fixed return to investors for verifiable results and keeps any additional savings. Because it shifts the risk of program failure from taxpayers to investors, this mechanism has the potential to transform political discussions about expanding social services. From the U.S. to Australia, national and local governments are developing pilot bonds to fund interventions targeting homelessness, early childhood education, and other issues. The U.S. could even use this approach to support its finance-starved space program—for instance, issuing

"space bonds" that would pay a return only if a manned mission were to reach Mars on schedule and under budget.

Developments like these are stretching the boundaries of social enterprise financing. It isn't hard to imagine that at some point social enterprises will have an even broader universe of funding options than conventional businesses do. If you think of charitable donations as a form of investment, and if an appropriate legal structure is created, then you have, by definition, a new class of investors and a new type of return (see the exhibit "Financing Social Enterprises"). An organization delivering a social return could obtain seed capital from donors without giving the donors any claim on assets. The seed capital could then be augmented by equity capital with a residual claim on assets and by debt capital with a prior claim on assets and cash flow. With all these types of liabilities available and with the possibility of securitizing and selling them, the funding and growth possibilities for social enterprises start to look very promising indeed.

And the benefits aren't limited to social enterprises; financial markets stand to gain, too. The emerging model broadens the range of asset classes investors can tap to diversify their portfolios. Investors can now obtain returns from completely new sets of products and customer groups, often in new countries. This is precisely why securitized bonds issued against microloans proved so popular.

### **Challenges for the Indian Social Enterprise Sector**

Last 10 years have seen emergence of enterprises with a dual mission of profit creation along with positive social impact. Many young entrepreneurs with stellar academic credentials having given up lucrative jobs to pursue their passion for social good are changing the landscape of social sector and how it's perceived. While improving the lives of people at the Bottom-of-Pyramid (it forms 37% of the total Indian Population) either by employing them gainfully or by making products & services targeted at them, these entrepreneurs seek sustained profitability by applying business principles. Clearly, future governmental policies will have to take them seriously and create a conducive atmosphere for such entrepreneurs.

However there are major challenges that this new age social enterprise sector faces.

- Limited access to early stage capital due to difficulties faced by domestic and foreign investors when investing in social enterprises is probably one of the biggest challenges. This potentially inhibits product development, scaling up and hiring top talent.
- Indian regulations still don't formally recognize for-profit social enterprise as a sector thus depriving them of special benefits like tax breaks etc. (for e.g. India education policy deems every educational institution to operate as a non-profit restricting equity investment and entry of private players)

### **SELF TEST QUESTIONS**

1. Social Impact Bonds were Launched in :
  - a) US
  - b) UK
  - c) India
  - d) Australia
2. \_\_\_\_\_ is a form of Pooling Technique
  - a) Bonds

- b) Microfinance
  - c) Small funding
  - d) Collective Investment
3. \_\_\_\_\_ is one of the challenges facing a social entrepreneur
- a) Limited Access to early stage Capital
  - b) Development of new product
  - c) Maintaining profits
  - d) All of the above
4. \_\_\_\_\_ is particularly useful for enterprises that are legally structured as nonprofits and therefore cannot obtain equity capital.
- a) Quasiequity debt security
  - b) Loan Security
  - c) Deemed Security
  - d) All of the above
5. The innovative methods used in social enterprises to broaden the access of capital includes:
- a) Loan Guarantee
  - b) Quasiequity Debt
  - c) Pooling
  - d) All of the above
6. The Funding of Social Enterprise is essentially a problem of \_\_\_\_\_
- a) Availability of Investment Options
  - b) Financial structuring
  - c) Profits
  - d) None of the above
7. The key to managing return on funding in social enterprises is to offer \_\_\_\_\_
- a) Consistent risks and returns to all investors.
  - b) Different risks and returns to different kinds of investors.
  - c) Returns on the basis of type of social enterprise
  - d) All of the above
8. in a social enterprise business model measurable impact is created by the generation of \_\_\_\_\_
- a) Social value
  - b) Economic Value
  - c) Service Value
  - d) Funding Value

9. Social entrepreneurs play the role of change agents in the social sector by:

  - a) Adopting a mission to create and sustain social value (not just private value) Recognizing and relentlessly pursuing new opportunities to serve that mission
  - b) Engaging in a process of continuous innovation, adaptation, and learning
  - c) Acting boldly without being limited by resources currently in hand
  - d) All of the above

10. As a Social Entrepreneur \_\_\_\_\_ Fought for Women's Rights in the United States, including the right to control property and helped spearhead adoption of the 19th amendment.

  - a) Dr. Maria Montessori
  - b) VinobaBhave
  - c) Susan B. Anthony
  - d) Margaret Sanger

**Answer Keys:** 1. b; 2. b; 3. a; 4. a; 5. d; 6. b; 7. b; 8. a; 9. d; 10. c

# **Lesson 18**

## **Government Initiatives for Business Development**

### **LESSON OUTLINE**

- Start Up India – Government Initiatives
- Partnerships
- Achievements

### **LEARNING OBJECTIVES**

To acquaint the students with the new initiative of Government under startup India.

## START UP INDIA – GOVERNMENT INITIATIVES

**Ministry of Skill Development and Entrepreneurship-** The Ministry is responsible for co-ordination of all skill development efforts across the country, removal of disconnect between demand and supply of skilled manpower, building the vocational and technical training framework, skill up-gradation, building of new skills, and innovative thinking not only for existing jobs but also jobs that are to be created.

The Ministry aims to Skill on a large Scale with Speed and high Standards in order to achieve its vision of a ‘Skilled India’.

It is aided in these initiatives by its functional arms – National Skill Development Agency (NSDA), National Skill Development Corporation (NSDC), National Skill Development Fund (NSDF) and 33 Sector Skill Councils (SSCs) as well as 187 training partners registered with NSDC. The Ministry also intends to work with the existing network of skill development centres, universities and other alliances in the field. Further, collaborations with relevant Central Ministries, State governments, international organizations, industry and NGOs have been initiated for multi-level engagement and more impactful implementation of skill development efforts.

**National Skill Development Agency (NSDA)-** The National Skill Development Agency (NSDA), an autonomous body, (registered as a Society under the Society's Registration Act 1860) was created with the mandate to co-ordinate and harmonise the skill development activities in the country, is part of the Ministry of Skill Development & Entrepreneurship (MSDE).

**National Skill Development Corporation-** The National Skill Development Corporation India (NSDC) was setup as a one of its kind, Public Private Partnership Company with the primary mandate of catalysing the skills landscape in India. NSDC is a unique model created with a well thought through underlying philosophy based on the following pillars:

1. **Create:** Proactively catalyse creation of large, quality vocational training institutions.
2. **Fund:** Reduce risk by providing patient capital including grants and equity.
3. **Enable:** the creation and sustainability of support systems required for skill development. This includes the Industry led Sector Skill Councils.

**The main objectives of the NSDC are to:**

- Upgrade skills to international standards through significant industry involvement and develop necessary frameworks for standards, curriculum and quality assurance
- Enhance, support and coordinate private sector initiatives for skill development through appropriate Public-Private Partnership (PPP) models; strive for significant operational and financial involvement from the private sector
- Play the role of a “market-maker” by bringing financing, particularly in sectors where market mechanisms are ineffective or missing
- Prioritize initiatives that can have a multiplier or catalytic effect as opposed to one-off impact.

## Partnerships

NSDC operates through partnerships with multiple stakeholders in catalysing and evolving the skilling ecosystem.

- **Private Sector** – Areas of partnerships include awareness building, capacity creation, loan financing, creation and operations of Sector Skill Councils, assessment leading to certification, employment generation, Corporate Social Responsibility, World Skills competitions and participation in Special Initiatives like Udaan focused on J&K.

- **International Engagement** – Investments, technical assistance, transnational standards, overseas jobs and other areas.
- **Central Ministries** – Participation in flagship programmes like Make in India, Swachh Bharat, Pradhan Mantri Jan Dhan Yojana, Smart City, Digital India and Namami Ganga, among many others.
- **State Governments** – Development of programs and schemes, alignment to NSQF and capacity building, operationalization of program, capacity building efforts among others.
- **University/School systems** – Vocationalisation of education through specific training programs, evolution of credit framework, entrepreneur development, etc.
- **Non-profit organizations** – Capacity building of marginalized and special groups, development of livelihood, self-employment and entrepreneurship programs.
- **Innovation** – Support to early-stage social entrepreneurs working on innovative business models to address gaps in the skilling ecosystem, including programs for persons with disability.

## Achievements

- Over 5.2 million students trained
- 235 private sector partnerships for training and capacity building, each to train at least 50,000 persons over a 10-year period.
- 38 Sector Skill Councils (SSC) approved in services, manufacturing, agriculture & allied services, and informal sectors. Sectors include 19 of 20 high priority sectors identified by the Government and 25 of the sectors under Make in India initiative.
- 1386 Qualification Packs with 6,744 unique National Occupational Standards (NOS). These have been validated by over 1000 companies.
- Vocational training introduced in 10 States, covering 2400+ schools, 2 Boards, benefitting over 2.5 lakh students. Curriculum based on National Occupational Standards (NOS) and SSC certification. NSDC is working with 21 universities, Community Colleges under UGC/AICTE for alignment of education and training to NSQF.
- Designated implementation agency for the largest voucher-based skill development program, Pradhan Mantri Kaushal Vikas Yojana.
- Skill Development Management System (SDMS) with 1400 training partners, 28179 training centres, 16479 trainers, 20 Job portals, 77 assessment agencies and 4983 empanelled assessors. Hosting infrastructure certified by ISO 20000/27000 supported by dedicated personnel.

## START UP INDIA

### What is Start-up?

The government has also come a big way in promoting startups. The question therefore what needs to be answered is what is a start-up? A start-up is a company that is in the first stage of its operations. These companies are often initially bank rolled by their entrepreneurial founders as they attempt to capitalize on developing a product or service for which they believe there is a demand. The start-up and SMEs appear to be of the same size with limited revenues, high cost of operation, job creating but they operate on entirely different business models. The difference between a start-up and a SME unit is that a startup is new organization designed to search for a repeatable and scalable business model. A start-up according to Steve Blank –‘is searching for answers to the product it will sell, the customers it will serve and the way it will make money from delivering value

to its customers'. A SME, according to the U.S. Small Business Administration (SBA) is an "independently owned and operated, organized for profit, and not dominant in its field." SMEs generally sell known products to known customers in known local markets. These startup needs an appropriate ecosystem to thrive which includes adequate funds for startups to help them grow; government to create an environment of ease of doing business; ready availability of essential services like office space, location, supplies telecom connectivity etc.; and mentors to provide strategic advice.

### **Latest Policy Initiatives for Start-ups- Ease of Doing Business**

To simplify the regulatory framework the government introduced the Ease of Doing Business wherein an MSME unit has to fill in a single one page self-declaration online form called UdyogAadhaar. The Apprentices Act, 1961 was amended to enable even the MSME units engage apprentices which will enable the units to get trained labour as well as in turn supply skilled labour. Under the Apprentice ProtshanYojana, 50 percent of the stipend payable to the apprentices would be reimbursed by the Government for the first two years which is an incentive for MSME units to take in more apprentices.

To give boost to the Make in India programme, the MSME Ministry has launched the ASPIRE scheme in March 2015, a Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship. The objective of the scheme is to set up a network of technology and incubation centers to accelerate entrepreneurship and also to promote start-ups for innovation and entrepreneurship in agro-industry. To ease the credit availability requirements of startups the Government had announced the MUDRA scheme- Micro Units Development & Refinancing Agency, operated by SIDBI for providing refinance to micro units. This would improve the liquidity of the micro units who right now have to borrow from NBFCs and moneylenders at high rates of interest.

Atal Innovation Mission (AIM)- This programme operated from NITI Aayog is about an Innovation Promotion Platform involving academics, entrepreneurs and researchers and draw upon national and international experiences to foster a culture of innovation, R&D and scientific research in India. The platform will promote a network of worldclass innovation hubs and grand challenges for India. The overarching purpose of this mission is to promote a culture of entrepreneurship and innovation in India. The key objectives of the AIM are:

- To create an umbrella structure to oversee innovation eco-system of the country;
- To provide platform and collaboration opportunities for different stakeholders;
- To study and suggest best and novel practices to be adopted by different January, 2016 25 Special Article stakeholders in the innovation chain;
- To provide policy inputs to NITI Aayog and various Government Departments and Organizations.
- To create awareness and provide knowledge inputs in creating innovation challenges and funding mechanism to government; and,
- To develop new programmes and policies for fostering innovation in different sectors of economy.

### **SETU (Self Employment and Talent Utilization)**

SETU meaning bridge in Hindi is a Techno-Financial, Incubation and Facilitation Programme to support all aspects of startup businesses and other self-employment activities, particularly in technology driven areas operated from NITI Aayog. An Expert Committee on Innovation & Entrepreneurship for working out the detailed contours of the Atal Innovation Mission (AIM) and SETU was constituted by NITI Aayog. The Expert Committee has identified five major drivers for creating a vibrant entrepreneurial eco system viz; (i) catalytic government policy and regulatory framework (ii) easy access to equity capital and debt (iii) businesses as entrepreneurial hubs (iv) culture and institutions which encourage entrepreneurship over careerism (v) adequate and effective collaboration forums.

- *Electronics Development Fund* – The Ministry of C&IT has launched the Electronics Development Fund (EDF) to promote innovation, research and development, and product development in the field of semiconductors, nano-electronics, IT and associated sectors by bringing in established companies and startups on board. The objective is to do research, design and develop electronic products within the country for which the startup units would be provided supportive financial assistance from the EDF.
- *Digital India* – Digital India Programme has been launched to provide broadband connectivity in rural and urban areas. Introduction of digital rural connectivity would give a big boost in developing traditional rural arts, crafts or other innovative ideas into business models.
- *Intellectual Property Rights* – With the growing number of startups it is essential to protect one's products from impersonators. The startups need to go for design patents, trademarks, copyright or trade secrets protection as the need maybe before marketing their product.
- *India Aspiration Fund* – A Rs. 2000 crore India Aspiration Fund (IAF) was launched by SIDBI in August 2015 to boost the startupsfundof-funds ecosystem in the country. This fund would invest in various venture capital funds for meeting the equity requirement of MSME start-ups. A SIDBI Make in India Loan for Small Enterprises (SMILE) Scheme of Rs.10,000 crore has also been launched to catalyze tens of thousands of crores of equity investment in start-ups and MSMEs, creating employment for lakhs of persons, mostly educated youth over the next 4-5 years. The objective of SMILE is to provide soft loans in the nature of quasi-equity and term loans on relatively soft terms to MSMEs to meet the required debt-equity ratio norm. The 25 sectors under the 'Make in India' programme' would be the focus with emphasis on financing smaller enterprises in the MSME sector. There will be concessional terms for the enterprises promoted by (SC) / (ST) / Persons with Disabilities (PWD) and women. The scheme is expected to benefit approximately 13,000 enterprises, with employment for nearly 2 lakh persons. These two schemes are in addition to the Rs.20000 crore MUDRA scheme. Together the three finance schemes should boost the startups as well as MSMEs already in the transition phase and create good number of jobs in the years to come.

Till date the startups have been successful in e-commerce, and other IT based applications of service sector. The startups in manufacturing sector are yet to take off in a big way. The launch of the above-mentioned policy initiatives should give a boost to startups in manufacturing as well. As of 16th November 2015, 806 startups have taken off during the year and the main sources of funding were seed funding and private equity and the products were mainly IT based applications in the service sector<sup>15</sup>. In the Global Competitiveness Index (GCI) 2015-16 India has scored 16 points and moved up from its earlier ranking of 71 to 55 out of a total of 144 countries. Region-wise among the emerging and developing Asia India ranks sixth after Malaysia (18), China (28), Thailand (32), Indonesia (37) and Philippines (47). India does have the potential to move ahead of these countries. In the World Bank's Ease of Doing Business Ranking 2015 India is placed at 142 place out of a total of 189 economies. But on the startup front India ranks third position globally with 4200 startups. The new initiatives in promoting startups would enable India to move up to the top position. To conclude, a startup ecosystem has been created through the new policy initiatives which would not only promote startups particularly in the manufacturing sector but also the micro units would be able to graduate faster as small and medium units. If this objective is achieved the goal of jobrealization through self-employment would be complete as self-employment is the answer to providing jobs to the huge proportion of population in the economically active age group. This process would be fast tracked by the flagship programmes well supported by the Skill India Mission which would facilitate availability of right skilled manpower as entrepreneurs complains about skill mismatch. Given that startups are emerging as major job creators, governments both at the Centre and States need to put in place appropriate policy framework for the start-ups.

## STAND UP INDIA

The Stand Up India scheme provides loans to entrepreneurs of the Scheduled Caste and Scheduled Tribes, as well as women. The loans range from Rs 10 lakh to Rs 1 crore. According to the government, these are sectors of the population that are often underprivileged or under-served. Both these sectors are upcoming, and fast. The scheme helps them out by facilitating loans for non-farm sector entrepreneurship.

### Eligibility

1. SC/ST and/or Women entrepreneurs, above 18 years of age.
2. Loans under the scheme is available for only green field project. Green field signifies, in this context, the first time venture of the beneficiary in the manufacturing or services or trading sector.
3. In-case of non-individual enterprises, 51% of the shareholding and controlling stake should be held by either SC/ST and/or Women Entrepreneur.
4. Borrower should not be in default to any bank/financial institution.
5. The product must be related to commercialisation
6. The age of the company must not exceed 5 years
7. Certification from DIPP

### SELF TEST QUESTIONS

1. The functional arms of Ministry of Skill Development and Entrepreneurship are:
  - a) National Skill Development Agency (NSDA),
  - b) National Skill Development Corporation (NSDC),
  - c) National Skill Development Fund (NSDF)
  - d) All of the above
2. The main objective of NSDC is to
  - a) Upgrade skills to international standards through significant industry involvement and develop necessary frameworks for standards, curriculum and quality assurance
  - b) Enhance, support and coordinate private sector initiatives for skill development through appropriate PublicPrivate Partnership (PPP) models; strive for significant operational and financial involvement from the private sector
  - c) Play the role of a “market-maker” by bringing financing, particularly in sectors where market mechanisms are ineffective or missing
  - d) All of the above
3. NSDC operates through partnerships with
  - a) Private Sector
  - b) Central Ministries
  - c) State Government

- d) All of the above
4. For the Ease of doing business the MSME unit has to fill in a single one page self-declaration online form called \_\_\_\_\_
- UdyogAadhaar.
  - E-Aadhhaar
  - Company Incorporation Form
  - None of the above
5. Under the \_\_\_\_\_, 50 percent of the stipend payable to the apprentices would be reimbursed by the Government for the first two years which is an incentive for MSME units to take in more apprentices.
- Apprentice ProtsahanYojana
  - Apprenticeship Act 1961
  - Workmens Compensation Act
  - None of the above
6. The scheme launched by MSME Ministry in March 2015, for Promotion of Innovation, Rural Industry and Entrepreneurship \_\_\_\_\_
- Aspire scheme
  - Mudra Scheme
  - Atal Innovation Mission
  - All of the above
7. Businesses as entrepreneurial hubs is one of the major drivers identified by
- The Expert Committee on Innovation & Entrepreneurship
  - Innovative Startups
  - Incubation Policy
  - None of the above
8. In the World Bank's Ease of Doing Business Ranking 2015 India is placed at \_\_\_\_\_
- 154 place out of the total of 184 economies
  - 142 place out of a total of 189 economies.
  - 148 place out of a total of 190 economies.
  - 146 place out of a total of 188 economies.
9. Globally India ranks in \_\_\_\_\_
- Third position with 4200 startups.
  - Fourth position with 4200 startups.
  - Second position with 4500 startups.
  - Fifth position with 4800 startups.

10. The Loans given to SC/ST and Women Entrepreneurs under Stand Up India Scheme range from:

  - a) Rs. 5 lakh to Rs 1 crore.
  - b) Rs. 15 lakh to Rs 1 crore.
  - c) Rs. 10 lakh to Rs 1 crore.
  - d) Rs. 15 lakh to Rs 2 crore.

Answer Keys: 1. d; 2. d; 3. d; 4. a; 5. a; 6. a; 7. a; 8. b; 9. a; 10. a