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Concept based notes

FUNCTIONAL MANAGEMENT

(B.Com. Part-III (P+H))

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the "Teach Yourself" style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director* (*Acad.*) Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

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B. Com Part III

Business Administration

Paper I Functional Management

Unit I

Meaning, Scope, Role and Functions of Human Resource Management, Organisation of Human Resources Department, Human Resource Planning, Recruitment, Selection, Placement and Induction.

Unit II

Job Analysis, Job Enlargement and Job Enrichment, Training and Development. Performance Appraisal and Merit Rating.

Unit III

Marketing-Meaning, Evolution, Modern Concept, Scope Importance, Product Planning and Research; Channels of Distribution; and Development; Marketing Pricing Policies and Strategies.

Unit IV

Finance Functions: Importance and Scope of Financial Management: Functions and Role of Finance Manager; Financial Planning and Capital Structure: Sources of Finance, working Capital and its Sources.

Unit V

Meaning, Nature, Scope and Importance of Production Management; Production Process, Production Planning and Control; Quality Control; Product Design and Product Research: Meaning, Scope and Functions of Materials Management; Inventory Planning and Control.

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Unit-1

Q.1) What do you mean by Human Resources Management? Briefly, discuss the nature and importance of Human Resources Management?

Ans: Human Recourses Management is a function of management with the primary objectives of ensuring that every employee makes his fullest contribution to the achievement of the objectives of business.

In the words of "Edwin B. Flippo, "Human resource management is the planning, organizing, directing, and controlling of the procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organizational and societal objectives are accomplished."

In the words of Miner and Miner, "Human resource management is the process of developing, applying and evaluating policies, procedures, methods and programmes relating to the individual in the organisation."

Thus personnel management is the part of the Management function which is concerned with the people at work. It aims at calculating the people at mark with the activities necessary to achieve the organizational goals.

Nature and Characteristics of Human Resource Management

The following are the basic features and characteristics of Human Resource Management:

1. People-Oriented

Human resource function is concerned with the management of the human resources of an organisation, in contrast to the material or financial resources. It is the task of dealing with human relationships within an organisation. It is the process of achieving the best fit between individuals.

2. Comprehensive Function

Personnel management is concerned with managing people at work. It covers all types of people at all levels in the organisation. It applies to workers, supervisors, officers and managers. It covers skilled, technical, professional, clerical, managerial, organised and unorganised types of personnel

3. Pervasive Responsibility

HRM function is all pervasive, transcends all other managerial functions and is ubiquitous. In this sense, every manager is unavoidably a personnel manager. Dale Yoder has said, "Every manager who plans, staffs, organizes, directs and controls necessarily accomplishes these functions through people and applies them to people."

4. Human Objective

The main object of HRM is to help employees to develop their potentialities and capacities to the full so that they can derive the greatest satisfaction from their work. It attempts at getting the willing cooperation of the people for the attainment of the desired goals. It promotes esprit de corps.

5. Staff Function

HRM is a supportive and service function. Gary says, "Service to line management is the 'bread and butter' of the personnel manager's Job". Personnel manager assists in the hiring, training, evaluating, rewarding, counselling, promoting, and firing of employees at all levels

6. Innovator Role

As part of his service activities, the HR manager also canies out an "innovator role. He performs it by providing "up-to-date information on current trends and new methods of solving problems."

7. Line Responsibility

Basically, HR management is a staff function. But the personnel manager performs a "line function also by directing the activities of the people in his own department and in service areas. In other words, he exerts line authority within his own personnel department.

8. Implied Authority

HR managers have no line authority but likely to exert implied authority. This is because line managers know the personnel director often has access to top management. As a result personnel directors' "suggestions" are often viewed as "orders from topside." This implied authority carries even more weight with employees.

9. A Coordinative Functio

Personnel administrators also function as coordinators of personnel activities. This duty is often referred to as "functional control." In this role the personnel administrator and his department act as "the right arm of the top executive to assure him that personnel objectives and policies are being properly carried out by line managers."

10. An Integral Part of Management

Human resource management is an integral part of the general management. It shares the main objective of general management. It is the heart of every manager's job. Gary Dessler says, "Personnel management is very much a part of every line manager's responsibility. Whether you are a first line supervisor, or a middle manager, or president, getting results through people is the 'name of the game'."

11. Action-Oriented

It focuses on 'action' rather than on records or procedures. It solves personnel problems to achieve both organisational and employees' personal goals.

12. Individual and Group-Oriented

HRM is concerned with employees both as individuals and as cooperative group in attaining goals. It provides for employee satisfaction and growth as well as group goals.

13. Development-Oriented

It is concemed with developing potential of persons. It enables them to get maximum satisfaction from their work. It develops their personality, interests and skills. It seeks to help the people to realise their full potential

14. Challenging Function

People have sentiments and emotions, needs and feelings. Hence, they cannot be treated like tools. Personnel management is a challenging task due to the dynamic nature and changing needs of people.

15. Continuous Process

HRM is a continuous and never ending process. Terry writes, "it cannot be tumed on and off like water from a faucet; it cannot be practised 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."

16. Science as well as Art

HRM is a science of "human engineering". It has an organised body of knowledge consisting of principles and techniques. It is also an art because it involves skill to deal with people. It maintains human relationships between organisation and the employees. To handle men and solve their problems is one of the most creative arts.

17. Philosophy of Management

HRM is not only an art and a science but it is a philosophy of management also. It has belief in the dignity and worth of the individual human being in his right to seek his own goals through working in an organisation.

18. Young Discipline

It is relatively new specialised area as compared to production and marketing. It has recent origin. Only in recent years the influence and prestige of the personnel has expanded.

19. Interdisciplinary Nature

It has its roots in social sciences. It uses concepts drawn from various disciplines like psychology, sociology, anthropology, etc. It has borrowed principles from behavioural sciences also.

20. Nervous System

Although personnel work is a separate speciality, it is also at the heart of every manager's job. It is like nervous system in the human body. It is associated with basic management function. It is not an extraneous element. It renders service to every part of management.

Need and Importance of Human Resource Management

1**. Important Task of Management:** According to Saltonstall, "The direct handling of people is, and always has been, an integral part of every line manager's responsibility, from president down to the lowest level supervisor." Dale Yoder writes, "Managing people is the heart and essence of being a manager."

2. **Achievement of Enterprise Goals:** Kenneth Galbraith says that "People are the common denominator of progress." The effective utilisation of their skills and talents helps in the attainment of enterprise goals.

3. **Realization of Intrinsic Abilities:** Human resource management helps people, utilise their inner power and potentials. Thomas G. Spates writes, "Personnel administration is organising and treating individuals at work."

4. **Satisfaction from Work:** Since human resource management aims at getting effective results with people, it helps in their satisfaction and happiness. Pigors and Myers state, "Good personnel administration helps individuals to utilise their capacities to the full and to attain not only maximum individual satisfaction from their work but also satisfaction as part of a work group."

5**. Nervous System of the Organisation:** Human resource management is the nervous system of the organisation, E.FL. Breach, renowned thinker has underlined its importance using a simile of nervous system of the body. He writes, "Personnel management is not the brain, the controller, nor only just a limb, a member, nor yet the bloodstream, the energising force. But it is the nervous system. It is centered in the controlling unit of the brain, for personnel policy is a Board responsibility and it is interpreted through the Managing Director."

6. **Effectiveness and Economy of Operations:** HRM is the means of getting the "best" out of the people. It wins their wholehearted collaboration. It helps to increase their effectiveness. Breach writes, "The personnel function does not exist for any such primary purpose as "making conditions easier" or "improving the lot of the worker".

7. **Basis of Success:** HRM is the basis of any enterprise. It deals with each part of organisation like finance, purchase, production, marketing. It becomes more important while fixing and achieving the target, the objectives of the organisation.

8. **Performs the Toughest Job:** Dealing with the Human Beings: HRM performs the toughest job of dealing with the human part of organisation. Personnel management is the controller of human factors and at the same time it ensures optimum use of human resources.

9. **Managerial Necessity:** HRM is not a responsibility that a manager can leave completely to someone else. Every manager retains personal responsibilities for managing people, though he may secure help and advice from other managers, professionals, and technicians.

10**. Twofold Role:** HRM performs twofold role. It is regarded as line management responsibility and a staff function. It is advisory and yet executive. It gives help to executives and supervisors in the daily discharge of their human responsibilities.

11. **Overcoming Competition:** Competition for better quality products is fast growing in industrial world these days. To keep an industry alive and dynamic, competition has become must. Hence, to produce more and quality products, it is necessary to develop the skills of employees through proper training.

12**. Managing Environment:** HR managers provide leadership in such dynamic working organisations and the working relationships they create. Managers see their efficiency level in managing human resources as ha major factor in organisational effectiveness and a major opportunity for competitive advantage.

13. **Utilisation of Human Resources:** HRM utilises the talents and skills of employees effectively by placing them on proper jobs, by motivating them to work efficiently and by evaluating their performance regularly. HR manager has the obligation "to utilise the resources of Nature and of Human Nature for the benefit of mankind."

14. **Building Team Work:** HR manager ensures a good team of competent and dedicated employees and teamwork among them by securing their willing co-operation through motivation, participation, proper employment relationship and grievance handling.

15. **Professional Growth:** HRM contributes to professional growth by providing maximum opportunities for personal development of each employee. It helps to improve the quality of work life.

Q.2 Elaborate the Objectives of Human Resource Management.

The objectives of Human Resource Management :

1. Procurement of the Personnel The first objective of human resource management is to obtain capable people who can produce, sell and distribute the products manufactured, It manages to appoint such personnel who may deal with all the activities of the organisation.

2. Effective Utilisation of Human Resources-In order to achieve organisation's purposes, personnel management utilizes employees' efforts, talents, and skills effectively. It makes rational use of work qualities, knowledge and potentialities.

3. To Build Desirable Working Relationships-Personne management aims to establish and maintain productive, self. respecting and satisfying working relationships among all the members of the organisation.

4. Maximum Individual Development-Personnel management provides opportunities for advancement to employees through training and job education. It encourages every employee to realise his full potential.

5. To Secure Integration-It aims to secure the integration of the Individuals and groups with the organisation. It reconciles individual and group goals with those of an organisation.

6. To Satisfy Individual Needs and Group Goals-Personnel management offers an adequate and equitable remuneration, economic and social security to employees.

7. Development of Team Work-Personnel management develops a teamwork spirit among the workers. It develops a cooperative attitude and feeling of "our organisation". It maintains sound industrial and human relations so as to secure the willing co- operation of all.

8. Raising Morale of Employees-Healthy climate of work is the essential need of an organisation. But workers should also have an enthusiastic body and mind to work.

9. Maintaining Good Relations Between Employer and Employees Personnel management tries to provide best satisfaction to the employees. It also follows the principle of "minimum cost and maximum profit" for the employer.

10. To Create Disciplined Atmosphere-Personnel management aims to develop a sense of discipline among the human force engaged in any organisation. Discipline is essential in any firm. creafes obedience and just behaviour among employees.

Scope of Human Resource Management

1. **Training and Development:**

- This involves identifying training needs, designing training programs, and facilitating the development of employees' skills and knowledge.
- A software company conducts regular coding workshops to enhance the technical skills of its developers, ensuring they stay updated on the latest programming languages and methodologies.

2. **Organization and Development:**

- This focuses on activities to improve the overall effectiveness and efficiency of the organization, such as leadership development and organizational culture initiatives.
- An organization implements a mentorship program where experienced employees guide newer hires, fostering professional growth and a sense of community within the company.

3. **Organization/Job Design:**

- Involves structuring job roles and the organization itself to ensure optimal efficiency and productivity.
- A manufacturing company reorganizes its production line to streamline processes, reduce bottlenecks, and enhance overall productivity.

4. **Human Resource Planning:**

- This entails forecasting future workforce needs and planning for the recruitment, development, and retention of employees.
- A retail chain uses demographic trends and sales projections to anticipate the need for seasonal staff during peak shopping periods.

5. **Selection and Staffing:**

- Involves recruiting, selecting, and placing employees in appropriate roles within the organization.
- An IT company conducts thorough interviews and technical assessments to hire software developers with the right skills and cultural fit for the organization.

6. **Personnel Research and Information Systems:**

- This encompasses the collection and analysis of data related to personnel, helping HR make informed decisions.
- HR uses employee performance data to identify high performers, enabling the organization to recognize and reward outstanding contributions.

7. **Compensation and Benefits:**

- Involves designing and managing employee compensation packages, including salary structures, bonuses, and benefits.
- A financial services firm conducts a comprehensive salary review to ensure its compensation packages are competitive within the industry.

8. **Employee Assistance and Motivation:**

- Focuses on creating programs and initiatives to support employee well-being, motivation, and job satisfaction.
- An advertising agency implements a recognition program to acknowledge outstanding creativity and innovation, boosting employee morale.

9. **Employee Maintenance:**

- Involves managing employee relations, addressing workplace issues, and creating a positive work environment.
- HR conducts regular feedback sessions and implements measures to improve communication, reducing workplace conflicts and enhancing employee satisfaction.

10. **Union-Management Relations:**

- In organizations with unions, HR manages relationships with union representatives, negotiates collective bargaining agreements, and addresses labour-related issues.
- In an automotive manufacturing plant, HR collaborates with union leaders to negotiate fair wages and working conditions, fostering a positive union-management relationship.

Q.3 **<u>Explain the Functions of Human Resource Management.</u>**

Human resource manager performs a number of functions for the achievement of the above objectives. These functions may broadly be classified into three categories:

(1) managerial functions, (2) advisory or consultative functions, and (3) operating functions.

I. Managerial Functions

1. Planning-Human resource manager determines in advance a "personnel programme" that will contribute to goals established for the enterprise. He decides personnel goals, formulates personnel policies and prepares the personnel budget.

2. Organising-The Human resource manager must form an organisation by designing the structure of relationships among jobs, personnel, and physical factors. Edwin Flippo writes, "Because of increasing expertise in this function, many top managements are looking to the personnel manager for advise in the general organisation of the enterprise."

3. Directing By directing, Human resource manager influences the actions of his subordinates, and secures the willing and effective cooperation of employees for attaining organisational goals. He can tap the maximum potential of his subordinates through proper direction.

4. Controlling Human resource manager regulates activities in accordance with the 'personnel plan. He conducts auditing training programmes, analyses labour turnover, and directs morale surveys.

II. Advisory or Consultative Functions

Human resource manager also performs a "staff role". It is to "advise and counsel top management in initiating and recommending changes." He advises the president and other top executives on good personnel policies and on their consistent, uniform application throughout the organisation.

III. Operative Functions

Operative functions are concerned with specific activities of procuring, developing, compensating, integrating and maintaining an efficient work force. These are described below:

(A) ***Procurement Function***

The first operative function of human resource management is concerned with securing and employing the right kind and proper number of people required to accomplish organisational goals. It begins with planning relative to human resource requirements. It consists of the following activities:

1. Anticipating Vacancies-It is the process of estimating the present and future manpower requirements. It includes anticipating deaths, retirements, resignations, future promotions and transfers. It is estimating future vacancies and additional positions from the above causes.

2. Organisational Planning-It is the process of analysing organisational structure and changes to be made. It is preparing inventory of present manpower and forecasting future manpower requirements,

3. Job Analysis-It is the process of describing the nature of a job and specifying the human requirements, such as skills, experience, etc. needed to perform it. It is analysing the operations and responsibilities of a specific job.

4. Recruitment-It is the process of seeking and attracting qualified and competent personnel. The personnel manager identifies existing sources of applicants, develops new sources of applicants, and attracts potential applicants in sufficient number to permit good selection.

5. Selection-It is the process of developing selection policies and procedures, and evaluating potential employees in terms of specifications. It includes the following activities:

a) Developing and using application blanks.
b) Weeding out undesirables through analysis.
c) Developing valid and reliable testing techniques.
d) Interviewing the applicants.
e) Testing the applicants psychologically, if necessary.
f) Investigating their references.
g) Arranging for medical examinations, if necessary.
h) Evaluating the applicants and making final recommendations to line management.
i) Sending rejection and appointment letters.

6. Placement-It is the process of placing the employee on the job for which he is selected. It is assigning suitable job to him in terms of job requirements, his qualifications and personality needs. It also includes: (a) advising line management on placement; (b) conducting follow-up study to determine employee adjustment with the job; and (c) defining his responsibilities.

7. Induction-To enable new recruits to perform their duties effectively, they are initiated in the organisation and on the job. Thus, ii Includes:

a) Familiarising the new employees with the company, the work environment, company philosophy, objectives, policies, product and market standing.
b) Acquainting the employee with peers, subordinates and superiors.
c) Ascertaining training requirements of such employees.
d) Providing opportunities for career development.

8. Transfer-Transfer is the movement of an employee from one job to another without involving any significant change in duties, skill and pay. It is the process s of placing employees where they can be utilized more eflectively. It includes:

a) developing transfer policies and procedures,
b) counselling employees and line management on transfers, and
c) evaluating transler policies.

9. Promotion-It is the advancement of an employee to a better and higher job. It is a process of filling up vacancies which occur in any organisation from time to time. To perform their function, personnel manager should

a) Develop equitable and fair promotion policies.
b) Advise line managers on matters relating to promotions.
c) Identify eligible men for promotion.
d) Establish rules regarding seniority.
e) Oversee the implementation of promotion policies.
f) Prepare scientific plans of rating the employees.
g) Make provisions for training for promotion.

10. Demotion, Discharge and Separations Human resource manager establishes policies regarding demotion. Demotion may be made because of a failure of the employee to meet job requirement or due to curtailment of operations. It may be due to employee's personal reasons or because another employee has greater seniority. Personnel manager also formulates policies regarding discharges and separations.

(B) ***Development Function***

This is a function of very great importance and will continue to grow, says Edwin Flippo, "because of the changes in technology, the realignment of jobs, and the increasing complexity of the managerial task." It includes the following activities:

1. Performance and Potential Appraisal- Most people like to know how they are doing. Performance appraisal serves to stimulate and guide employee development. It implies evaluating employee performance in terms of pre-determined criteria and his potential for development.

2. Executive Development-It is designing systematic executive development programmes. It includes:

a) Identifying the areas and skills in which executive development is needed.
b) Developing a variety of educational programmes.
c) Motivating the executives to participate and develop
d) Utilizing the services of specialists or institutions.
e) Evaluating the effectiveness of executive development programmes.

3. Organisation Development-It is an educational strategy intended to change the beliefs, attitudes, values, and structure of organisation so that it can adapt to new changes and challenges.

4. Training It is the process by which employees learn job skills and improve their work attitudes and knowledge to perform a particular job. It includes (a) identifying training needs of the company, (b) developing suitable training programmes, (c) identifying employees who need training and motivating them to go through the training programme, (d) conducting training programmes, and (e) measuring training results.

5. Career Planning and Development-Modem HR managers also need to plan for employee careers. It involves planning the career of employees and implementing career plans so as to fulfil their aspirations. A properly designed career development programme involves :

a) Assisting employees in assessing their own internal career needs;
b) Developing and publicizing available career opportunities in the organisation; and
c) Aligning employee needs and abilities with career opportunities.

(C) ***Compensation Function***

It refers to providing adequate and equitable remuneration to employees for their contribution to organisational objectives. It is one of the most important functions of personnel management. It consists of the following activities:

1. Job Evaluation-It is the quantitative measurement of relative job worth for the purpose of establishing wages rates. It involves (a) selecting suitable job evaluation methods; (b) classifying jobs in various categories; and (c) determining relative value of jobs in various categories

2. Wage and Salary Administration-It implies developing and operating a suitable wage structure. Good wage and salary plans are designed to attract capable employees to the organisation, to motivate them towards superior performance, and to retain their services in the concern. Wage and salary management involves:

a) Making wage surveys to find the going rates in the community.
b) Establishing job classifications in terms of wage brackets.
c) Operating wage and salary programme.
d) Making any adjustments that are necessary to keep wages and salaries in line with community or government requirements.

3. Bonus and Incentives-It involves payment of bonus under certain laws. The payment of non-statutory bonus, monetary incentives and other fringe benefits is necessary to motivate employees to higher productivity. A variety of supplementary pay plans are prepared. A system of financial incentives in addition to regular wage payment is developed so as to encourage a higher level of efficiency.

4. Financial Aids Various types of financial aids are given to employees such as advances on wages, loans during layoffs, medical allowance, payment of tuition fee for education, special discounts on company's products, insurance allowance, employee stock ownership plans, etc.

(D) ***Integration Function***

Edwin Flippo writes, "It is concerned with the attempt to effect a reasonable reconciliation of individual, societal, and organisational Interests." It involves the following activities:

1. Communications-It is the process of exchanging information, facts, attitudes, feelings, and opinions throughout the organisation. It has to do with the act of imparting ideas and making oneself understood by others.

2. Counselling It is an attempt to maintain constructive employee attitudes. It is an approach towards reducing conflict and integrating interests. Personnel managers and supervisors must remove emotional conflicts and tensions in the workplace through counselling.

3. Collective Bargaining It is a process in which representatives of labour and management meet and attempt to negotiate an agreement. It is a method of solving their problems.

4. Discipline-It is the process of developing policies and rules relating to employees' conduct. It is a form of training. Personnel manager must be fully aware of when, how, against whom, and why disciplinary action should be taken

5. Grievance Handling-A grievance is any dissatisfaction that adversely affects organisational relations and productivity. Personnel management handles grievances through a systematic machinery.

6. Conflict Management-Conflict may arise due to interpersonal or intergroup causes. It may also arise between an organisation and elements of environment. Personnel manager must handle it cordially and constructively

7. Quality of Work Life-Improving the quality of work life is a new and important function of human resource management. It reflects such things as adequate and fair compensation, a safe and healthy environment. job enrichment, less discrimination on the job, and opportunities for growth and self-respect on the job.

8. Industrial Relations-HRM seeks to establish effective and satisfactory relations with employees, government, and other industries. "Labour relations" refers to the efforts to maintain satisfactory accommodations and to resolve disagreements between employees and management.

(E) ***Maintenance***

It is concerned with the perpetuating a willing and able workforce. It involves protecting and promoting the physical and mental health of employees. It includes the following activities:

1. Health and Safety-Because of the increasing complexity and hazardous nature of modem industrial operations, personnel management is vitally concemed with health and safety measures. It aims to remove risks and human costs on the job.

2. Medical Services It is providing medical services and health care to employees. Its object is to prevent physical ailments, diseases and injuries sustained by employees on the job. The personnel manager arranges for(a) conducting periodical medical check-ups, (b) advising employees or hygienic and preventive measures, (c) rendering curative and preventive medical help and facilities.

3. Protection and Security-It is a function of safeguarding the company and its property from theft, fire, and other dangers. To perform this function, arrangements are made for security regulations, firefighting services, and guard or watchmen.

4. Social Security Social security is an important function of personnel management. It includes various social security schemes like insurance programmes, pension plans, disability compensation, old-age assistance, unemployment compensation plans, provident fund and gratuity programmes, etc.

5. Compliance with Labour Laws-HR manager should observe and comply with many labour laws. He should have proper knowledge of different legislations and governing rules relating to labour laws.

6. Employee Benefits and Services-To maintain a healthy, motivating and effective human environment in the organisation, HRM provides for various benefits and services to employees. These include the following:

(a) Services related to work performed, including upkeep of work cloth and uniforms, as well as provision of various types of tools used in connection with the work.

(b) Eating facilities, including company restaurants, lunch rooms, and vending machines.

(c) Transportation facilities, including bus service, company cars and assistance for car pools.

(d) Recreational and social services, including social clubs, libraries orchestras, athletics, summer camps, games, cultural programmes and other recreational areas.

(e) Educational services, including tuition refund plans, scholarships, educational loans, etc.

(f) Community services, including clinics and hospitals, parking facilities, community centres, etc.

7. Personnel Research-It is concerned with evaluating the effectiveness of personnel programmes, policies and procedures. It aims to develop improved employee attitudes and conditions of work.

8. Personnel Records-HR record is a stock of factual information on personnel in an organisation. A properly planned system of personnel record is the solution to many problems.

Q.4 Explain the Roles of Human Resource Manager.

Roles of Human Resource Manager

An HR manager plays a variety of roles in accordance with the changing needs and circumstances of organisation

1. As a Specialist and Counsellor: A specialist HR manager advises the different functional heads on various aspects of personnel function, such as manpower planning, recruitment, selection, orientation, training, appraisal, compensation etc. He provides new ideas, suggestions and informations on these matters. He advises the top executives on good personnel policies and on their uniform application.

2. As an Information Source: HR manager provides valuable information about labour laws, labour market, routine personnel matters, Industrial researches, personnel policies and other related areas. He knows legal rules. He keeps personnel records to provide the required information

3. As a Liaison Man: He coordinates the personnel activities of various departments. He serves as a connecting link. He acts as a "linking pin" between different departments of an organisation

4. As a Controller: The HR manager assists line managers in effective execution of personnel policies and programmes. The personnel matters of the organisation remain under his control. The personnel policies and procedures approved by him are adopted by all the departments. He is treated as an arm of the top management.

5. As a Change Agent: He brings changes in the organisation. He serves as an internal change agent to initiate improvements in personnel practices. He assists in introducing and implementing major institutional changes in the organisation. He brings innovation in personnel activities.

6. The Welfare Role: The HR manager looks after the safety, health, canteen, creche and other welfare activities of the company. He is treated as a housekeeper and the "catering man". He also observes the specific provisions of industrial laws with regard to welfare of employees.

7. The Problem Solver's Role: He is a problem solver in respect of issues involving human resource management. In union-management relations, he acts as fire fighter and as a shock absorber. He acts for management against trade union activities. He helps to remove disputes and conflicts between employer and workers. He plays the mediator role to settle disputes between labour and management. He is a peace-maker.

8. The Spokesman Role: As the HR manager deals intimately with many key organisational activities and functions, he acts as a spokesman for his concern. He represents his organisation because he has a better overall picture of it. He gives information and facts about it to the outside groups.

9. Productivity Man Role: The HR manager is considered an expert in human relations. He is regarded as good motivator and positivist. He is expected to understand the various needs and aspirations of his employees. Hence, he can boost up productivity by satisfying their wants. He can meet the challenges of fast changing industrial society.

10. As an Intellectual: The HR manager possesses the skills to articulate, understand and communicate personnel matters. He can conclude fruitful discussions. He can foresee the personnel problems and has the mental ability to deal with his people in an intelligible manner. He has the ability to draft agreements and frame policies.

11. As an Educator: The HR manager must be interested in leaming and also in achieving growth. He helps human beings to grow and realise their full potential. He provides opportunities for his employees to leam and to assimilate new ideas. He also reminds the management of its moral and ethical obligations towards employees.

12. As a Humanist and a Visionary: HR manager has deep faith in human values. He performs his duties with sensitivity and empathy. He ponders on his social obligations towards organisation. He has the ability to reasonably forecast future events and evolve its vision to meet the coming challenges.

13. As a Leader-HR manager is basically concerned with people and groups of people. He presents his ideal behaviour and sets his own example. He inspires his employees and motivates them towards better performance. He has social skills to harmonise the various interest groups. He integrates the individual interests with organisational goals.

14. As a Discriminator: An HR manager has the ability to discriminate between right and wrong and between justful and unjustly. He is a good observer of right conduct and has the capacity to spot talents amongst his people.

15. Strategic Partner: It is an important role in which he aligns HRM strategies to business strategies so that the company can execute its competitive strategies. When HR strategies are integrated within the organization, HR manager plays a major role in clarifying the firm's human resource problems and develops solutions to them. John Ivancevich has remarkably said, "In a strategic role the main responsibility for people management rests with any individual who is in direct contract with them or a line manager. Thus, any individual in an

organization who has responsibility for people is a human resource manager in addition to his regular position."

The strategic role of HR manager is explained below:

(a) To analyse and solve problems from a profit-oriented, not just a service-oriented, point of view.

(b) To assess and interpret costs or benefits of such HRM Issues as productivity, salaries and benefits, recruitment, training, absenteeism, overseas relocation, layoffs, meetings, and attitude surveys.

(c) To use planning models that include realistic, challenging, specific, and meaningful goals.

(d) To prepare reports on HRM solutions to problems encountered by the firm.

(e) To train the human resources staff and to emphasize the strategic Importance of HRM.'

16. Administrative Expert: HR manager designs and delivers efficient and effective HRM systems, processes and practices. These include systems for selection, training, developing, appraising and rewarding employees

17. Employee Advocate: This role entails managing the commitment and contributions of employees. It should be noted that no matter how skilled workers may be, if they are alienated or angry, they will not contribute their efforts to the firm's success, nor will they stay with the firm for long. Thus, the role of employee advocate is of great importance for firms seeking to gain competitive advantage through people.

18. Human Capital Developer: HR manager ensures that employees are continually developing the skills and capabilities they will need to be successful in the future.

19. Functional Expert: He deals with the administrative practices that are central to what the HR department offers the organisation (recruitment, selection, payroll etc.

20. Integration Role: HR manager aims to secure the integration of the individuals and groups with the organization. It reconciles individual and group goals with those of an organization. Thus, people feel a sense of involvement, commitment and loyalty towards the firm. The absence of this integration may cause frictions, personal jealousies, prejudices, personnel conflicts, cliques and factions in the organization.

21. Legal Role: A growing role of HR manager is to know, observe and get compliance of HR related laws and employment law. There are many occupational safety and health laws, factory Acts or labour laws which are applied to HR activities and employees. Because legal issues are so central to all HR activities, this role has become very important to play.

22. Developing and Implementing HR Policy: HR manager translates the strategy into action through HR policy. It develops appropriate policies for key HR activities. But policies without action are meaningless

23. Thinking Performer: The growing influence of HRM within organizations is also reflected in the changing role of HR department. HR Manager is a thinking performer. He consciously seeks to contribute to organizational purposes. He challenges the way in which things are done to find solutions that are better, cheaper or faster.

24. Mediation: Conflict at an individual level may occur between a manager and an employee or between two employees. In such situations, HR manager may be asked to intervene and try to resolve the conflict.

25. Promoting Employee Capability and Proficiencies: By identifying the skills, capabilities and profile of competencies necessary to meet future business challenges and by developing a plan to support employee and organizational learning, HR manager can directly impact on organizational effectiveness. This is a developmental role. As it is clear, being a human resource manager today is challenging, and requires several proficiencies.

26. Ethical Role: The HR Manager also tries to remove ethical lapses. He tries to maintain need for ethical corporate behaviour. It is clear that ethics needs to play a bigger role in HR managerial decisions.

Q.5 What is Organization? What are the types of Organization Structures?

Organisation refers to a collection of people who are working towards a common goal and objective. In other words, it can be said that organisation is a place where people assemble together and perform different sets of duties and responsibilities towards fulfilling the organisational goals.

Types of Organisations and their Structure

There are two broad categories of organisation, which are:

1. Formal Organisation
2. Informal Organisation

Formal Organisation: Formal organisation is that type of organisation structure where the authority and responsibility are clearly defined. The organisation structure has a defined delegation of authority and roles and responsibilities for the members.

The formal organisation has predefined policies, rules, schedules, procedures and programs. The decision-making activity in a formal organisation is mostly based on predefined policies.

Formal organisation structure is created by the management with the objective of attaining the organisational goals.

There are several types of formal organisation based on their structure, which are discussed as follows:

1. Functional Structure:

In a functional structure, the company organizes itself based on different functions, like marketing, finance, or operations. Each function operates independently with its own team, focused on its specialized area of expertise.
E.g. Consider a large manufacturing company. The marketing team is responsible for promoting products, the finance team manages financial matters, and the operations team handles production and logistics. Each team operates separately but collaborates to achieve overall company goals.

2. Divisional Structure:

In a divisional structure, the company is divided into smaller units, or divisions, based on products, services, or geographic locations. Each division functions like its own independent business, with its own leadership and resources.
E.g. Imagine a multinational corporation with divisions dedicated to different product lines such as electronics, healthcare, and clothing. Each division has its own management team, allowing for a tailored focus on specific products or markets.

3. Matrix Structure:

The matrix structure blends both functional and divisional approaches. Employees have dual reporting relationships, working under both a functional manager for their job role and a project manager for specific projects.
E.g. In a technology company, engineers may report to both a functional manager overseeing their technical skills and a project manager leading a specific project. This structure allows for flexibility and efficient project management.

4. Network Structure:

A network structure involves collaborating with external partners and outsourcing non-core functions. The company forms strategic alliances to access specialized expertise and resources.
E.g. A software company may collaborate with external firms for research and development, outsourcing specific tasks while concentrating on its core competencies in software development and marketing.

5. Team-Based Structure:

Team-based structures involve organizing employees into self-managed teams responsible for specific projects or tasks. These teams have the autonomy to make decisions collaboratively.
E.g. In a design agency, cross-functional teams are formed for each client project, consisting of designers, marketers, and developers. These teams work closely, leveraging their diverse skills to deliver comprehensive solutions.

6. Line Structure:

The line structure is a straightforward hierarchy where authority flows from top management to lower-level employees. Instructions and decisions come from the top and move down the chain of command.
E.g. In a small retail business, the owner or CEO is at the top of the hierarchy, followed by managers overseeing different departments, and finally, the employees who directly carry out tasks.

7. Line and Staff Structure:

This structure combines the simplicity of the line structure with specialized staff positions to support line managers. Staff specialists provide expertise and support while line managers retain decision-making authority.
E.g. In a manufacturing plant, a production manager (line) might be supported by staff specialists in quality control. While the production manager makes final decisions, the quality control specialists offer their expertise.

Informal Structure: Informal structures emerge from informal relationships and shared interests among employees, often outside the formal hierarchy. These connections influence how work gets done. In a startup environment, employees with a common interest in a particular technology or programming language might form an informal group. This group facilitates knowledge sharing and collaboration beyond the official structure.

Q.6 What is Human Resource Planning? Write the purpose and importance of HR planning.

The process of analyzing and identifying the need for and availability of Human Resources so that the Organization can meet its objectives.

The Process of determining an organization's human resources needs.

Human resource planning is a technique company uses to balance its flow of employees and prevent situations such as team member shortages or surpluses. This also ensures that the business has the right people with the appropriate skills and ability to build a strong workforce.

PURPOSE OF HR PLANNING

1. **To Assess Manpower Requirements:**

- HRP involves carefully analyzing the current and future needs of the organization in terms of the number and types of employees required. It's like creating a roadmap for staffing.
- *E.g.* Imagine a growing tech company. By using HRP, they estimate they'll need 15 more software developers next year to handle new projects and advancements.

2. **To Evaluate the Current Workforce:**

- HRP looks closely at the existing workforce, considering their skills, experiences, and how well they're performing in their roles. This helps in identifying strengths and areas for improvement.
- *E.g.* Think of a manufacturing company using HRP to assess its production team, ensuring they have the right skills to keep up with industry standards.

3. **To Make Effective Change Management:**

- HRP becomes crucial during times of change. It helps organizations adjust their workforce to smoothly navigate changes, making sure everyone is on board and prepared for the new ways of working.
- *E.g.* During a company merger, HRP steps in to identify where roles overlap, retaining key employees and making the transition seamless for everyone involved.

4. **To Increase the Organization's Productivity:**

- HRP aims to boost how efficiently the organization operates. By ensuring employees have the right skills for their roles, it's like fine-tuning a machine to work at its best.
- *E.g.* Picture a retail company using HRP to schedule the right number of employees during busy hours, resulting in excellent customer service and a more productive store.

5. **To Achieve Organizational Objectives:**

- HRP is the compass that ensures everyone in the organization is heading in the same direction. It aligns the workforce with the company's mission and vision for the future.
- *E.g.* Consider a non-profit organization using HRP to ensure it has a mix of volunteers and staff with the right skills to carry out its impactful initiatives.

6. **Optimum Utilization of Resources:**

- HRP prevents waste by finding the perfect balance—enough staff to get the job done without excess. It's like using resources wisely to avoid unnecessary costs.
- *E.g.* Think of a hospitality business using HRP to adjust staffing based on seasonal demand, ensuring they have the right number of employees to handle busy and slow periods.

7. **Analysing Manpower Gap:**

- HRP identifies gaps between the skills employees have now and the ones needed in the future. It's like putting together a puzzle to make sure nothing is missing.
- *E.g.* An IT company using HRP realizes there's a gap in artificial intelligence skills and starts training programs to fill that void.

8. **Succession Planning:**

- HRP thinks ahead, making sure there's a backup plan for key positions. It's like having understudies ready to step in when the main actors need a break.
- *E.g.* A manufacturing company uses HRP to plan for the future by identifying potential leaders and preparing them to take on critical roles when the time comes.

9. **Employee Development and Training:**

- HRP identifies where employees need to grow. It's like planting seeds and providing the right conditions for them to flourish through targeted training programs.
- *E.g.* A financial institution using HRP realizes the need for cybersecurity skills and starts training programs to equip its employees with the necessary expertise.

10. **Workforce Diversity and Inclusion:**

- HRP works towards creating a diverse and inclusive workplace. It's like painting a canvas with a broad range of colours and making sure everyone's unique talents are recognized.
- *E.g.* A technology company sets diversity goals through HRP, implementing recruitment strategies to attract a more diverse pool of candidates and fostering an inclusive work environment.

11. **Adapting to Market Trends:**

- HRP adjusts the workforce to keep up with changes in the market. It's like having a sail on a boat that can be adjusted to catch the changing winds.
- *E.g.* An e-commerce business using HRP adapts to the growing trend of online shopping by hiring additional IT specialists to enhance its online platforms.

12. **Managing External Workforce Trends:**

- HRP considers factors like job markets and legal changes. It's like keeping an eye on the weather to know what's coming and adjusting plans accordingly.
- *E.g.* A healthcare organization using HRP adjusts its hiring practices in response to changes in healthcare regulations, ensuring compliance and effective workforce management.

13. **Employee Engagement and Retention:**

- HRP focuses on keeping employees happy and committed. It's like tending to a garden, making sure everyone feels valued and wants to stay and grow.
- *E.g.* A tech company uses HRP to implement flexible work arrangements and career development opportunities, enhancing employee satisfaction and retention.

14. **Strategic Workforce Flexibility:**

- HRP helps organizations be adaptable. It's like having a toolbox with different tools, ready to handle any situation and ensure the workforce can flexibly meet changing needs.
- *E.g.* An event management company using HRP hires temporary staff during peak event seasons, ensuring the flexibility needed to handle varying demand levels.

15. **Ensuring Legal Compliance:**

- HRP ensures the organization follows the law. It's like having a rulebook that everyone plays by to ensure fair and legal practices.
- *E.g.* A pharmaceutical company adjusts its workforce through HRP to meet new safety regulations, ensuring compliance and preventing legal issues.

<u>IMPORTANCE OF HR Planning</u>

1. **Ensuring the Right Workforce at the Right Time:**

- HRP involves analysing future business needs and aligning the workforce accordingly. For instance, a retail chain utilizing HRP may evaluate historical sales data to ensure optimal staffing levels during peak shopping seasons, avoiding understaffing or overstaffing.

2. **Balancing Demand and Supply of Resources:**

- HRP aims to strike a delicate balance between the demand for employees and the organization's capacity to provide resources. In a manufacturing setting, HRP considers production forecasts, enabling the organization to adjust workforce levels efficiently to avoid unnecessary labor costs during periods of reduced demand.

3. **Assessing Future Personnel Needs:**

- HRP involves a meticulous assessment of future personnel needs by considering factors such as expansion plans or changes in business strategies. For example, a technology company using HRP may project the need for additional software developers to support upcoming product launches.

4. **Developing a Succession Plan:**

- HRP facilitates the creation of a succession plan, identifying and grooming employees for leadership roles. In a healthcare setting, HRP may pinpoint potential leaders within nursing staff, guiding targeted training programs to prepare them for managerial positions.

5. **Evaluating Personnel Weaknesses and Strengths:**

- HRP prompts organizations to conduct a comprehensive analysis of employee strengths and weaknesses. For instance, a customer service company leveraging HRP may identify a need for enhanced communication skills training to address weaknesses and improve overall service quality.

6. **Benefiting the Organization as a Whole:**

- HRP contributes to organizational growth by enhancing productivity, profitability, and skill levels. An educational institution employing HRP might strategically hire faculty members with expertise in emerging fields, attracting more students and fostering institutional advancement.

7. **Foundation for Other HRM Functions:**

- HRP serves as the foundation for various HR functions, providing essential data for recruitment, selection, training, and development. In a technology company, recruitment strategies are guided by HRP insights, ensuring the acquisition of talent aligned with the organization's objectives.

8. **Coping with Change:**

- HRP enables organizations to adapt to changes in demand, job content, and qualifications. For instance, an airline adjusting pilot recruitment criteria through HRP ensures compliance with new aviation safety regulations and technological advancements.

9. **Addressing Employee Turnover:**

- HRP becomes crucial in situations of employee turnover, guiding organizations in recruiting and hiring replacements. In a consulting firm, HRP might swiftly identify and fill vacant positions, minimizing disruptions to ongoing client projects.

10. **Reducing Uncertainty and Change:**

- HRP reduces uncertainty by providing a structured approach to workforce planning. An insurance company, utilizing HRP, may anticipate fluctuations in customer service demand during peak periods, ensuring adequate staffing levels.

11. **Facilitating Training and Development:**

- HRP identifies training needs to ensure employees possess the necessary skills. A software development company using HRP might invest in programming language training for developers, keeping their skills aligned with industry advancements.

12. **Integrating Individual and Organizational Needs:**

- HRP aligns individual and organizational goals, fostering a sense of shared purpose. A marketing agency leveraging HRP encourages employees to pursue professional development that aligns with the company's strategic marketing objectives.

13. **Guiding Recruitment Plans, Training Needs, IR Plans, etc.:**

- HRP guides various HR functions, shaping recruitment, training, and industrial relations plans. A manufacturing company, with HRP insights, tailors recruitment efforts to secure skilled workers in anticipation of new product launches.

14. **Meeting the Needs of a Diverse Workforce:**

- HRP plans for a diverse workforce by considering varied skills and backgrounds. An IT company using HRP might implement recruitment strategies to attract candidates from diverse backgrounds, fostering innovation through diverse perspectives.

15. **Adhering to Judicial Regulations:**

- HRP ensures workforce planning aligns with legal regulations. A pharmaceutical company, guided by HRP, adjusts its workforce plans to comply with new labor laws, maintaining ethical standards.

16. **Promoting Control and Adapting to Changes in Government Laws:**

- HRP promotes control over workforce management while adapting to changing government laws. A financial institution, employing HRP, adjusts HR policies to comply with new financial regulations, ensuring legal adherence and financial stability.

Q.7 What is the process of HR planning. Write the Guidelines to make HR planning effective.

Process of HR planning.

a. Environmental Scanning:

- Environmental scanning is carefully looking at things inside and outside the organization. This means checking technology changes, economic trends, cultural shifts, competitor strategies, and labor market dynamics.
- *E.g.* For instance, a tech company doing environmental scanning may look at new trends in the tech industry and analyze what competitors are doing.

b. Organizational Objectives and Policies:

- This step is about understanding what the organization wants to achieve and the rules it follows. It involves predicting potential staff movements based on the organization's plans and considering how changes in job design might affect the workforce.
- *E.g.* If a company has a rule to promote employees from within, human resource planning (HRP) would analyse this rule, predict job openings, and plan training for internal staff.

c. Demand Forecasting:

- Demand forecasting is crucial for HRP. It means predicting how many staff the organization will need in the future in terms of both quantity and quality.
- *E.g.* In a store, this could be predicting more customers during holidays and planning to hire temporary staff to handle the increased demand.

d. Supply Forecasting:

- Supply forecasting estimates where the organization can get the needed staff, both from inside and outside. Internally, it involves assessing current staff, using Markov analysis to predict movement, keeping skill records, and planning for replacements.
- *E.g.* A company might use Markov analysis to predict which employees will move up or change roles in the future.

Internal Sources:

- *Staffing and Manning Charts:* Visual tools showing staffing needs help identify gaps in the current workforce.
- *Markov Analysis:* Looking at past employee movements helps predict future staffing changes.
- *Skill Inventories:* Keeping records of employees' skills helps fill internal job vacancies.
- *Replacement and Succession Planning:* Identifying potential replacements for key positions ensures a smooth transition.

External Supply:

- *Campus Recruitment:* Hiring graduates directly from schools to meet future talent needs.
- *Exploring Competitors' Database:* Analysing what other companies are doing helps find potential external hires.

- *Consultancy:* Getting help from external agencies for talent acquisition.
- *Unsolicited Applications:* Considering applications from people who apply without being asked.

e. Estimating Manpower Gaps:

- This step involves carefully comparing the estimated workforce with what the organization will need, considering factors like location, employee characteristics, size, level, and skills. Action plans are then made based on this gap analysis.
- *E.g.* If a company expects to need more IT specialists but doesn't have enough, there's a manpower gap.

f. Action Planning:

- Based on the gap analysis, action planning involves taking quick and strategic steps to handle either too many or too few staff. If there are too many, this might involve cutting down, improving efficiency, or outsourcing. If there are too few, the focus is on hiring, training, and development.
- *E.g.* If there are too many staff, a company might decide to cut costs and become more efficient. If there are too few, the focus might be on hiring and training.

g. Evaluation and Control:

- This phase involves carefully checking how well the staff is doing and making corrections if things don't go as planned. It includes improving staff requirements, checking if HR objectives are met, and reviewing long-term plans. It also involves addressing staff and organizational concerns.
- *E.g.* If actual staff performance is not meeting the plan, HR might start more training programs to align staff with organizational goals. This phase also means regularly reviewing and adjusting long-term plans as the organization's needs change.

In conclusion, the Human Resource Planning process is a careful and strategic effort involving various analyses, predictions, and proactive measures to align the workforce with organizational goals, ensuring efficiency and adaptability to changes.

Guidelines to make HR planning effective.

- **Clear Understanding of Organizational Objectives:**

HR Planning should intricately align with the broader goals of the organization. This means comprehending the company's mission, vision, and strategic objectives.

E.g. Suppose a retail company aims to enhance its online presence. HR Planning, in this context, would focus on hiring professionals with e-commerce expertise and digital marketing skills.

- **Involvement of Top Management:**

The active participation of top executives, including CEOs and senior leaders, is vital in HR Planning. Their engagement ensures that HR strategies are synchronized with the overarching business objectives.

E.g. If the CEO emphasizes the importance of fostering an inclusive workplace culture, HR Planning would prioritize initiatives promoting diversity and inclusion.

- **Accurate Job Analysis:**

Job analysis involves a detailed examination of each role within the organization. It helps in defining job responsibilities, required skills, and qualifications.

E.g. In a manufacturing company, job analysis for a production supervisor might identify skills such as leadership, knowledge of production processes, and problem-solving abilities.

- **Flexible Planning:**

Flexibility in HR Planning implies the ability to adapt to changing circumstances. Plans should be dynamic, allowing adjustments based on evolving business conditions.

E.g. During a period of economic downturn, flexible HR Planning might involve strategies like cross-training employees to handle multiple roles, avoiding extensive layoffs.

- **Regularly Updated Information:**

HR Planning relies on up-to-date and accurate information about employees, market trends, and industry developments. Regular updates ensure the relevance and effectiveness of HR strategies.

E.g. Keeping a real-time database of employee skills enables HR to respond promptly to emerging needs, such as sudden demand for expertise in a new technology.

- **Consideration of External Factors:**

Effective HR Planning takes into account external factors, such as economic conditions, technological advancements, and changes in the labor market. Anticipating and responding to these external influences is crucial.

E.g. In a highly competitive job market, HR Planning may involve offering competitive salaries and benefits to attract and retain top talent.

- **Integration with Other HR Functions:**

HR Planning should seamlessly integrate with other HR functions, such as recruitment, training, and performance management. This integration ensures a holistic approach to managing human resources.

E.g. If recruitment identifies a shortage of skilled IT professionals, HR Planning can collaborate with the training function to develop in-house programs to upskill existing employees.

- **Employee Involvement and Feedback:**

Involving employees in the planning process fosters a sense of ownership and increases the likelihood of successful implementation. Employee feedback is valuable for understanding their needs and preferences.

E.g. Conducting regular employee surveys can reveal insights into workplace satisfaction, leading to HR Planning initiatives like wellness programs or flexible work arrangements.

- **Regular Monitoring and Evaluation:**

Continuous monitoring allows HR to track the progress of implemented strategies. Regular evaluation ensures that HR Planning remains effective and aligned with organizational goals.

E.g. If a recruitment strategy aimed at attracting diverse candidates is not yielding the expected results, ongoing monitoring enables HR to adjust the approach.

- **Legal Compliance:**

Adhering to labour laws and regulations is a fundamental aspect of effective HR Planning. Compliance ensures ethical practices and prevents legal complications.

E.g. Ensuring that hiring practices comply with anti-discrimination laws is crucial to avoid legal challenges and maintain a fair and inclusive workplace.

Q.8 Define Recruitment. Write its objectives. Also Explain the Factors affecting Recruitment Process.

Recruitment can be defined as the process of finding out prospective candidates for filling actual or projected vacancies in an organization. Recruitment enables the organization to obtain the number and types of individuals required for its continuous working.

Normally, it is an effort to gain the interest of the candidates looking for jobs, find the candidates interested in the job and create a group of potential employees, with the help of which the management can choose the suitable person for the job.

- According to Edwin B. Flippo, "**Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization".**
- According to Barber, **"Recruitment includes those practices and activities carried out by the organization with the primary purpose of identifying and attracting potential employees".**

Objectives of recruitment

(i) To attract people with multi-dimensional skills and experiences those suit the present and future organizational strategies as job roles are changing everyday.
(ii) To induct outsiders with a new perspective to lead the company,
(iii) To infuse fresh blood at all levels of the organization,
(iv) To develop an organizational culture that attracts competent people to the company,
(v) To search or head hunt/head pouch people whose skills fit the company's values,

To devise methodologies for assessing psychological traits,
To seek out non-conventional development grounds of talent,
To search for talent globally and not just within the company,
To design entry pay that competes on quality but not on quantum,
To anticipate and find people for positions that does not exist yet.
To fulfill the objectives of business and pushing it on the path of its development.
To divide the workload.
To expand the organization

Factors affecting Recruitment Process

Internal and external factors affecting the recruitment process in human resource management:

Internal Factors:

1. Recruitment Policy

- The organization's recruitment policy, which can involve hiring from internal and external sources, significantly impacts the recruitment process. This policy sets the objectives for recruitment and establishes a framework for its implementation.
- *E.g.* If an organization prioritizes internal promotions, it might focus on training programs to develop the skills of existing employees for higher-level positions.

2. Human Resource Planning

- Effective human resource planning helps identify gaps in the existing workforce, enabling the organization to determine the number of employees needed and the required qualifications and skills.
- *E.g.* A company conducting human resource planning might analyze its current workforce to identify areas where additional expertise is needed, guiding the recruitment process.

3. Size of the Organization

- The size of the organization influences recruitment. Expansion plans or increased operations may necessitate hiring more personnel.
- *E.g.* A company planning to open new branches may engage in extensive recruitment to meet the demand for additional staff.

4. Cost Involved in Recruitment

- Recruitment costs, including advertising, interviews, and onboarding, impact the recruitment process. Organizations seek cost-effective recruitment sources.
- *E.g.* Choosing to recruit through online platforms or employee referrals might be more cost-effective for an organization compared to using external agencies.

5. Growth and Expansion

- Organizations undergoing growth or expansion often require additional manpower to support new operations.
- *E.g.* A retail chain expanding its presence into new markets may need to recruit more store staff to manage the increased workload.

External Factors:

1. Supply and Demand

- The availability of manpower, both within and outside the organization, plays a crucial role in recruitment.
- *E.g.* In a competitive industry where skilled workers are in high demand, organizations may face challenges in attracting qualified candidates.

2. Labour Market

- Employment conditions in the geographical area where the organization operates influence recruitment efforts.
- *E.g.* If a region has a shortage of skilled labor, organizations may need to offer competitive salaries and benefits to attract suitable candidates.

3. Goodwill/Image of the Organization

- The reputation of the organization affects its ability to attract talent. Positive employer branding enhances recruitment efforts.
- *E.g.* A company known for its commitment to social responsibility and employee well-being may find it easier to attract top talent.

4. Political-Social-Legal Environment

- Government regulations, especially those related to discrimination, impact recruitment practices.
- *E.g.* Laws promoting equal opportunity employment affect how organizations approach diversity and inclusion in their recruitment strategies.

5. Unemployment Rate

- Economic conditions, including the unemployment rate, influence the availability of applicants.
- *E.g.* During economic downturns, organizations may receive more applications due to increased unemployment, allowing them to select from a larger pool of candidates.

6. Competitors

- The recruitment policies of competitors can impact an organization's strategies, necessitating adjustments to stay competitive.
- *E.g.* If a competitor introduces attractive employee benefits, a company may need to enhance its own benefits package to remain competitive.

Recruitment is a vital function requiring adaptability to both internal and external factors, ensuring organizations secure the right talent for their needs. The continuous evaluation and adjustment of recruitment strategies are essential for success in the dynamic business environment.

Q.9 Explain the Sources of Recruitment. Also give the Advantages and Disadvantages of the sources.

Internal Sources of Recruitment:

1. Transfer

Transferring employees internally involves moving them from one department or location to another within the organization.

E.g. If an employee from the marketing department with relevant skills is transferred to the sales department to meet increased demand.

2. Promotion

Promoting employees entails advancing them to higher positions within the organizational hierarchy.

E.g. A skilled junior software developer being promoted to a senior developer after demonstrating consistent high performance.

3. Former Employees

Rehiring individuals who have previously worked for the organization.

E.g. Bringing back a former marketing specialist who left the company but possesses unique industry knowledge.

4. Apprentice

Employing apprentices who undergo training within the organization.

E.g. A manufacturing company hiring apprentices to train alongside experienced workers, preparing them for future roles.

5. Dependents

Hiring family members or dependents of current employees.

E.g. An organization employing the child of an existing employee who possesses relevant skills and qualifications.

6. Employee Referrals

Encouraging current employees to recommend suitable candidates for open positions.

E.g. A software engineer recommending a former colleague with excellent programming skills for a vacant role.

7. Job Posting

Internally advertising job openings to existing employees.

E.g. Posting a notice within the organization's intranet about a managerial position available in the finance department.

8. Previous Applicants

Considering individuals who have previously applied for positions within the organization.

E.g. Revisiting resumes of candidates who applied for a marketing position and considering them for a newly opened role.

Advantages of Internal Recruitment:

1. Familiarity

Internal candidates are familiar with the organization's processes and culture.
E.g. An internal candidate understanding the company's communication style and expectations.

2. Better Utilization of Internal Talent

Leveraging existing skills and expertise within the organization.
E.g. Promoting a talented graphic designer to a role that aligns with their expertise.

3. Economy (Less Effort and Money)

Internal recruitment is cost-effective compared to external hiring.
E.g. Avoiding external recruitment costs, such as advertising, by promoting a competent employee.

4. Increase in Morale of the Employees

Promotions and internal opportunities boost employee morale.
E.g. Team members feeling motivated when witnessing colleagues progressing in their careers.

5. Provide Job Security to Your Employees

Internal recruitment assures employees of job stability.
E.g. Knowing that internal opportunities exist reduces job insecurity among staff.

6. Reduce Time to Hire

Internal recruitment processes are often quicker than external ones.
E.g. Promoting an internal candidate swiftly to fill a critical role without an extensive hiring process.

7. Reduces Risk of Bad Hiring

Internal candidates are known entities, reducing the risk of poor hiring decisions.
E.g. Selecting a current employee with a proven track record mitigates the risk of a mismatch.

Disadvantages of Internal Recruitment:

1. Create Resentment Among Employees and Managers

Colleagues may feel overlooked, leading to resentment.
E.g. Employees who expected a promotion may feel resentful if a different colleague is chosen.

2. Leave a Gap in Your Existing Workforce/Chances of Conflict

Moving an employee may create a gap in their previous role.
E.g. A sales team may face challenges if a top-performing salesperson is promoted to a managerial position.

3. Limit Your Pool of Applicants

Restricting the candidate pool to internal resources may limit diversity.
E.g. Overlooking external candidates with innovative ideas because of an internal focus.

4. Result in Inflexible Culture/Inbreeding

Over-reliance on internal recruitment can lead to a stagnant culture.
E.g. A lack of fresh perspectives if all promotions are internal.

5. Absence of Competition

Internal recruitment may lead to complacency without external competition.
E.g. Employees may not strive for improvement if promotions are guaranteed from within.

External Sources of Recruitment:

1. **Campus Recruitment**

Campus recruitment involves visiting educational institutions to identify and hire fresh graduates, providing organizations with a pool of young talent.
E.g. A leading technology company actively participates in job fairs at renowned universities, recruiting computer science graduates with cutting-edge skills.

2. **Gate Recruitment**

Gate recruitment leverages standardized tests like the Graduate Aptitude Test in Engineering (GATE) to evaluate and hire candidates with specific technical or engineering expertise.
E.g. Government organizations frequently use GATE scores to select highly skilled engineers for various positions.

3. **Advertisement**

Organizations promote job openings through diverse media channels, reaching a broad audience to attract a wide range of applicants.
E.g. Posting job vacancies on online platforms, newspapers, and social media to ensure visibility and attract a diverse talent pool.

4. **Employee Trade Associations/Clubs**

Recruiting through industry-specific associations or clubs helps identify candidates with a genuine interest and background in the field.
E.g. A software company collaborates with a programming enthusiasts' club to tap into a community passionate about coding and development.

5. **Professional Associations**

Organizations benefit from memberships in professional groups, accessing a network of skilled professionals within a specific industry.
E.g. A marketing firm's membership in a digital marketing association provides access to a pool of experienced professionals in the digital marketing field.

6. **Deputation**

Hiring employees temporarily from other organizations or departments allows organizations to fill skill gaps for specific projects.
E.g. An IT company brings in software developers from a partner company on a temporary basis to work on a critical project.

7. **Employment Programs by Government**

Participating in government-sponsored employment programs allows organizations to contribute to reducing unemployment and find suitable candidates.
E.g. A company hiring individuals through a government initiative focused on creating employment opportunities for specific demographics.

8. **Private Employment Agencies**

Engaging third-party agencies for recruitment services streamlines the hiring process by leveraging the expertise of professionals.
E.g. A manufacturing company employs a recruitment agency to identify and attract skilled workers for its production facilities.

9. **Professional Recruiting Firms**

Collaborating with specialized recruiting firms facilitates the hiring of executive-level talent and individuals with niche skills.
E.g. A finance company partners with a recruiting firm to identify and hire a chief financial officer with extensive financial expertise.

10. **Unsolicited Applications**

Considering applications received spontaneously from external candidates broadens the talent pool and provides opportunities for individuals genuinely interested in the organization.
E.g. Reviewing unsolicited resumes from individuals expressing interest in working for the company, showcasing their enthusiasm and skills.

11. **Raiding**

Actively recruiting employees from competitor organizations helps organizations acquire top talent and industry expertise.
E.g. Hiring a leading sales executive from a competitor, bringing in valuable insights and a proven track record in sales.

12. **Labour Union**

Collaborating with labor unions allows organizations to identify potential candidates with specific skills aligned with unionized industries.
E.g. A construction company works with a union to hire skilled workers for a large-scale construction project.

13. **Computer Databases**

Utilizing online databases to search for potential candidates with specific skills and qualifications streamlines the recruitment process.
E.g. Accessing professional networking sites and industry-specific databases to identify candidates with the desired expertise.

Advantages of External Recruitment:

1. **Access to More Candidates**

External recruitment widens the talent pool, providing access to a diverse range of candidates.
E.g. Considering candidates from different geographical locations and cultural backgrounds, enhancing diversity.

2. **New Skills and Expertise**

External hires bring fresh skills and perspectives, contributing to innovation and organizational growth.
E.g. Hiring a marketing professional with expertise in emerging trends, enhancing the company's marketing strategies.

3. **Offers Fresh Perspectives**

External candidates introduce new ideas and viewpoints, fostering creativity within the organization.
E.g. A new team member from a different industry suggesting innovative approaches to problem-solving.

4. **Improves Efficiency/Higher Motivation and Performance of Existing Employees**

The induction of new hires can inspire existing employees to enhance their performance and adopt a proactive attitude.
E.g. The arrival of a dynamic team member boosting the morale of the entire team, leading to improved overall efficiency.

5. **Enhances Company Diversity**

External recruitment contributes to a more diverse workplace, fostering a rich mix of experiences and backgrounds.
E.g. Employing individuals with varied cultural and educational backgrounds, enriching the organizational culture.

6. **Access to Specialized, Qualified, and Experienced Candidates**

External hires often possess specialized skills and qualifications that contribute to specific organizational needs.
E.g. Recruiting a senior software developer with expertise in a particular programming language, meeting specific project requirements.

7. **Improves Competition**

External hiring introduces competition within the organization, motivating employees to continually enhance their skills and performance.
E.g. New hires bringing a competitive spirit, encouraging existing employees to strive for excellence.

8. **Reduces Employee Tension/In-House Tension**

External recruitment can alleviate internal conflicts and favouritism concerns associated with internal promotions.
E.g. Hiring from outside to avoid internal conflicts arising from promotions and ensuring a fair and transparent recruitment process.

9. **Long-Term Benefits and Growth (Continued)**

Strategic external recruitment contributes to long-term organizational growth, aligning with the company's vision and strategic objectives.
E.g. Bringing in a seasoned executive from a related industry as part of leadership succession planning, ensuring continuity and sustainable growth.

Disadvantages of External Recruitment:

1. **Longer Recruitment Process**

External recruitment processes tend to be more time-consuming than internal processes, delaying the onboarding of new talent.
E.g. Conducting multiple rounds of interviews and assessments for external candidates, extending the overall recruitment timeline.

2. **Higher Costs**

External recruitment involves higher costs related to advertising, recruitment agencies, and onboarding processes.
E.g. Investing in extensive advertising campaigns and paying recruitment agencies to identify suitable candidates, contributing to increased expenses.

3. **New Recruits Require Additional Training**

External hires often require additional training to adapt to the organization's culture and specific job requirements.
E.g. Allocating resources for training programs to integrate new hires into the company's processes and values.

4. **Cultural Fit**

External hires may take time to assimilate into the organization's culture, potentially leading to initial challenges.
E.g. A new employee from a different industry adapting to the company's work culture and team dynamics.

5. **Demotivating**

Current employees may feel demotivated or overlooked when external candidates are preferred for key positions.
E.g. Existing team members expressing dissatisfaction when a leadership role is filled by an external candidate instead of internal promotion.

6. **Uncertainty**

External hires may bring an element of uncertainty as their performance and cultural fit are yet to be proven.
E.g. Uncertainty among team members about how well a new external hire will adapt to the company's work environment.

Q.10 Elaborate the Process of Recruitment.

Process of Recruitment

The recruitment process is a vital function within human resource management that involves several intricate steps to identify, attract, and select qualified individuals to fulfil staffing needs within an organization. In this detailed overview, each stage of the recruitment process will be explored, shedding light on its significance and providing practical examples for better understanding.

1. Receiving Requisitions:

The process kicks off with receiving requisitions from various departments within the organization. These requisitions outline the specific staffing needs based on increased workload, expansion plans, or other operational requirements. For example, if the sales team is experiencing a surge in demand, a requisition is submitted to the HR department to bring in additional sales representatives.

2. Recruitment Planning:

Once requisitions are received, the HR team engages in recruitment planning. This phase involves a strategic approach to fulfilling the personnel requirements efficiently. Factors such as budget constraints, timeframes, and available recruitment sources are carefully considered during this planning stage. For instance, if the budget allows, the HR team might plan to utilize both internal and external recruitment sources.

3. Assess Personnel Requirements (Job Descriptions, Job Specifications):

Creating detailed and accurate job descriptions and specifications is a crucial step. Collaborating with hiring managers, the HR team defines the skills, qualifications, and responsibilities associated with the position. For instance, a job description for a software developer might specify proficiency in certain programming languages and a minimum number of years of experience.

4. Identifying Recruitment Sources:

Effective recruitment involves tapping into various sources, both internal and external, to attract a diverse pool of candidates. This can include internal channels like company job boards and external platforms such as industry-specific websites, social media, and recruitment agencies. Identifying the right mix of sources enhances the chances of finding suitable candidates.

5. Contacting Sources:

After identifying recruitment sources, the HR team initiates contact. This could involve posting job openings on various platforms, reaching out to recruitment agencies, or leveraging professional networks. For example, posting a job opening on a specialized job portal or reaching out to a recruitment agency with expertise in the relevant industry.

6. Application Pool:

As applications start pouring in, the HR team begins building an application pool. This pool consists of potential candidates who have expressed interest in the advertised positions. A diverse application pool allows the organization to choose from a range of skills and experiences. In the case of a marketing position, applications might come from candidates with backgrounds in digital marketing, traditional advertising, or market research.

7. Selection Process:

The selection process is a critical phase involving the review of applications, interviews, and assessments. This step aims to identify candidates who not only possess the required skills and qualifications but also align with the organization's culture. For instance, initial phone interviews may be conducted to shortlist candidates before inviting them for in-person interviews.

8. Evaluation Process:

Post-interviews and assessments, the HR team enters the evaluation process. This phase involves carefully assessing each candidate based on predetermined criteria. Factors such as technical skills, cultural fit, and experience are considered during the evaluation. For example, candidates may be scored on a range of attributes, and the cumulative scores guide the final decision-making process.

In Conclusion:

In conclusion, the recruitment process is a multifaceted journey that demands careful planning, effective communication, and meticulous evaluation.

Q.11 What is selection? Write its characteristics.

Selection

The process of selection and shortlisting of the right candidates with the necessary qualifications and skill set to fill the vacancies in an organization.

- Selection is a part of recruitment function.
- Selection is the process of choosing people by obtaining and assessing information about the applicants with a view to matching these with job requirement

Definitions:

Dale Yoder-"Selection is the process by which candidates for employment are divided into two classes those who will be offered employment and those who will not".

Steven P. Robbins- "Selection is the process of screening job applications to ensure that the most appropriate candidates are hired".

Characteristics

- **Process of Picking the Best Suited Individuals:**

The selection process is about choosing the most suitable individuals for a job. It involves evaluating candidates based on specific criteria to ensure they possess the necessary skills and qualifications.
E.g. When hiring for a customer service position, the selection process may focus on candidates with strong communication skills, empathy, and problem-solving abilities.

- **Negative Process:**

Selection is a negative process as it involves eliminating candidates who do not meet the required criteria. The goal is to narrow down the pool of applicants to those who best fit the job requirements.
E.g. If a job requires a certain level of experience, candidates without the specified experience might be excluded during the initial stages of the selection process.

- **Sequence of Hurdles:**

Selection is like a sequence of hurdles where candidates face assessments and evaluations at different stages. Successfully overcoming each hurdle brings them closer to being chosen for the position.

E.g. In the selection process for a project management role, candidates might go through an initial interview, a skills assessment, and a final interview, with each stage serving as a hurdle.

- **Begins After Scanning Applications:**

The selection process starts only after a sufficient number of applications have been reviewed. This ensures that the organization has a pool of candidates to assess and choose from.
E.g. If a company receives 100 job applications for a marketing position, the selection process begins after a thorough review of these applications to identify potential candidates for further evaluation.

- **Sorting Process:**

Selection is a sorting process where candidates are categorized based on their qualifications and suitability for the job. It involves organizing and classifying applicants to make informed decisions.
E.g. When hiring for a data analysis role, the selection process may involve categorizing candidates based on their proficiency in statistical analysis, data visualization, and programming skills.

- **Comprehensive Evaluation:**

Selection involves a thorough assessment of candidates, considering not only their skills but also their cultural fit and potential contributions to the organization.
E.g. In a selection process for a teamwork-oriented environment, candidates may participate in group activities to evaluate how well they collaborate with others.

- **Objective Criteria:**

The selection process relies on objective criteria, such as education, experience, and skills, to minimize bias and ensure fair evaluation.
E.g. When hiring for an accounting position, the selection criteria may include a specific degree, a minimum number of years of experience, and proficiency in relevant accounting software.

- **Continuous Improvement:**

Organizations use feedback from previous selections to improve the process continually. This involves refining criteria, updating assessments, and enhancing the overall effectiveness of the selection process.
E.g. If feedback suggests that a particular interview question is not providing valuable insights, the organization may revise the question to better assess candidates' abilities.

Q.12 What are the factors affecting Selection.

Factors affecting selection

INTERNAL ENVIRONMENTAL FACTORS	EXTERNAL ENVIRONMENTAL FACTORS

• Size of the organization • Type of organization • Applicant pool • Speed of decision making • Organizational Culture • Budget Constraints • Leadership Style • Employee Involvement	• Nature of the labor market • Trade unions • Government regulations • Economic Conditions • Technological Advancements: • Globalization • Demographic Trends • Social Media Presence • Industry Reputation • Educational Institutions • Cultural and Social Trends

1. **Size of the Organization:**

The size of an organization influences the selection process. In smaller companies, decision-making may be more centralized, while larger organizations may have more complex selection procedures involving multiple departments.

E.g. In a small startup, the CEO may personally interview candidates, whereas in a large corporation, there might be a dedicated HR team handling initial screenings.

2. **Type of Organization:**

The nature of the organization, whether it's for-profit, non-profit, government, or a startup, affects the criteria used for selection. Different types of organizations may prioritize specific skills or values.

E.g. A non-profit organization may prioritize candidates with a strong commitment to social causes, while a for-profit company may emphasize profitability and market competitiveness.

3. **Applicant Pool:**

The number and quality of applicants influence the selection process. A limited pool may lead to a more thorough evaluation of each candidate, while a large pool might require more efficient screening methods.

E.g. In a competitive job market, a tech company may receive numerous applications for a software development position, necessitating rigorous screening to identify the most qualified candidates.

4. **Speed of Decision Making:**

The speed at which decisions are made during the selection process can impact the organization's ability to attract and secure top talent. Delays may result in losing qualified candidates to other opportunities.

E.g. If a company takes an extended period to finalize hiring decisions, skilled candidates may accept offers from other companies with quicker decision-making processes.

5. **Organizational Culture:**

The values, beliefs, and practices that define an organization's culture impact the selection process. Cultural alignment becomes a key consideration in evaluating candidates.

E.g. In a company with a collaborative and team-oriented culture, the selection process may emphasize interpersonal skills and the ability to work effectively in a team.

6. **Budget Constraints:**

The financial resources available to the organization influence the selection process. Budget constraints may impact the extent of recruitment efforts, including advertising, outreach, and the use of external recruitment agencies.

E.g. A startup with limited funding may rely on cost-effective methods such as social media and employee referrals for recruitment.

7. **Leadership Style:**

The leadership style within an organization can influence the selection process. The preferences and priorities of leaders may shape the criteria used to evaluate candidates.

E.g. A leadership team that values innovation and creativity may prioritize candidates who have demonstrated these qualities in their previous work.

8. **Employee Involvement:**

In some organizations, employees may play a role in the selection process, providing input or participating in interviews. This involvement can impact the overall decision-making process.

E.g. Employees in a customer service department might be involved in the selection of a new team member to ensure a good fit within the existing team.

EXTERNAL ENVIRONMENTAL FACTORS:

1. **Nature of the Labor Market:**

The external labor market's conditions, such as high demand for specific skills or a surplus of qualified candidates, affect the ease or difficulty of finding suitable employees.

E.g. In a booming tech industry where, skilled professionals are in high demand, organizations may face challenges in attracting top talent due to increased competition.

2. **Trade Unions:**

The presence and influence of trade unions can impact the selection process by introducing collective bargaining and negotiation aspects into hiring decisions.

E.g. In industries with strong unions, hiring decisions may involve discussions and agreements with union representatives to ensure fair treatment and adherence to established labor standards.

3. **Government Regulations:**

External regulations imposed by government bodies influence the selection process, ensuring fairness, non-discrimination, and compliance with labor laws.

E.g. Anti-discrimination laws may prohibit organizations from making hiring decisions based on factors such as age, gender, or ethnicity, promoting equal opportunities for all candidates.

4. **Economic Conditions:**

The overall economic climate, including factors like inflation, recession, or economic growth, can impact an organization's hiring decisions and budget for recruitment.

E.g. During an economic downturn, organizations may adopt more conservative hiring practices, leading to a reduction in the number of positions available and increased competition among job seekers.

5. **Technological Advancements:**

Changes in technology can influence the skills and qualifications required for certain positions, affecting the criteria used in the selection process.

E.g. The introduction of new software in a field may prompt organizations to seek candidates with updated technical skills, adjusting their selection criteria accordingly.

6. **Globalization:**

Globalization can expand the talent pool, allowing organizations to consider candidates from different geographic locations. This diversity introduces new challenges and considerations in the selection process.

E.g. A multinational company may utilize video interviews to assess candidates from different time zones, adapting the selection process to accommodate global talent.

7. **Demographic Trends:**

Changes in the demographic composition of the workforce, such as an aging population or increased diversity, can influence selection criteria and strategies.

E.g. In response to an aging workforce, organizations may implement succession planning and mentorship programs to identify and develop future leaders.

8. **Social Media Presence:**

The organization's presence on social media platforms can impact the selection process, as candidates may research and form perceptions based on the company's online reputation.

E.g. A positive and engaging social media presence may attract a larger and more diverse pool of candidates, contributing to a more competitive selection process.

9. **Industry Reputation:**

The reputation of the industry in which an organization operates can influence the selection process. Candidates may be attracted or discouraged based on perceptions of the industry.

E.g. The technology industry's reputation for innovation may attract candidates seeking dynamic and cutting-edge work environments.

10. **Educational Institutions:**

The availability and quality of educational institutions in the region can impact the skills and qualifications of the local talent pool, influencing the selection process.

E.g. In areas with renowned engineering schools, organizations may have access to a pool of highly skilled candidates with strong technical backgrounds.

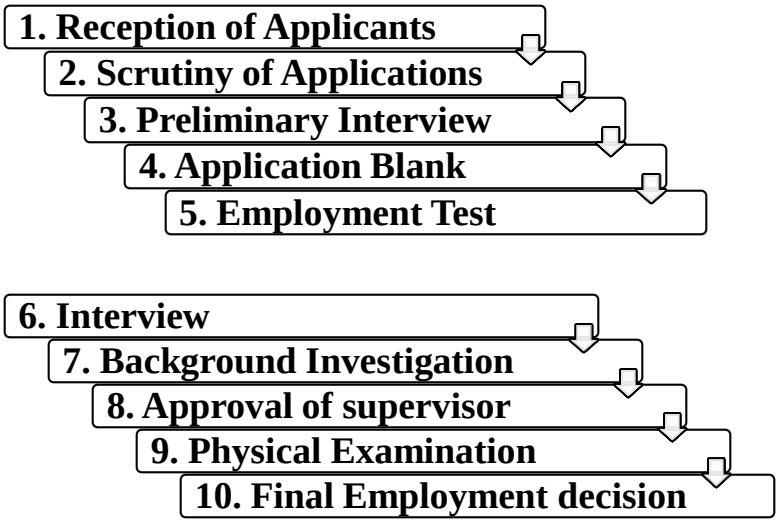
11. **Cultural and Social Trends:**

Evolving cultural and social trends can shape the expectations and preferences of job seekers, prompting organizations to adapt their selection processes to align with these changes.

E.g. The growing emphasis on work-life balance may lead organizations to offer flexible work arrangements, impacting the criteria considered during the selection process.

Q.12 Describe a model procedure for selection of personnel in an Institution.

Selection Procedure



1. **Reception of Applicants:**

The selection process begins with the reception of job applications from interested candidates. This involves collecting resumes, cover letters, and other relevant documents from individuals seeking employment with the organization.

E.g. A company posts a job opening on its website and various job boards, inviting potential candidates to submit their applications electronically or in person.

2. **Scrutiny of Applications:**

After receiving applications, the HR team or hiring manager scrutinizes them to ensure they meet the basic requirements for the job. This initial review helps in shortlisting candidates for further evaluation.

E.g. For a marketing position requiring a bachelor's degree, the scrutiny process involves confirming that applicants possess the necessary educational qualifications.

3. **Preliminary Interview:**

Shortlisted candidates may undergo a preliminary interview to assess their basic communication skills, motivation, and initial fit for the position. This interview is often brief and aims to narrow down the candidate pool.

E.g. A phone interview may be conducted to ask candidates about their interest in the role, availability, and willingness to relocate, if necessary.

4. **Application Blank:**

Candidates who pass the preliminary interview may be required to fill out an application blank, providing detailed information about their education, work experience, skills, and other relevant details.

E.g. An application blank may include sections for candidates to list their previous employment history, educational qualifications, certifications, and any special skills they possess.

5. **Employment Test:**

Some positions may involve specific skills or aptitude requirements, and candidates may be asked to take employment tests. These tests assess the candidate's ability to perform tasks relevant to the job.

E.g. An IT role may include a coding test to evaluate a candidate's programming skills, ensuring alignment with the job's technical requirements.

Types of Selection Tests:

1. **Aptitude Tests:**

Aptitude tests assess an individual's inherent ability or capacity to acquire specific skills or perform certain tasks. These tests measure a person's potential to learn and apply new skills relevant to the job.

E.g. A programming aptitude test may be administered to assess a candidate's ability to grasp coding concepts and solve problems, regardless of their prior programming experience.

(a) Intelligence Tests:

These tests measure capacity for comprehension, reasoning, word fluency, verbal comprehension, numbers, memory and space. Other factors such as digit spans — both forward and backward, information known, comprehension, vocabulary, picture arrangement and object assembly.

(b) Mechanical Aptitude Tests:

These tests measure the capacities of spatial visualization, perceptual speed and knowledge of mechanical matter. These tests are useful for selecting apprentices, skilled, mechanical employees, technicians, etc.

(c) Psychomotor Tests:

These tests measure abilities like manual dexterity, motor ability and eye-hand co-ordination of candidates. These tests are useful to select semi-skilled workers and workers for repetitive operations like packing and watch assembly.

(d) Clerical Aptitude Tests:

Measure specific capacities involved in office work. Items of this test include spelling, computation, comprehension, copying, word measuring, etc.

2. **Achievement Tests:**

Achievement tests evaluate a candidate's existing knowledge or skills in a particular area. These tests focus on what an individual has already learned or accomplished.

E.g. In the context of hiring for a language translation position, an achievement test may assess the candidate's proficiency in multiple languages based on their previous language learning and usage.

(a) Job Knowledge Test:

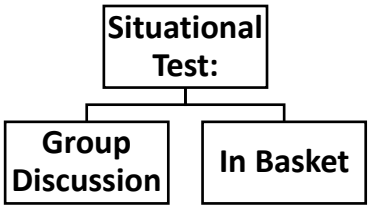
Under this test a candidate is tested in the knowledge of a particular job. For example, if a junior lecturer applies for the job of a senior lecturer in commerce, he may be tested in job knowledge where he is asked questions about Accountancy Principles, Banking, Law, Business Management, etc.

(b) Work Sample Test:

Under this test a portion of the actual work is given to the candidate as a test and the candidate is asked to do it. If a candidate applies for a post of lecturer in Management, he may be asked to deliver a lecture on Management Information System as work sample test.

3. **Situational Tests:**

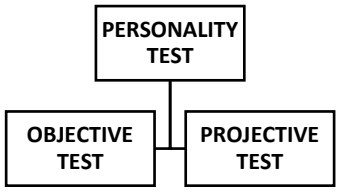
Situational tests present candidates with job-related scenarios to evaluate their ability to handle specific situations they might encounter in the workplace. These tests assess practical problem-solving and decision-making skills.



a) **Group Discussion:** This test is administered through group discussion approach to solve a problem under which candidates are observed in the areas of initiating, leading, proposing valuable ideas, conciliating skills, oral communicating skills, coordinating and concluding skills

b) **In Basket:** Situational test is administered through in basket. The candidate, in this test, is supplied with actual letters, telephone and telegraphic message, reports and requirements by various officers of the organization, adequate information about the job and organization. The candidate is asked to take decisions on various items based on the in-basket information regarding requirements in the memoranda.

4. **Interest Tests:** These tests are inventories of the likes and dislikes of candidates in relation to work, job, occupations, hobbies and recreational activities. The purpose of this test is to find out whether a candidate is interested or disinterested in the job for which he is a candidate and to find out in which area of the job range/occupation the candidate is interested.
5. **Personality Tests:**



a. Objective Test:

Objective personality tests are structured assessments with clear and predetermined questions or statements. Respondents select their answers from given options. These tests aim to measure specific traits, behaviours, or psychological attributes in a standardized and quantifiable manner.

b. Projective Test:

Projective personality tests present ambiguous stimuli, such as images, words, or situations, and ask respondents to interpret or project their thoughts and feelings onto these stimuli. The responses are open-ended and subjective, providing insights into an individual's unconscious thoughts and emotions.

6. **<u>Interview:</u>**

Candidates who successfully pass previous stages are typically invited for a comprehensive interview. This in-depth discussion allows the employer to assess the candidate's qualifications, experience, and suitability for the role.

E.g. During an interview for a sales position, the interviewer may inquire about the candidate's past sales achievements, customer relationship management skills, and ability to meet targets.

7. **Background Investigation:**

Employers may conduct background investigations to verify the information provided by candidates. This includes checking references, contacting previous employers, and ensuring the accuracy of the candidate's claims.

E.g. Contacting references to confirm a candidate's work history, performance, and reliability in previous positions.

8. **Approval of Supervisor:**

The hiring decision often requires the approval of the supervisor or manager responsible for the new employee. This ensures that the selected candidate aligns with the team's needs and goals.

E.g. A department manager reviews the qualifications and interview feedback of a candidate before giving approval for the candidate's hiring.

9. **Physical Examination:**

Certain positions may require candidates to undergo a physical examination to ensure they meet health and safety standards relevant to the job.

E.g. Jobs that involve physical labor or require specific health standards, such as firefighting or healthcare roles, may necessitate a physical examination to confirm the candidate's fitness for the position.

10. **Final Employment Decision:**

Based on the cumulative assessment of all the preceding steps, the organization makes the final employment decision. This decision involves selecting the most suitable candidate for the job.

E.g. After considering all aspects of the selection process, the hiring team decides to extend a job offer to the candidate who demonstrated the best combination of skills, experience, and cultural fit.

Q.13 What is Placement? State its Objectives. Write the principles and process of placement.

PLACEMENT

Placement is the process of assigning a specific job to the candidates selected by the company.

It is the task to match positions with people so that each individual is assigned to that position where he is likely to make the best use of his abilities.

According to Dale Yoder, "The assignment of a particular job to a newly appointed employee is the placement".

Characteristics :-

It is assigning employees jobs for which they have been selected.

It is the actual posting of an employee to a specific job.

It involves assignment a specific rank.

Placement includes initial assignment of few employee and promotion, transfer or demotion of present employee.

It involves striking a fit between the requirements of a job and the qualification of a candidate

It involves understanding each person's individuality.

Benefits :-

1. **Keeps employees Motivated.**
2. **Raising morale of employees.**
3. **Efficiency is improved.**
4. **Keeps employees satisfied.**
5. **Reduces labour turnover and absenteeism**

Principles of Placement

1) **Principle of Job First, Man Next:**
   Principle of "Job First, Man Next" means person should be placed in accordance with job requirements instead of adjusting the job according to the need and credentials of the person.

2) Principle of Qualifications:

Employees should be placed on such a job for which they are qualified. They should not be placed on very high or very low job position.

3) Principle of Working Conditions:

The employee should be made aware of all the information regarding working conditions existing in the company. He should also be provided information about punishments if he commits any mistakes.

4) Principle of Loyalty and Cooperation: Employee should be made to feel a sense of commitment and cooperation in his new job so that he can understand his responsibilities better towards the job and the organization.

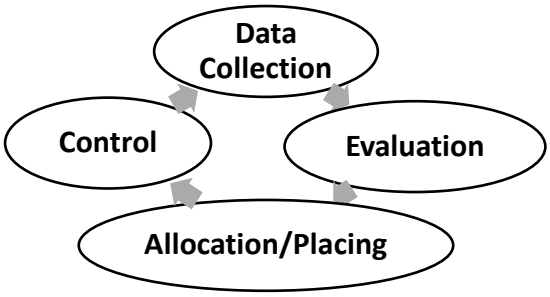
5) <u>Principle of Timely Preparation</u>:

All the arrangements needed for placement should be done before the joining date of the newly hired employee.

6) <u>Principle of Transfer</u>:

Initially, placement can be temporary as variations may occur after the training is completed. Transfer of the employee to other job may occur where he can perform as expected.

Placement Process



1) **Data Collection**: In the employee placement procedure, the first step is to collect data about the employee for the purpose of identifying qualifications, skills and abilities of present employees.

2) **Evaluation**: After completing the first step of collecting employee data, the next step is to evaluate the capability of an employee in order to analyze the type of job that best suits to the employee.

3)**Allocation/Placing**: In this step the company places the employee on the job which is best suitable for him.

4)**Control:** The final step in this procedure is control. This step involves measuring and observing the employee performance in that particular job.

Q.14 <u>Elaborate the Measures for making placement effective</u>.

<u>Measures for making placement effective</u>

1. **Job Rotation:**

Job rotation involves periodically moving employees between different roles or departments within the organization. This measure enhances employee skills, provides a broader understanding of the business, and helps identify individual strengths.

E.g. A marketing assistant might rotate through roles in content creation, social media management, and market research, gaining diverse skills and experiences.

2. **Teamwork:**

Promoting teamwork encourages collaboration and the sharing of ideas among employees. Effective placement involves placing individuals in teams where their skills complement each other, fostering a cooperative and productive work environment.

E.g. In a software development team, placing individuals with expertise in different programming languages can lead to more comprehensive and efficient project outcomes.

3. **Training and Development:**

Providing ongoing training and development opportunities ensures that employees continually acquire new skills and stay updated on industry trends. This measure contributes to improved job performance and adaptability.

E.g. A customer service representative may receive training in effective communication techniques, conflict resolution, and new product knowledge to enhance their ability to assist customers.

4. **Job Enrichment:**

Job enrichment involves enhancing job responsibilities to make them more challenging and rewarding. This measure contributes to increased employee satisfaction, motivation, and engagement.

E.g. Elevating the responsibilities of a sales associate to include client relationship management and account retention can lead to a more fulfilling and impactful role.

5. **Empowerment:**

Empowering employees involves delegating authority and decision-making responsibilities. This measure fosters a sense of ownership, accountability, and autonomy, contributing to improved job satisfaction.

E.g. Allowing a team member to make decisions on project timelines and strategies empowers them to take ownership of their work and contribute to the overall success of the team.

6. **Performance Feedback and Recognition:**

Providing regular feedback on performance and recognizing achievements enhances effective placement. This measure helps employees understand their strengths and areas for improvement, fostering continuous growth.

E.g. Quarterly performance reviews that highlight specific accomplishments and areas for development allow employees to understand their contributions and set goals for improvement.

7. **Flexible Work Arrangements:**

Offering flexible work arrangements acknowledges the diverse needs of employees. This measure contributes to work-life balance and can attract and retain a talented and diverse workforce.

E.g. Allowing employees to have flexible work hours or remote work options can accommodate individual preferences and enhance overall job satisfaction.

8. **Communication and Transparency:**

Maintaining open and transparent communication channels ensures that employees are informed about organizational changes, goals, and expectations. This measure fosters trust and alignment with the organization's mission.

E.g. Regularly updating employees on company developments through newsletters, town hall meetings, or team briefings helps create a shared understanding of the organization's direction.

9. **Employee Wellness Programs:**

Implementing wellness programs supports employee well-being and contributes to effective placement. This measure recognizes the importance of a healthy work-life balance and can enhance overall job satisfaction and productivity.

E.g. Offering fitness classes, mental health resources, and stress management workshops as part of an employee wellness program promotes a positive and supportive workplace culture.

10. **Succession Planning:**

Implementing succession planning involves identifying and developing employees for future leadership roles. This measure ensures a pipeline of skilled and qualified individuals ready to take on key positions.

E.g. Identifying high-potential employees and providing them with targeted leadership training prepares them for potential managerial roles within the organization.

Q.15 <u>What is Induction? Write the objectives of Induction.</u>

<u>Induction</u>: -

Also called orientation. It is the task of introducing the new employee to the organization and its policies procedures and rules.

Info –

- Company history
- Current position
- Incentives and benefits
- Working hours, rest period

Induction is the process of receiving and welcoming employee when they first join company and giving then the basic information they need to settle down quickly and happily and start work - Michael Armstrong

Nature of induction

1. Induction is a process of indoctrination, welcoming, acclimatization and socialization.

2. It is the process of integration
3. It is to socialize the new entrant
4. It is welcoming a new employee
5. It is conducted so that new employee can settle down quickly
6. It may not be formal at all.
7. Pervasive.
8. Avoiding embarrassment to the new members.
9. Arranging formal and informal interaction with managers and peers.
10. Providing relocation assistance such as house hunting, information about the local society, and etc.
11. Giving information about the company's products, services and customers.

Objective of induction

1. **Smooth the Preliminary Stages:**

Ensuring a smooth onboarding process at the initial stages helps new employees transition seamlessly into their roles. This involves organized orientation programs and efficient handling of paperwork.

E.g. Providing a comprehensive welcome package that includes necessary forms, an employee handbook, and a schedule of orientation sessions facilitates a smoother start for new hires.

2. **Favorable Attitude:**

Fostering a positive and welcoming atmosphere contributes to a favorable attitude among new employees. This includes friendly interactions, a supportive environment, and a sense of inclusivity.

E.g. Welcoming new hires with a warm greeting, introducing them to team members, and expressing enthusiasm about their joining creates a positive first impression.

3. **Reduce Labour Turnover:**

Effective onboarding aims to reduce employee turnover by ensuring that new hires feel connected to the organization and understand their roles. This contributes to long-term retention.

E.g. A well-structured onboarding program that aligns with employee expectations and values decreases the likelihood of new hires seeking alternative employment shortly after joining.

4. **Reduce Initial Anxiety:**

Onboarding processes should address the anxiety new employees may experience in a new environment. Clear communication and support mechanisms help alleviate initial concerns.

E.g. Providing a mentor or buddy system where new hires can ask questions and seek guidance helps reduce anxiety by offering a reliable source of support.

5. **Provide Favourable Initial Job Experiences:**

Offering positive initial job experiences ensures that new employees feel engaged and motivated. This involves assigning meaningful tasks, providing opportunities for skill development, and recognizing achievements.

E.g. Allowing new hires to contribute to a project shortly after joining provides them with a sense of purpose and accomplishment.

6. **Adjust to the Work Group and Its Norms:**

Onboarding should facilitate the integration of new employees into the existing work group, helping them understand the team dynamics and norms.

E.g. Organizing team-building activities or social events allows new employees to connect with their colleagues and adapt to the team culture.

7. **Create Proper Awareness:**

Proper awareness involves educating new employees about the organization's values, mission, and culture. This helps align their expectations and behavior with the company's ethos.

E.g. Conducting orientation sessions that highlight the company's history, values, and goals provides new hires with a comprehensive understanding of the organization.

8. **Background Information:**

Providing background information about the organization's structure, policies, and procedures helps new employees navigate their roles more effectively.

E.g. Offering a detailed handbook or online portal that contains information about the company's organizational chart, policies on leave, and communication guidelines helps new hires become familiar with the workplace.

9. **Familiarize the New Employees with the Job and People:**

Onboarding should actively familiarize new employees with their job responsibilities and colleagues. This involves job-specific training and introductions to key team members.

E.g. Conducting on-the-job training sessions and organizing meet-and-greet sessions with colleagues ensure that new hires understand their roles and feel integrated into the team.

10. **Self-Directed Behaviour:**

Encouraging self-directed behaviour involves empowering new employees to take initiative and responsibility for their own learning and performance.

E.g. Providing resources such as online training modules or self-paced learning materials allows new hires to take control of their onboarding process and acquire necessary skills at their own pace.

Q.16 <u>Describe a model procedure for Induction in an Institution.</u>

Model procedure for Induction in an Institution

Employee Induction Programme:-

Assessment and the determination of induction programmed content.
↓
Designing the induction programme
↓
Implementing induction programme
↓
Evaluating induction programme effectiveness

1. Assessment and Determination for Induction Programme Content:

- **Organization Issues:**

Providing an overview of the organization's structure, values, and goals helps new employees understand the context of their work.
E.g. Introducing the company's mission, vision, and core values during induction sets the tone for alignment with organizational objectives.

- **History of Company:**

Sharing the company's history provides insights into its evolution, achievements, and milestones.
E.g. A brief presentation on the company's founding, major achievements, and growth milestones offers a historical context to new employees.

- **Employee Title and Department:**

Clarifying job titles and departments ensures new hires understand their roles and reporting structures.
E.g. Clearly stating job titles and the departments to which employees belong helps in creating a transparent organizational hierarchy.

- **Probationary Period:**

Informing new hires about the probationary period sets expectations regarding performance evaluation during the initial employment phase.
E.g. Explaining a three-month probationary period with regular performance reviews helps newcomers understand the evaluation process.

- **Disciplinary Procedure:**

Communicating disciplinary procedures outlines the consequences of violating workplace policies.
E.g. Presenting a clear policy on disciplinary actions and consequences ensures employees are aware of expectations and potential repercussions.

- **Safety Steps:**

Detailing safety measures emphasizes the importance of workplace safety.
E.g. Conducting safety training and providing information on emergency procedures ensures that employees are well-prepared for potential workplace hazards.

- **Mission Statement:**

Sharing the mission statement reinforces the organization's purpose and direction.
E.g. Incorporating the mission statement into induction materials helps new employees understand the broader goals of the company.

- **Employee Benefits:**

Outlining employee benefits, such as healthcare and retirement plans, aids in understanding the overall compensation package.
E.g. Presenting detailed information on health insurance, retirement contributions, and other benefits helps new hires appreciate the value of their employment package.

- **Pay Scales:**

Communicating pay scales provides transparency regarding salary structures and potential growth.
E.g. Providing a salary scale chart helps employees understand how their compensation may evolve over time based on performance and promotions.

- **Vacations, Holidays, Rest Pause:**

Clarifying policies on time off and breaks ensures employees are aware of their entitlements.
E.g. Providing a clear calendar of holidays, explaining the vacation accrual system, and detailing rest pause policies contribute to effective time management.

- **Insurance, Medical:**

Explaining insurance and medical coverage helps employees understand the extent of their healthcare benefits.
E.g. Offering a comprehensive overview of health insurance plans and medical coverage ensures that employees are well-informed about their healthcare options.

- **Introduction to Supervisors, Co-workers, Trainers:**

Introducing new hires to key personnel fosters a sense of connection and community within the organization.
E.g. Arranging informal meet-and-greet sessions with supervisors, co-workers, and trainers allows new employees to build relationships from the outset.

- **Job Duties, Location, Task, Objective:**

Clearly defining job-related information helps employees understand their roles and responsibilities.
E.g. Providing a detailed job description, specifying task objectives, and explaining the physical location of the job contribute to a comprehensive understanding.

- **Work Environment, Physical Layout, Workflow, Supplies:**

Familiarizing new hires with the work environment and logistics ensures a smooth transition into daily tasks.
E.g. Offering a tour of the office, explaining the workflow, and identifying the location of supplies contribute to a well-informed and comfortable work experience.

2. Designing the Induction Programme:

- **Interactions:**

Determining the level of interaction in the induction program sets the tone for how engaged and involved new employees will be.
E.g. Incorporating interactive elements such as Q&A sessions, group activities, and team-building exercises enhances engagement during the induction process.

- **Length of the Induction:**

Deciding the duration of the induction program ensures it is neither too brief nor overwhelming for new hires.
E.g. A well-designed induction program may span one to two weeks, allowing sufficient time for comprehensive orientation without causing information overload.

- **Who Will Conduct:**

Identifying the individuals responsible for conducting the induction program ensures consistency and expertise.
E.g. Having HR specialists conduct general orientations and department supervisors provide job-specific details ensures a comprehensive and well-rounded induction experience.

- **Procedure:**

Establishing a clear procedure for the induction program guides both organizers and participants.
E.g. A structured procedure may include a welcome session, departmental orientations, and interactive activities designed to introduce new employees to the organization.

- **Type of Induction Programme:**

Choosing the type of induction program, whether formal or informal, depends on organizational culture and objectives.
E.g. A formal induction program may include scheduled sessions, while an informal program may involve more interactive and spontaneous elements.

Types of induction programme

Informal	Formal
• **Unplanned** • **Medium and small-scale units** • **One hour or so**	• **Planned** • **Large units** • **Designed**

• **Old employee immediate job supervisor**	• **HR specialist**

Informal Induction Programme:

- **Unplanned:**

An informal induction program is unplanned and lacks a structured schedule. It often relies on spontaneous interactions and guidance.

E.g. In a small startup, an unplanned induction might involve a new employee meeting team members as they join and receiving on-the-spot information about daily routines.

- **Medium and Small-Scale Units:**

Informal inductions are commonly found in medium and small-scale organizations where the close-knit environment allows for more personal interactions.

E.g. In a family-owned business, new employees may receive informal inductions where they are introduced to everyone in the organization on their first day.

- **One Hour or So:**

Due to its spontaneous nature, informal induction tends to be brief, often lasting for an hour or so.

E.g. A brief orientation meeting with a small team to introduce a new member and provide an overview of immediate tasks exemplifies an informal induction lasting about an hour.

- **Old Employee Immediate Job Supervisor:**

In an informal setting, an existing employee or immediate job supervisor typically takes the lead in welcoming and guiding the new hire.

E.g. A team lead or senior colleague may informally introduce a new team member to their role, tasks, and basic office procedures.

Formal Induction Programme:

- **Planned:**

A formal induction program is thoroughly planned, with a structured schedule and predetermined content.

E.g. In a large corporation, a formal induction program may involve a detailed agenda covering various topics, from organizational values to specific departmental introductions.

- **Large Units:**

Formal induction programs are commonly implemented in large organizations with diverse departments and numerous employees.

E.g. A multinational company with a standardized onboarding process for new hires across different locations exemplifies the need for a formal induction due to its large scale.

- **Designed:**

Formal induction programs are carefully designed to cover essential aspects of organizational culture, policies, and specific job-related information.

E.g. A structured induction might include modules on corporate values, workplace ethics, and department-specific training, ensuring a comprehensive onboarding experience.

- **HR Specialist:**

Formal induction programs are often facilitated by HR specialists who are trained to deliver consistent and standardized information to new employees.

E.g. An HR specialist conducting an induction session may provide detailed information on company policies, benefits, and procedural guidelines to ensure clarity and uniformity in the onboarding process.

3. Implementing Induction Programme:

- *Range from 10 minutes to week-long effort.*

The duration of the induction program varies based on the organization's size, complexity, and the depth of information to be covered.
E.g. A smaller company may have a condensed one-day induction program, while a larger organization with multiple departments may extend the program over a week.

- **HR Specialist Explaining Working Hours, Benefits, Vacations:**

HR specialists play a crucial role in providing essential information about working conditions and benefits.
E.g. An HR specialist may conduct sessions explaining working hours, benefits packages, and vacation policies to ensure new hires are well-informed about their terms of employment.

- **Introduction to New Supervisor:**

Introducing new employees to their supervisors establishes an immediate point of contact and support.
E.g. A brief meeting where a new hire is introduced to their direct supervisor facilitates a smoother integration into the team.

- **Supervisor Explaining Department Knowledge:**

Supervisors are key in providing department-specific information and expectations.
E.g. A supervisor may explain the department's role, objectives, and key projects to help new employees understand their contribution to the overall team goals.

- **Introducing the Newcomer to Colleagues:**

Fostering introductions to colleagues promotes a sense of belonging and community.
E.g. Arranging a team lunch or casual gathering to introduce new hires to their colleagues helps break the ice and create a positive working atmosphere.

- **Familiarizing the New Employee with the Workplace:**

Ensuring that new employees are familiar with the physical layout and work environment contributes to a comfortable and efficient start.
E.g. Providing a guided tour of the office, including locations of common areas, restrooms, and emergency exits, helps new hires feel more at ease.

- **Welcome to the Organization:**

Extending a warm and personalized welcome sets a positive tone for the new employee's journey with the organization.
E.g. Hosting a welcome session where senior leaders express enthusiasm about the new hire's contribution and commitment creates a sense of value and belonging.

- **Explaining About the Company:**

Offering detailed information about the company's history, culture, and values reinforces the organizational identity.
E.g. A presentation that covers the company's founding story, values, and achievements helps new hires connect with the broader mission of the organization.

- **Delivering Information and Clarifying Doubts:**

The induction program should be a two-way communication process, where new employees can seek clarification and additional information.
E.g. Allocating time for Q&A sessions during the induction allows new hires to seek clarification on policies, procedures, and expectations.

- **Making it Fun:**

Incorporating elements of fun and engagement during the induction helps create a positive and memorable experience.
E.g. Including team-building activities, icebreaker games, or light-hearted quizzes within the induction schedule adds a sense of enjoyment to the process.

4. Evaluating Induction Programme:

- **Feedback System:**

Implementing a feedback system allows new employees to share their thoughts and experiences, enabling continuous improvement.
E.g. Distributing feedback forms at the end of the induction program solicits valuable insights on what worked well and areas that may need enhancement.

- **Discussion Depth Intercessions:**

Conducting in-depth discussions with new hires about their experiences and expectations provides qualitative insights.
E.g. Hosting focus group sessions or one-on-one discussions with participants allows HR to gain a deeper understanding of individual experiences during the induction.

- **Questionnaire:**

Using a structured questionnaire helps gather specific feedback on various aspects of the induction program.
E.g. A post-induction questionnaire may include questions on the clarity of information, the effectiveness of training methods, and suggestions for improvement.

Q.17 <u>Describe the Benefits and Problems associated with an Induction Program.</u>

<u>Benefits of Induction Programs</u>

1. **Reduce the Cost:**

The cost of employee turnover is significantly reduced through effective induction programs. New employees are more likely to resign during their initial month, and the cost of replacing them can be as high as 75% of their annual salary.

E.g. If a company invests in a thorough induction program that ensures new employees feel engaged and supported, it reduces the likelihood of early resignations and the associated costs of recruitment and training.

2. **Increased Commitment:**

Induction programs contribute to higher levels of commitment from new employees. Feeling welcomed and informed during the initial stages fosters a sense of loyalty to the organization.

E.g. A well-structured induction, including a welcome session, introduction to company values, and team-building activities, can create a positive impression and instill commitment in new hires.

3. **Accelerates Learning:**

Effective induction accelerates the learning process for new employees, enhancing their understanding of job roles and organizational expectations. This results in quicker progress and contributions to the workplace.

E.g. Providing comprehensive training modules and mentorship during the induction period ensures that new hires quickly adapt to their roles and contribute efficiently to the team.

4. **Clarifies Psychological Contract:**

Induction helps establish and strengthen the psychological contract between the employee and the organization. It clarifies expectations, both in terms of performance and behavioral norms.

E.g. A detailed induction that includes discussions on organizational culture, values, and expectations creates a transparent psychological contract, reducing misunderstandings and enhancing mutual understanding.

5. **Increases Socialization:**

Induction programs promote socialization, helping new employees integrate into the organizational culture, form connections with colleagues, and feel a sense of belonging.

E.g. Organizing team-building activities, introducing new hires to their colleagues, and providing opportunities for social interactions contribute to a positive socialization experience during the induction.

6. **Removes "Newness Anxiety":**

Induction programs alleviate anxiety associated with being new to an organization. They provide a structured introduction, reducing uncertainty and stress for new employees.

E.g. Addressing common concerns, such as office layout, communication channels, and job expectations during induction, helps new hires feel more comfortable and confident in their new environment.

7. **Saves Time:**

Well-designed induction programs save time by efficiently orienting new employees to their roles, responsibilities, and the organizational structure, minimizing the learning curve.

E.g. A comprehensive induction program ensures that new hires quickly grasp essential information, reducing the need for extensive on-the-job training and allowing them to contribute effectively from an early stage.

8. **Develops Realistic Expectations:**

Induction programs set realistic expectations for new employees regarding their roles, work environment, and career growth within the organization.

E.g. Clearly communicating performance expectations, growth opportunities, and organizational values during induction helps new hires align their expectations with the reality of their employment, reducing potential dissatisfaction.

Problems Associated with Induction Programs:

1. **Information Overload:**

Providing an excessive amount of information during the induction process can overwhelm new employees. This can lead to difficulties in understanding and retaining crucial details, diminishing the effectiveness of the onboarding experience.

E.g. Holding a lengthy orientation session on the first day that covers numerous policies, procedures, and company details may result in new hires feeling inundated and struggling to grasp essential information.

2. **Information Irrelevance:**

Including irrelevant or excessive information that does not directly relate to the new employee's role or responsibilities can dilute the focus of the induction program. This may lead to disengagement and a lack of meaningful connection with the information provided.

E.g. Delving into intricate details of the company's history that have minimal impact on the daily tasks of a new employee might result in a lack of interest and reduced attention.

3. **Problems of Boredom and Rigidity:**

Induction programs lacking engagement or flexibility risk inducing boredom and disinterest among new hires. A rigid format without interactive elements may hinder the overall experience and effectiveness of the onboarding process.

E.g. Conducting a monotone, one-way presentation without allowing for questions, discussions, or interactive activities can lead to a lack of engagement and enthusiasm among new employees.

4. **Risk of Failure:**

Inadequate preparation or an unstructured induction process may elevate the risk of new employees failing to integrate successfully into their roles and the organization. This can impact job satisfaction and performance.

E.g. Failing to provide essential training and support during the induction may result in new hires struggling to understand their responsibilities and adapt to the organizational culture.

5. **Lack of Diversity:**

Induction programs that do not consider the diverse backgrounds, learning styles, and preferences of new employees may fail to resonate with a varied workforce. This can result in feelings of alienation.

E.g. Implementing a standardized induction process that overlooks cultural differences or individual learning preferences may lead to some employees feeling marginalized within the organization.

6. **Paperwork:**

Requiring excessive paperwork or administrative tasks during the induction process can be time-consuming and may divert attention from more critical aspects of onboarding, affecting the overall experience.

E.g. Requesting new hires to complete extensive paperwork on the first day without clear guidance or streamlined processes may lead to frustration and hinder the smooth onboarding of employees.

7. **Too Much Formality:**

An excessively formal induction may create an intimidating atmosphere, inhibiting open communication and relationship-building between new employees and existing staff. This can hinder the development of a collaborative work environment.

E.g. Conducting all induction sessions in a formal boardroom setting without incorporating informal interactions or opportunities for casual conversations may prevent the formation of comfortable working relationships.

8. **Emphasis on Selling the Organization:**

Overemphasizing only the positive aspects of the organization without addressing potential challenges or drawbacks may create unrealistic expectations among new employees.

E.g. Presenting only success stories and achievements during the induction, without acknowledging areas for improvement, may lead to disillusionment if expectations are not met, impacting morale.

9. **Absence of Evaluation and Follow-up:**

Neglecting to evaluate the effectiveness of the induction program and lacking follow-up mechanisms may result in missed opportunities for improvement and ongoing support.

E.g. Not seeking feedback from new hires or conducting post-induction assessments may hinder the organization's ability to identify areas for enhancement and address specific concerns raised by employees, hindering continuous improvement.

Q.18 Describe the Guidelines for an Effective Induction Program.

<u>Guidelines for an Effective Induction Program:</u>

1. **Warm Welcome:**

Providing a warm and friendly welcome creates a positive first impression for new employees, making them feel valued and easing any initial anxieties.

E.g. Greeting new hires with a welcome message, introducing them to colleagues, and possibly organizing a small welcome event can contribute to a friendly and inclusive atmosphere.

2. **Relevant Information:**

Ensure that the information presented during the induction is pertinent to the new employee's role, responsibilities, and immediate needs. This enhances the relevance and effectiveness of the onboarding process.

E.g. Customizing induction materials to include job-specific information, team structures, and key processes ensures that new employees receive information tailored to their roles.

3. **Right Pace:**

Present information at a pace that allows new employees to absorb and understand the content. Avoid overwhelming them with too much information too quickly.

E.g. Breaking down induction sessions into manageable segments and allowing time for questions ensures that new hires can process information without feeling rushed.

4. Help and Encouragement:

Offer support and encouragement to new employees, fostering a positive environment that promotes learning and integration into the workplace.

E.g. Assigning mentors or buddies to new hires, who can provide guidance, answer questions, and offer encouragement, contributes to a supportive onboarding experience.

5. Involvement:

Encourage active participation and involvement from new employees during the induction process. This fosters engagement and a sense of ownership.

E.g. Incorporating interactive activities, group discussions, or team-building exercises allows new hires to actively participate and contribute to the learning process.

6. Trained Supervisor:

Ensure that supervisors involved in the induction process are adequately trained to guide and support new employees effectively. This enhances the quality of information imparted.

E.g. Conducting training sessions for supervisors on effective onboarding practices, communication skills, and understanding the needs of new hires equips them to be more effective in their roles.

7. Sufficient Time:

Allocate enough time for the induction process to cover essential information thoroughly without rushing. This ensures a comprehensive onboarding experience.

E.g. Designing an induction schedule that spans several days allows for a detailed exploration of various aspects, including company culture, policies, and job-specific training.

8. Clear Communication Channels:

Establish transparent communication channels between new employees and relevant personnel. This ensures that information is easily accessible, and questions can be addressed promptly.

E.g. Providing new hires with a clear directory of key contacts, including supervisors, HR representatives, and mentors, facilitates effective communication and reduces confusion.

9. Feedback Mechanism:

Implement a system for gathering feedback from new employees to assess the effectiveness of the induction program and identify areas for improvement.

E.g. Distributing feedback surveys or conducting brief interviews with new hires after the induction allows the organization to understand what worked well and where adjustments may be needed.

10. Continuous Support:

Offer ongoing support beyond the initial induction period to assist new employees in adapting to their roles and addressing any challenges that may arise.

E.g. Providing access to resources, mentorship programs, and regular check-ins during the first few months ensures that new hires feel supported and connected to the organization.

Unit-2

Q.1 **What is Job Enlargement? Write its Characteristics.**

Job enlargement

Job enlargement is a human resource management strategy that involves expanding the scope of an employee's job by adding tasks at the same level of skill and responsibility. The goal of job enlargement is to make the job more varied and interesting, potentially reducing monotony and increasing employee satisfaction.

Job enlargement aims to broaden the job by including a variety of tasks that are at a similar level of complexity. This approach is based on the assumption that increasing the diversity of tasks within a job can lead to greater job satisfaction and motivation among employees.

Job enlargement is often used as a technique to address the issue of job dissatisfaction and boredom, especially in routine and repetitive jobs. By providing employees with a wider range of tasks, employers hope to enhance their engagement, skill development, and overall job satisfaction. However, the success of job enlargement depends on factors such as proper task design, employee training, and the individual preferences of the employees.

- Enlargement is expanding the scope of a job.
- It is a horizontal change generally involving the addition of one or more similar tasks to the 'individual' job.
- It adds more tasks to the job.

Definition: "Job enlargement is the process of combining two or more specialised tasks in a work flow sequence into a single job."

Characteristics of Job Enlargement

1. **Horizontal Expansion:**

Job enlargement involves adding more tasks of the same nature, broadening the range of activities without increasing the complexity.
E.g. In a manufacturing job, a worker who previously only assembled parts might now also be responsible for inspecting the final product.

2. **De-specialization:**

It is a move away from specialized tasks, allowing employees to perform a variety of activities rather than focusing on a single skill.
E.g. Instead of having separate roles for handling customer inquiries and processing orders, an employee might now do both tasks in a customer service job.

3. **Providing Breadth:**

Job enlargement aims to give employees a wider variety of duties, making the job more interesting and less monotonous.
E.g. A data entry clerk might be given additional tasks such as data analysis or generating reports to add variety to their routine.

4. **Removing Dullness:**

The objective is to make the job more varied and engaging, reducing the boredom associated with repetitive tasks.
E.g. A cashier who previously only handled transactions may now also assist in restocking shelves or managing customer inquiries.

5. **Extending Scope or Range:**

Job enlargement expands the range of tasks associated with a particular job, providing a broader set of responsibilities.
E.g. A receptionist, in addition to managing phone calls, might now be responsible for coordinating office events and managing appointments.

6. **Expanding Skill Variety:**

Job enlargement aims to increase the diversity of skills required, enhancing employee capabilities and knowledge.
E.g. A customer service representative may now handle not only phone queries but also emails and live chats, requiring a broader skill set.

7. **Part of Job Design Program:**

Job enlargement is a deliberate part of a comprehensive plan to structure and organize work activities for optimal performance.
E.g. A company implementing a job design program may introduce job enlargement to improve employee satisfaction and overall productivity.

Q.2 **<u>Write the Importance and limitations of Job Enlargement.</u>**

Importance of Job Enlargement

1. **Job Diversity:**

Job enlargement addresses the issue of monotony and lack of diversity in specialized roles by expanding the variety of tasks performed.

E.g. In a data entry position where employees previously only entered data, job enlargement may involve incorporating tasks such as data analysis or report generation, adding diversity to the job.

2. **Job Satisfaction:**

Job enlargement increases the total number of tasks, providing workers with a broader range of responsibilities, which is presumed to enhance job satisfaction.
E.g. In a customer service role, job enlargement may involve handling various channels of communication (phone calls, emails, and live chat), making the job more engaging and potentially increasing satisfaction.

3. **Provides Skill Variety:**

Job enlargement offers employees the opportunity to use a variety of skills, promoting skill development and versatility.
E.g. For a graphic designer, job enlargement might include not only designing graphics but also participating in video editing or contributing to marketing collateral, allowing for the utilization of diverse skills.

4. **More Zeal and Motivation:**

Job enlargement introduces complexity and novelty, reducing boredom and alienation and potentially increasing motivation.
E.g. A manufacturing worker who is now responsible for quality control in addition to assembly may find the job more interesting, leading to increased motivation.

5. **Makes Jobs Challenging:**

Job enlargement breaks the monotony of repetitive tasks, making jobs more challenging and rewarding for employees.
E.g. In a data analysis role, job enlargement might involve not only analyzing data but also presenting findings, challenging the employee to develop new skills and approaches.

6. **Reduces Tensions:**

Repetitive tasks in assembly line production can lead to tension. Job enlargement helps by diversifying tasks, reducing the stress associated with monotony.
E.g. In an assembly line, introducing job enlargement might mean rotating workers between different stations, reducing tension by providing variety.

7. **Increased Work Autonomy and Initiative:**

Job enlargement gives employees more control over their work, fostering autonomy and encouraging them to take initiative.
E.g. Allowing a project manager to take charge not only of project planning but also client communication, giving them autonomy in managing the project.

8. **Control Over Flow, Pace, and Speed*:***

Job enlargement enables workers to have more control over the pace and speed of their work.

E.g. In a production setting, job enlargement might involve allowing workers to manage their workstations, adjusting the pace according to their efficiency.

9. **Reduction in Buck-Passing and Turnover:**

Job enlargement reduces the habit of passing responsibility to others and can contribute to lower turnover rates.
E.g. If a team collectively handles customer inquiries, there is less likelihood of individuals passing tasks to others, reducing turnover.

10. **Cost Reduction and Improved Product Quality:**

Job enlargement can lead to improved efficiency, reduced production costs, and enhanced product quality.
E.g. Cross-training employees in a manufacturing environment to handle various aspects of the production process can result in cost savings and improved overall product quality.

<u>Demerits and Limitations of Job Enlargement</u>

1. **Expense and Training Costs:**

Training a large workforce to acquire diverse skills can involve substantial expenses in terms of training programs, materials, and resources. Moreover, the time invested in training may impact immediate productivity.
E.g. In a manufacturing company, training workers to handle various stages of production, quality control, and customer interactions may require considerable financial investment.

2. **Need for Specialization:**

Certain industries, particularly those involving advanced technology or specialized tasks, demand a high degree of job specialization to maintain quality and efficiency.
E.g. In sectors like aerospace engineering, where precision and expertise are critical, maintaining specialized roles ensures the necessary focus on intricate tasks.

3. **Less Motivation:**

Simply adding routine tasks without increasing complexity may not significantly enhance motivation levels. The absence of genuinely engaging and challenging work may limit the positive impact on motivation.
E.g. A clerical worker who initially entered data and is now tasked with additional routine paperwork might not experience a substantial increase in motivation.

4. **More Pay Demands:**

When employees are assigned additional responsibilities, they may rightfully expect increased compensation to reflect the expanded workload.
E.g. A customer service representative who is now managing social media inquiries alongside regular tasks may request higher pay to compensate for the added responsibilities.

5. **Layoffs:**

Job enlargement's efficiency improvements may lead to a reduction in the overall workforce, potentially resulting in layoffs and affecting job security.
E.g. In a manufacturing plant implementing job enlargement, where workers are cross-trained, the overall workforce may decrease due to increased efficiency in production processes.

6. **Initial Productivity Decrease:**

Employees may experience a temporary decrease in productivity as they adapt to the changes introduced by job enlargement.
E.g. After expanding the role of a sales team to include additional administrative tasks, there might be an initial decrease in overall sales productivity as employees adjust to the new responsibilities.

7. **Complexity and Worker Stress:**

The introduction of complexity through job enlargement may contribute to heightened stress levels and potential burnout among workers.
E.g. Adding tasks such as handling customer complaints and managing refunds to a customer service role may increase stress levels for workers, particularly if these tasks are challenging.

8. **Resistance to Change:**

Employees may resist changes associated with job enlargement due to familiarity with existing tasks or concerns about their ability to adapt.
E.g. Workers accustomed to specific tasks in a routine may resist the idea of taking on additional responsibilities, leading to challenges in implementing job enlargement.

9. **Inadequate Training Resources:**

Organizations may lack the necessary resources or expertise to provide effective training for the diverse skills required in enlarged jobs, impacting the successful implementation of the strategy.
E.g. In a small business, introducing job enlargement without adequate training resources may result in employees struggling to adapt to their new roles, hindering overall productivity.

10. **Job Dissatisfaction:**

If job enlargement results in tasks perceived as monotonous or uninteresting, it may lead to overall job dissatisfaction among employees.
E.g. Expanding the duties of a software developer to include routine maintenance tasks may lead to dissatisfaction if the developer finds such tasks less stimulating than creative coding work.

Q.3 **Write the Methods of Job Enlargement.**

Methods of Job Enlargement

1. **Horizontal Job Expansion:**

Horizontal job expansion involves broadening an employee's role by incorporating tasks that are closely related to their current responsibilities, maintaining a similar skill level. This method aims to provide variety and challenge within the existing expertise of the employee. For instance, a sales associate in a retail store might not only assist customers but also be involved in managing inventory and arranging product displays.

2. **Task Rotation:**

Task rotation is a systematic approach where employees are exposed to various tasks within a department or organization. This method aims to develop a well-rounded skill set and prevent monotony. For example, within a marketing team, a team member might rotate responsibilities between social media management, content creation, and data analysis.

3. **Job Enrichment:**

Job enrichment goes beyond adding tasks; it involves providing employees with more complex and challenging responsibilities. This includes empowering employees with increased decision-making authority and autonomy. Consider a software developer who not only codes but also plays a key role in designing the architecture of a new software project.

4. **Combining Tasks:**

Combining tasks is about integrating various smaller responsibilities into a more comprehensive role. This method enhances the employee's sense of ownership and involvement in the entire process. An example would be a project manager who not only oversees the project timeline but is also involved in resource allocation, risk management, and client communication.

5. **Job Sharing:**

Job sharing involves two or more employees sharing the responsibilities of a full-time position. This approach provides flexibility and diverse perspectives. In customer service, for instance, two employees might share the role, each handling specific days or areas of expertise, ensuring continuous coverage and varied customer interactions.

6. **Increasing Workload:**

Gradually increasing an employee's workload involves assigning more tasks or more complex duties over time. This method allows for skill development and ensures employees are continuously challenged. A content writer, for example, might start with basic articles and progress to more intricate writing tasks or content strategy development.

7. **Expansion of Responsibilities:**

Expanding responsibilities means adding more duties that align with the employee's skills and contribute to their professional growth. A project coordinator could take on additional responsibilities such as budget management, team leadership, and client communication, gradually advancing their role within the organization.

8. **Freedom in Deciding:**

Granting employees more freedom in decision-making involves allowing them to make choices regarding work methods, pace, and materials. For instance, a marketing specialist might have the freedom to choose the marketing channels and strategies they find most effective for a particular campaign, enhancing their sense of ownership.

9. **Encouraging Participation:**

Encouraging participation fosters an environment where employees actively share ideas and collaborate. This approach promotes a sense of belonging and collective problem-solving. Regular team meetings and brainstorming sessions provide a platform for all members to contribute their insights, leading to improved processes and innovations.

10. **Responsibility:**

Increasing individual responsibility involves making employees more accountable for their daily productivity and the quality of their work. This can be exemplified by an assembly line worker who not only performs tasks but also takes responsibility for ensuring that each product meets quality standards.

11. **Sense of Achievement:**

Creating a sense of achievement involves helping employees understand the impact of their work on the overall success of the organization. For instance, a customer service representative might be shown how positive customer feedback directly contributes to customer satisfaction and the company's reputation.

12. **Feedback:**

Providing direct and timely feedback to employees about their performance is crucial for continuous improvement. Regular performance reviews, where employees receive constructive feedback on their strengths and areas for improvement, contribute to their professional development.

13. **Involvement in Changes:**

Involving employees in decisions related to the physical work environment, such as office layouts and amenities, enhances their sense of belonging and well-being. Consulting with employees during the redesign of office spaces ensures that their preferences are considered.

14. **Personal Growth:**

Creating opportunities for personal growth involves offering employees chances to acquire new skills and experiences. Workshops, training programs, and mentorship initiatives contribute to their continuous learning and development.

15. **Skill Variety:**

Ensuring skill variety in a job involves incorporating a range of activities that utilize different skills. For instance, a graphic designer might engage in conceptualizing designs, collaborating

with clients, and participating in team discussions, showcasing a diverse set of skills beyond just design.

Q.4 **What is Job Enrichment? Write its Characteristics.**

Job enrichment

Job enrichment goes beyond merely assigning tasks; it's about making the work experience fulfilling and engaging. This approach assumes that when employees find their work challenging and meaningful, they are more likely to feel motivated and satisfied.

For instance, let's consider a scenario in a customer service role. A basic job may involve answering customer inquiries. However, through job enrichment, this role could be expanded to include resolving complex customer issues, handling escalated cases, and even mentoring new customer service representatives. By doing so, employees are not only exposed to more challenging tasks but also given a sense of responsibility and recognition for their ability to handle intricate customer situations.

Moreover, job enrichment might involve providing employees with the authority to make decisions related to their tasks. Taking the example of a team project, an enriched job would allow team members to have a say in the project's approach, giving them a sense of ownership and achievement. This authority extends beyond routine tasks and empowers employees to contribute to the overall success of the project.

In summary, job enrichment is about creating a work environment that offers employees more than just a set of tasks. It is a deliberate effort to infuse variety, responsibility, and recognition into their roles, ultimately aiming to boost motivation and job satisfaction.

Characteristics and Nature of Job Enrichment:

1. **Increased Employee Control:**

Job enrichment involves extending the depth of a job by giving employees more discretion and control over their tasks. This means allowing individuals to make decisions related to their work, fostering a sense of autonomy and responsibility.
E.g. In a customer service role, an enriched job might empower representatives to make decisions on how to handle specific customer issues without constant supervision.

2. **Shift from Job Specialization:**

It represents a departure from the traditional approach of job specialization, where employees focus on a narrow set of tasks. Instead, job enrichment encourages a more comprehensive and varied set of responsibilities.
E.g. Rather than having assembly line workers specialize in one specific task, job enrichment might involve cross-training them to perform multiple tasks within the production process.

3. **Vertical Job Expansion:**

Job enrichment is a form of vertical job expansion that was traditionally reserved for managerial positions. It extends this principle to non-managerial roles, providing employees at various levels with opportunities for more challenging and varied tasks.
E.g. A sales associate might be given the opportunity to take on additional responsibilities such as training new team members or handling more complex client accounts.

4. **Managerial Tool:**

It is a tool used by managers to enhance employee motivation and job satisfaction. Managers strategically redesign jobs to make them more fulfilling and meaningful, contributing to higher levels of engagement.
E.g. A manager could implement job enrichment by reorganizing tasks within a project team, ensuring that each team member has a mix of responsibilities that align with their skills and interests.

5. **Focus on Higher-Order Needs:**

Job enrichment centers on satisfying higher-order needs, such as the need for recognition, influence, and power. It aims to elevate the status of employees within the organization.
E.g. Allowing an employee to take the lead on a significant project can fulfill the need for influence and recognition, contributing to a sense of higher status.

6. **Redesign for Intrinsic Satisfaction:**

It suggests that jobs can be redesigned to derive intrinsic satisfaction directly from performing the job itself. Intrinsic satisfaction comes from the nature of the work rather than external rewards.
E.g. A graphic designer might find intrinsic satisfaction in the creative process of designing visuals, deriving joy from the work itself rather than external factors.

7. **Learning Opportunities:**

Job enrichment provides learning opportunities for individuals within their roles, fostering continuous skill development and personal growth.
E.g. An IT support specialist might be given the chance to learn new programming languages or troubleshooting techniques, enhancing their skills on the job.

8. **Redesigning for Motivating Potential:**

It is about restructuring a job to increase its motivating potential, aiming to make tasks inherently rewarding and satisfying for employees.
E.g. Redesigning a customer service role to involve more problem-solving and decision-making can increase the motivating potential, making the job more engaging and fulfilling.

9. **"Plan-Do-Control" Philosophy:**

The basic philosophy of job enrichment follows a "plan-do-control" approach, emphasizing thoughtful planning, implementation of changes, and continuous monitoring and adjustment.

E.g. A manager planning to enrich jobs may first analyze the current tasks, implement changes to increase responsibility and variety, and then continually monitor the impact on employee satisfaction.

10. **Focus on Job Satisfaction:**

Job enrichment is fundamentally geared toward increasing job satisfaction by making work more meaningful and fulfilling for employees.
E.g. A data analyst might experience increased job satisfaction when given the opportunity to not only analyze data but also contribute insights to strategic decision-making within the organization.

Q.5 **Write the Importance and Limitations of Job Enrichment.**

Importance of Job Enrichment:

1. **Role Enrichment:**

Job enrichment leads to role enrichment, providing employees with opportunities for personal and professional growth. It encourages individuals to reach their full potential and achieve self-actualization.
E.g. A customer service representative, through job enrichment, may take on additional responsibilities such as mentoring new team members, expanding their role beyond basic customer interactions.

2. **High Motivation:**

Job enrichment is a key factor in enhancing motivation, according to Herzberg's motivation-hygiene theory. Enriched jobs address higher-level needs, leading to increased motivation among employees.
E.g. Allowing a software developer to take ownership of a project and make decisions about the development process can significantly boost their motivation.

3. **More Productive Job:**

The expectation is that job enrichment should result in improved performance, making the job both more human-centric and more productive.
E.g. An assembly line worker given the responsibility to oversee the quality control process is likely to be more attentive and invested in ensuring product quality, contributing to higher productivity.

4. **High Job Satisfaction:**

Job enrichment is designed to cater to the higher-level, creative needs of individuals, leading to increased job satisfaction.
E.g. Empowering a marketing specialist to devise and execute entire marketing campaigns, rather than just specific tasks, can significantly enhance their job satisfaction.

5. **Less Labour Turnover:**

Job enrichment has the potential to reduce absenteeism and labour turnover by creating a more engaging and satisfying work environment.
E.g. An organization that implements job enrichment by providing continuous learning opportunities may experience lower turnover rates as employees find their jobs more fulfilling.

6. **Increase in Output:**

The enterprise benefits from an increase in output, both quantitatively and qualitatively, as a result of job enrichment.
E.g. An IT support team, through job enrichment, may see an increase in the resolution of complex issues and a higher quality of service provided to users, leading to overall output improvement.

7. **More Intrinsic Rewards:**

Enriched jobs are expected to offer more intrinsic rewards to workers compared to other job designs. Intrinsic rewards stem from the nature and content of the work itself.
E.g. Allowing a graphic designer creative freedom in their projects not only enhances their intrinsic motivation but also provides a sense of accomplishment and pride in their work.

8. **Skill Development:**

Job enrichment often involves learning opportunities, contributing to the development of skills and competencies among employees.
E.g. A data analyst, as part of job enrichment, might attend workshops and training sessions to enhance their analytical skills, leading to continuous skill development.

9. **Enhanced Employee Engagement:**

Job enrichment contributes to increased employee engagement by aligning tasks with individual interests and strengths.
E.g. Allowing a sales representative to specialize in a particular market segment that they are passionate about can significantly increase their engagement and dedication to achieving sales targets.

10. **Positive Organizational Culture:**

Job enrichment fosters a positive organizational culture by emphasizing the value of individual contributions and job satisfaction.
E.g. Recognizing and rewarding employees for their enriched contributions, such as innovative problem-solving or successful project management, helps cultivate a positive culture within the organization.

Demerits and Limitations of Job Enrichment:

1. **Technology Constraints:**

In certain industries heavily reliant on specialized machinery, implementing job enrichment can be challenging. Jobs involving repetitive tasks driven by technology may limit the meaningful expansion of roles.

E.g. In an automated manufacturing plant, where machines handle intricate tasks, attempts to enrich the job of machine operators might face technological constraints.

2. **Cost Implications:**

Job enrichment can incur significant costs, including expenses related to training, restructuring, and potential equipment upgrades. In some cases, these costs may outweigh the anticipated gains in productivity.
E.g. Introducing job enrichment in a production facility may require substantial investments in employee training programs and technology enhancements, leading to increased operational costs.

3. **Not Applicable to All Jobs:**

Job enrichment may find easier application in higher-level jobs that involve decision-making and autonomy. However, for jobs directed by strict technological processes, the principles of job enrichment may not be as applicable.
E.g. Enriching the job of a data entry clerk, where tasks are routine and technology-driven, might not yield substantial improvements compared to enriching a managerial role.

4. **Individual Preferences:**

Employees have diverse preferences regarding the level of involvement and complexity they desire in their roles. While some may welcome job enrichment, others may prefer a more straightforward and predictable job.
E.g. A data analyst who values routine tasks and finds satisfaction in predictable work patterns may resist job enrichment that introduces additional responsibilities and complexities.

5. **Differences in Skills:**

The varied skill levels, knowledge, and goals among employees pose challenges in applying a uniform job enrichment strategy. Different jobs may require distinct enrichment approaches based on individual skills and competencies.
E.g. Enriching the job of a software developer might involve different skill sets compared to enriching a project manager, necessitating tailored strategies for each role.

6. **Negative Psychological Impact:**

Job enrichment, if not implemented carefully, can lead to negative psychological consequences, including feelings of inadequacy, fear of failure, and concerns about dependency on the enriched job.
E.g. Empowering an employee to lead a critical project without adequate support and training may result in heightened stress and anxiety, negatively impacting job satisfaction.

7. **Unfavorable Working Conditions:**

Job enrichment's success may be hampered by unfavorable working conditions such as a lack of resources, insufficient training, or inadequate organizational support.
E.g. Introducing job enrichment without providing necessary resources and training in a high-pressure work environment may lead to stress and reduced job satisfaction.

8. **Resistance to Change:**

Employees accustomed to their existing roles and routines may resist changes associated with job enrichment, particularly if they perceive disruptions to their established workflows.
E.g. Introducing job enrichment in a team with a longstanding work structure may face resistance if employees are not adequately prepared for the changes.

9. **Limited Scope for Certain Positions:**

Some positions inherently offer limited scope for job enrichment due to the nature of their tasks. Certain jobs may have predefined responsibilities that leave little room for meaningful expansion.
E.g. Jobs like cashier roles, involving routine transactions and customer interactions, may have limited scope for job enrichment compared to roles with more diverse responsibilities.

10. **Impact on Team Dynamics:**

Introducing job enrichment for select team members and not others may disrupt team dynamics and create disparities, potentially leading to a hierarchical imbalance.
E.g. Enriching the job of one team member with leadership responsibilities may impact teamwork if not managed carefully, creating potential challenges in collaboration and communication.

Q.6 **Write the difference between Job Enrichment and Job Enlargement.**

Difference between **Job Enrichment and Job Enlargement**

Criteria	**Job Enlargement**	**Job Enrichment**
Focus	Involves expanding the horizontal scope of a job by adding more tasks, broadening the range of activities an employee undertakes. ***E.g.*** A receptionist experiencing job enlargement may now handle not only phone calls but also visitor registrations and office supply management.	Focuses on vertical development by enhancing the depth and complexity of tasks, providing more challenging and meaningful responsibilities. ***E.g.*** A software developer undergoing job enrichment may not only code but also participate in system architecture decisions and lead a development team.
Nature of Change	Primarily increases the quantity of work by incorporating additional tasks, preventing monotony and providing a variety of activities. ***E.g.*** A data entry specialist experiencing job enlargement may enter data from various sources, increasing the workload.	Emphasizes improving the quality of work by providing more challenging and meaningful responsibilities. ***E.g.*** A graphic designer undergoing job enrichment may not only create graphics but also lead the design team, enhancing the quality of the design output.

Skill Requirement	Typically involves broadening existing skills to handle a wider range of tasks. ***E.g.*** An administrative assistant experiencing job enlargement may handle additional clerical tasks, utilizing existing administrative skills.	Encourages the development of new skills to meet the increased complexity and demands of the enriched role. ***E.g.*** A marketing specialist undergoing job enrichment may develop data analysis skills for strategic planning, necessitating new skills.
Complexity	Brings moderate to high complexity by incorporating additional tasks. ***E.g.*** A sales associate experiencing job enlargement may handle a wider range of products, introducing complexity but at a manageable level.	***:*** Introduces a high level of complexity through tasks that require critical thinking, problem-solving, and decision-making skills. ***E.g.*** A project manager undergoing job enrichment may have decision-making authority and strategic planning responsibilities, introducing a higher level of complexity.
Employee Autonomy	Grants employees increased autonomy and empowerment to make decisions related to their enriched roles. ***E.g.*** A team leader undergoing job enrichment may have decision-making authority and strategic planning responsibilities, increasing their autonomy.	Grants employees increased autonomy and empowerment to make decisions related to their enriched roles. ***E.g.*** A team leader undergoing job enrichment may have decision-making authority and strategic planning responsibilities, increasing their autonomy.
Motivational Impact	Has a moderate motivational impact as it provides variety and breaks monotony. ***E.g.*** For a receptionist, job enlargement might include handling visitor registrations, phone calls, and managing office supplies, providing variety	Has a higher motivational impact as it promotes job satisfaction, growth, and a sense of achievement through challenging and fulfilling tasks. ***E.g.*** For a software developer, job enrichment might involve leading a development team, providing a sense of achievement and recognition.
Job Variety	Introduces greater variety by adding more tasks to the existing role, enabling employees to experience different activities. ***E.g.*** In a content writing job with job enlargement, an employee may write articles on various topics, increasing task variety.	Focuses on depth and challenge, offering fewer tasks but ones that require a higher level of expertise and engagement. ***E.g.*** In a marketing specialist role with job enrichment, an employee may focus on creating and executing comprehensive marketing strategies, emphasizing depth and challenge.
Hierarchical Level	Generally maintains the same hierarchical level, expanding the responsibilities of the current role.	Often promotes career growth by allowing employees to take on more complex and senior-level responsibilities.

	E.g. For a machine operator, job enlargement might involve operating different machines within the same production line, maintaining the same hierarchical level.	***E.g.*** For a manager, job enrichment might involve strategic planning and decision-making, contributing to career growth and advancement.
Organizational Impact	Impacts the organization by widening the coverage of job responsibilities, enabling better task allocation and resource utilization. ***E.g.*** In a healthcare setting, job enlargement for a nurse might involve handling diverse patient cases, contributing to wider job coverage.	Focuses on individual growth and development, fostering employee engagement and retention. ***E.g.*** Job enrichment for an IT specialist might involve leadership responsibilities, contributing to their individual growth and benefiting the organization through a skilled and empowered employee
Employee Development	Offers limited employee development opportunities, primarily through task variation. ***E.g.*** A content writer's job enlargement might involve writing blogs on various topics, contributing less to their skill development.	Provides extensive employee development by offering more challenging and meaningful tasks, fostering skill enhancement and career progression. ***E.g.*** Job enrichment for a marketing specialist might involve leadership responsibilities, contributing significantly to skill development and career progression.

Q.7 **What is Job Analysis? Write the objectives of Job Analysis.**

Job analysis

Job analysis is the systematic process of collecting and examining information about the tasks, skills, and context of a job. This helps in deciding where jobs should be placed within an organization. The decision-making responsibility, based on NU Values, is a collaborative effort between different units and the Human Resources department. Additionally, specific approval processes within a unit are determined by the leadership of that unit.

For instance, imagine a retail company conducting a job analysis for a sales associate position. The analysis would involve understanding the day-to-day tasks of the role, such as assisting customers, handling transactions, and maintaining product knowledge. This information is crucial for deciding where this role fits within the company's structure.

Furthermore, job analysis aids in organizing jobs into families. For example, in a healthcare setting, jobs related to patient care, like nurses and medical assistants, could be grouped into a "Patient Care" job family. This categorization enables employees to see potential paths for career growth within a specific area.

Consider a scenario where job analysis in an IT company reveals that software developers commonly progress from junior to senior roles. This insight allows employees to understand

the steps they can take to advance in their careers, such as acquiring additional programming skills or gaining project management experience.

DEFINITIONS
In the words of Dale Yoder. "**A Job is a collection of duties, tasks and responsibilities which are assigned to an individual and which is different from other assignment**"
According to Michael J. Jucius, "**Job analysis refers to the process of studying the operations, duties and organisational aspects of jobs in order to derive specification or, as they are called by some job description**"
In the words of Edwin B. Flippo, "**Job analysis is the process of studying and collecting information relating to the operations and responsibilities of a specific job**"

In essence, job analysis is like creating a roadmap for career development within an organization. It involves studying the operations and responsibilities of a particular job to determine what it involves and the kind of skills and experience needed. This formal and detailed examination is essential for making informed decisions about job placement, career progression, and compensation.

Objectives of Job Analysis

1. **Detailed Examination of Job Roles, Working Conditions, and Skills:**

Job analysis involves a thorough investigation into the tasks employees perform, the conditions under which they work, and the skills and abilities required for their roles. For instance, in a restaurant, analyzing the job of a chef includes understanding the physical demands, like standing for long hours, and the specific culinary skills needed.

2. **Determining Efficient Job Execution Methods:**

Job analysis helps identify the most efficient and effective ways to carry out tasks. In a manufacturing setting, analyzing the assembly line process may reveal opportunities to improve the sequence of tasks, reducing production time and costs.

3. **Improving Employee Job Satisfaction:**

By understanding the demands and challenges of a job, organizations can make adjustments to enhance employee satisfaction. For example, in a call center, job analysis might reveal that introducing regular breaks can significantly improve the well-being and satisfaction of customer service representatives.

4. **Identifying Training Needs and Core Areas:**

Job analysis helps pinpoint areas where employees may need additional training. In a technology company, for instance, the analysis might reveal emerging trends, prompting the need for training programs to keep employees updated on the latest technologies.

5. **Developing a Performance Measurement System:**

Job analysis provides the basis for creating systems to measure employee performance. In a sales role, specific performance metrics such as revenue generated and customer satisfaction scores can be established based on job analysis findings.

6. **Matching Employee Specifications with Job Roles during Recruitment:**

Job analysis ensures that the skills and qualities sought during recruitment align with the actual requirements of the job. For example, if a marketing position requires creativity, the recruitment process can be tailored to identify candidates with a proven creative mindset.

7. **Standardized Job Compensation Calculation:**

Job analysis enables organizations to establish a fair and consistent method for determining compensation. In a legal firm, for instance, job analysis may reveal differences in the complexity of legal research tasks, justifying varied compensation levels for researchers.

8. **Avoiding Ambiguity in Job Duties and Responsibilities:**

Job analysis helps create clear and precise job descriptions, minimizing confusion about tasks and responsibilities. In an administrative role, for example, job analysis clarifies whether tasks involve data entry, event coordination, or both.

9. **Determining Job Relationships to Technology and Other Roles:**

Job analysis assesses how a job interacts with technology and other positions. In an IT department, analyzing a software developer's role may reveal dependencies on collaboration with quality assurance testers, illustrating the interconnectedness of jobs.

10. **Preventing Insecurity and Accidents:**

Job analysis helps identify potential safety hazards and security concerns associated with specific job roles. In a construction site, for instance, the analysis may highlight the need for safety training to prevent accidents and ensure the well-being of workers.

Q. 8 Describe the Components of Job Analysis.

Components of job analysis

■ JOB DESCRIPTION

■ ROLE ANALYSIS

■ JOB PERFOMANCE STANDARDS

■ JOB SPECIFICATION

JOB DESCRIPTION - Profile of the Job

A job description is a written document that outlines what a job entails, how it is carried out, and the reasons behind its existence. The primary purpose is to distinguish one job from others and provide a clear understanding of the job's nature.

Contents of Job Description:

1. **Job Identification - Title, Location, Code Number:**
This section includes essential details such as the job title, the location where the job is based, and a unique code number for easy reference. For example, a job title might be "Marketing Coordinator," located at the company's headquarters, with a code number like "MC001."

2. **Job Summary - Brief Overview of the Job:**
The job summary offers a concise description of the job's contents, helping readers quickly grasp its key aspects. For instance, in the role of a customer service representative, the summary may highlight responsibilities such as addressing customer inquiries and resolving issues.

3. **Duties Performed - What, How, Why of Each Duty:**
This section elaborates on the specific duties and responsibilities associated with the job. Using the example of a software developer, duties may include coding, testing, and debugging software, with details on how these tasks are performed and why they contribute to the overall development process.

4. **Supervision - Extent and Titles of Supervision:**
Describing the level of supervision received or given, this part outlines the titles of positions both above and below in the organizational hierarchy. In a managerial role, for instance, the job description may specify overseeing a team of marketing specialists while reporting to the marketing director.

5. **Relation to Other Jobs - Reporting and Reporting To:**
This part outlines the vertical and horizontal relationships within the organization. For instance, a project manager may report to the director of project management while overseeing a team of project coordinators, illustrating the flow of work relationships.

6. **Machines, Tools, and Materials Used:**
This section details the specific equipment, tools, or materials essential for performing the job. In a laboratory scientist role, for example, the job description may list the use of specialized scientific instruments and software.

7. **Working Conditions - Physical Environment:**
Describing the physical aspects of the job environment, this includes factors like heat, light, dust, fumes, humidity, noise levels, and the potential for accidents. In a construction job, for instance, the working conditions might involve exposure to varying weather conditions and the need for safety equipment.

8. **Social Environment - Work Group Size and Interactions:**
This section addresses the social aspects of the job, such as the size of the work group and the interpersonal interactions required. In a collaborative project management role, the job description may highlight the need for effective communication and teamwork within a diverse group.

Job Specification

Job Specification is a documented account outlining the physical, mental, social, and behavioural attributes essential for an individual to perform a job effectively. It precisely details the qualities and traits a person should possess to meet the job requirements and emphasizes the human skills necessary for success in the role.

Key Components of Job Specification:

1. **Physical Characteristics:**

This section outlines the physical attributes necessary for the job. For instance, a construction worker may need strength and stamina to handle heavy equipment and work in physically demanding environments.

2. **Mental Abilities:**

Describing the intellectual capacities required, this part focuses on cognitive skills. In a data analyst role, for example, the job specification may highlight analytical thinking, problem-solving, and proficiency in data interpretation.

3. **Social Skills:**

Job Specification identifies the interpersonal skills essential for effective job performance. In a customer service representative position, for instance, the specification may emphasize communication, empathy, and the ability to handle customer interactions positively.

4. **Behavioural Characteristics:**

This section delves into behavioural traits crucial for success in the job. For a leadership role, the job specification might highlight qualities such as decisiveness, adaptability, and the ability to motivate a team.

5. **Educational Qualifications:**

Detailing the required educational background, this part specifies the minimum academic qualifications needed for the job. For example, a job specification for a software engineer might require a bachelor's degree in computer science.

6. **Professional Experience:**

Job Specification may include the necessary work experience for the role. In a managerial position, the specification might state a requirement for a minimum of five years of relevant industry experience.

7. **Certifications or Licenses:**

Some roles may require specific certifications or licenses. For instance, a job specification for a registered nurse might stipulate the necessity of a valid nursing license.

8. **Technical Skills:**

Highlighting the required technical competencies, this section specifies the skills needed for the job. In an IT support role, for example, the specification might emphasize proficiency in troubleshooting software and hardware issues.

9. **Language Proficiency:**

Depending on the job, the specification may include language proficiency requirements. For a role involving international business, fluency in a specific language might be specified.

10. **Adaptability and Flexibility:**

This section may stress the importance of adaptability and flexibility in responding to changing job demands. For a project manager handling diverse projects, adaptability to various industries and project scopes might be highlighted.

Job Performance Standards

Job Performance Standards refer to clear statements outlining the acceptable and achievable levels of accomplishment for a specific job. They articulate the anticipated fundamental tasks, quantifying and qualifying performance expectations. Not only do these standards serve as a motivational tool for employees, but they also provide clarity on what is expected of them in terms of job performance.

Key Aspects of Job Performance Standards:

1. **Acceptable and Attainable Levels of Achievement:**

Job performance standards set forth achievable benchmarks for employees. For instance, in a sales role, a standard may specify achieving a certain number of sales per month, providing a realistic target for performance.

2. **Expected Basic Tasks:**

These standards outline the fundamental tasks integral to the job. In a customer service position, for example, the standard might include responding to customer inquiries within a specific timeframe.

3. **Expression in Quantity and Quality:**

Job performance standards are expressed both in terms of quantity and quality. For a data entry role, the standard could specify the number of entries per hour while ensuring accuracy and minimizing errors.

4. **Motivational Function:**

Having clear standards serves as a motivational tool for employees. When employees know what is expected and how their performance will be measured, it provides a tangible goal. For

instance, a production standard in a manufacturing setting might motivate employees to meet or exceed production targets.

5. **Employee Understanding of Expectations:**

Job performance standards ensure that employees comprehend what is expected of them. In a project management role, for instance, standards might include completing projects within the given timeline, helping employees understand the time-related expectations.

Examples:

1. **Sales Target Achievement:**

Example: In a sales representative role, the performance standard could be to achieve a monthly sales target of $50,000, emphasizing both the quantity and quality of sales.

2. **Customer Response Time:**

Example: For a customer service position, the performance standard might specify responding to customer inquiries within 24 hours, ensuring a timely and quality customer service experience.

3. **Production Output Targets:**

Example: For a manufacturing job, the performance standard could be to produce a minimum of 500 units per day while maintaining product quality and adhering to safety standards.

Role Analysis - Understanding the Total Pattern of Expected Behaviour:

Role Analysis involves a comprehensive examination of the complete set of anticipated behaviours associated with a particular role. It encompasses not only the tasks and duties but also the emotions and interactions of the job holder. This analysis recognizes the dynamic nature of roles, acknowledging that several situational variables can influence job-related behaviour.

Key Aspects of Role Analysis:

1. **Dynamic Elements of a Role:**

Roles are not static; they evolve based on various factors. For instance, a team leader's role may dynamically shift during a project's different phases, requiring adaptability in leadership style.

2. **Influence of Situational Variables:**

Several situational variables, such as project requirements or team dynamics, can impact job-related behavior. For a marketing manager, the role may vary based on market trends, influencing strategies and approaches.

3. **Expectations of Superiors, Subordinates, and Peers:**

Role expectations are shaped by the perspectives of superiors, subordinates, and peers. For example, the expectations of a project manager may differ based on the goals set by the company, the needs of the team, and the collaborative expectations of peers.

4. **Impact of Style, Organizational Climate, and Philosophy:**

Role behavior is influenced by leadership style, organizational climate, and the philosophical principles of the organization. A role in a creative agency may require a more innovative approach, aligning with a culture that encourages experimentation.

5. **Intangibility of Duties/Responsibilities:**

Duties and responsibilities within a role are often intangible, involving aspects like communication, leadership, and collaboration. For a public relations specialist, building and maintaining relationships may be a crucial but intangible aspect of the role.

6. **Critical in "Boundary Spanning Jobs":**

Role analysis is particularly vital in "Boundary Spanning Jobs," where individuals interact with external entities to gather information for the innovation process. An example is a market researcher who interfaces with external stakeholders to gather insights for product development.

Examples- Role Analysis:

1. **Sales Manager's Role in a Dynamic Market:**
    - **Example:** In a role analysis for a sales manager operating in a dynamic market, the analysis would consider how the manager's behaviors adapt to changing consumer preferences, competition, and market trends.
2. **Expectations of a Customer Service Representative:**
    - **Example:** In the role analysis of a customer service representative, expectations from superiors might focus on issue resolution, while peers may value collaboration, and subordinates may look for guidance in handling challenging situations.

Q. 9 Describe the Uses of Job Analysis.

Uses and Applications of Job Analysis:

1. **Achievement of Goals:**

Job analysis helps organizations align job roles with overall goals. For instance, in a sales-oriented company, job analysis can identify the key responsibilities and skills required for sales roles, ensuring that employees contribute directly to the company's sales targets.

2. **Organizational Design:**

Job analysis assists in structuring organizations effectively. In a growing technology firm, job analysis might reveal the need for new roles like data analysts, leading to the design of specialized departments to accommodate evolving organizational needs.

3. **Designing HRIS (Human Resources Information System):**

Job analysis provides the foundation for developing HRIS by defining the information needed for each job. For example, in a manufacturing company, job analysis may identify data points such as production output, allowing the HRIS to track and analyze employee performance.

4. **Performance Appraisal:**

Job analysis establishes the criteria for assessing employee performance. In a customer service role, key performance indicators (KPIs) like response time and issue resolution, derived from job analysis, become benchmarks for performance appraisal.

5. **Recruitment, Selection, and Placement:**

Job analysis informs recruitment by identifying the skills and qualifications required. In a software development company, job analysis might specify the need for programming skills, guiding the recruitment process to identify suitable candidates.

6. **Orientation and Induction:**

Job analysis contributes to effective orientation programs. For instance, in a healthcare setting, job analysis might reveal critical patient care responsibilities, guiding the design of orientation programs to ensure new nurses understand their roles in detail.

7. **Training and Development:**

Job analysis identifies areas for employee skill development. In a marketing role, job analysis may highlight the need for digital marketing skills, guiding training programs to enhance employees' abilities in line with job requirements.

8. **Manpower Planning:**

Job analysis aids in determining workforce needs. In a construction project, job analysis may reveal the need for skilled labor, influencing manpower planning to ensure an adequate number of workers with specific skills.

9. **Compensation**:

Job analysis helps establish fair compensation structures. For instance, in an accounting firm, job analysis may reveal variations in the complexity of tasks, guiding the compensation system to appropriately reward employees based on job responsibilities.

10. **Job Evaluation:**

Job analysis forms the basis for job evaluation systems. In a manufacturing plant, job analysis may highlight the physical demands of different roles, contributing to a fair evaluation of jobs for wage and salary determination.

11. **Career Development:**

Job analysis guides career development by identifying skills needed for advancement. In an IT company, job analysis may reveal the progression from a software developer to a project manager, guiding employees in their career paths.

Q. 10 Describe the Sources and methods of Job Analysis.

Job Analysis Information and Its Sources:

1. **Employees:**

Employees are valuable sources of information for job analysis as they possess firsthand experience in their roles. Interviews, questionnaires, or surveys can be conducted to gather insights into the tasks they perform, the skills required, and the context of their work. For instance, in a customer service role, employees might provide details on the challenges they face and the essential communication skills needed to address customer inquiries effectively.

2. **Supervisors and Managers:**

Supervisors and managers play a crucial role in job analysis as they directly oversee and guide employees. They possess in-depth knowledge of the tasks, responsibilities, and skills required for each job within their purview. For example, a manufacturing supervisor can provide insights into the technical skills needed for machine operation and the safety protocols employees must follow.

3. **Job Analysis Experts:**

Human Resources (HR) professionals or external consultants specializing in job analysis can offer expert guidance. Their expertise ensures a systematic and thorough approach to gathering job-related information. In a complex organization, job analysis experts may help structure the process and ensure consistency across different departments.

4. **Existing Documentation:**

Organizations often have existing documents that contain valuable job-related information. These may include job descriptions, performance records, or training manuals. These documents serve as historical references and can provide insights into the evolution of job roles. For example, in an IT company, existing documentation may outline changes in the skills required for software development roles over the years.

Job Analysis Methods:

1. **Observation Method:**

In this method, job incumbents are observed, and relevant points are recorded. This is beneficial for repetitive jobs. Two observation methods are direct observation and work method analysis, e.g., In a manufacturing setting, direct observation may involve watching assembly line workers to understand the sequence of tasks performed and the tools used. Work method analysis may focus on documenting the step-by-step process of a repetitive task.

2. **Interview Method:**

Suitable for complex jobs involving various tasks, this method uses a standard format to record data. Interviews can be individual or group-based, involving the job analyst and the job incumbent or multiple employees, e.g., In software development, individual interviews may extract detailed information from a programmer about coding practices. Group interviews may involve project managers discussing the collaborative aspects of the job.

3. **Technical Conference Method:**

Job-related data is gathered from job experts or supervisors, ensuring unbiased information. However, non-involvement of the job holder may limit the completeness of the job picture, e.g., In an aviation company, technical conferences may involve discussions with aircraft maintenance supervisors to understand the technical skills required for specific maintenance roles.

4. **Functional Job Analysis:**

Developed by the US Department of Labor, this method involves interviews, observations, and research to categorize job functions as data, people, or things, forming the basis for job families, e.g., In healthcare, functional job analysis may categorize nursing roles by data-related tasks (patient records), people-related tasks (patient care), and things-related tasks (equipment handling).

5. **Critical Incident Technique:**

This technique focuses on critical actions or behaviours in specific situations that impact success or failure. Interviews and questionnaires are used to compile incidents, e.g., In a customer service role, critical incidents may include successfully resolving a customer complaint or handling a challenging situation effectively.

6. **Questionnaire Method:**

Detailed questionnaires are distributed to employees, filled during company time, and returned for verification. Supervisors then submit the collected data for job analysis, e.g., In a financial institution, a questionnaire may gather information about tasks related to account management, with employees indicating the time spent on each task.

7. **Checklist Method:**

A checklist is prepared, distributed to job holders, and asks them to check tasks performed, time spent, and required training. This method simplifies data collection, e.g., In a retail environment, a checklist for a cashier role may include tasks like handling cash transactions, providing customer receipts, and managing inventory.

8. **Diary Method:**

Job holders record daily activities in detail. Although accurate, it can be time-consuming, e.g., In a research role, the diary method may capture the daily activities of a scientist, detailing experiments conducted and data analysed over several days.

9. **Methods Analysis:**

Originating from industrial engineering, this method describes how a job is done, focusing on specific body movements and procedural steps, e.g., In manufacturing, methods analysis may break down the steps of assembling a product, detailing each movement and tool used for efficiency.

10. **Psychographic Method:**

This method explores a person's family background, individual development, and mental calibre through graphical representations for future success forecasting, e.g., In talent management, the psychographic method may help predict the career trajectory of an employee by understanding their background, personal development, and cognitive abilities.

11. **Combination of Methods:**

Due to the limitations of individual methods, analysts often combine two or more techniques for high accuracy, e.g., In an IT company, combining interviews with direct observation may provide a more comprehensive understanding of the roles and responsibilities of software developers.

12. **Other Methods:**

Additional sources like equipment blueprints, films, photographs, and maintenance records offer unobtrusive insights into job duties and qualifications, e.g., In an engineering firm, blueprints for machinery may provide details about the technical skills required for operation, complementing traditional job analysis methods.

Q. 11 Describe the process of Job Analysis.

Job Analysis Process:

1. **Identification of Job Analysis Purpose:**

The first step is to clearly define the purpose of the job analysis. This involves identifying the specific information needed about a job and the desired outcomes, e.g., In a manufacturing company, the purpose of job analysis could be to streamline production processes, ensuring optimal efficiency and identifying areas for skill development among employees.

2. **Selection of Job Analyst:**

Deciding who will conduct the job analysis is crucial. It could be an internal HR department or external consultants hired for their expertise, e.g., A tech company may opt for internal HR professionals to conduct job analysis for software development roles, ensuring a deep understanding of the company's culture and technical requirements.

3. **Planning How to Conduct the Process:**

A planned approach is needed to investigate a specific job. This involves deciding on methods, sources of data, and the scale of details to be collected, e.g., For a customer service role, the planned approach may involve a combination of surveys and direct observations to understand communication skills, problem-solving abilities, and response times.

4. **Strategic Decision Making:**

Strategic decisions include determining the level of employee involvement, sources of data collection, methods employed, and how the collected data will be processed, e.g., In an IT firm,

strategic decisions might involve limiting employee involvement in certain proprietary software development processes while encouraging input in areas related to team collaboration.

5. **Training of Job Analyst:**

The job analyst needs training on how to conduct the process and use selected methods for collecting and recording job data, e.g., A pharmaceutical company might train job analysts to understand the specific technical skills required for research roles and how to assess and document them accurately.

6. **Preparation of Job Analysis Process:**

Communication within the organization is essential. HR managers prepare documents, questionnaires, interviews, and feedback forms for effective execution, e.g., In a healthcare setting, the preparation stage could involve creating patient care-related questionnaires to gather insights from nurses about their roles, responsibilities, and challenges.

7. **Collecting Job Data:**

Actual data collection involves gathering information about educational qualifications, skills, working conditions, and other job-related aspects, e.g., For a marketing position, data collection may include understanding the market trends, competitor analysis, and the creativity required for successful campaign execution.

8. **Documentation, Verification, and Review:**

Collected data is documented, verified for accuracy, and reviewed for completeness, e.g., In a financial institution, documentation may involve verifying the accuracy of collected data on financial analysts' roles and responsibilities, ensuring that it aligns with industry standards.

9. **Developing Job Description and Job Specification:**

Segregating collected data into useful information involves creating job descriptions detailing roles and responsibilities, and job specifications outlining qualifications, e.g., In an engineering firm, job descriptions may detail the responsibilities of a structural engineer, while job specifications could include the required educational background and experience.

Q. 12 Write the concept of Training. Elaborate its Need and Importance.

Training can be defined as the systematic attempt to enhance the specific skills, desired behavior, and knowledge of employees which are necessary for performing a job effectively.
Training is the act of increasing the knowledge and skill of an employee for doing a particular job.
It is a learning process
It bridges the difference between job requirements and employee present specifications.
Seeks a relatively permanent change in an individual

"Training is the organized procedure by which people learn knowledge and/or skill for a definite purpose." – Dale S. Beach

“Training is an act of increasing the knowledge and skills of an employee for doing a particular job.” - Edwin B. Flippo

Features of training

1. **Specific Dimensions:**

Training focuses on the particular areas where employees need improvement in their jobs. For instance, if there's difficulty in customer interactions, the training program is tailored to enhance skills in communication and customer service, addressing these specific needs.

2. **Planned Sequence of Events:**

Training is not random; it follows a planned order. When employees are learning about a new piece of software, the training sessions are structured to begin with the basics, gradually progressing to more advanced features. This planned sequence helps in a smooth learning process.

3. **Makes Optimal Use of Opportunities for Learning:**

Training takes advantage of various chances to learn. In a sales job, this means attending workshops, engaging in practical exercises, and gaining knowledge while actively working. These opportunities optimize the learning experience for employees.

4. **Promotes Behavioral Changes:**

The purpose of training is to influence how employees behave at work. If a company introduces new ethical guidelines, the training goes beyond just informing employees about the rules; it encourages them to adopt these ethical behaviors in their daily actions.

5. **Enhancing Capabilities:**

Training aims to make employees better at their jobs. For example, if a new project management approach is introduced, the training sessions focus on equipping employees with the necessary skills to effectively manage projects using this new method, thereby enhancing their capabilities.

6. **Exploring the Inner Self:**

Certain training programs focus on personal growth. Leadership training, for instance, may involve activities that prompt individuals to reflect on their leadership styles and identify areas for improvement, encouraging a deeper understanding of their inner selves.

7. **Removes Mental Blocks:**

Training addresses mental barriers that may hinder job performance. If employees feel uneasy about adopting new technology, the training sessions include activities to help them overcome these concerns, fostering a more positive and confident mindset toward the new tools.

8. **Gives Intended as Well as Unintended Results:**

Training can produce both expected and unexpected outcomes. For example, diversity training might be intended to create a more inclusive workplace, but it could also unexpectedly improve teamwork dynamics, showcasing the broader positive impact of training efforts.

9. **Establishes Relationship Between Theory and Practice:**

Training ensures that theoretical knowledge is applied practically. In a safety training program, employees not only learn safety rules but also practice applying them in simulated work scenarios, reinforcing the connection between theoretical understanding and practical application.

10. **Learning Process:**

Training is not a one-time event but an ongoing process. Continuous learning opportunities, such as attending workshops or webinars, keep employees updated on the latest industry trends, fostering a culture of lifelong learning within the organization.

11. **Bridges the Gap Between Job Requirements and Employee Specifications:**

Training is essential for aligning employees with evolving job requirements. For example, if a new computer system is introduced, training sessions ensure that employees acquire the skills needed to effectively use the new system, bridging the gap between the job's demands and the employees' existing knowledge.

12. **Essential Part of Management Development:**

Training plays a critical role in developing effective managers. Leadership programs for managers encompass various lessons, such as communication and decision-making skills, contributing to their overall development as successful leaders within the organization.

NEEDS OF TRAINING

1. **To Fulfill Job Requirements:**

Training becomes essential when there are new expectations or tasks in a job. For example, if a company introduces a new software system to manage projects, employees will need training to understand how to use it efficiently and meet the requirements of their job.

2. **To Cope Up with Technological Change:**

As technology advances, employees need to adapt. Suppose a construction company switches to more modern machinery for faster and safer construction. In this case, workers require training to operate and understand these new tools, ensuring they can keep up with technological changes.

3. **To Face Increasing Competition:**

In a competitive business world, staying ahead requires continuous improvement. A retail business, for instance, might provide training to its sales team on the latest sales techniques and customer service strategies to outshine competitors and meet customer demands effectively.

4. **Change in Job Assignments:**

When employees take on new roles or responsibilities, training helps them adjust. For instance, if an administrative assistant is promoted to a managerial position, they might receive training on leadership skills, decision-making, and team management to handle their new job responsibilities effectively.

5. **To Upgrade Employee's Skills:**

Training is like giving employees an upgrade in their skills. For instance, in a fast-paced technology industry, programmers might attend training sessions to learn new coding languages or techniques, ensuring they stay up-to-date and competitive in their field.

6. **To Ensure Smooth Working of the Department:**

Smooth operations within a department require well-trained employees. In a customer service department, for example, training may focus on effective communication and problem-solving skills to ensure that customer inquiries are handled efficiently, contributing to the overall smooth functioning of the department.

7. **To Increase Efficiency:**

Training aims to make work processes more effective and less time-consuming. For instance, employees in a busy restaurant might undergo training on efficient serving techniques and communication to streamline operations, resulting in increased overall efficiency.

8. **To Avoid Managerial Obsolescence:**

Managers need to stay relevant and effective in their roles. In a dynamic industry like information technology, managers might undergo training on the latest project management tools and methodologies, ensuring they stay abreast of industry trends and avoid becoming obsolete in their managerial skills.

9. **To Reduce Turnover:**

Employees are more likely to stay with a company that invests in their growth. For example, a retail company offering training on career development and advancement opportunities may experience lower turnover rates as employees feel valued and see a future within the organization.

10. **To Achieve Organizational Excellence:**

Training plays a pivotal role in achieving excellence as a company. In a manufacturing setting, consistent training on quality control measures ensures that products meet high standards, contributing to the organization's reputation for excellence in product quality.

11. **To Train Employee Towards Better Job Adjustment:**

Changes in the workplace often require employees to adjust. Suppose a company introduces a new software system for project management. Training sessions would be provided to help

employees smoothly adjust to the new system, minimizing disruptions and ensuring effective job performance.

12. **To Reduce Supervision, Wastage:**

Well-trained employees require less direct oversight and produce less wastage. In a manufacturing plant, a team trained in quality control processes needs less supervision, resulting in reduced material wastage and efficient production.

13. **To Build Up a Second Line of Competent Employees:**

Training ensures there is a backup of skilled employees ready to step in when needed. In a small business, cross-training employees on various tasks ensures that there is always someone competent to handle critical responsibilities, preventing disruptions in case of employee absence.

IMPORTANCE OF TRAINING

1. Higher Productivity:

Training leads to increased efficiency and output. For example, a manufacturing plant that provides training on time management and optimal workflows can expect higher productivity as employees work more effectively.

1. **Improved Quality and Quantity:**

Training enhances the skills needed to produce better-quality products or services. In a restaurant, training chefs on new cooking techniques improves the quality of dishes, and training servers on efficient serving methods increases the quantity of satisfied customers served.

2. **Low Cost of Production:**

Well-trained employees contribute to streamlined processes, reducing the overall cost of production. For instance, a construction company training workers on efficient building techniques can lower construction costs through optimized workflows and reduced material wastage.

3. **Reduced Supervision:**

Proper training leads to employees who can work more independently, requiring less direct supervision. In a retail setting, if employees are trained in customer service skills, they can handle customer inquiries and issues with minimal supervision, allowing managers to focus on other tasks.

4. **Less Accidents:**

Safety training reduces the likelihood of workplace accidents. For example, in a manufacturing facility, providing training on proper handling of machinery and safety protocols decreases the chances of accidents, ensuring a safer working environment.

5. **High Morale:**

Training contributes to employee satisfaction and motivation. In an office environment, offering training on professional development and career advancement boosts morale as employees feel valued and see opportunities for growth within the organization.

6. **Personal Growth:**

Training fosters individual development. For example, a marketing team receiving training on the latest digital marketing trends not only improves the team's performance but also supports the personal growth of each team member as they stay updated in their field.

7. **Identification of Efficient and Non-Efficient Employees:**

Through training, it becomes evident which employees excel in applying new skills and which may need additional support. In a sales team, training on updated sales techniques can highlight high performers, while additional training can be provided to those who need more support.

8. **Increases Confidence:**

Training builds confidence in employees. For instance, a receptionist trained in effective communication and customer service is more confident in handling inquiries and creating a positive first impression for the company.

9. **Enhanced Innovation:**

Training fosters a culture of continuous learning and innovation. In a tech company, providing training on the latest software and programming languages encourages employees to explore new ideas, contributing to innovation and adaptability within the organization.

10. **Customer Satisfaction:**

Well-trained employees provide better service, leading to increased customer satisfaction. In a hotel, training staff in hospitality and communication skills ensures that guests have a positive experience, enhancing the overall reputation of the establishment.

11. **Adaptability to Change:**

Training equips employees to adapt to changes in the workplace. For example, during a company-wide software upgrade, providing training ensures that employees can smoothly transition to the new system, minimizing disruptions.

12. **Employee Retention:**

Organizations that invest in training show a commitment to employee development, leading to increased loyalty. In a corporate setting, offering training programs for career growth and skill enhancement encourages employees to stay with the company.

Q.13 <u>Elaborate the Training Process</u>.

In any thriving organization, the training process is a crucial mechanism for enhancing employee skills, fostering growth, and aligning individual competencies with organizational goals. This systematic approach involves several interconnected steps, each playing a vital role in ensuring the effectiveness of training initiatives.

1. Organizational Objective:

At the onset of any training program, it is essential to clearly understand the overarching objectives of the organization. This means identifying the broader goals and aspirations that the company aims to achieve. For instance, if a retail business strives to enhance customer satisfaction, training programs may be tailored to improve customer service skills among employees.

2. Training Policy:

Establishing a well-defined training policy act as a foundational framework for the entire training process. This policy outlines the principles and procedures that govern how training is conducted within the organization. In practical terms, a training policy in a hospitality setting might stress the importance of continuous learning for employees to stay updated on industry trends and provide excellent service.

3. Responsibility of Training:

Clearly defining who holds the responsibility for training is crucial for ensuring accountability. This often falls under the purview of the Human Resources department. In a technology-driven company, for instance, the IT department may take charge of training employees on new software applications, ensuring a standardized and organized approach.

4. Training Needs Assessment:

Identifying the specific areas where employees need training is a cornerstone of the training process. This involves a careful analysis of individual and collective needs. In a retail environment, a needs assessment might reveal that sales associates require training in using the latest point-of-sale systems to enhance their efficiency and provide better customer service.

5. Selection of Trainees:

Once training needs are identified, the next step is to select the right individuals for training. This selection is based on the specific skills and knowledge areas that need improvement. In a healthcare institution, if there's a training program on a new medical equipment operation, staff members directly involved in patient care might be chosen to participate.

6. Training Goals:

Setting clear and specific goals for the training program is paramount. These goals serve as a roadmap for the entire training initiative. For example, if a company introduces a new project management methodology, the training goal might be for employees to effectively apply the new methodology in planning and executing projects.

7. Preparing the Trainers:

The effectiveness of a training program is significantly influenced by the proficiency of the trainers. Adequately preparing trainers involves equipping them with the necessary skills and knowledge to impart information effectively. In a manufacturing setting, a skilled technician might undergo additional training to become a certified trainer for new employees, ensuring accurate knowledge transfer.

8. Designing the Training Program:

A well-designed training program is tailored to address the specific needs identified in the assessment phase. This involves creating a structured curriculum that covers relevant topics. In a sales-oriented business, a training program might include modules on understanding customer needs, effective sales techniques, and building long-term customer relationships.

9. Presenting the Operation:

The actual delivery of the training content is a pivotal stage in the process. This involves using engaging and interactive methods to ensure that participants grasp and retain the information. In a software development company, a training session on a new programming language might include practical coding exercises, allowing participants to apply theoretical knowledge in real-world scenarios.

10. Performance Tryout:

Providing opportunities for trainees to apply their newly acquired skills is essential for reinforcement. This stage involves practical exercises or real-world simulations where employees can showcase their abilities. In a manufacturing plant, employees might undergo a performance tryout where they demonstrate their proficiency in operating new machinery, ensuring they can contribute effectively to production.

11. Overall Evaluation:

The final step of the training process involves a comprehensive evaluation of the entire initiative. This evaluation assesses the effectiveness of the training program and identifies areas for improvement. In a financial institution, for instance, an evaluation might involve checking whether employees who underwent compliance training are applying the correct procedures. Any gaps identified can be addressed to enhance future training sessions.

Q.14 Explain the Methods/ Techniques of training in detail.

On-the job training	Off the job training
• JIT • Apprenticeship • Job rotation • Coaching Temporary Promotions • Understudy	• Lectures, • Discussion method • Demonstrations • Seminars and conferences • Reading, television, and video instructions • Business simulation,

	• Cases presentation • Equipment simulators, • Business games • Experimental exercise, • Role-playing • Behavior modeling, • Computer modeling • Vestibule training, • Sensitivity Training (T-groups) • Computer-based training

METHODS AND TECHNIQUES –

ON-THE-JOB-TRAINING(OJT)

This method places an employee in an actual work situation and make them immediate productive.
It is learning by doing
Individuals are trained on the same machines, while doing the same work expected to them.
Trainee comes in close contact with his future supervisor.

1- JOB INSTRUCTION TRAINING(JIT)

Many jobs consist a logical sequence of steps and are best taught in this manner –step by step.
It involves listing all necessary steps in the job, in proper sequence
This method is used to improve routine and repetitive operations.
Learners are first asked to observe their instructors while performing and then follow them.
Helps the trainer to easily identify fault.

2- **APPRENTICESHIP**

Earning while learning.
Formal arrangement where person learns and gets paid for it.
Expert imparts knowledge and skills to trainee.
After training, trainee can apply for the permanent job, if there is any.
Mutually beneficial.
Generally, in trades like Carpentry, plumbing, Welding etc.

3- **JOB ROTATION**

This involve moving from one task to related tasks.
Rotation from one department to another.
Trainee is expected to learn about how each department functions including some key roles, procedures.
Change in job responsibility and not the job position.

4- **COACHING**

Guidance by superiors to subordinates.
Unofficial and unplanned training method.
Improves bonding between employees and their superiors
Senior-> Coach
He instructs and guides the employees.
He evaluated the performance of the employees.

5- **TEMPORARY PROMOTIONS**

Individuals are frequently appointed acting managers when, for example, the permanent manager is on vacation, is ill, is making an extended business trip, or even when a vacant position is available.
When the acting manager makes decisions and assumes full responsibility, the experience can be valuable. In this way, managerial people can be trained well.

6- **UNDERSTUDY:**

Trainees are prepared to perform the work or fill the position of their superiors.
A trainee is called as an understudy.
The understudy fills the position of his/her superior that is about to leave the job due to promotion, retirement, or transfer
This gives the understudy an opportunity to try out his/her leadership skills.

7- MENTORING

A senior manager is paired with a more junior employee for the purpose of giving support, helping the employee to learn.
Mentor acts as an adviser.
Mentoring is an off-line help by one person to another in making significant transitions in knowledge, work or thinking.

8- JUST-DO-IT TRAINING
The JDIT approach begins with instruction on basic principles and then moves to the job where a need for improvement has been identified.
Combination of Job instruction training and Japanese philosophy of continuous improvement.

<u>OFF THE JOB TRAINING METHODS</u>

1- **LECTURE METHOD**

When there is a requirement of imparting technical knowledge to the new employees, lecture method proves to be the best.
It is a one-way communication method in which the mentor collects the entire relevant data for the trainees and conveys a lecture various teaching aids such as models, chart papers, visual aids, audio aids, etc.

2- **SIMULATIONS**

This training method depicts a real-life situation of the job that may have happened in the organization in the past that had costed the company a lot, etc.
Several realistic examples can be shown to the trainees to prepare them to handle the situations accordingly.
This method is used in those industries where on-the-job training can be expensive or destructive, such as, in an aeronautical industry.

3- **CASE STUDY**

Under this method, the real business cases are framed and they are provided to trainees. Trainees have to discuss it and give their ideas on how they would have tackled that situation. This method is called case study method and is one of the very common ways of imparting knowledge based on actual business situations.

4- ROLE-PLAY

In this method, trainees are provided with an imaginary or real problem which is generally concerned with the organization. They are asked to assume identity of a particular person and behave as if they are in that particular situation. In order to enhance their managerial skills, employees can make use of various visual aids and tips given by their mentor while executing their performance.

5- **IN-BASKET EXERCISE**

In this method, the trainee is given all the relevant things like letters, reports, records, etc. that are needed by managers.
The trainee is given a specific situation which managers confront regularly. He is asked to assess the situation, prioritize the things, justify his reasons and give final decision on the issues raised during the exercise.
The exercise gives the manager a snapshot of learner's ability to perform the executive functions and roles in the job.
The whole exercise is video-recorded and the concerned candidates are tested on the grounds of proposed set of their skills and abilities such as of problem-solving ability, time management, etc.

6- CONFERENCES

Conference programs may be used in internal or external training.
managers or potential managers are exposed to the ideas of speakers who are experts in their fields.
A careful selection of topics and speakers will increase the effectiveness of this training device.
Conferences can be made more successful by including discussions. Two-way communications allow participants to ask for clarification of topics that are particularly relevant to them.

7- **SEMINARS**

Another word for 'Seminar' is "Seed Plot" which means it is a base ground for gaining knowledge.

These are conducted by experienced and expert people who not only prepare the topic of discussion and deliver it in front of learners but also help them to share their ideas and explore their views towards the topic of discussion.

8- **GROUP DISCUSSION**

A topic is given. No time is given to the trainees to prepare the topic.
Helps in solving the problem related to an organization
Creates a higher rate of interest and enthusiasm among the trainees
Two-way flow of communication. Quick feedback
Better understanding. Questioning can be done by both the trainer and the trainees.

9- **SENSTIVITY TRAINING**

- Related to emotions and sentiments.
- Also called as T-group training or laboratory training.
- A T-group is a small discussion group without any leader. The focus is on feeling and mutual respect. The trainer raises a question and encourages open discussion, which is unstructured.
- Based on the behavior of 'one for the other'.
- To make employees get aware of and respect the feelings and emotions of other co-trainees.
- It is concerned with the real problems existing within the group itself. It is not an imagined problem.
- An attempt is made to change the attitude and behavior of people in the group. It is used in building team efforts.

The objective of this training includes:

- Better insight into one's behavior and the way one appears to others;
- A better understanding of group processes;
- Members learn more about themselves, especially their weakness and emotional stability;
- Development of skills in diagnosing and intervening in group processes;
- Find a better method and means of behavior for effective interpersonal relationships without power over others.

10 . **Demonstration Method**

- A demonstration is a visual display of how to do something or how something works.
- Break the tasks to be performed into smaller and easily learned parts;
- Sequentially organize the parts of the tasks;
- Complete each of the following steps for each part of the task;
- It serves to focus the trainee's attention on the critical aspects of the task;
- Demonstrate the task, and describe what trainees are doing while the trainer is doing it;
- After demonstrating each part of the task, the trainer explains why it should be performed
- A manager may be aided by the training department, which offers a reading list of valuable books. This learning experience can be enhanced by discussing articles and books with other managers and superiors.
- Management and other topics are featured in television programs. Moreover, videotapes on various subjects are available in university or company classrooms.

- **These methods can be very effective and are widely used. These techniques are very useful when there is a need:**

  (a) to illustrate how to follow a certain sequence over time;
  (b) to expose trainees to events not easily demonstrable in live lectures;
  (c) to stimulate problems;
  (d) when there is a need for organization-wide training; and
  (e) when it is too costly to move the trainers from place to place.

VESTIBULE TRAINING

-Conducted Away From The Actual Work Floor.
-Workers Are Trained On Special Machines In A Separate Location: Classrooms.
-Here, Working Environment Is Artificial But It Is Just Like The Actual Condition.
-The Reason Being, Trainee Learns in Condition Simulated to The Real One.

INTERNSHIP

- **It is joint programme of training with educational institutions.**
- **Students are given practical training while they study.**
- **Candidates carry on regular studies and they are also sent to office during their vacations to get practical knowledge.**

Computer-based training

- Many companies are implementing computer-based training as an alternative to classroom training to accomplish the goal.
- Reduces trainee learning time,
- Reduces the cost of training,
- Provides instructional consistency,
- Affords privacy of learning,
- Allows the trainee to master learning,
- In a safe method for learning hazardous tasks,
- Increases access to training.

Q.15 <u>Write a Detailed note on Management Development</u>.

Management development is a process used to create effective managers.
Management development programs usually enable managers to enhance their existing skills, such as resolving conflicts and communicating with others.
It is continuous process of learning.
It implies that there will be a change in knowledge and behavior of the individuals undergoing development programme.

CHARACTERISTICS

1. Ongoing process
2. Knowledge updating activity
3. Process of learning

4. Change in attitude and perception
5. Achievement of greater managerial competence
6. Scaling down deficiencies
7. Promoting self development
8. Future oriented
9. Aims for better performance

OBJECTIVES

Objectives of development of managerial personnel for various levels of management are given below:

Top Management

1. To widen the perception of every manager about his position role and responsibilities within the organization and outside it.
2. To enhance the thought process and the ability to analyze in order to pinpoint the problems and make the best decisions which are for organization's good.
3. To recognize technical, institutional and economic influences in order to tackle business related issues.
4. To determine various problems generally faced by the organization and foresee future problems so that precautionary actions can be taken.
5. To gain knowledge about problems related to human Relationships.

Middle Line Management

1. To be absolutely clear about managerial duties and activities.
2. To develop problem-analyzing abilities and corresponding competencies to take the required action.
3. To acquaint managers with the effects of business laws, financial accounting and business statistics on managerial functioning.
4. To impart knowledge of all aspects of managerial problems and be acquainted with, & be aware of the importance interdepartmental relations.
5. To understand the role of motivation and interpersonal and of relationships in performing management functions efficiently.
6. To inculcate a sense of responsibility among managers to play leadership roles effectively.

Middle functional executive/ specialists

1. To enhance the knowledge of business operations and functions in particular areas like marketing, finance, production, and human resource.
2. To increase the level of expertise in management techniques like operations research, quality control, work study, etc.
3. To stimulate out-of-the-box thinking so as to establish improved methods and procedures.
4. To understand various organizational functions.
5. To comprehend problems related to human relations.
6. To develop problem-solving ability in one's functional domain

Importance of management development

1. Increases various skills
2. Deals with problems of change
3. Contributes to business success
4. Copes up with rapid technological changes
5. More effective communication
6. Motivated team members
7. Long-term management availability
8. Cost-efficient leadership: When an organization promotes managers from within the company, it can save itself the cost of hiring and training new managers.
9. Wide knowledge of company policies: Providing management development for existing managers can keep everyone updated on company expectations, the workplace culture and any new policies.
10. Better results

Methods of Management Development

ON THE JOB METHODS	OFF THE JOB METHODS
• COACHING • JOB ROTATION • UNDERSTUDY • MENTORING • COMMITTEE ASSIGNMENTS • PLANNED PROGRESSION • CREATION OF "ASSISTANT-TO" POSITIONS • TEMPORARY POSITIONS • TRANSFER	• CASE STUDY • INCIDENT METHOD • ROLE-PLAYING • IN-BASKET METHOD • BUSINESS GAMES • SENSITIVITY TRAINING • SIMULATION • GRID TRAINING • CONFERENCES • LECTURES • SEMINARS • SPECIAL PROJECT ASSIGNMENTS • MUTIPLE MANAGEMENT • BEHAVIOR MODELLING • TRANSACTIONAL ANALYSIS • DELEGATION • SPECIAL COURSES • SPECIAL MEETING

Q.16 <u>What is Performance Appraisal and Merit rating? Write its Objectives and importance.</u>

Performance appraisal, also known as performance review or evaluation, is a systematic process in which an individual's job performance is assessed and evaluated by their supervisor, manager, or a designated authority within an organization. The primary purpose of performance appraisal is to provide feedback to employees regarding their job performance, identify areas

of strength and areas that need improvement, and establish goals and objectives for future performance.

It is a regular process where an individual's job performance is assessed against the job requirements. It involves evaluating strengths, weaknesses, and potential future development.

Also known as performance evaluations or reviews, these appraisals are essential for both organizations and employees. For organizations, they offer insights into employee contributions, helping improve working conditions, address issues, recognize talents, and make strategic decisions. For employees, appraisals provide recognition for achievements, identify opportunities for promotions or bonuses, support career development, pinpoint areas for improvement, and encourage discussions about long-term goals.

Merit rating is a performance evaluation method used by organizations to assess and measure the performance of their employees based on their individual merits or achievements. The goal of merit rating is to recognize and reward employees for their contributions to the organization, and it often serves as a basis for decisions related to compensation, promotions, and other employment-related matters.

Definition of Edwin B. Filippo

Merit rating is systematic, periodic and so far as humanly possible, an impartial rating of an employee's excellence in matters pertaining to his present job and to his potentialities for a better job.

According to **Dale S. Beach**, "performance appraisal is the systematic evaluation of the individual with regard to his or her performance on the job and his potential for development."

Objectives Of Performance Appraisal

1. Set Employee Goals

Setting employee goals means telling them the specific things the company wants them to achieve. For example, if someone works in sales, a goal could be to sell 20% more products in the next three months. This helps employees know exactly what they should be working towards.

2. Motivate Performers

Motivating performers involves encouraging employees who are doing well to keep up the good work. If someone is doing a great job, the company might give them extra rewards, like a bonus or public recognition. This makes the employee feel appreciated and motivated to continue performing well.

3. Boost Confidence

Boosting confidence means making employees feel good about the work they do. Managers can boost confidence by pointing out specific things the employee did well. For example, if

someone finishes a project ahead of schedule, the manager can praise them for their hard work, making the employee feel proud and confident in their abilities.

4. Meaningful Recognition

Meaningful recognition involves appreciating employees in a way that matters to them. For instance, if an employee is known for coming up with creative ideas, the company might publicly recognize their creativity during a meeting. This recognition makes the employee feel valued and encourages them to keep contributing their unique skills.

5. Counsel Under-performers

Counselling under-performers means helping employees who are not doing well to improve. If someone is not meeting their targets, the manager can talk to them about where they are struggling and work together to find solutions. This guidance helps the employee understand what they need to do better.

6. Transparent Evaluations

Being transparent in evaluations means being clear and honest. Managers need to explain how they judged an employee's performance and involve the employee in the feedback process. This clarity helps everyone understand how decisions are made, promoting fairness in the workplace.

7. Recognize Training Needs

Recognizing training needs means understanding what skills employees may be lacking. If someone has difficulty with a new computer program, the company might decide they need training to improve. Recognizing these needs involves identifying where employees require help and providing appropriate training to enhance their skills.

8. Plan Recruitment

Planning recruitment means deciding if the company needs to hire more people. This decision can be based on how much work employees have and if they're feeling too stressed. For example, if a team is always busy and struggling to finish tasks on time, the company might decide to hire more people to ease the workload.

9. Improve Productivity

Improving productivity means making sure everyone is doing their job well and the company is running smoothly. For instance, if a worker in a factory has a goal to reduce mistakes in the products they make, it helps the company be more efficient. This efficiency leads to better overall productivity.

10. Simplified Promotion

Simplified promotion means making it clear who should get a promotion. If someone consistently does a great job and has the skills for a higher position, they might get promoted.

For example, if an employee is excellent at their job and shows leadership qualities, the company might decide to promote them to a higher position with more responsibilities.

11. Compliance

Compliance means following the rules and laws. If the company doesn't do performance appraisals or doesn't treat employees fairly, they could get in trouble. For example, if an employee is not doing well, and the company decides to let them go, having records of the employee's performance issues can help the company explain and justify their decision, ensuring they follow proper procedures and regulations.

Objectives of Merit Rating:

1. Providing a Record of Employee Worth:

Merit rating aims to create a documented assessment of each employee's value or worth within the organization. This record helps in making informed decisions about assigning individuals to roles that align with their capabilities. For instance, if an employee consistently demonstrates strong analytical skills, the merit rating record can guide management in placing them in roles that require such skills, such as data analysis or strategic planning.

2. Unfolding Employee Limitations for Improvement:

Merit rating serves the purpose of highlighting the limitations or areas where an employee may need improvement. By identifying these limitations, the organization can implement targeted strategies for employee development. For example, if an employee struggles with time management, the merit rating process can pinpoint this weakness, leading to focused training programs or mentoring to enhance time-management skills.

3. Basis for Various Employment Decisions:

Merit rating records form the foundation for several employment-related decisions, including:

(a) **Wage Increase:** When employees consistently perform at a high level, merit rating becomes a basis for justifying and implementing wage increases. For example, if a salesperson consistently exceeds targets, their merit rating can support a salary raise.

(b) **Promotion:** Outstanding merit ratings may serve as a strong basis for promoting employees to higher positions. If an employee consistently demonstrates leadership and exceeds expectations, they may be considered for promotions to managerial roles.

(c) **Special Assignments:** Exceptional merit ratings may qualify employees for special projects or assignments. For instance, an employee consistently excelling in project management may be entrusted with leading a critical company initiative.

(d) **Training:** Merit ratings that reveal specific skill gaps can inform the design of training programs. If an employee lacks proficiency in a particular technology, targeted training can be provided to enhance their skills.

(e) **Transfer:** Merit ratings can guide decisions related to employee transfers between departments or locations. For example, if an employee exhibits strong teamwork skills, a transfer to a department emphasizing collaboration may be considered.

(f) **Discharge:** In cases where employees consistently fall short of performance expectations despite corrective actions, merit ratings may provide a basis for making difficult decisions, such as termination.

Example Scenario: Consider an organization using merit rating for its sales team. An employee consistently achieves or surpasses sales targets, demonstrating exceptional performance. During the merit rating discussions, the employee's record becomes the basis for both a substantial wage increases and a promotion to a senior sales position. Additionally, recognizing the employee's leadership qualities, the organization assigns them a special assignment to lead a cross-functional team aimed at improving overall sales strategies.

Importance of Performance Appraisal

1. Feedback for Improvement:

Performance appraisals give employees feedback on their work, helping them know what they're good at and where they can get better.
E.g. If someone learns they need to improve their communication, they can work on it to do better in the future.

2. Setting Clear Goals:

Appraisals set clear goals for employees, telling them exactly what's expected in terms of tasks and achievements.
E.g. A salesperson might have a goal to sell 15% more in the next few months, giving them a specific target to aim for.

3. Recognition for Good Work:

Appraisals appreciate employees for their achievements, making them feel good about their work.
E.g. If someone finishes a tough project, getting recognized for it makes them feel proud and motivated.

4. Identifying Training Needs:

Appraisals show where employees might need more training or help to get better.
E.g. If someone struggles with new computer software, the appraisal may suggest training to improve their skills.

5. Fairness and Openness:

Appraisals are fair by being clear about how they judge employees and involving them in the feedback.

E.g. Explaining to employees how their performance is being judged helps them trust the process.

6. Career Growth:

Appraisals help employees grow in their careers by pointing out areas to improve and setting goals for advancement.
E.g. Recognizing an employee's leadership skills might lead to a chance for promotion or more responsibilities.

7. Motivation and Enjoying Work:

Positive feedback in appraisals motivates employees, making them more engaged in their work.
E.g. Getting praised for doing well boosts an employee's confidence and encourages them to keep up the good work.

8. Smart Recruitment Planning:

Appraisals help see if employees are stressed with too much work, so the company can plan to hire more people.
E.g. If a team is always busy, the company might decide to hire more staff to help out and keep everyone happy.

9. Better Productivity:

By setting goals and giving fair feedback, appraisals help everyone work better, making the whole organization more efficient.
E.g. Clear goals help employees see how important their work is, making everything run smoother.

10. Easy Promotion Process:

Appraisals make promoting employees easier by showing who deserves it based on clear criteria. If someone always meets targets and shows leadership, they're an easy choice for a promotion.

11. Following the Rules:

Appraisals create records of employee performance, which is important to justify decisions and follow the laws. Having proof of performance issues helps a company explain why they had to let an employee go and keeps everything legal.

<u>Q. 17 Elaborate the Methods Of Performance Appraisal and Merit Rating.</u>

1. **720-Degree Feedback:**

The 720-Degree Feedback method goes beyond traditional evaluations by incorporating feedback not only from within the organization, including managers and colleagues, but also from external stakeholders such as customers, investors, and suppliers. This approach aims to provide a more comprehensive and well-rounded assessment of an employee's performance.

E.g. A sales representative not only receives feedback from their immediate supervisor regarding their sales targets but also from clients who share insights on the representative's communication skills, responsiveness, and overall customer satisfaction.

2. **Assessment Center Method:**

The Assessment Center Method involves a set of exercises, simulations, and role-playing scenarios conducted at a designated assessment center. Employees are evaluated on a range of skills such as communication, problem-solving, and interpersonal abilities. The method aims to provide a practical and in-depth assessment of an employee's capabilities.
E.g. In a simulated business scenario, an employee may be tasked with resolving a complex issue, negotiating with a virtual client, or participating in a group discussion, allowing assessors to observe and evaluate their performance in real-world situations.

3. **Behaviorally Anchored Rating Scale (BARS):**

BARS combines qualitative and quantitative aspects by comparing an employee's performance to specific behavioral examples. Each performance level is anchored by multiple behavior-based statements, offering a more detailed and nuanced evaluation.
E.g. For teamwork assessment, a BARS might include specific examples such as "effectively collaborates on group projects" or "proactively contributes ideas during team meetings," providing concrete instances for evaluation.

4. **Checklist Method:**

The Checklist Method involves evaluating employees based on a predefined checklist of criteria. Managers use a series of yes/no questions to assess specific traits or behaviors, making it a straightforward and easy-to-implement evaluation method.
E.g. A checklist for a project manager could include items like "meets deadlines consistently," "communicates project updates effectively," and "adapts well to changing project requirements," streamlining the assessment process.

5. **Critical Incidents Method:**

The Critical Incidents Method focuses on recording specific events or behaviors, whether positive or negative, that highlight an employee's performance. This method aims to provide tangible examples for a more detailed evaluation.
E.g. Keeping a record of instances where an employee demonstrated exceptional problem-solving skills during a crisis or exhibited leadership qualities during a challenging project, offering specific incidents for evaluation.

6. **Customer/Client Reviews:**

This method involves seeking feedback from clients to assess how an employee contributes to customer satisfaction. It emphasizes the external perspective on an employee's performance.
E.g. For a customer service representative, client reviews may include feedback on responsiveness, problem resolution, and overall satisfaction, giving insights into the employee's impact on client relationships.

7. **Field Review Method:**

In the Field Review Method, a representative from the HR department or corporate office conducts the performance evaluation. This method ensures consistency and fairness in the assessment process.
E.g. In a decentralized organization, where employees work in different locations, a corporate HR representative conducts performance reviews to maintain uniformity and adherence to company standards.

8. **Forced Choice Method:**

The Forced Choice Method involves employees responding to a series of prepared True/False questions, offering a structured and standardized approach to evaluation.
E.g. True/False statements like "consistently meets project deadlines" or "effectively communicates with team members" provide a clear framework for assessing an employee's performance.

9. **General Performance Appraisal:**

The General Performance Appraisal involves ongoing discussions between managers and employees, focusing on goal setting, progress monitoring, and continuous improvement.
E.g. Regular meetings between a manager and an employee to discuss project goals, achievements, and areas for improvement create a dynamic and collaborative performance appraisal process throughout the year.

10. **Human Resource Accounting Method:**

This method evaluates an employee's performance by comparing the cost of retaining them to the monetary benefits they bring to the organization. It emphasizes the financial aspect of an employee's contribution.
E.g. Calculating the cost of employee retention against the revenue generated, considering factors like productivity, quality of work, and skills, provides a quantitative measure of an employee's value to the company.

11. **Management By Objective (MBO):**

MBO involves collaborative goal-setting between employees and managers, with periodic reviews to assess progress. It aligns individual objectives with organizational goals.
E.g. A sales team collaboratively sets quarterly sales targets, and regular reviews track progress, fostering a goal-oriented and mutually beneficial relationship between employees and management.

12. **Performance Tests and Observations:**

Performance Tests and Observations involve practical assessments of employees' skills and knowledge through tasks or challenges relevant to their job roles. It provides a hands-on evaluation of their capabilities.
E.g. In a software development team, a performance test may involve coding challenges or problem-solving tasks, allowing managers to observe the employee's technical proficiency in real-world scenarios.

13. **Project Evaluation Review:**

This method appraises team members at the end of specific projects rather than an annual review. It allows for a focused assessment of individual contributions to project success.
E.g. After completing a marketing campaign, team members receive feedback based on their role in the project, acknowledging specific achievements and identifying areas for improvement in future projects.

14. **Rating Scales:**

Rating Scales involve assessing employees on specific attributes such as dependability, initiative, and attitude, using a predefined scale. The results contribute to an overall performance score.
E.g. A scale ranging from Excellent to Poor may be used to rate an employee's communication skills, with descriptors like "effectively communicates ideas" or "requires improvement in conveying information."
E.g. A scale of 1-10 may be used to rate an employee's decisiveness, with descriptors like "makes timely decisions" or "hesitates in decision-making."

15. **Psychological Appraisals:**

Psychological Appraisals focus on evaluating employees' potential by analysing traits like interpersonal skills, cognitive abilities, and emotional intelligence. It aims to understand how these traits contribute to future performance.
E.g. Through in-depth interviews and psychological tests, a psychologist assesses an employee's ability to handle stress, collaborate with colleagues, and adapt to challenging situations, providing insights into their psychological profile.

16. **Ranking Method:**

In the Ranking Method, employees are systematically ranked based on their performance, with the highest achievers positioned at the top and the less effective employees placed lower. This method provides a clear hierarchy of performance within a team or department.
E.g. Imagine a sales team where the top-performing salesperson consistently exceeds targets and closes the most deals. In a ranking list, this individual would be placed at the highest rank, highlighting their significant contribution to the team's success.

17. **Technological Performance Appraisal:**

This appraisal method focuses on evaluating an employee's proficiency in technological aspects relevant to their job. It assesses skills such as software usage, adaptability to new technologies, and staying abreast of industry advancements.
E.g. Consider an IT professional whose role requires utilizing various software tools and staying updated on emerging technologies. The appraisal process would involve assessing their ability to efficiently use these tools and adapt to technological changes.

18. **Sales Performance Appraisal:**

Sales Performance Appraisal directly ties an employee's evaluation to the revenue they bring in, emphasizing achievements in sales-related activities. This method is particularly relevant for roles where financial contributions are a key performance indicator.

E.g. For a salesperson, their appraisal may be determined by the number of deals closed, the revenue generated through sales, and their overall impact on the company's financial success. This approach aligns incentives with tangible business outcomes.

19. **Essay Appraisal:**

Essay Appraisal involves managers providing a narrative-based assessment by answering a series of questions about an employee's performance. It offers a detailed and qualitative evaluation, often including specific instances and examples.

E.g. A manager, when conducting an essay appraisal, might write a detailed account highlighting instances of an employee's leadership skills, problem-solving abilities, and positive contributions to team dynamics. This method allows for a personalized and holistic evaluation.

Q.18 Explain the Process of Merit Rating. Also write the difference between Performance Appraisal and Merit Rating.

1. Establishing Standards:

Before evaluating employees, clear standards must be set. These standards serve as benchmarks against which performance will be assessed. For example, production workers might be evaluated based on the quantity and quality of their output, while executives could be assessed on traits like leadership and initiative.

2. Communicating Standards to Workers:

Once standards are set, it's crucial to communicate them to employees. They need to understand what is expected of them to align their efforts with organizational goals. Clear communication ensures that employees are aware of the criteria against which they will be evaluated.

3. Measuring Actual Performance:

The next step involves measuring the actual performance of employees. This can be done through various means such as personal observation, statistical reports, or feedback from relevant executives. For instance, a production worker's output can be quantified, or an executive's leadership skills can be observed.

4. Comparing Actual with Standards:

Actual performance is then compared to the predefined standards. This comparison helps in assessing how well an employee has met the expectations. Deviations from the set standards are noted, providing insights into both strengths and areas for improvement.

5. Discussing Reports with Workers:

The assessment reports are shared with employees during periodic discussions. This step involves highlighting both positive aspects and areas needing improvement. For instance, if an office staff member is evaluated based on files cleared, the discussion could include feedback on efficiency and potential improvements.

6. Taking Corrective Action:

The merit rating process becomes meaningful when corrective actions are taken based on the evaluation. Corrective actions can range from counselling and advice to additional training or assigning special tasks. For example, if an employee's performance falls short, additional training sessions may be recommended to enhance their skills.

Example Scenario: Let's consider a scenario in a manufacturing setting. The standard is set for a machine operator to produce 100 units per hour with minimal defects. The actual performance is measured through regular monitoring, and it's found that the operator consistently exceeds the set standard, producing 120 units per hour with near-perfect quality. During the discussion, the positive aspects of exceeding standards are acknowledged, and the employee is encouraged to share insights that contribute to the high performance. No corrective action is needed, but ongoing communication reinforces the importance of maintaining or further improving this excellent performance.

PERFORMANCE APPRAISAL	MERIT RATING
It is concerned with development of employees. Its aim is to develop a rational basis for personnel decisions.	Its aim is to decide the basis for pay increase, promotion, transfer, lay off etc.
Only quantitative factors are considered (results, accomplishments, performance, etc.).	Internal merits and qualities (personal traits) are studied.
It focuses on the performance and future potential of employee.	It focuses on job worth and personal traits.
It covers technical and managerial executives.	It covers rank and file personnel paid on hourly basis.
Mutual goal setting, critical incidence etc. are used.	Rating scales are used to rate the employee.
It is concerned with what he is doing and what are his potential capabilities.	Emphasis is on what the employee is.
It measures performance.	It measures traits.

Unit-3

Q.1 What is Marketing? Write its Characteristics and Aims.

Marketing is the performance of business activities that direct the flow of goods and services from producers to consumers
Marketing is the anticipation, management, and satisfaction of demands through the exchange process.

Characteristics of marketing

1. **Exchange Process:**

Marketing involves the exchange of goods, services, or ideas between buyers and sellers. This exchange is the core of all marketing activities. For instance, when a consumer buys a smartphone from a company, both parties are engaged in the exchange process where the consumer gets the product, and the company receives payment.

2. **Consumer Oriented:**

Marketing is centered around understanding and satisfying the needs and wants of consumers. Successful marketing strategies focus on creating value for customers. For example, companies conduct market research to identify consumer preferences and tailor their products or services accordingly.

3. **Not Limited to Business Only:**

Marketing is not exclusive to for-profit businesses. Non-profit organizations also use marketing to promote their causes, attract donors, and create awareness. For instance, a charity organization may employ marketing techniques to encourage people to contribute to their humanitarian efforts.

4. **Productive – Creates Time and Place Utility:**

Marketing adds value by making products available when and where customers want them. For example, online retailers like Amazon provide customers the convenience of shopping from anywhere and receiving products at their doorstep, creating both time and place utility.

5. **Mutuality of Profits:**

Marketing aims for a win-win situation where both the buyer and the seller benefit. When customers find value in a product or service, they are willing to pay for it, leading to profits for the seller. This mutual benefit encourages ongoing business relationships.

6. **Total Function – Includes Product, Pricing, Packaging, Selling, and Sales Promotion, Advertising:**

Marketing encompasses a range of activities. Product development, setting prices, creating attractive packaging, selling, and promotional activities like advertising all fall under the marketing umbrella. For example, Apple not only designs innovative products but also invests heavily in advertising to create a strong brand image.

7. **Socio-economic Process:**

Marketing is influenced by and has an impact on society and the economy. It reflects societal values and trends. For example, eco-friendly products gain popularity due to increased environmental awareness, influencing companies to adopt sustainable marketing practices.

8. **Different from Selling/Sale:**

Selling is just one aspect of marketing. While selling focuses on pushing products to customers, marketing involves a broader set of activities, including understanding customer needs, designing products, determining pricing strategies, and creating awareness.

9. **Science and Art:**

Marketing combines scientific methods, such as data analysis and market research, with creative elements like advertising and branding. It requires a balance of analytical thinking and creative innovation.

10. **Universal Activity:**

Marketing is a global phenomenon applicable across industries and geographical boundaries. Every organization, regardless of size or sector, engages in some form of marketing to promote its offerings.

11. **Cultural Exchange:**

Marketing often involves understanding and respecting different cultures. Adapting marketing strategies to fit cultural norms ensures that products are accepted in diverse markets. For instance, multinational food companies may alter recipes to suit local tastes.

12. **Interdisciplinary:**

Marketing draws on various disciplines such as psychology, economics, sociology, and statistics. Understanding consumer behavior, economic trends, and societal changes is crucial for effective marketing.

13. **Creative:**

Successful marketing requires creativity in developing unique campaigns and strategies. Companies like Coca-Cola showcase creativity in their advertising campaigns to capture consumer attention and build emotional connections.

14. **Dynamic and Continuous:**

Marketing is ever-evolving. Consumer preferences change, new technologies emerge, and market conditions fluctuate. Continuous adaptation to these changes is essential for staying relevant. For example, the rise of social media has led to shifts in marketing strategies as companies leverage platforms like Instagram and TikTok to reach younger audiences.

Aims of Marketing

1. **To Stimulate Demand:**

In addition to creating awareness, marketing also aims to differentiate products from competitors. Through branding and effective communication, companies seek to highlight unique features that make their products stand out. For instance, a tech company might emphasize the superior camera quality of its smartphones to stimulate demand among photography enthusiasts.

2. **To Create Utilities:**

Beyond the traditional utilities, marketing also focuses on creating emotional and social utilities. Emotional utility involves connecting with consumers on a personal level, evoking positive feelings or associations with a brand. Social utility involves products contributing to social interactions or status. An example is a luxury brand marketing not only the functionality of its products but also the prestige and status associated with owning them.

3. **Mass Production:**

Marketing aims to standardize products for mass production while ensuring customization options that cater to diverse consumer preferences. This strategy allows companies to achieve economies of scale while addressing specific market segments. An example is the automobile industry offering various models with optional features to appeal to a broad range of consumers.

4. **Cost Reduction:**

Marketing strategies involve optimizing the entire supply chain, from sourcing raw materials to delivering the final product. Collaborating with suppliers, implementing efficient manufacturing processes, and adopting sustainable practices are all aspects of marketing aimed at reducing costs. For instance, a clothing brand might use eco-friendly materials not only to appeal to environmentally conscious consumers but also to streamline production costs in the long run.

5. **To Create Customers:**

Marketing goes beyond the initial purchase to create a loyal customer base. Relationship marketing, which focuses on building long-term connections with customers, involves loyalty programs, personalized communication, and excellent customer service. A coffee shop, for example, may offer a loyalty card that rewards customers for repeat purchases, fostering customer loyalty and retention.

6. **To Create Profitable Opportunities:**

Marketing aims to identify emerging trends and consumer needs, allowing businesses to diversify and enter new markets successfully. This involves continuous market research and innovation. For instance, a food company may introduce a plant-based product line in response to the growing demand for healthier and sustainable food options, creating a profitable opportunity in the evolving market.

Q.2 <u>Elaborate the Scope of Marketing.</u>

<u>Scope of Marketing</u>

1. **Environmental Analysis:**

Environmental analysis involves understanding external factors that impact a company's marketing efforts. Demographic factors, such as population size and age distribution, competition from other businesses, political influences, cultural trends, and technological advancements all play a role. For example, a company might adjust its marketing strategy based on changing consumer preferences influenced by cultural shifts or incorporate new technologies to stay competitive.

2. **Marketing Research:**

Marketing research is the systematic gathering and analysis of information to support decision-making. It encompasses various types of research, including advertising research to assess the effectiveness of promotional campaigns, product research to understand consumer needs and preferences, and sales research to evaluate sales performance and market trends. For instance, a smartphone company may conduct market research to identify features that appeal to its target audience.

3. **Customer Analysis:**

Customer analysis involves evaluating consumer characteristics to understand their buying behavior. This includes identifying who buys the product, what they buy, why they make those purchases, how often they buy, and where they make their purchases. For instance, a clothing retailer might analyze customer data to tailor its inventory to match the preferences of its target demographic.

4. **Product Planning:**

Product planning involves determining the features of a product, creating a brand identity, and designing packaging. For example, a tech company planning a new smartphone considers features that differentiate it from competitors, develops a brand name that reflects its values, and designs packaging that is visually appealing and functional.

5. **Pricing:**

Pricing involves setting the right price for a product to ensure competitiveness and profitability. Companies consider factors such as production costs, competitor pricing, and perceived value by customers. For example, a coffee shop may strategically price its products to attract customers while covering costs and maintaining profitability.

6. **Warehousing:**

Warehousing is a part of the distribution process, ensuring products are stored, organized, and ready for shipment. Efficient warehousing helps in maintaining an uninterrupted supply chain. For example, an e-commerce company relies on warehouses strategically located for quick and efficient delivery to customers.

7. **Packaging:**

Packaging serves the dual purpose of promoting and protecting the product. Designing an eye-catching wrapper enhances a product's visual appeal, making it easier for consumers to identify and remember. For example, the distinctive packaging of a popular soft drink contributes to its brand recognition on store shelves.

8. **Branding:**

Branding involves creating a unique identity for a product through a name, symbol, or design. A strong brand distinguishes a product in the market and builds customer loyalty. For example, the logo and name of a well-known sportswear brand immediately convey a certain quality and lifestyle associated with its products.

9. **Selling:**

Selling is at the core of marketing, involving the exchange of products for money. It requires effective communication and persuasion skills to influence consumer decisions. For example, a salesperson in an electronics store may explain the features and benefits of a new laptop to encourage a purchase.

10. **Sales Force Management:**

Sales force management involves organizing, staffing, and operating a sales team. This includes recruiting, training, compensating, supervising, and evaluating sales personnel. For instance, a pharmaceutical company ensures its sales representatives are knowledgeable about the products they sell and are equipped to engage with healthcare professionals.

11. **Wholesaling:**

Wholesaling plays a crucial role in the distribution process, acting as intermediaries between producers and retailers. Wholesalers buy in bulk from manufacturers and sell smaller quantities to retailers. An example is a wholesale distributor of electronics supplying products to various retail outlets.

12. **Retailing:**

Retailing is the final stage in the distribution process, where products are sold directly to consumers. Producers or wholesalers may act as retailers when selling directly to end customers. For example, a fashion brand that operates its own stores engages in retailing when selling directly to shoppers.

13. **Advertising:**

Advertising is a mass communication form used to promote products to the public. It aims to inform, persuade, remind, and build brand awareness. For instance, a car manufacturer may use television commercials to showcase the features and benefits of its latest model, influencing consumer perceptions.

14. **Sales Promotion and Publicity:**

Sales promotion includes various promotional efforts like samples, coupons, premiums, demonstrations, exhibitions, and point-of-purchase materials. Publicity involves non-paid communication to create awareness. For example, a new restaurant might offer discounts (sales promotion) and garner attention through local media coverage (publicity) to attract customers.

Q.3 <u>Distinguish between Marketing and Selling.</u>

MARKETING	SELLING
1. Marketing means activities taking place before production and after distribution so as to earn profit by satisfying consumers.	1. Selling means transferring ownership of goods and services.
2. Objective- Expand market, area and share of market.	2. Objective of selling is to maximize profit by maximum sale.
3. Broad area (includes all activities before production and after-sale).	3. It has limited area because efforts are made to sale products only.
4. It is related with consumer needs, satisfaction of utility, distribution and its use.	4. It is concerned with seller's needs, physical and legal distribution of product.
5. Consumer needs are not only satisfied by the product but price satisfaction is also concerned.	5. Main focus under selling is to convert product or goods into cash.
6. Customer satisfaction is the target of marketing firm therefore, price of goods/ services is the basis for price-determination.	6. Seller's target is to maximize his profit; therefore, 'cost of goods' is the basis for his price.
7. Focus point of marketing is consumer needs and firm's all activities are performed for customer satisfaction.	7. Product is the focus point of selling. Therefore, firm tries to maximize volume of sale.
8. Marketing activity starts from the point when an idea of product manufacturing comes and it continues till needs of customers are not satisfied even after he gets the product.	8. Only sale of manufactured product is concerned.

9. Future needs and wants of customers are satisfied by marketing.	9. Immediate needs of customers are fulfilled by selling.
10. Marketing policies are directed by customer's policies.	10. Sale's policies are part of marketing policies and directed by these.
11. Integrated marketing is the main resource of marketing which emphasizes on integration of ail factors like, product price and physical distribution.	11. Main source of selling is personal salesmanship (seller's art) and promotion.
12. Starting point of marketing is the 'market'.	12. Seller's function starts from factory.
13. Marketing is customer-oriented function. Producer is attentive towards their likes, dislikes, problems, suggestions as well as priorities.	13. Whereas selling is a product-oriented work because more attention is laid on products and consumers needs and desires are ignored.
14. In marketing, efforts are made to convert customer needs and wants into goods and services.	14. By selling existing and available products are converted into cash.
15. Long-term planning is made in marketing. Therefore, planning to sale in future markets is done.	15. Short-run planning. Therefore, it is planned to sale products in today's markets.
16. Price of products and services in marketing is determined by the utility and satisfaction of customers.	16. Product cost determines price of the product in selling.
17. Coordination of marketing department with other departments like finance, human resource, production and sales is essential for marketing function.	17. Coordination of sales department with other departments does not have special importance. Because all departments work as separate units.
18. Social responsibilities are taken care of in marketing function.	18. Such attention is not paid in selling function.
19. Marketing believes in 'pull approach'.	19. It is based on 'push approach'.
20. Marketing management is Profit-cum-Customers satisfaction oriented.	20. In it, management is Sales-volume-oriented.

Q. 4 <u>Explain how Marketing concepts evolved.</u>

The marketing concepts, which have developed so far, can be studied by categorizing them in following parts:

MARKETING CONCEPTS

1. **Production Concept,**
2. **Product Concept,**
3. **Sales Concept,**
4. **Marketing Concept**
5. **Social Marketing Concept.**
6. **Holistic Marketing concept**
7. **Value driven concept**
8. **The relationship marketing concept**

Production Concept

- **Production concept can also be called as 'Production-prime concept'.**
- It is based on the concept that whatever the producer presents in the market, is sold.
- The reason is that the producer has confidence that the product he produces, will be automatically sold.
- As a result, he does not make any effort for sales and he does not feel it necessary to care the customer wants, tastes and needs.
- He only cares about maximum production and maintaining minimum price. Such a situation is called 'seller's market.
- Following are the assumptions of production concept :
- (i) Whatever producer presents, is sold.
- (ii) He tries to maximize the production because the produce is automatically sold.
- (iii) Consumers are interested in availability of produce/ goods, not in the quality of product.
- (iv) Businessman's main problem is-how to increase production and production efficiency and not the sale of goods.
- (v) Producer does not require any special efforts to sale the produce.
- (vi) For the expansion of market or finishing the stocks discount price policy is adopted.
- (vii) Customer will buy the available product only.
- (viii) The producer cares about the improvement in production and distribution.

Product Concept

- Philip Kotler has said, "Product concept is such management oriented which assumes that the consumers support good quality and genuine price products and for satisfactory sales and profit earning, the company requires very less marketing efforts."
- Hence, consumer will automatically get attracted. Therefore, the marketing manager should focus on good quality product, latest design, best and attractive look and other such characters

The following are assumptions of product concept:

- Customer likes good quality products. They like to use /consume new goods and want their latest design.
- Customer appreciates good quality products. Therefore, he does not require to be told much about the good.
- Producer develops new and good products.
- Producers make efforts to bring best quality products in the market and add special qualities in them.

- Customers evaluate qualities of various products because they have to decide about the use or rejection of product in future.
- Producers produce new products.
- This concept lays more emphasis on physical production so that customers needs and wants are fulfilled.
- Producers produce 'attractive goods' to lure the customers.
- Therefore, it's clear that product concept emphasizes on production and ignores customers needs and wants. Besides, Producer/Marketer/Businessman's assumption that customer will get attracted to good quality product is wrong. However, attraction can be for short-term, while in the long-run price of the produce will also depend upon its availability and distribution.

Sales Concept

- Selling or sale concept is based on the assumption that customers generally do not take interest in buying the goods of an organization/company till incessant efforts are made to sale products in large volume.
- Here the objective of producer/manufacturer is to sale whatever he produces and not to produce what he can sale.
- Hence, the salesman adopts various tactics for aggressive and speedy sale, like - exciting the customer, psychological behavior, finishing sales quickly etc.
- Besides this, many efforts and methods are adopted/developed to sale the products, like - Advertisement, Sales, Research, Customer psychology, Sales Promotion Schemes and Publicity etc.

The sales concept has following assumptions:
(i) More efforts are needed to maximize sales of products and to develop buying taste in customers.
(ii) Various efforts are made to access the customer for the products and consumer satisfaction is not given attention.
(iii) Sales are increased by aggressive and pressurized sale.
(iv) This concept assumes that there is no problem in the production of products but how to sale the product is a problem.
(v) The businessman tries to create demand of the product, and develops consumer's taste, buying interest by removing sales hurdles.
(vi) Since middleman and consumer has direct relation, therefore, it is essential to take middleman's help to maximize product sale.
(vii) Under this concept the products bought by customers will either be liked by them or if not, they will forget the dissatisfaction and continue to buy company's products.
(viii) To create demand of products sellers, maximize the use of advertisement, publicity, middleman's help, sales promotion, and personal sales.
The sales concept of marketing is used for such products or services which the customer does not want to buy willingly, but they are encouraged to do so, like Investment in insurance, NSC, PPF etc. This concept can also be adopted when the producer has additional capacity to produce.

Marketing concept

Marketing concept is also called the 'customer-oriented' concept.

- According to this concept, marketing function starts before the production.
- The reason is that the producer studies the tastes and needs of the customer before actually starting the production.
- It cares the likings- disliking, problems, suggestions and priorities of customers and then plans the production.
- As a result, customers get products according to their tastes and needs, they get satisfied and producers also fulfill their goal.

Marketing concept has following assumptions:

(i) It is a business philosophy, because it makes business and marketing the synonym

(ii) Customer/consumer gets prime importance.

(iii) It focuses on integration and co-ordination of marketing activities and policies together with general activities and policies.

(vi) More attention is paid on profitable sales and not on quantity of sale.

(v) It is much broad and wide than sales concept.

(vi) It is a concept or an approach based on customer satisfaction, integrated marketing efforts, market study and long-term profit goals.

(vii) It believes that profit and goals can be achieved by customer satisfaction only.

viii) It is centralized on market factors, customer wants and needs. Hence, it is clear that use of this concept is because of earlier concepts having proved as impracticable and futile.

Social Marketing Concept

- Social marketing concept is an improvement over pure marketing concept.
- Because in marketing concept the struggle faced in consumer needs, consumerism and social welfare is ignored, while social marketing concept also focuses on social interests, social welfare and social goods together with consumer satisfaction.
- Here it is evident that sometimes personal and social needs clash or become contradictory.
- Therefore, this concept emphasizes on that a marketer's goal should be to determine market needs, wants and interests, provide maximum satisfaction to customer and focus on maximum welfare of society.

Social marketing has following assumptions:

(i) Marketing techniques should be used according to social interests and goods.

(ii) The function of marketing is not only to sale new products, but also to evaluate them from social view-point.

(iii) Social interests should be taken care along with consumer satisfaction.

(iv) Social responsibilities should also be taken care during the marketing work.

(v) Consumer welfare can be achieved only be satisfaction of customer/buyer's needs.

(vi) Company's goal and profit should be based on customer and social welfare.

(vii) Marketing research, market analysis and systematic approach should be given special emphasis.

Therefore, it is clear that use of social marketing concept should be made in company's philosophy and social philosophy, like poverty, unemployment, loss of resources, population-explosion and ignored social values.

The activities performed by the marketer should not only satisfy customer's needs but also protect social interests and increase in social welfare. However, sometimes personal needs and social needs clash each other or become contradictory, such as:

1. To reduce the number of wine drinkers in the society, it is essential to educate people about the ill-effects of alcohol, like chances of accident, illness from serious disease and death, ultimately family's collapse.

The Holistic Marketing Concept

Philip Kotler says, "Marketing cannot work unless it is holistic.

According to Philip Kotler, "The holistic marketing concept is based on the development, design and implementation of marketing programs, processes and activities that recognizes that breadth and interdependencies.“

Holistic marketing is an approach that recognizes and reconciles the scope and complexities of marketing activities.

It accepts a broad and integrated perspective.

It recognizes that "everything matters" in marketing.

It is a move from a product focus to a customer focus, from selling products to satisfying customers.

It calls for partnering with the employees, suppliers, and distributors to work as a team to deliver the best value to target customers.

The Relationship Marketing Concept

Marketers now focus on establishing and maintaining relationships with customers and suppliers.

As marketing progresses through the 21 century, relationship marketing is gaining ground.

A key goal of marketing is to develop deep and enduring relationships with customers.

Relationship marketing aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.

Its major goal is customer retention It involves long-term value-added relationships.

Importance

- Relationship marketing is entirely a new concept. It has changed the traditional thinking of marketers.
- It Recognizes the life time value of customers.
- Recognizes the importance of internal marketing to the success of external marketing plans.
- Gives a company new opportunity to gain a competitive edge.
- Converts new customers to regular purchasers, then to loyal supporters, and finally to advocates who not only buy company's products but recommend them to others.
- Converts indifferent customers into loyal ones. It generates repeat sales

Value-Driven Marketing Concept

Today, life is influenced more by rapid social, economic and global changes. In the future, there will be more sophisticated customers.

Philip Kotler points out the following features of values-driven marketing.

1. Instead of treating people simply as consumers, marketers approach them as whole human beings with minds, hearts, and spirits.

2. Increasingly, consumers are looking for solutions to their anxieties about making the globalised world a better place.

3. In the world of full confusion, consumers search for companies that address their deepest needs for social, economic, and environmental justice in their mission, vision, and values.

4. They look for not only **functional and emotional fulfillment** but also **human spirit fulfillment** in the products and services they choose.

5. This marketing protects **human aspirations, values and spirit.**

6. Its aim is to make the world a better place.

Q.5 <u>Distinguish between Old Marketing and Modern Marketing.</u>

OLD MARKETING	MARKETING CONCEPT
1. Marketing means all such activities performed for the movement of goods from production point to consumers.	1. Marketing is broad concept which include activities/ services before production and after distribution.

2. The main objective is profit earning by maximizing sales.	2. Its objective is to earn profit by consumer satisfaction.
3. Its scope is narrow because activities before production and after-sale are not included in it.	3. It has broad and wide scope because it includes marketing research, product performed before production and after-sale services provided for customer satisfaction.
4. Inter-functional relationship is either absent or very less.	4. Inter-relation in various fields of marketing is not essential but planning, co- ordination and balance of all these is essential.
5. It is product-oriented because producer focuses on production and distribution function is done by middlemen.	5. It is customer-oriented because producers focuses on consumer, consumer needs are studied and production is done accordingly.
6. Emphasis long-term on objective (consumer welfare) is not given.	6. Its long-term objective is consumer-welfare itself. There- fore today the responsibilities of uplifting life standard is of marketing.
7. This concept follows the principle of 'buyer be careful'.	7. Whereas this concept follows the principle of 'seller be careful'.
8. Cost-oriented.	8. Its approach is REVENUE generation.
9. Main function of the company is to produce quality and genuine price products and ensure sufficient sale of such products.	9. Under this concept, function of company is to satisfy needs of target customer group.
10. The consumer has knowledge about competitive brand.	10. Under this concept, the company requires integrated control.
11. This concept believes in products-rule and tries to sale them through sales promotion efforts.	11. It believes in consumer's rule and provides them such goods and services which they like and get maximum satisfaction.
12. Under this concept producers focus all their resources and power in production.	12. This concept focuses on marketing of products according to consumer's/ customer's choice and likings.
13. NO research and development	13. Main basis of this concept is research and development (RGB) and marketing research.
14. Under this concept, planning is done to sale today's product in today's market	14. Under this concept, planning is done to sale new products in future markets.
15. No emphasis on social responsibilities.	15. It provides emphasis on providing consumers quality products at genuine price in sufficient quality.
16. This concept of marketing is motivated by the view-point that the complete business is production of products and their sale process.	16. The complete business is a consumer satisfaction process.
17. Marketing mix in this concept of marketing is determined by seller's needs by priorities.	17. Marketing mix is determined by customer needs and surrounding environment conditions.
18. In this concept each section of the organization is managed independently and separately and Marketing department is not so very important.	18. Marketing department plays the most important role for all the actions of all sections.

19. Does not believe and stress upon spending too much on consumer research.	19. stress is laid upon spending for that customer research.

Q.6 <u>Elaborate the Importance & Benefits of Marketing.</u>

A. Benefits to Buyers

1. Provides Variety of Products:

Marketing allows buyers to access a diverse range of products. Companies use marketing strategies to understand consumer preferences and introduce a variety of products to cater to different tastes and needs. For example, in the smartphone market, various brands offer a wide range of models with different features to appeal to different customer preferences.

2. Low Cost:

Marketing competition often leads to lower prices for consumers. When companies compete for market share, they may engage in price wars or offer discounts and promotions to attract customers. This benefits buyers by providing them with access to products at more affordable prices. For instance, during sales events, consumers can purchase items at discounted rates.

3. Price Stability:

Effective marketing helps stabilize prices by balancing supply and demand. Companies adjust their production and pricing strategies based on market conditions, preventing extreme fluctuations. This stability benefits buyers by providing a predictable pricing environment. For example, stable prices for everyday goods contribute to budget predictability for consumers.

4. Provides Lifestyles:

Marketing creates and promotes lifestyles through branding and product positioning. Consumers often associate certain brands with a particular lifestyle or image. For example, a sportswear brand might use marketing to convey an active and athletic lifestyle, attracting consumers who identify with that lifestyle.

5. Improves Quality of Life:

Through innovation and competition, marketing encourages the improvement of product quality. Companies strive to enhance features, durability, and overall performance to meet or exceed customer expectations. For example, advancements in technology driven by marketing efforts have led to improved quality in products like smartphones, making them more efficient and user-friendly.

6. Buyer Focus:

Marketing places a focus on understanding and meeting buyer needs. Companies engage in market research to identify consumer preferences and tailor their products and services

accordingly. This buyer-centric approach ensures that products align with consumer desires. For instance, companies in the beauty industry use marketing to develop and promote products based on trends and customer preferences.

7. **Gives Messages:**

Marketing communicates messages about products and services to consumers. Through advertising and promotional activities, companies convey information about product features, benefits, and uniqueness. For example, a car manufacturer may use marketing messages in advertisements to highlight the safety features and fuel efficiency of its vehicles.

8. **Creation of Utilities:**

Marketing contributes to the creation of utilities, such as form, time, place, and possession. Form utility involves designing products to meet consumer needs, time utility ensures products are available when needed, place utility makes products accessible where consumers want them, and possession utility involves making it easy for consumers to acquire and use products. For example, a ready-to-eat salad provides form and time utility by offering convenience and immediate consumption.

9. **Better-Informed Consumer:**

Marketing provides consumers with information about products, allowing them to make informed decisions. Companies use various channels, including online reviews, advertisements, and product descriptions, to educate consumers about their offerings. For instance, consumers researching a new gadget can find detailed specifications and reviews through marketing channels, aiding in their decision-making process.

B. Benefits to Business Firms

1. **Basis for Existence:**

Marketing serves as the foundation for the existence of business firms. Without marketing, businesses would struggle to make their products or services known to potential customers. For example, a new clothing brand relies on marketing to introduce its products to the market and establish its presence among consumers.

2. **Generates Revenue:**

The primary goal of marketing is to generate revenue by promoting and selling products or services. Effective marketing strategies attract customers, encourage purchases, and contribute to the financial success of businesses. For instance, a well-executed marketing campaign for a new smartphone can lead to increased sales and revenue for the manufacturer.

3. **Bridges the Gap Between Production and Consumption:**

Marketing acts as a bridge between the production of goods or services and their consumption by customers. It involves creating awareness, promoting, and delivering products to the target market. For example, a bakery markets its freshly baked goods to consumers, ensuring that the products reach the intended audience and are not left unsold.

4. **Better Use of Resources:**

Marketing helps businesses optimize the use of resources by identifying and targeting the most relevant customer segments. Through market research and segmentation, companies can allocate resources more efficiently, focusing on areas with the highest potential for success. For example, a software company may use marketing data to target specific industries or demographics for its product.

5. **Information for Decisions:**

Marketing provides businesses with valuable information for making informed decisions. Market research, customer feedback, and performance analytics enable companies to understand market trends, consumer preferences, and the effectiveness of their strategies. For instance, a retail chain may use marketing data to decide which products to feature prominently based on customer demand.

6. **Management of Innovation and Change:**

Marketing is essential for managing innovation and adapting to changes in the market. It involves introducing new products, updating existing ones, and staying abreast of industry trends. For example, a tech company engaging in marketing innovation might launch a new version of its software with enhanced features to meet changing customer expectations.

C. Benefits and Importance to Society

1. **Delivery of Standard of Living:**

Marketing contributes to the delivery of a higher standard of living by making a variety of products and services accessible to consumers. For instance, advancements in marketing have made technological gadgets, healthcare services, and other conveniences more widely available, enhancing the overall quality of life for people.

2. **Employment and Income:**

Marketing activities create job opportunities and income for individuals. From advertising to sales and distribution, the marketing sector employs a diverse range of professionals. For example, a company's marketing department employs advertising specialists, market researchers, and sales representatives, thereby contributing to employment and income generation.

3. **Equilibrium Between Supply and Demand:**

Marketing plays a crucial role in maintaining a balance between the supply of goods or services and consumer demand. Through market research and demand forecasting, businesses can adjust production and pricing strategies, preventing shortages or surpluses. For instance, a well-executed marketing strategy ensures that products are produced in quantities that match consumer demand.

4. **Helpful in the Economy of Abundance:**

Marketing is particularly beneficial in an economy of abundance where there is an excess of products and choices. It aids in making products more visible and appealing to consumers, ensuring efficient distribution and consumption. For example, marketing efforts ensure that a wide array of food products is available in supermarkets to cater to diverse consumer preferences.

5. **Nerve Centre for Human Activity:**

Marketing serves as a central hub for various human activities by facilitating the exchange of goods and services. It enables individuals to access products that fulfill their needs and desires. For example, a farmer markets fresh produce to local grocery stores, connecting the agricultural sector with consumers in a seamless manner.

6. **Springboard of Industrial Production:**

Marketing acts as a catalyst for industrial production by creating demand for products. Effective marketing strategies drive production activities, contributing to economic growth. For example, the success of marketing campaigns for a new fashion trend stimulates production in the textile and apparel industries.

7. **Valuable to Professionals:**

Marketing is a valuable field for professionals, offering career opportunities and fostering skill development. Professionals in marketing, such as advertisers, market researchers, and sales managers, contribute to the overall functioning of businesses. For example, a marketing executive may use data analysis skills to assess the effectiveness of advertising campaigns.

8. **Satisfies Social Values:**

Marketing aligns products and services with societal values and preferences. It influences consumer choices by promoting products that resonate with social and cultural norms. For instance, eco-friendly products are marketed to appeal to consumers who prioritize sustainability and environmental consciousness.

9. **Economic Growth:**

Marketing is instrumental in driving economic growth by stimulating consumer spending and business activities. Successful marketing campaigns lead to increased sales, investments, and overall economic expansion. For example, a country experiencing a boom in consumer spending due to effective marketing contributes to its economic growth.

Q.7 <u>What is a product? How can it be classified? Also state the differences between Goods and Services</u>.

A product is a set of tangible, physical, chemical and intangible attributes assembled in an identifiable form and designed to satisfy a specific consumer need. In the broader sense, each brand is a separate product in the marketing sense.

According to Philip Kotler, "A product is a bundle of physical, service and symbolic particulars expected to yield satisfactions or benefits to the buyer."

Important characteristics about the product:

1. A product is a set of tangible and intangible attributes.
2. It includes colour, price, packaging and branding etc.
3. A product is a group of utilities.
4. Products are designed and presented to satisfy some specific consumer needs.
5. The ultimate destination of product is to provide maximum consumer satisfaction.
6. Consumer satisfaction from product may be real or even psychological in nature.
7. In the broader sense, each brand in marketing is a separate product.
8. Product is first 'P' out of the four Ps of marketing-mix.
9. A wise marketing company sells product benefits rather than just a product.
10. Products are also psychological symbols of personal attributes, goals and social patterns.
11. Product is most visible part of a firm's marketing operations.
12. Customer first comes into contact with the product offered by the marketing company. Actual performance of the product plays vital role in the image building of the company. Thus, the product functions as an ambassador of the marketing company.

CLASSIFICATION OF PRODUCTS

Classification of products can also be done also on the Basis of Durability and Tangibility

(1) Durable Products: The goods which are used for comparatively longer duration, personal selling and after sale service affects the buying decision of consumers.

(2) Non-Durable Products: These products are consumed in few uses so they are purchased frequently like soft drinks, detergents, etc.

(3) Services: These are intangible products like telecommunication, entertainment, etc. These require education, creditability and quality control.

Products can be divided into two groups on the basis of their use-consumers products and industrial products. **Consumer Products:**

1. **Convenience Products:** Convenience products are those that consumers purchase with minimal effort and frequency. Examples include everyday items like detergents, ketchup, chocolates, and magazines. These products are typically low-priced, bought regularly, and are not strongly influenced by fashion trends. To market convenience products effectively, companies often use intensive distribution strategies, ensuring easy accessibility for consumers. Advertising plays a crucial role in creating brand recognition.

Examples include:

Staples: Detergents and cleaning supplies.
Impulse: Chocolates and snacks.
Emergency: Medicines and specific clothing.

2. **Shopping Products:** Shopping products are those for which consumers make comparisons based on factors like quality, price, and style before making a purchase. Examples include shoes, garments, and furniture. These products have a higher unit price and are not bought as frequently as convenience products. Direct selling to retailers is a common strategy, and careful consideration of the location of these retailers is essential for effective marketing.

Examples include: Shoes (comparing brands and styles).
Readymade garments (evaluating quality and design).
Furniture (considering style, durability, and price).

3. **Specialty Products:** Specialty products have unique characteristics or brand identification, leading to strong consumer brand loyalty. Examples encompass expensive items such as high-end clothing, health foods, and luxury cars. Consumers are willing to exert special efforts to acquire these products. To market specialty products successfully, companies must establish unique selling propositions (USPs) and employ non-price competition strategies. Outlet selection is critical, as often only specific outlets are appointed for particular geographical territories.

Expensive men's ready-to-wear clothes.
Health foods with specific attributes.
Luxury cars with distinct features.

4. **Unsought Products:** Unsought products are those that consumers may not be aware of or willing to buy at the moment. Examples include video phones and electric cars. Marketing these products poses challenges, and creative strategies are necessary to generate awareness and interest among consumers.

Examples include: Video phones, Electric cars (before widespread awareness and interest).

Industrial Products:

1. **Operating Supplies:** Operating supplies are akin to convenience products in the industrial realm, assisting in plant operations and functioning. Examples include lubricants, office stationery, and fuel. These low-priced, short-lived items are frequently purchased with minimal effort. Companies often adopt intensive distribution policies, and advertising plays a significant role in marketing these products.

Examples include: Lubricants for machinery. Office stationery like pens and paper.
Fuel for machinery and vehicles.

2. **Accessory Equipment:** Accessory equipment aids industrial production but doesn't significantly impact a company's overall operations. Examples include office furniture and spare parts. Unlike operating supplies, these items have a longer life. Companies may use dual distribution strategies, employing both direct and indirect distribution channels.

3. **Fabricating Materials:** Fabricating materials become an integral part of the finished product after processing or assembly. Examples include tires, pipes, and iron sheets. Companies may adopt a mix-distribution policy to effectively market these products. Examples include:

Tyres for vehicles, Pipes for construction, Iron sheets for manufacturing.

4. **Raw Materials:** Raw materials undergo a manufacturing process to become finished products. Examples include yarn, flour, and pig iron. Raw materials can be categorized as natural (minerals, crude petroleum) or agricultural (cotton, fruits). Selection of suppliers is crucial, with considerations for factors like long-term supply contracts and perishability.

Examples include:

Yarn for weaving into fabrics.
Flour for making bread.
Pig iron for producing steel.

5. **Installations:** Installations are expensive, long-lived, and vital equipment for industrial users, such as jet airplanes, blast furnaces, and ships. Direct selling is a key strategy, and marketing installations requires a high-caliber sales force, with an emphasis on both pre-sale and post-sale services. Personal selling plays a crucial role in the promotion mix for installations.

Examples include: Jet airplanes for aviation companies, Blast furnaces for steel mills,
Ships for shipping companies.

Classification of Products from the Innovation Point of View

From the innovation point of view the products may be classified following three categories:

(i) Innovative Products: Innovative products are those really new and unique products which have been positioned for the first time in the market by a company. The introduction of Innovative products requires strong support of research and development Compact disk system, when it was jointly positioned by the Philips and Sony in the international markets is an example of innovative product.

(ii) Imitative Products: Imitative products are those products which are new for a particular marketing company but not new for the Industry. Therefore, when marketing company starts the production of a product, which is already in the market it will be imitative product for it. New models of cars by different manufacturers can be put under this category

(iii) Replacement: Replacement for existing product involves a significant differentiation from the existing product. Replacement considerably affects the market prospects of existing products. For example instant coffee replaces ground coffee

SERVICES

According to Philip Kotler. "A service is any act or performance that me party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product".

Basic Differences between Services and Goods

rvices	ods
Services are often intangible. They may volve acts, deods, performances, effoarts any services cannot be physically possessed. e value of a service may be based on an perience	Goods are tangible. They are objects things, terials. Value is based on ownership.
Services are usually perishable. Unused pacity cannot be stored or shifted from one e to another.	Goods can be stored Surpluses in eng period n be applied against shortages a another riod.

Services are frequently inseparable. The ality of many services cannot be separated m the service provider Services may vary in quality over time. It is ficult to standardize some services because of ir labour intensiveness and the involvement of service user in diagnosing his service needs.	Goods can be manufactured by one firm and rketed by another. The quality of a good can differentiated from a distribution ermediary's quality. Goods can be standardized. Mass pro-ction and quality control can be used

Generally services have four characteristics that distinguish them from goods (1) Intangibility (n) Perishability (m) Inseparability from the service provider and (iv)Variability

(i) Intangibility: Means that they often cannot be displayed, transported, stored, packaged or inspected before buying. This occurs for repair services and personal services

(ii) Perishability: Means that they cannot be stored for future sales.

(iii) Inseparability: Means that service provider and the services which he is providing are sometimes inseparable. When this occurs, the service provider is virtually indispensable and customer contact is often considered as an integral part of service experience.

(iv) Variability: Means differing service performance from one purchase experience to another often occurs even if services are completed by the same person The impact of these characteristics is greatest for personal services. They are usually much more intangible, more perishable and more inseparable from the service provider.

Q.8 <u>Elaborate the process of a New product development.</u>

<u>NEW PRODUCT DEVELOPMENT PROCESS</u>

Ideas come from all directions, but the ability to screen and gauge the most appropriate and viable ideas and converting them into a technical, commercial and feasible product is the most difficult task. Reason is very obvious that to make a right product every marketer needs to scan the external environment by analyzing the new product ideas, its role, relevance and representation in relation to prevailing and changing economic, social, cultural, political and technological scenarios.

We can define new product development process as "the process of making out and supervising the search, screening, development and commercialisation of new products".

The standard new product development process model comprises of following stages-

1. **Idea Generation**

The new product development process starts with the search for ideas. Top manageme should define products and markets to emphasise. It should state the new product objectives whether it is high cash flow, market share domination, etc. It should state how much effort should be devoted to developing original products, modifying existing products, and imitating competitors' products. New product ideas can be derived from many sources customers, scientists, competitors, company sales people, dealers and top management Idea generating tecluniques like Attribute Listing, Forced Relationships, Morphological Analysis, Problem Analysis, Brainstorming and Synetics help generate better ideas.
. For instance, Tata Nano, the world's most affordable car, was an innovative idea aimed at providing a safe and affordable transportation solution for families.

2. **Idea Screening**

The second stage is idea pruning or reducing by screening. In this stage, the company must avoid the 'Drop-error', ie, permitting a poor idea to move into development and commercialisation, or dropping a good idea

The purpose of screening is to spot and drop poor ideas as early as possible by describing the product, the target market, and the competition, and making some rough guesses as to market size, product price, development time and costs, manufacturing costs and rate of return. Even if the idea looks good, the question arises, "Is it appropriate for the particular company? Does it mesh well with the company's objectives, strategies and rese Ideas that do not satisfy one or more of these questions are dropped.
An example is the launch of 'Patanjali Ayurved,' offering a range of natural and traditional healthcare products. The screening process ensured alignment with the company's objectives and cultural values.

Coca-Cola, the world's biggest soft drink company, plans to launch two new juice brands called 'Ube' and 'Haven' in 2006, according to the November 4 issue of the trade publication Beverages Digest. Coke is said to have a number of new products in development, some of which will make it to the market and some that won't

The new product 'Ube will be fortified with vitamins and minerals and will be packed in a glass container The market for energy drinks which typically contain caffeine, Vitamins and other ingredients to boost a person's energy, has grown rapidly since the 1990s.

The category is attracting the attention of soft drink companies because the margins are much higher than those for the sluggish carbonated drinks category and even the rapidly growing bottled water segment While non-carbonated products are achieving spectacular growth, Coke's flagship Coca-Cola brand and other carbonated drinks have been a disappointment. In the US, the company is planning to phase out its Vanilla Coke, Vanilla Diet Coke and Diet Coke with Lemon beverages shortly, due to sluggish customer response

(Source: Beverages Digest (US). November 2005)

3. **Concept Development and Testing**

Surviving ideas must now be developed into product concepts. A product idea is an idea for a possible product that the company can see itself offering to the market A product concept is an elaborated version of the idea expressed in meaningful consumer terms. For example, producing a powder to add to milk to increase its nutritional level and taste is a product idea Who is to use the product? What primary benefit can be built into this product? What is the primary occasion for this drink? By asking such questions, the company can form several produci concepts like an instant breakfast drink for adults, a tasty snack-drink for children, a health supplement for elders etc.
Indian companies, like Dabur, have excelled in developing product concepts that resonate with local needs. Dabur's 'Chyawanprash' is a prime example of a concept catering to health-conscious consumers, offering a traditional herbal supplement.

Horlicks: Product Concept Variations

A jar of Horlicks occupies visible position in most Indian kitchens. Since the 1930s is one of the best-known brands in the health food
category It owes its success to a strong brand heritage, commitment to quality, focused communication, a strong distribution network and a deep understanding of consumer needs. The Horlicks product concept was invented by James Horlicks, who, along with his brother William started the company in
The market for malted milk powders in India is huge as the product is widely used as a nutrition and energy supplement by children and adults. The size of the is estimated at 10,170 million. Horlicks occupies the leading position with over 50% market share (ORG-MARG 2002).

Horlicks is able to maintain its market share due to innovative product modifications and offers based on varying product concepts Mothers Horlicks is targeted at pregnant and lactating mothers, while Junior Horlicks (in different flavours) has been especially formulated for little children Fortification with vitamins and minerals was another variation

Upto 1960, Horlicks was positioned as an adult restorative drink that gave extra energy. especially during convalescence. The 1970s saw its position shift to "The Great Nourisher'

Each concept requires concept positioning so that its real competition would be understood. when compared to existing brands or substitutes. The concepts have to be tested with an appropriate group of target consumers. The concepts may be presented symbolically or physically The consumers are asked to react to each concept with some standard questions The consumers will help the company determine which concept has the strongest appeal.

4. **Marketing Strategy Development**

The new product manager will have to develop a preliminary marketing strategy statement for introducing this new product into the market This will be refined in subsequent stages. The marketing strategy statement consists of three parts. The first part describes the size, structure and behaviour of the target market, the planned product positioning, the sales, market share and profit goals sought in the first few years. The second part outlines the products' planned price, distribution strategy, and marketing budget for the first year. The third part describes the planned long run sales and profit goals, and marketing mix strategy over time. An example is the launch of 'Maggi Masala

Noodles' by Nestle, which positioned the product as a quick and convenient snack tailored to Indian taste preferences.

5. **Business Analysis**

The next stage is to evaluate the business attractiveness of the proposal. The management must review the sales, cost, and profit projections to determine whether they satisfy the company's objectives. If they do, the product concept can move to the product development stage. As new information comes in, there will be further revision of the business analysis.

The management needs to estimate whether sales will be high enough to return a satisfactory profit to the firm. This is done by estimating first time sales, replacement sales and repeat sales After preparing the sales forecast, the management should estimate the expected costs and profits of this venture. This is done by the R&D, manufacturing, marketing and finance departments.
For instance, the launch of 'Bingo!' snacks underwent thorough business analysis to estimate sales potential and production costs before entering the market.

6. **Product Development**

If the product concept passes the business test, it moves te the R&D and/or the engineering department to be developed into a physical product. Up to now it has existed only as a word description, a drawing or a very crude model. This stage will answer whether the product idea can be translated into a technically and commercially feasible product The R&D department will develop one or more physical versions of the product concept. It hopes to find a prototype that satisfies the following criteria

Consumers see it as embodying the key attributes described in the product concept statement
The prototype performs safely under normal use and conditions.
The prototype can be produced for the budgeted manufacturing costs

When the prototypes are ready, they must be put through rigorous functional and consumer tests The functional tests are conducted under laboratory and field conditions to make sure that the product performs safely and effectively. Consumer tests can take a variety of forms, from bringing consumers into a lab to test the product versions to giving them samples to use in their houses.
Indian tech companies like Infosys engage in innovative product development. For example, Infosys developed 'Finacle,' a comprehensive banking solution, showcasing India's prowess in the IT sector.

7. **Test Marketing**

After the management is satisfied with the product's functional performance, the product

is ready to be dressed up with a brand name, packing and a preliminary marketing programme,to be tested in more authentic consumer settings.

The purpose of test marketing is to learn how consumers and dealers react to handling. using and repurchasing the actual product and how large the market is

For test marketing consumer goods, the methodology involves sales- wave research, simulated store technique, controlled test marketing and test markets.

New industrial products typically undergo extensive product testing in the labs to measure performance, reliability, design and operating cost. The next most common method is a product use test where the manufacturer selects some potential customers who agree to use the new product for a limited period. A second common market test is to introduce the new industrial product at trade shows. Testing can also be done in distribution and dealer display rooms.
In India, test marketing may involve piloting products in specific regions. 'Amul Ice Cream,' a product of Gujarat Cooperative Milk Marketing Federation, successfully underwent test marketing before expanding nationally, reflecting regional preferences.

8. **Commercialisation**

Test marketing presumably gives the management enough information to make a fine decision about whether to launch the new product In launching a new product, the company must make four decisions.

When: The first decision is whether it is the right time to introduce the product

Where: Secondly, the company must decide whether to launch the new product in a single locality, a region, several regions, the national market or the international market Normally, companies develop a market rollout over time.

To whom: Within the rollout markets the company must target its distribution and promotion to the best prospect groups, like early adopters, heavy users, opinion leaders and so on.

How: The company must develop an action plan for introducing the new product into the rollout markets. It must allocate the marketing budget among the marketing mix elements and sequence the various activities.
Indian companies like Reliance Industries strategize product launches based on market demands. 'Jio,' Reliance's telecommunication venture, strategically entered the market with affordable plans, revolutionizing the industry.

(New Vicks Vapo Cool "Khuli ho Saans, Toh Buland ho Awaaj")

(New Dettol Handwash "Sirf Handwash nahi, Healthy Handwash" Dettol Be 100% Sure.)

Q.9 Elaborate the process of a New product Adoption.

NEW PRODUCT ADOPTION

In the prevailing scenario of stiff competition and reducing time-span of product life cycles, the role of product innovation has gained crucial importance for the marketing companies The more important task after the innovation is its adoption and diffusion process Innovation of new product has no meaning for the marketing companies, if an innovative product is not accepted by the target customers. Therefore, the marketing companies should understand, "Product adoption and Diffusion process", very well to reap the advantages of innovation.

PRODUCT ADOPTION PROCESS

Product adoption process comprises various stages W. J. Stanton has divided the process of product adoption in the following six stage:

Stages

a) Awareness- Individual is exposed to the innovation and becomes a prospect.

b) Interest- Prospect is interested in seeking information about innovation.

c) Evaluation- Prospect judges the advantages and disadvantage of the proposed product.

d) Trial- Prospect adopts the product on a limited basis.

e) Adoption- Prospect decides whether to use the innovation on a full-scale basis.

f) Confirmation- Satisfaction from the innovation converts a prospect into a user, who feels that his buying decision was correct.

Adopter Categories

Different people adopt innovations in different manner and stages. The spread of a new technology over time follows a S-shaped pattern. This pattern has been verified by many researches. On the basis of time lag these can be categorised as under:

(1**) Innovators**: Innovators are the persons who are the first to adopt an innovation. They are venturesome and younger people. They have broad social relationship in different communities. This category represents approximately 2.5 per cent of adopters. They are first to buy and typically described as venturesome, younger, well educated, financially stable, and willing to take risks. Innovators are "superhaves" of the society. They have problem to spending money. They themselves remain in hunt of new products. Therefore, the marketing company does not requires any effon to sell the product to innovators. In addition they remain in "ivory tower", cut off from the society. Their acceptance of product does not play vital role in the diffusion process.

(2) **Early Adopters**: Early adopters are the people to whom others look for leadership. This group is critical to the success of the new product. They are "opinion leaders" in their community. If a marketing company can get early adopters to accept its innovative products than there are fair chances of the acceptance of the product, This category represents 13.5 per cent of adopters. They are local opinion leaders who read magazines and who are integrated into the social system more than the average consumer. This is the real segment of the market to whom the company wants to address They have financial resources and have good movement in the society. People rely on their advice. In order to satisfy their "ego and esteem needs", they buy the new product promptly. Thus, this is the core segment to whom the marketing company should try its best to make them user of its product. Their acceptance of product opens "golden gate" to the marketing company.

Characteristics of Opinion Leaders

Opinion leader is one who occupies a position of informal influences over the attitudes and overt behaviour of others. Opinion leadership is earned not assumed They have the following characteristics:

(i) More liked by followers: Opinion leaders have some styles which are liked by their followers.

(ii) More technically competent: Opinion leaders are highly technically competent people which are having specific styles.

(iii) More socially accessible: Opinion leaders have close links with their community.

(iv) More cosmopolitan: Opinion leaders have access to different local and international cultures and have open personality dynamics.

(v) More innovative: Opinion leaders are more receptive to changes taking place in all walks of life.

(vi) Higher media exposure: Opinion leaders have more opportunities for media exposure.

(vii) Higher social status: Opinion leaders are ready to pay for higher social status and maintain higher living standard.

(viii) More conformist with social norms and values: Opinion leaders have high respect for social norms. They enjoy good status in the society.

(3) Early Majority: The early majority represent about 34 per cent of the market. They adopt the new products but carefully in the social system. They rely more on sales people for the product related decisions. They are solid, middle-class consumers who are more deliberate and cautious.

(4) Late Majority: This group also constitute about 34 per cent of the market. Members of this category are more skeptical of technological changes and approach innovations with great caution. They adopt new products generally due to increasing social pressure. They are described as older, more conservative, traditional and skeptical of new products.

(5) Laggards: Laggard are highly conservative and are last to adopt an innovation. They constitute 16 per cent of the market. They are extremely suspicious of innovation and change.

Q.10 <u>What are the Factors Causing New Product Failures?</u>

<u>Factors Causing New Product Failures</u>

There are number of marketing cases, where inspite of good product, it was not accepted by the customers. Number of factors are responsible for the new product failure. Some important factors responsible for new product failure may be described as under:

1. Failure to Meet Customer Needs: If the innovative product is unable to satisfy customer needs than it will not be accepted by the masses. Customers will be reluctant to shift from the use of existing products.

2. Poor Timing: The launching time of product is very much important for the acceptability of the innovative product. Boom period in the economy, festival time facilitate the easy acceptability of the product.

3. Market Conditions: Supportive marketing conditions will provide the support to the success of the innovative product.

4. Ineffective or Inconsistent Branding: Brand image also helps in the easy acceptability of the product. A product with good brand image is easily accepted by the market.

5. Technical or Design Problems: If the product is having easy design and less technical specifications than it is easily acceptable.

6. Overestimation of Market Size: Launching of innovative product should be based on realistic market estimates otherwise it is a risky preposition.

7. Poor Promotion: Many innovative products fail due to lack of support by adequate sales promotion schemes. Conservative buyers do not shift to the new products unless some lucrative incentives are associated with them.

8. Insufficient Distribution: Many times innovative products fail due to improper arrangements for the supply of the products to the customers of target market. In the case of non-availability they may shift to another brand.

The difference between Early Adopters and Early Majority may be clarified with the help of following table:

Early Adopters	Early Majority
• Technology focused	• Not technically focused
• Visionary users	• Pragmatic users
• Proponents of revolutionary change	• Proponents of evolutionary change
• Project-oriented	• Process-oriented
• Willing to experiment	• Look for proven applications
• Individually self-sufficient	• May require support
• Willing to take risks	• Averse to taking risks

Q.11 <u>Elaborate Product Life Cycle.</u>

<u>Product Life Cycle</u>

The term product life cycle refers to the length of time from when a product is introduced to consumers into the market until it's removed from the shelves. This concept is used by management and by marketing professionals as a factor in deciding when it is appropriate to increase advertising,

reduce prices, expand to new markets, or redesign packaging. The process of strategizing ways to continuously support and maintain a product is called product life cycle management.

Introduction Stage

The introduction phase is the first time customers are introduced to the new product. A company must generally includes a substantial investment in advertising and a marketing campaign focused on making consumers aware of the product and its benefits, especially if it is broadly unknown what the item will do.

During the introduction stage, there is often little-to-no competition for a product, as competitors may just be getting a first look at the new offering. However, companies still often experience negative financial results at this stage as sales tend to be lower, promotional pricing may be low to drive customer engagement, and the sales strategy is still being evaluated.

Growth Stage

If the product is successful, it then moves to the growth stage. This is characterized by growing demand, an increase in production, and expansion in its availability. The amount of time spent in the introduction phase before a company's product experiences strong growth will vary from between industries and products.

During the growth phase, the product becomes more popular and recognizable. A company may still choose to invest heavily in advertising if the product faces heavy competition. However, marketing campaigns will likely be geared towards differentiating its product from others as opposed to introducing the goods to the market. A company may also refine its product by improving functionality based on customer feedback.

Financially, the growth period of the product life cycle results in increased sales and higher revenue. As competition begins to offer rival products, competition increases, potentially forcing the company to decrease prices and experience lower margins.

Maturity Stage

The maturity stage of the product life cycle is the most profitable stage, the time when the costs of producing and marketing decline. With the market saturated with the product, competition now higher than at other stages, and profit margins starting to shrink, some analysts refer to the maturity stage as when sales volume is "maxed out".

Depending on the good, a company may begin deciding how to innovate its product or introduce new ways to capture a larger market presence. This includes getting more feedback from customers, and researching their demographics and their needs.

During the maturity stage, competition is at the highest level. Rival companies have had enough time to introduce competing and improved products, and competition for customers is usually highest. Sales levels stabilize, and a company strives to have its product exist in this maturity stage for as long as possible.

Decline Stage

As the product takes on increased competition as other companies emulate its success, the product may lose market share and begin its decline. Product sales begin to drop due to market saturation

and alternative products, and the company may choose to not pursue additional marketing efforts as customers may already have determined whether they are loyal to the company's products or not.

Should a product be entirely retired, the company will stop generating support for it and will entirely phase out marketing endeavors. Alternatively, the company may decide to revamp the product or introduce a next-generation, completely overhauled model. If the upgrade is substantial enough, the company may choose to re-enter the product life cycle by introducing the new version to the market.

The stage of a product's life cycle impacts the way in which it is marketed to consumers. A new product needs to be explained, while a mature product needs to be differentiated from its competitors.

Advantages of Using the Product Life Cycle

The product life cycle better allows marketers and business developers to better understand how each product or brand sits with a company's portfolio. This enables the company to internally shift resources to specific products based on those products' positioning within the product life cycle.

For example, a company may decide to reallocate market staff time to products entering the introduction or growth stages. Alternatively, it may need to invest more cost of labor in engineers or customer service technicians as the product matures.

The product life cycle naturally tends to have a positive impact on economic growth, as it promotes innovation and discourages supporting outdated products. As products move through the life cycle stages, companies that use the product life cycle can realize the need to make their products more effective, safer, efficient, faster, cheaper, or better suited to client needs.

Limitations of Using the Product Life Cycle

Despite its utility for planning and analysis, the product life cycle doesn't pertain to every industry and doesn't work consistently across all products. Consider popular beverage lines whose primary products have been in the maturity stage for decades, while spin-offs or variations of these drinks from the same company have failed.

The product life cycle also may be artificial in industries with legal or trademark restrictions. Consider the new patent term of 20 years from which the application for the patent was filed in the United States.

Though a drug may be just entering their growth stage, it may be adversely impacted by competition when its patent ends regardless of which stage it is in.

Another unfortunate side effect of the product life cycle is prospective planned obsolescence. When a product enters the maturity stage, a company may be tempted to begin planning its replacement. This may be the case even if the existing product still holds many benefits for customers and still has a long shelf life. For producers who tend to introduce new products every few years, this may lead to product waste and inefficient use of product development resources.

Q.12 What is Marketing Research? Write its Objectives, and Scope.

Marketing Research

Marketing research consists of collection, recording and analysis of the facts and figures from the market in regard to the marketing problems. In other words, the job of collecting, recording and analysing, relevant data for marketing decisions is known as marketing research.

Definition

In the words of Philip Kotler, "Marketing research is the systematic design, collection, analysis and reporting of data and findings relevant to a specific marketing situation facing the company.

Thus, we can define marketing research as scientific and systematic collection, recording, and analysis of data relevant to any marketing problem in order to make better decisions and devise better marketing strategy.

Characteristics of Marketing Research

1. It is the application of scientific methods and procedures to the study of marketing problems.
2. It is a systematic activity and not haphazard or disjointed
3. It involves a series of steps or a process. It is not a one-step activity. It follows an orderly sequence in which each step is subordinated to a larger systematic whole.
4. It may be applied to any aspect of marketing that requires information to aid decision-making.
5. It may be undertaken by impartial agencies or by business firms or their agencies.
6. It applies scientific attitude and standardised process.
7. It is the function which links the consumer, customer, and public to the marketer through information.
8. It is a science and an art.

Aims and Objectives of Marketing Research

The objectives of marketing research are numerous. A few of them may be stated as follows:

1. To help an organisation to identify and solve marketing problems.
2. To define the probable market for a particular product and to find out general market conditions and tendencies.
3. To assess competitive strength and policies.
4. To estimate potential buying-power in various areas.
5. To know the effectiveness of different channels of distribution and price policies.
6. To know the company's expected share of the market.
7. To assess the probable volume of future sales.
8. To study the geographical distribution of the product.
9. To understand customers' needs, preferences, and likings.
10. To know about customer acceptance and brand loyalty of the product.
11. To study the design, colour and unique selling features of the competitive products.
12. To design and test appropriate packages.
13. To help development and introduction of new products and improving current products of the firm.
14. To measure the effect of sales promotional efforts and to know the various extemal forces which have an impact on sales.
15. To know the cost of marketing and profits.

Types, Scope, and Areas of Marketing Research

The usefulness of marketing research has been recognised for over a century. It is related to the whole of marketing mix. The scope of marketing research stretches from the cation of consumer needs to the assessment identification of his satisfaction. It includes research on the following components of marketing. The major types of marketing research are as follows:

1. Consumer research	8. Physical distribution research
2. Market research	9. Packaging research
3. Product research	10. Export marketing research
4. Sales research	11. Corporate responsibility research
5. Distribution channel research	12. After-sales research
6. Advertising and promotional research	13. Brand image research
7. Pricing research	14. Other areas of marketing research

1. **CONSUMER RESEARCH**-It is conducted in respect to consumer characteristics and behaviour. It determines the needs, preferences, likings, expectations, buying habits and reactions of both current and potential consumers. It ascertains the levels of consumer satisfaction.

2. **MARKET RESEARCH**-The purpose of this research is to gather facts about markets and the forces operating therein, like competition and market trends. The areas of market research broadly include:

(a) determining the size and nature of market,
(b) assessing competitors' strategies;
(c) analysing sales potentials;
(d) demand and sales forecasting.

3. **PRODUCT RESEARCH**-It relates to the analysis of the strengths and weaknesses of the existing products of the company and competitors. The object of this research is to find out the product image. The areas of product research include:
(a) Customer acceptance of proposed new products;
(b) Comparative studies of competitive products;
(c) Determining new uses of present products;
(d) Determining modifications in the existing products; and
(e) Testing package and label designs.

4. **SALES RESEARCH**-The purpose of this research is to find out the sales potential and appraise sales performance of firm's products. In consists of:
(a) evaluating sales methods;
(b) establishing and revising sales territories
(c) measuring sales performance in terms of volume and profits
(d) establishing sales quotas;
(e) sales compensation studies.

5. **DISTRIBUTION CHANNEL RESEARCH**-It is related to channels and intermediaries engaged by the company to transfer ownership of products to consumers. The purpose is to

ascertain whether they help the company in meeting the consumer needs or not. It identifies the existing and potential distribution channels and appraises their relative strengths and weaknesses in the context of consumer needs.

6. **ADVERTISING AND PROMOTIONAL RESEARCH**-It undertakes a study relating to the preparation of the advertisement copy (copy research), the media to be used (media research) and measurement of advertising effectiveness. It also includes motivational studies, evaluating present sales promotional methods and analysing selling practices.

7. **PRICING RESEARCH-**It attempts to answer questions relating to the ability of consumers to pay and to find out the price expectations of consumers and their reactions to them. It also includes comparing the price strategies of the competitors and testing the alternative price policies.

8. **PHYSICAL DISTRIBUTION RESEARCH**-It deals with problems of handling and transportation of finished products. It explores the possibilities of cost reduction. It consists of (a) determining the optimum inventory levels (b) determining the design and location of distributions centres; and (c) analysing the economies of the different modes of materials handling

9. **PACKAGING RESEARCH**-In fact, it is a part of product research. It is conducted to know the impact of packaging and its response in the market. The recent development in packaging and its contribution to advertising has led it to occupy place in marketing.

10. **EXPORT MARKETING RESEARCH**-It is undertaken to study the export potentials of the product. It explores the profitability of foreign markets.

11. **CORPORATE RESPONSIBILITY RESEARCH**-These days the social role of marketing is increased. It is related to the problems of "ecological marketing." The areas of this research include (a) consumers' "right to know" studies, (b) ecological impact studies, (c) studies of legal constraints on advertising and promotion, (d) social values and policies studies.

12. **AFTER-SALES RESEARCH**-It encompasses receiving feedback from the market about the consumer satisfaction. It is a post-transaction research. It analyses the chances of repeat buying. It also studies the legislative actions of state affecting the marketing of company's products.

13. **BRAND IMAGE RESEARCH**-It may be advertising research. A brand gives product a name or a symbol by which it can be identified. The aim of this research is to create brand preference and brand loyalty.

Q.13 Write the Importance of Marketing Research. Elaborate the Marketing Research Process.

Need and Importance of Marketing Research

The need and importance of the marketing research can be discussed under the following headings:

1. **INCREASE IN SALES**-With the help of marketing research, products can be better matched to the demand. They are more likely to be priced in accordance with the demand. They are also more apt to be offered to the specific markets.

2. **GREATEST RETURN**-According to Luck Wales and Taylor, marketing research "can help pre-determine the best sales appeals of the products, the best ways of reaching the potential buyers, the most fruitful timings of promotions, and the market areas in which the promotional rupee will bring the greatest return."

3. **LOW MARKETING COSTS** Marketing research may not only increase sales but also cut down marketing costs by making efforts more efficient. It also reveals wastages that can be eliminated.

4. **REAPPRAISAL OF MARKETING GOALS**-It is helpful in redefining the marketing goals. When marketing research is conducted marketers are forced "to think searchingly about the marketing problems and about the firm's situation. This sharpened thinking may produce a basic reappraisal of the objectives and policies."

5. **A TOOL FOR DECISION-MAKING**-Management decisions based on hunches and sheer estimates may prove to be highly hazardous leading to waste of marketing resources and efforts. Marketing research removes the element of guess-work in market estimation and decision-making.

6. **CAUSE AND EFFECT OF LARGE-SCALE ENTERPRISE**-Marketing research has become a basis of large-scale production and ever-widening markets. It helps the marketers to produce right goods in right quantum and at acceptable prices.

7. **GROWTH AND COMPLEXITY OF MARKETS**-Today, the task of keeping a closer touch with its dispersed markets is becoming more and more complicated and costly. But market research has made it easy. It helps to know the potential consumers, their habits, needs and desires, tastes and preferences, economic conditions, etc.

8. **CHANGES IN THE PATTERN OF CONSUMPTION**-With the increasing facilities of consumer credit, the pattern of consumption has been undergoing a vast change. Market research examines the effects of on spending and buying plans of the consumers changes in income

9. **TO STUDY MARKET REACTIONS** Marketing is an endlessly changing activity. Firms are constantly engaged in changes in prices, introduction new products, remodelling of old products or changes in advertising techniques. Certain uncontrollable marketing factors, such as sociological and political forces, also affect the working of the company. Thus, market research is needed to study the market reactions of all these changes.

10. **TO DESIGN MARKETING OPERATIONS** Marketing is a corporate function. It is blended with other management functions, including production, finance, manpower and corporate planning. Marketing research thus, becomes a corporate activity which must essentially attend to the designing function which forms the pivot of other functions.

11. **HELP IN PRODUCT PLANNING** With the help of marketing research marketing executives can find out where marketing and production departments can operate more efficiently and try to evolve product plans, Marketers will have to keep a constant eye on changing standards, designs unique features and form of products.

12. **Help In Pricing Decisions** If pricing decisions are to be correct, the marketing managers will have to be aware of the size of the market demand and how it is likely to change from time to time. The price elasticity and value-satisfaction of a product, the competitive prices and the price policies of the competitors will also have to be studied carefully.

13. **To Determine Marketing Strategy**-Business environments an in constant change. They require a dynamic change in market policies from time to time. In a marketing strategy, competitors' actions, their plans and policies will have to be rightly anticipated. Marketing research provides a sound basis for adopting an appropriate marketing strategy.

14. **Effective Distribution Of Goods** Marketing research is helpful in making the physical distribution policies and practices effective. It helps the channel members of distribution to know about the problems relating to the product. It helps in adopting the new methods of transport by reducing the retail outlet.

15. **GUIDELINES FOR ADVERTISING**-Marketing research offers excellent guidelines to the various aspects of advertising, such as appeal in advertising different media to be used, money to be allocated and measuring the advertising effectiveness.

Marketing Research Process

To plan and implement a marketing research project, it is necessary to anticipate all the steps which must be undertaken. These steps are collectively to as "research process." It consists of a number of inter-related referred t and overlapping activities.

Effective marketing research involves the following steps:

1. Defining the problem and research objectives 2. Conducting a situation analysis 3. Conducting a preliminary investigation 4. Planning and conducting a formal investigation or selecting a research design: Selecting the sources of information Selecting the methods of data collection Preparing forms Pre-testing the forms Planning the samples Collecting the data	5. Analysing and interpreting data 6. Reporting the findings 7. Following up

1. Defining the Problem and Research Objectives

The first step in marketing research is to define the problem carefully and agree on the research objectives. It is said that "a problem well- defined is half-solved." A marketer who states the problem as "declining sales is only putting a 'symptom' not the problem.

2. Conducting a Situation Analysis

Situation analysis means collecting information about the company and its environment by means of library materials, internal company records, trade papers, and interviews with company officials. The researcher analyses the company, its markets, its competition, and the industry in general. The purpose is to get a touch with or a "feel" for the situation ✓ surrounding the problem.

3. Conducting a Preliminary Investigation

It is informal interviewing in the field. It consists of talking to people outside the company-middlemen, competitors, suppliers, advertising agencies, and customers. There are three goals of preliminary investigation. One is obtaining a better "feel" of the market and understanding the dynamics of the industry. Second, it helps develop testable hypotheses for the study. A hypothesis is a statement of an expected relationship between variables.

For example, consumer resistance to buying is caused in part by lack of information about product.

4. Planning and Conducting a Formal Investigation

When the preliminary investigation has shown that the project is economically feasible, marketer then develops the most efficient plan for gathering the needed information. This step is also called as "creating the research design." The research design is the grand plan for conducting a research investigation. It specifies data needs, data sources, research approaches, research instruments, sampling plans, and methods of collecting data. The following steps are involved in planning and conducting a formal investigation or creating the "research design."

(a) Determining data needs
(b) Selecting the sources of information
(c) Determining methods for gathering primary data
(d) Preparing data-gathering forms
(e) Pretesting the questionnaire and other forms
(f) Planning the sample
(g) Collecting the data

(a) Determining data needs: Research objectives must be translated into specific information needs. In other words, the information necessary to satisfy the research objectives must be determined at this stage. It shows what type of information is needed to achieve the goals.

(b) Selecting the sources of information: The research plan may call for gathering secondary data, primary data, or both. Primary data are original data gathered specifically for the project at hand. Secondary data have already gathered for some other purpose. Stanton says, "one of the biggest mistakes made in marketing research is to collect primary data before exhausting the information available in secondary sources."

Secondary data can come from internal or external sources. Internal sources include budgets, sales figures, profit-and-loss statements, customer billings, inventory records, prior research reports, balance sheets, and written reports. These are available within the firm itself.

External sources (outside the firm) of secondary data are as follows:

(a) Public libraries;
(b) General publications, periodicals and books;
(c) Government publications and records;
(d) Trade, professional, and business associations;
(e) Advertising media;
(f) University research organisations; and
(g) Non-profit research foundations;

In addition to being systematic and analytical, the secondary data must also be impartial, valid, and reliable.

Sources of Primary Data- The primary sources of data are those agencies and persons from whom the company collects the desired information directly for its own specific purposes. These sources include customers, middlemen, retailers, salesmen, trade association executives, suppliers, purchase influencers, etc.

(c) Determining methods for gathering primary data: There are three widely used methods of gathering primary data: survey, observation and experimentation. But few other methods are also used to obtain marketing information. These include expert opinion, consumer panels, and store or warehouse audits. Normally, all these methods are not used on one project. The company will select the method depending on the availability of time, money, personnel, and facilities.

(d) Preparing data-gathering forms and frames: The term "frame" refers to a list or map or other specification of the people or area to be examined. It should be carefully prepared. The next step is to design a form or questionnaire or a schedule for collecting the data. Preparation of data collection forms is linked up with the list of information required to achieve the project objectives. The particular form to be designed will vary considerably from study to study depending upon the information needed, the kind of respondents and the method of collecting information.

(e) Pretesting the questionnaire or other forms: No matter how good a researcher thinks the questionnaire is, it still should be pretested. In pretesting, a questionnaire is simply tried out on a small number of people who will be interviewed. This provides chances to correct various errors, such as bias, misunderstanding, and respondent anger.

(f) Planning the sample: Normally, it is unnecessary to survey every person, if the reactions of each are representative of the entire group.

A sample is "a part of the whole population that is used to make inferences about the characteristics of the population." Four basic things must be decided in order to draw a sample:

- the sampling unit-who is to be surveyed?
- the type of sample,
- the sample size how many people should be surveyed?
- the sampling procedure-how should the respondents be chosen?

(g) Collecting the data: Once the sampling plan is determined. people are contacted to collect primary data in the field. The means are mail, telephone, or personal interviews. The field workers should be trained and full-time workers.

5. **Analysing and Interpreting Data**

This is the stage of data processing. When the data collection job is completed, the next step in marketing research is to process these data in order to arrive at conclusions. The data processing task involves editing, tabulatio.1, analysis and interpretation of data. In editing, it is ensured that instructions given to investigators were followed, all questions were asked and answered, and that answers are consistent and logical. In tabulation. data are arranged in classes and are assigned weights, if any.

The processed data are then analysed by the researcher. The analysis should be proper and objective. The next stage is the interpretation of data and drawing the conclusions.

6. **Reporting the Findings**

The report represents the end product of the research process. It is submitted to the marketing executive in written form. It contains findings. conclusions and recommendations. The research report should be complete, understandable, accurate, clear and concise.

7. **Following up the Study**

The researcher's job does not end with the reporting of findings. He should follow-up to see whether the recommendations are being implemented. The marketing executive should also follow-up each study to determine that its findings are executed. If management ignores to utilise findings, the research has little value.

Q.14 Elaborate the Techniques of Marketing Research Process.

TECHNIQUES OF MARKETING RESEARCH

Marketing research is a wide source of information from the markets and field. The basic approaches, methods, and techniques involved in conducting marketing research are as follows:

1. Desk research	8. Consumer panels
2. Survey or field investigation	9. Store and warehouse audits
3. Observation	10. Simulation
4. Experiment	11. Focus-group research
5. Depth interviewing	12. Historical method
6. Projective techniques	13. Business trips.
7. Expert opinions	

1. **Desk Research Method**

This method is used to collect the secondary data. It denotes marketing research done with the help of published and other written sources of information. It employs such sources as journals, directories, official statistics and research reports. It also uses data within the firm itself. It is a "library" type approach.

2. **Survey or Field Investigation**

Surveys are the most common means of gathering primary marketing data. It consists of gathering data by interviewing a limited number of people ected from a larger group. Three types of data are usually sought in survey research: facts, opinions, and motives. Surveys are used to plan product designs, advertising copy, sales promotions, and other marketing elements. The questionnaire is the most important tool in survey method.

3. **Observational Method**

Observation is a research technique in which present behaviour or the results of past behaviour of consumers are observed and recorded. The researcher observes the actions of the consumers rather than asking them questions. In this method, people are not questioned and their cooperation riot necessary. This method is most useful in observing the buying behaviour of customers. It can also be used to determine the effectiveness of sales techniques, response of the customer towards a product, utility of advertising media, etc.

4. **Experimental Method**

It is a technique in which one or more factors are manipulated under controlled conditions. It focuses on observing the effect of manipulating an independent variable (such as product quality or advertising) on a dependent variable (usually sales). By attempting to hold all other factors constant while manipulating price, it might be possible to estimate how many unite of a product would be demanded at various prices. Generally, this method is applied in field setting.

5. **Depth Interviewing**

In depth interviewing, a completely relaxed environment is created wherein consumer respondents feel free to express themselves without any fear of disapproval, dispute or admonition. They are not even advised of guided by the interviewer. The purpose of this interview is to make the unconscious feelings, needs, conflicts and fears uncovered.

6. **Projective Techniques**

Projective techniques are designed to reveal a person's true feelings and motivations. Projective techniques consist of a variety of disguised tests that contain ambiguous stimuli e.g. incomplete sentences, cartoons, untitled pictures, other person characterisation, etc. The basic assumption underlying projective techniques is that respondents are unaware that they are exposing their feelings. Respondents under this technique are not given the chance to rationalise their responses. Some important projective techniques are as under:
(i) Thermatic Apperception Test (T.A.T.)
(ii) Word Association
(iii) Sentence Completion
(iv) The Paired Pictures Test.

A brief description of the above techniques is as under:

(i) Thermatic Apperception Test (T.A.T.): In this test respondents are shown a series of pictures of people in some unstructured, doubtful form of action or cartoons relating to the product or

topic under study. The respondent narrates a story about the pictures or cartoons. This technique is suitable to find the perceptions, attitudes and beliefs of the respondents.

(ii) Word Association: Under this technique respondents are presented with a series of words or phrases and are asked to answer quickly with the first word or phrase that comes to their mind after hearing each phrase or word. There are a number of variations of this particular test. The test may be written or oral. It may require words with similar meaning or opposite meaning and so on.

(iii) Sentence Completion: In the motivational aspect of marketing research, this test is significant to uncover emotional responses of consumers regarding a product or marketing situation. In this technique the beginning of a sentence is read to the respondent, who is asked to complete it with the first thought that comes to his mind. The questions may be of the following type:

- People who smoke Charminar.
- Tinned Foods...
- Women who use labour-saving devices.

(iv) The Paired Picture Test: This technique is appropriate to select good copy for advertisements. Under this technique, paired pictures are shown to respondents and they are asked about their opinions and reactions. Respondents may be required to tell any story which comes to their mind after seeing these paired pictures. This is suitable to uncover attitudes of respondents regarding a product, message of advertisement and for selection of good advertising copy.

7. **Expert Opinions**

It is looking for the ideas of experts, such as consultants, salesmen, dealers, and so on. This method provides a subjective yet important source of data. The most serious demerit of this method is the possibility of bias Hence, all questions must be carefully worded, and all answers must be evaluated with some caution.

8. **Consumer Panels**

Panels are ongoing groups of consumers who report from time to time on their buying behaviour, attitudes, preferences, frustrations, desires, dislikings, and so on. Observing a group of people over a significant period of time gives marketers a deeper understanding of thier consuming behaviour. buying reactions and habits.

9. **Store and Warehouse Audits**

Store audits provide data about the sales of specific products and brands at certain outlets during limited time periods. The information about the effects of deals, coupons, discounts, and special promotional schemes can also be obtained by this type of audit. But it is very exhausting and expensive to count stock and check invoices.

10. **Simulation**

Simulation enables marketing factors to be analysed through computer model. It recreates the use of various marketing factors on pan rather than in a real setting. In this technique, a model of the controllable and uncontrollable factors facing the firm is constructed.

11. **Focus-Group Method**

Focus-group research is a useful exploratory method to use before designing a large-scale survey. A focus-group is gathering of six to ten people who are invited to discuss or express their opinions on new brands of product, service, or other marketing element. This discussion is controlled by a skilled moderator who needs to be knowledgeable, and expert in group dynamics and consumer behaviour. The participants are normally paid a small sum for attending the focus group.

The moderator encourages free and easy discussion to reveal deep feelings and thoughts. He "focuses" the discussion. The discussion is recorded which is subsequently studied to understand consumer beliefs, attitudes, and behaviour.

12. **Historical Method**

This method involves the gathering of past historical data to make comparisons between marketing events happening in different periods. It forms a basis for understanding the current problems and the prediction of future events. This method is employed for studies like measurement of market potential, establishment of sales quota, determining territorial boundaries, selection of channels of distribution, etc.

13. **Business Trips**

Many firms collect first-hand information during the trips of their marketing executives and sales persons. Through these business trips, data, experience, and guidance can be obtained to decide the marketing policies of the firm.

Q.15 What do you mean by Channels of distribution? How is it classified?

Physical distribution means the transfer of goods and making them available at the right place in the right quantity and to the right people. It has two main aspects. First is the physical movement of goods from one place to another. Second, deciding the channel of distribution for that physical movement.

Channel of distribution means all the people who come together in helping and assisting in the transfer of the title of goods and services from the producer to the consumer. These people are the middlemen such as wholesalers, retailers, agents, merchants, institutions etc. There are various benefits of the channels of distribution such as economies of effort. The efforts can be saved as the work will be distributed over a large number of people. It helps in reaching large geographical areas where it would have been difficult for the producer to reach single-handedly. They also bring efficiency to distribution.

Types of distribution channels

There are various types of channels of distribution. They are described as under:

Based on the factors such as costs, geographical area to be reached, product type, the channel of distribution from these different channels of distribution can be selected.

- Direct channel
- Indirect channel

Direct channel

This channel is also known as zero level as it does not involve any middlemen between the producer and the consumer. It is the simplest and quickest channel of distribution. This channel is helpful for those producers who want to maintain a direct connection with the consumers. For example: 'Bata shoes' has its own outlets and this means that the producer is selling his products directly to the consumers without appointing and wholesaler or retailer in between. This helps in lowering the cost involved. Online selling or internet selling is the new form of direct selling or zero-level channel of distribution.

Indirect channels under Channels of Distribution

The indirect channel of distribution involves people between the producer and consumers. Depending on the number of middlemen these indirect channels of distribution can be classified as under:

One level channel

Channels of Distribution explains that Producer – retailer – consumer: this channel of distribution involves the least number of middlemen i.e. single middlemen, a retailer. In this channel, the goods will be transferred from the producer to the retailer and then finally to the consumer. This channel is helpful in quick sales. As the chain is small. It also helps in covering a wider area than the zero-level channels. For example, the electronic goods of Sony and Panasonic are sold to retailers and then to the consumers without involving other middlemen in between.

Two level channels

Producer – wholesaler – retailer – consumer: this channel of distribution is most common and includes two middlemen i.e. wholesaler and retailer. The wholesaler takes the bulk quantities of the product from the producer and then sells it in smaller quantities to the retailers. This helps in larger coverage of the area for the product. For example, cloth market runs on this structure.

Three level channels

Producer – agent – wholesaler – retailer – consumer: this channel involves one more middleman i.e. an agent or a broker. The agents help in reaching larger geographical areas as they contact different wholesalers. Different agents are appointed for different areas to make a greater reach.

Channels of Distribution in Marketing concludes that different channels of distribution are important as it increases the area for the producer and helps him cover a larger area.

Q.16 Who is a Wholesaler? Write a detailed note on a Wholesaler.

Wholesaler

A **wholesaler** is a business entity or individual that acts as an intermediary between manufacturers or producers and retailers. The primary function of a wholesaler is to purchase goods in large quantities from manufacturers and sell them in smaller quantities to retailers. Wholesalers play a crucial role in the distribution channel by facilitating the efficient movement of products from the point of production to the point of sale.

Key characteristics and functions of wholesalers include:

1. **Bulk Purchases:** Wholesalers buy goods in large quantities, often in bulk, from manufacturers. This allows manufacturers to sell larger volumes at once, streamlining their distribution process.
2. **Warehousing:** Wholesalers typically maintain large warehouses to store the products they purchase in bulk. This storage capacity enables them to supply retailers with the quantities they need on demand.
3. **Breakdown of Bulk Shipments:** Wholesalers may break down bulk shipments into smaller units suitable for retailers. This makes it easier for retailers to manage their inventory and reduces the logistical challenges associated with handling large quantities.
4. **Distribution to Retailers:** Wholesalers distribute products to retailers, serving as a crucial link in the supply chain. They bridge the gap between manufacturers and retailers, ensuring a smooth flow of goods to the end consumer.
5. **Negotiation and Pricing:** Wholesalers negotiate pricing and terms with manufacturers to secure favourable deals. They may benefit from volume discounts, allowing them to offer competitive prices to retailers while maintaining a margin for profit.
6. **Logistical Support:** Wholesalers handle the logistics of getting products from manufacturers to retailers efficiently. This includes transportation, inventory management, and order fulfilment services.
7. **Credit Facilities:** Some wholesalers extend credit facilities to retailers, allowing them to purchase goods on credit and pay at a later date. This can be advantageous for retailers with cash flow constraints.
8. **Market Feedback:** Wholesalers often have insights into market trends and demands. They can provide valuable feedback to manufacturers about which products are in demand and help adjust production accordingly.
9. **Variety of Products:** Wholesalers may deal with a wide variety of products within a specific industry or across various industries. This allows retailers to source multiple products from a single wholesaler, simplifying their procurement process.
10. **Relationship Management:** Wholesalers build and maintain relationships with both manufacturers and retailers. This involves effective communication, negotiation, and collaboration to ensure the smooth functioning of the distribution channel.

Wholesalers' Services to the Manufacturer:

1. **Large Orders and Scale of Production:**

Wholesalers place substantial orders with manufacturers, allowing for large-scale production. Example: A shoe manufacturer receives a bulk order from a wholesaler for 10,000 pairs of shoes, enabling efficient production with economies of scale.

2. **Financial Help through Advances:**

Wholesalers may provide financial assistance to manufacturers in the form of advances.
Example: A clothing manufacturer receives an advance payment from a wholesaler to help cover initial production costs, ensuring smooth manufacturing processes.

3. **Storage Relief for Manufacturers:**

Wholesalers stock goods, relieving manufacturers from the need to store large inventories.
Example: A furniture manufacturer does not need extensive warehouse space as the wholesaler stores and manages a large inventory of their products.

4. **Market Trend Analysis:**

Wholesalers analyze market trends and inform manufacturers about changes in consumer preferences.
Example: A smartphone manufacturer is informed by a wholesaler about the increasing demand for phones with specific features, influencing future product development.

Wholesalers' Services to the Retailer:

1. **Convenient Sourcing for Retailers:**

Retailers with limited capital can conveniently source a diverse range of goods from wholesalers.
Example: A small grocery store owner can obtain a variety of products from a food wholesaler without needing to deal directly with multiple manufacturers.

2. **Handling Small Orders:**

Wholesalers accommodate small orders, which may be impractical for large producers.
Example: A local boutique orders a small quantity of custom-designed clothing items from a wholesaler, catering to the boutique's specific needs.

3. **Financial Facilities for Retailers:**

Wholesalers extend credit facilities to retailers, helping them manage their business with limited capital.
Example: A neighbourhood electronics retailer receives a line of credit from a wholesaler, allowing them to stock new products without immediate payment.

4. **Information on New Products:**

Wholesalers inform retailers about new products entering the market.
Example: A book retailer learns about the latest bestselling novels from a book wholesaler, enabling them to meet customer demand for popular titles.

5. **Taking Advantage of Price Movements:**

Wholesalers, being specialists, leverage favorable price movements and share benefits with retailers.
Example: A toy retailer benefits from reduced wholesale prices during a promotional period, allowing for increased profit margins.

6. **Warehouse Inspection by Retailers:**

Retailers can personally inspect goods at the wholesaler's warehouse, facilitating selection.
Example: A furniture retailer visits a wholesaler's warehouse to inspect the quality and design of sofas before placing an order.

7. **Risk Mitigation for Retailers:**

Wholesalers, holding large stock, mitigate risks of falling prices and product spoilage for retailers.
Example: A grocery store is shielded from losses as the wholesaler absorbs the impact of perishable goods declining in value.

8. **Sales Promotion and Market Creation:**

Wholesalers, as experts, engage in sales promotion and contribute to creating a market for products.
Example: A cosmetic wholesaler promotes new beauty products, generating consumer interest and driving sales for retailers.

Types of Wholesalers:

(i) Merchant Wholesalers:

(a) General Merchandise Wholesaler:
General merchandise wholesalers handle a wide range of products without specializing deeply in any category. They purchase goods from various manufacturers and distribute them to retailers. These wholesalers play a crucial role in ensuring a smooth flow of goods from manufacturers to end consumers. An example is a wholesaler dealing with grocery items, supplying products from multiple manufacturers to retailers within a specific region.

(b) Limited Line Merchandisers:
Limited line merchandisers specialize in a specific product category, either representing a single manufacturer exclusively or dealing with multiple brands in that category. Examples include wholesalers specializing in pharmaceuticals, hardware, paint, cement, or steel. They often serve niche markets and possess in-depth knowledge about the products they handle.

(c) Cash-and-Carry Wholesalers:
Cash-and-carry wholesalers, exemplified by the Wal-Mart group, sell goods in bulk at reduced prices to retailers. These wholesalers operate large warehouses with minimal displays and staff. Goods are sold in bulk without credit lines. This format benefits small retailers who can access goods quickly and at lower costs. Cash-and-carry wholesalers typically deal with high-turnover items like groceries and stationery.

(d) Truck Wholesalers:

Truck wholesalers, or truck jobbers, transport small quantities of perishable commodities (e.g., bread or biscuits) to small retail outlets. They allow retailers to inspect and purchase goods directly from the truck. While not providing credit lines, they play a crucial role in inventory management for small retailers. These wholesalers are often small operators and may carry a variety of multi-brand items.

(e) Drop Shippers:
Drop shippers, also known as desk jobbers, act as intermediaries without physically handling goods. They collect orders from retailers or industrial buyers and arrange for direct shipment from manufacturers to customers. This model is common in commodity markets with large transaction volumes, such as oil, coal, and iron ore. An example is a drop shipper facilitating the connection between buyers and suppliers in different continents.

(ii) Agents and Brokers:
Agents and brokers don't take ownership of the goods but provide sales support for manufacturers. They offer services like sales force networks and infrastructure to help manufacturers expand their markets without the overhead of establishing their own sales teams.

Clearing and forwarding (C&F) agents, prevalent in Indian markets, help navigate multiple sales tax regimes. These agents facilitate the movement of goods through customs and ensure efficient delivery to the end destination.

In summary, various types of wholesalers and agents play essential roles in the supply chain, facilitating transactions and ensuring the smooth flow of goods from manufacturers to end consumers.

IMPORTANT FUNCTIONS OF WHOLESALERS

1. **Linking:**

Wholesalers serve as intermediaries, connecting large-scale manufacturers with retailers who cannot deal directly due to scale or logistical constraints.
Example: A clothing manufacturer produces thousands of garments. Instead of dealing with individual small retailers, the manufacturer sells in bulk to a wholesaler, who then distributes to numerous retail stores.

2. **Communication:**

Wholesalers facilitate communication by conveying information about new products and market trends between manufacturers and retailers.
Example: A smartphone wholesaler informs retailers about the latest features and models available, while also providing feedback to the manufacturer regarding consumer preferences.

3. **Assembling:**

Wholesalers' aggregate goods from various sources, especially those available in small lots, and assemble them into larger quantities for retailers.
Example: An agricultural wholesaler collects crops from multiple local farmers, assembles them in larger quantities, and supplies to grocery retailers.

4. **Warehousing:**

Wholesalers store goods in warehouses, ensuring availability when needed by retailers and managing fluctuations in demand.
Example: A furniture wholesaler stores a variety of furniture pieces in a warehouse, enabling timely deliveries to retailers based on their inventory requirements.

5. **Transporting:**

Wholesalers coordinate the transportation of goods from manufacturers to their facilities and onward to retailers, ensuring a smooth flow in the supply chain.
Example: An electronics wholesaler arranges for the transportation of TVs and gadgets from manufacturers to their distribution center and later to various electronics stores.

6. **Financing:**

Wholesalers indirectly finance both retailers and manufacturers by offering goods on credit to retailers and purchasing goods from manufacturers on a cash basis.
Example: A toy wholesaler may provide a small toy store with a line of credit, allowing the store to receive toys and pay the wholesaler at a later date.

7. **Risk Bearing:**

Wholesalers assume the risk associated with goods from the point of purchase from manufacturers until the sale to retailers is completed.
Example: A cosmetic wholesaler carries the risk of changes in consumer preferences or market conditions, ensuring retailers are not directly exposed to these risks.

8. **Grading, Packing, and Packaging:**

Wholesalers perform tasks like standardization, grading, and packaging when dealing with goods from various sources to meet industry standards and enhance market appeal.
Example: An agricultural wholesaler grades and packages fruits according to size and quality standards, ensuring uniformity and attractiveness for retail sale.

9. **Bulk Breaking:**

Wholesalers break down bulk quantities purchased from manufacturers into smaller units suitable for retailers, meeting the varied needs of different-sized retailers.
Example: A wholesale electronics distributor purchases smartphones in bulk from the manufacturer and repackages them into smaller lots for distribution to local phone retailers.

10. **Market Information:**

Wholesalers gather and share valuable market information with manufacturers and retailers, helping both parties make informed decisions.
Example: A sporting goods wholesaler provides feedback to a manufacturer about the increasing demand for a specific type of sports equipment, guiding production planning.

11. **Quality Control:**

Wholesalers often inspect and maintain quality control over the goods they handle, ensuring that products meet certain standards before reaching retailers.
Example: An electronics wholesaler tests electronic device to ensure they are free from defects before supplying them to retailers, preventing quality issues for end consumers.

12. **Promotional Support:**

Wholesalers may engage in promotional activities to create awareness and demand for products, supporting manufacturers and retailers.
Example: A fashion wholesaler might organize a promotional event to showcase new clothing lines, benefiting both the clothing brand and the retailers selling those products.

Q.17 Who is a Retailer? Write a detailed note a Retailer.

A retailer is a business or individual that sells goods or services directly to the end consumer. Retailers are the final link in the distribution chain, connecting products from manufacturers or wholesalers to the people who use or consume them. They operate in various formats, including physical stores, online platforms, and a combination of both. The primary focus of retailers is to meet the demands of individual consumers by offering a diverse range of products or services.

1. **Direct Sales to Consumers:**

Retailers operate at the end of the supply chain, engaging directly with consumers to fulfill their needs and preferences. The transaction involves the direct exchange of products or services for payment, marking the final step in the journey from manufacturer to consumer.

2. **Product Assortment and Variety:**

Retailers carefully curate their product assortments to provide customers with a wide variety of choices. This variety caters to different tastes, preferences, and needs, allowing consumers to find the specific items they seek in one location.

3. **Customer Interaction and Service:**

Customer interaction is a key aspect of the retail experience. Retailers invest in customer service to assist shoppers, answer queries, and create a positive environment. This personal touch enhances customer satisfaction and loyalty.

4. **Location and Accessibility:**

The strategic selection of retail locations is crucial for accessibility and convenience. Retailers analyze demographics, foot traffic, and local demand to position themselves where they can best serve their target market.

5. **Merchandising and Display:**

Merchandising involves the art of presenting products in an enticing manner. Retailers use creative displays, layouts, and signage to attract attention and influence purchasing decisions. Well-organized and visually appealing displays enhance the overall shopping experience.

6. **Pricing and Promotion:**

Pricing strategies vary among retailers, with considerations for market trends, competition, and profit margins. Promotional activities, such as discounts, sales, and loyalty programs, are employed to stimulate demand, attract new customers, and retain existing ones.

7. **Inventory Management:**

Efficient inventory management ensures that products are available when customers need them. Retailers use technology and data analysis to track inventory levels, forecast demand, and prevent stockouts or excess inventory.

8. **Point of Sale (POS) Transactions:**

The point of sale is the final interaction where customers make purchases and complete transactions. Retailers utilize POS systems to streamline the checkout process, accept various payment methods, and generate receipts for customers.

9. **Online Retailing:**

With the rise of e-commerce, many retailers extend their presence to online platforms. Online retailing provides customers with the convenience of browsing, selecting, and purchasing products from the comfort of their homes, expanding the reach of retail businesses beyond physical locations.

10. **After-Sales Service:**

Retailers may offer post-purchase services to enhance customer satisfaction. This includes warranties, repair services, return policies, and customer support, ensuring a positive experience even after the sale is complete.

11. **Brand Representation:**

Retailers act as ambassadors for the brands they carry. The ambiance, layout, and overall presentation of a store contribute to the representation of the brand. Retailers play a crucial role in conveying the brand's identity and values to consumers.

12. **Payment and Credit Facilities:**

Retailers provide flexibility in payment options to accommodate diverse customer preferences. This includes accepting various payment methods such as cash, credit cards, and digital payments. Some retailers may also offer credit facilities or installment plans to make purchases more accessible to customers.

Types of Retailers

(A) <u>Itinerant Retail Trade:</u>

(i) Hawkers and Pedlars:

Hawkers and pedlars are small-scale retailers who don't have a fixed location for selling. They carry their goods on wheel carts, on their heads, or the back of animals. These goods usually include items like sweets, toys, fruits, and vegetables.
Examples: Picture a vendor pushing a cart filled with affordable toys and sweets through residential areas.
Pricing: Prices can vary based on negotiations with customers, as there's no fixed pricing policy.
Accessibility: They provide goods directly to customers, offering doorstep services and can even be found in public transport areas like buses and trains.

(ii) **Periodic Market Traders:**

Periodic market traders operate on fixed days in markets that occur weekly, monthly, or annually. They set up temporary structures to sell a range of goods, often targeting lower-income customers.

Example: Visualize a vendor selling discounted fabrics every Wednesday in a local weekly market.
Structure: They use temporary setups to showcase their goods and often participate in special events like fairs.
Affordability: Goods sold are typically priced lower, catering to the budget constraints of customers.

(iii) **Street Vendors:**

Street vendors conduct their business on footpaths, roadside corners, pavements, and other crowded places. They offer a diverse range of products, making them a popular choice for daily-use items.

Example: Imagine a street vendor selling newspapers on a bustling street corner.
Convenience: Operating in busy areas near public places like railway stations, they provide a convenient option for people to buy items on their way home.
Product Range: Street vendors deal in a variety of products such as towels, mirrors, newspapers, handkerchiefs, and more.

(iv) **Cheap Jacks:**

Cheap jacks are retailers who temporarily rent shops or open spaces for a short period. They deal in low-priced household articles and often offer services like watch or shoe repairs.

Example: Envision a vendor setting up a temporary shop selling discounted household items in different neighbourhoods.
Business Model: They hire small spaces for a limited time to display and sell their goods, which can include household articles and readymade garments.
Flexibility: While they move based on business opportunities, it's not as frequent as with hawkers or market traders.

Advantages of Itinerant Retailers:

1. **Flexibility and Mobility:**

Itinerant retailers can easily adapt to changes by moving to different places.
E.g., A food truck can go to busier locations during events.

2. **Low Setup Costs:**

Itinerant businesses often have lower starting costs, making it accessible for small entrepreneurs.
E.g., A street vendor selling crafts may spend less than opening a store.

3. **Personalized Customer Interaction:**

Itinerant retailers connect directly with customers, providing personalized service.
E.g., A mobile flower vendor talks to customers, offering recommendations.

4. **Adaptability to Trends:**

Itinerant retailers can quickly respond to trends, offering popular products.
E.g., A pop-up shop capitalizes on current trends.

5. **Cost-Effective Marketing:**

Itinerant retailers rely on word-of-mouth and social media for marketing.
E.g., A coffee truck gains popularity through social media.

Disadvantages of Itinerant Retailers:

1. **Limited Visibility and Presence:**

Itinerant retailers may struggle to be consistently seen, limiting brand recognition.
E.g., A traveling artisan may find it hard to build a recognizable brand.

2. **Weather and Seasonal Challenges:**

Itinerant retailers face challenges operating in bad weather or during different seasons.
E.g., A mobile ice cream vendor sells less in winter.

3. **Storage and Inventory Constraints:**

Itinerant retailers may have limited space for storage and managing inventory.
E.g., A pop-up boutique can't showcase many products due to limited space.

4. **Insecurity and Safety Concerns:**

Itinerant retailers may face security issues, like theft.
E.g., A mobile jewelry vendor is more at risk of theft.

5. **Lack of Consistent Customer Base:**

Itinerant retailers may struggle to build a loyal customer base.
E.g., A traveling food truck might not have regular customers.

(B) Fixed Shops Retailers:

Fixed shops retailers are businesses with a permanent physical location where customers can visit to purchase goods and services. These retailers differ from itinerant or mobile vendors by having a consistent place of operation. Let's delve deeper into the characteristics and types of fixed shops retailers.

Characteristics of Fixed Shops Retailers:

1. **Dealing with Different Products:**

Fixed shops retailers handle a diverse range of products, including both durable goods (such as electronics and appliances) and non-durable goods (like groceries and toiletries).
Example: A neighbourhood store that sells a variety of products ranging from household items to electronics.

2. **Operating on a Larger Scale:**

These retailers operate on a more significant scale compared to itinerant vendors, often having a more established presence and serving a broader customer base.
Example: Departmental stores in urban centers that offer a wide array of products across different categories.

3. **Providing Various Services:**

Fixed shops often provide additional services to attract and retain customers. These services may include home delivery, credit facilities, and repair services.
Example: An appliance store that not only sells appliances but also provides delivery and repair services.

Types of Fixed Shops Retailers:

(i) Small-scale Fixed Shops:

1. **General Stores:**

Typically found in residential neighbourhoods.
Offers a broad selection of daily-use products like groceries, toiletries, and stationery.
Provides services like free home delivery and credit facilities to enhance customer satisfaction.
Example: The corner store that caters to the immediate needs of the local community.

2. **Specialty Stores:**

Specializes in a specific product line, such as garments, shoes, or electronics.
Often located in central areas to attract customers with specific needs.
Example: A store exclusively selling high-quality shoes and accessories.

3. **Street Shops:**

Situated at busy intersections or road crossings, offering affordable and convenient products.
Characterized by limited space and often set up as temporary platforms.
Example: A street vendor selling snacks and accessories at a bustling street corner.

4. **Second-hand Goods Shops:**

Deals in pre-owned items like furniture and books.
Caters to budget-conscious customers who prefer cost-effective, used goods.
Example: A thrift store specializing in selling second-hand furniture and vintage books.

5. **Second Shops (Goods with Defects):**

Sells products with minor manufacturing defects at significantly discounted prices.
May operate temporarily in specific locations to attract bargain-seeking customers.
Example: An outlet offering electronics with cosmetic imperfections at discounted rates.

Advantages of Small-scale Retailers:

1. **Local Presence:**

Small-scale retailers are often present in local areas, making them convenient for nearby residents who prefer quick access to essential goods and services.
E.g., A corner grocery store serves the immediate neighborhood, providing a convenient shopping option for local residents.

2. **Personalized Service:**

Small-scale retailers can provide personalized and attentive service to customers, as they have the ability to build relationships and understand individual preferences.
E.g., A family-owned boutique offers personalized fashion advice, creating a more intimate shopping experience for customers.

3. **Quick Decision-Making:**

Small retailers can make decisions swiftly without bureaucratic processes, allowing them to respond promptly to market trends and customer demands.
E.g., A small bookstore can quickly adapt its inventory to include popular titles or niche genres based on customer feedback.

4. **Community Connection:**

Small retailers build strong ties with the community, fostering loyalty and a sense of belonging among customers.
E.g., A local hardware store sponsors community events, contributing to the well-being of the neighbourhood and enhancing its community connection.

5. **Adaptability to Niche Markets:**

Small retailers can focus on niche markets and cater to specific customer needs, providing unique and specialized products or services.
E.g., A specialty tea shop targets tea enthusiasts by offering a diverse range of high-quality and rare teas.

Disadvantages of Small-scale Retailers:

1. **Limited Resources:**

Small retailers may have limited financial resources for expansion, marketing, and technology adoption, which can impact competitiveness.
E.g., A small electronics shop may struggle to invest in digital marketing campaigns or technology upgrades compared to larger electronic retail chains.

2. **Limited Product Variety:**

Small retailers may offer a limited range of products compared to larger stores, limiting customer choices.
E.g., A small toy store may not have the variety of toys available in a large toy chain, potentially reducing its appeal to customers seeking diverse options.

3. **Dependency on Owner:**

Small businesses often depend heavily on the owner's involvement, making the business vulnerable if the owner is unavailable or unable to manage daily operations.
E.g., A boutique may experience operational challenges if the owner is absent for an extended period, impacting customer service and business performance.

4. **Vulnerability to Economic Changes:**

Small retailers are more vulnerable to economic downturns, as reduced consumer spending can significantly impact their revenue.
E.g., A small furniture store may face challenges during a recession when consumers cut back on non-essential purchases.

5. **Limited Bargaining Power:**

Small retailers may have less bargaining power with suppliers, potentially leading to higher procurement costs.
E.g., A small grocery store may negotiate less favorable terms with suppliers compared to larger supermarket chains, affecting overall profit margins.

(ii) Large-scale Fixed Shops:

1. **Departmental Stores:**

Centrally located for easy accessibility.
Houses multiple departments, each offering a distinct category of products.
Procures goods directly from manufacturers, ensuring a wide product range.

Example: A department store with sections for clothing, cosmetics, home goods, and electronics.

Advantages:

- **Extensive Product Range:** Departmental stores offer a wide variety of products under one roof, providing customers with a comprehensive shopping experience.
- **Convenience:** Customers can fulfill various needs in a single visit, saving time and effort.
- **Brand Diversity:** Carries products from multiple brands, allowing customers to compare and choose.

Disadvantages:

- **Impersonal Service:** Due to the vast size, personalized service may be limited compared to smaller retailers.
- **High Overheads:** Operating a large space and maintaining diverse departments can result in higher operational costs.

Example: Macy's, a well-known department store, offers a diverse range of products, from clothing to home goods.

2. **Chain Stores:**

Multiple retail outlets owned by a single business entity.
Strategically located in densely populated areas to maximize customer reach.
Subject to regular inspections from the head office to maintain quality standards.

Example: A chain of supermarkets with branches in various neighborhoods under the same brand.

Advantages:

- **Brand Consistency:** Chain stores maintain consistent quality and service standards across all outlets.
- **Economies of Scale:** Bulk purchasing and centralized management lead to cost savings.
- **Market Dominance:** Chains can achieve significant market share and visibility.

Disadvantages:

- **Limited Flexibility:** Centralized decision-making may limit the ability to adapt to local market demands.
- **Dependency on Head Office:** Individual stores may have less autonomy in decision-making.

Example: Starbucks is a global chain with a standardized menu and experience in its coffee shops worldwide.

3. **Mail-order Houses:**

Conducts retail transactions through catalogues without face-to-face interactions.
Represents a form of retailing where customers make purchases through postal communication, TV, phone, or online platforms.

Example: Ordering products from a mail-order catalogue and having them delivered to your doorstep.

Advantages:

- **Convenience:** Customers can browse and order products from the comfort of their homes.
- **Global Reach:** Can reach customers worldwide without the need for a physical presence in every location.
- **Diverse Selling Channels:** Utilizes various platforms, such as online websites and catalogs.

Disadvantages:

- **Lack of Physical Interaction:** Absence of in-person interactions may lead to challenges in building customer relationships.
- **Shipping Costs:** Shipping fees and delivery times can impact the overall customer experience.

Example: Amazon started as an online mail-order house, revolutionizing the way people shop online.

Q.18 <u>What do you understand by Price? State the Pricing Objectives. Also Elaborate the Factors Affecting Pricing Decision.</u>

<u>Price</u>

In a company's marketing mix, the price is important for making sure a product fits well in the market. Simply put, price is like the money value of what a product offers—a cost that a person pays or is supposed to pay to get that product or service. Every business deal isn't finished until the company decides on a price that the buyers agree on. So, it's the price that makes both the seller and the buyer happy and makes the deal work smoothly.

According to W.J. Stanton, "Price is the amount of money which is needed to acquire a product."

Characteristics of Price:

1. The value of a product or service expressed in monetary terms.
2. Influenced by demand and supply dynamics in a free market.
3. Serves as a link between the company and consumers.
4. Involves various managerial tasks such as setting pricing objectives, identifying factors affecting pricing decisions, and selecting a pricing method.

Pricing Objectives

Pricing objectives are set by a company within its corporate and marketing objectives. Pricing objectives may vary from company to company due to their own corporate and marketing objectives. However, some of the common pricing objectives are described as below:

1. **<u>Survival</u>**
In challenging times, a company prioritizes staying afloat over maximizing profits. To ensure survival, companies may adopt strategies such as lowering prices.

E.g. During an economic downturn, a small local restaurant might lower its menu prices to attract more customers and ensure its survival in a challenging market.

2. **Target Return on Investment (ROI)**

This objective involves setting prices to achieve a specific rate of return on the capital invested. Companies calculate prices in a way that the total sales revenue exceeds the total costs, ensuring the desired return on investment is met.

E.g. A technology company launching a new product might set the price with the goal of achieving a specific return on the capital invested in research, development, and production.

3. **Maximum Current Profit**

Some companies focus on setting prices to maximize their immediate profits. While this is a common approach, it may not always align with long-term sustainability and growth.

E.g. A fashion brand might strategically price limited-edition items higher to capitalize on immediate consumer demand, maximizing current profits.

4. **Price Stabilization**

In industries with fluctuating demand, companies may aim to stabilize prices. This involves setting prices to prevent drastic fluctuations during economic booms or slumps, contributing to overall market stability.

E.g. In the airline industry, where fuel prices are volatile, a major airline might use pricing strategies to stabilize ticket prices, preventing drastic fluctuations during economic ups and downs.

5. **Recovery of Costs**

Non-profit organizations may set prices to recover either full or partial costs. Social service agencies, for instance, consider the varying income situations of their clients when determining the social price for their services.

E.g. A non-profit organization providing educational services might set prices for its programs based on a tiered system, allowing individuals with varying financial capacities to access their services while recovering some operational costs.

6. **Product-Quality Leadership**

Companies aspiring to be leaders in product quality use pricing strategies to reflect the perceived value of their superior products in the market.

E.g. Apple positions itself as a product-quality leader, pricing its iPhones at a premium compared to competitors, emphasizing superior design and technology

7. **Maintain or Improve Market Share**

A significant objective is to retain or increase market share. In developed economies, companies strive to maintain their market share in the face of tough competition. In developing countries, expanding market share is especially significant for economic development.

E.g. In the smartphone industry, Samsung may adjust its prices strategically to maintain or increase its market share, especially when faced with competition from emerging brands.

8. **Image Building**

Pricing plays a role in shaping a brand's image. Some companies set higher prices to create a prestige image, associating their products with luxury or exclusivity.

E.g. Luxury brands like Rolex use high pricing to build and maintain an exclusive image, associating their watches with prestige and craftsmanship

9**. Meet or Prevent Competition**

Companies adjust pricing to either meet or prevent competition. Price followers align their pricing with competitors, while price leaders strategically initiate changes to discourage new competitors from entering the market.

E.g. Coca-Cola might adjust its pricing to meet competition by offering promotional pricing during a competitor's product launch or prevent competition by maintaining consistent prices.

10. **Increase Sales Volume**

This goal focuses on achieving a percentage increase in sales volume over a specific period. While high sales volume is pursued for maximum revenue, companies have realized that sales growth alone doesn't always translate to higher profits.
E.g. During a seasonal sale, a retail store might reduce prices on certain items to increase sales volume and clear inventory, even if it means lower profit margins.

11. **Profit Maximization**

While profit maximization is a common goal, achieving it may be challenging. Companies may need to accept short-term losses, especially when entering new markets or introducing innovative products. Long-term profitability is prioritized over immediate gains.
E.g. When introducing a cutting-edge gadget, a tech company might initially set a lower price to capture a larger market share, with the aim of maximizing profits over the long term through subsequent sales and product iterations.

12. **Resource Mobilization**

Companies may set prices with the aim of mobilizing resources for expanding operations or developing new products. This objective is particularly relevant for both private and public sector units, ensuring sufficient funds for growth.
E.g. An automobile manufacturing company might set prices to ensure sufficient funds for developing new models, investing in sustainable practices, or expanding production facilities.

FACTORS AFFECTING PRICING DECISION

1. **Cost of the Product:**

The cost of the product, including variable costs (raw materials, labor, power expenses) and fixed costs, is a crucial factor in pricing decisions. Prices are often set to cover these costs and generate a profit.
E.g. A smartphone manufacturer considers the cost of materials, labor, and associated expenses when determining the retail price of a new model.

2. **Life-cycle of the Product:**

Throughout a product's life cycle, pricing strategies may vary. In the introduction stage, lower prices may be set to stimulate demand, while in maturity, prices may be adjusted to revive interest.
E.g. The initial price of a new gaming console might be set lower during its launch to encourage early adoption.

3. **Product Substitution:**

The availability of substitute products in the market influences pricing decisions. Companies may keep prices lower if substitutes are readily available, while higher prices may be set in the absence of substitutes.
E.g. Generic medications are priced lower than branded ones, as they serve as substitutes in the pharmaceutical market.

4. **Elasticity of Demand:**

Elasticity of demand, or how responsive demand is to price changes, affects pricing decisions. Inelastic demand may limit the impact of price changes, while elastic demand allows companies to use pricing as a tool to influence demand.
E.g. In the case of a new and innovative gadget, a price reduction may lead to a significant increase in demand, showcasing elastic demand.

5. **Competition Policy:**

Companies choose between price and non-price competition strategies. Price competition involves setting competitive prices to face rivals, while non-price competition focuses on creating differential values and brand image.

E.g. Airlines often engage in price competition, offering competitive fares, while luxury brands may focus on non-price competition to maintain exclusivity.

6. **Marketing Objectives:**

Pricing decisions align with the marketing goals of a company. Market penetration may involve setting lower prices to capture a larger market share.

E.g. Companies entering a new market may adopt a market penetration strategy by offering products at lower prices initially.

7. **Channels of Distribution:**

Distribution channels impact pricing decisions. Costs associated with middlemen, their commission, and physical distribution are considered in pricing.

E.g. A company using an extensive retail network may set prices higher to account for the costs associated with various intermediaries.

8. **External Environment:**

The overall economic, social, cultural, and political environment influences pricing decisions. Economic conditions such as a boom or recession may impact pricing trends.

E.g. During an economic boom, companies may adjust prices upward, while in a recession, they might adopt a strategy of decreasing prices to adapt to the economic downturn.

9. **Consumer Profile:**

Understanding the characteristics of the target market, including tastes, income levels, and educational backgrounds, is vital in pricing decisions.

E.g. High-end luxury brands set prices based on the affluent consumer profile they target, while budget-friendly brands consider the affordability of their target market.

10. **Government Policies, Rules, and Regulations:**

Government policies, such as tax rates and regulations, directly impact pricing decisions. Pharmaceutical companies, for instance, must adhere to government-set prices for essential drugs.

E.g. The government's Drug Control Order dictates the prices of life-saving drugs, limiting how much pharmaceutical companies can charge.

11. **Competition:**

The level of competition in the market influences pricing decisions. In a monopoly, a company might set higher prices, while in intense competition, competitive pricing is essential.

E.g. In the smartphone industry, where competition is fierce, companies often adjust prices to stay competitive and retain or gain market share.

12. **Type of the Product:**

The nature of the product, whether it's innovative or imitative, influences pricing decisions. Innovative products may command higher prices due to a lack of alternatives.

E.g. A newly launched revolutionary tech gadget may have a higher initial price due to its innovative nature and limited alternatives in the market.

13. **Image:**

The perceived image of the country of origin and the firm itself impact pricing decisions. A positive image allows companies to set higher prices, while a poor image may necessitate lower prices.

E.g. Swiss watches are often associated with precision and quality, allowing watchmakers to set higher prices due to the positive image associated with Switzerland.

14. **Capacity Utilization Ratio:**

Companies with high capacity utilization ratios can distribute fixed costs across more units, enabling them to keep prices competitive.

E.g. A manufacturing plant operating close to its maximum capacity can offer products at competitive prices due to the efficient utilization of resources.

15. **Product Differentiation:**

Strong product differentiation allows companies to set higher prices. Products that stand out from competitors may enter non-price competition.

E.g. Apple's iPhones are priced higher due to their unique features and strong brand differentiation compared to other smartphones.

16. **Exchange Rates:**

Exchange rates impact pricing decisions, especially for international trade. Fluctuations in currency values may influence how companies set prices for exports.

E.g. A company exporting goods may adjust its prices based on currency exchange rates, quoting lower prices during periods of currency depreciation.

Q.19 Elaborate the Process of Price Determination.

1. Estimate the Demand for the Product:

The initial step in determining the price is to estimate the total market demand for the product. This involves calculating the expected price customers are willing to pay and predicting sales volume at different price points.

E.g. A new smartphone company might assess potential demand by considering the features and perceived value of its product in comparison to existing brands.

2. Anticipate the Competitive Influences:

The second step involves anticipating both existing and potential competition. Recognizing sources of competition, such as substitutes and similar products, helps in making informed pricing decisions.

E.g. In the beverage industry, a new energy drink company needs to consider existing competitors as well as the potential entry of other companies launching similar products.

3. Anticipate Expected Market Share of the Product:

This step focuses on anticipating the market share the company expects to capture. Factors like production capacity, the potential for plant expansion, and prospective competition influence the expected market share.

E.g. A company manufacturing electric cars might consider its production capacity and the growing interest in eco-friendly vehicles when estimating its expected market share.

4. Consider Company Policies Regarding Product, Promotion, and Pricing Objectives:

Product policies, promotional methods, and pricing objectives play a significant role. Company decisions on product quality, branding, and pricing objectives directly impact the pricing strategy.

E.g. A company emphasizing premium quality and exclusive branding may set higher prices for its products compared to a company focusing on affordability and mass appeal.

5. Selection of Pricing Policies and Strategies:

This step involves choosing relevant pricing policies and strategies. Options include skim the cream pricing, market penetration pricing, geographical pricing, and various discount strategies.

E.g. A new tech gadget may adopt a skimming strategy initially, setting higher prices to attract early adopters, while a mass-market product might opt for market penetration pricing to quickly capture a larger market share.

6. Selection of Specific Price:

The final step is selecting a specific price for the product. This often begins with setting a tentative price, testing it through methods like test marketing, and adjusting based on feedback from distribution channels and consumers.

E.g. A clothing brand might initially set a tentative price for a new collection and assess its market reception through feedback from stores and customer responses before finalizing the retail prices.

Q.20 What are Pricing Methods and Strategies? Elaborate the various Methods and strategies of Price Determination.

Key Differences between Pricing Methods and Pricing Policies:

Basis	Pricing Methods:	Pricing Policies:
Scope:	Focus on specific techniques and approaches to calculate the price of individual products or services.	Provide broader guidelines and principles that govern the overall pricing strategy of a business.
Application:	Directly applied to determine the price of a product or service in the short term.	Applied at a strategic level to guide the company's general approach to pricing in the long term.
Level of Detail:	Involve detailed calculations and considerations for setting specific prices.	Are more generalized, offering guiding principles for pricing decisions.
Time Horizon:	Often address short-term pricing decisions based on immediate factors and market conditions.	Provide a long-term framework for consistent pricing decisions aligned with overall business objectives.
Flexibility:	Can be adjusted frequently based on changes in costs, demand, or competition.	Tend to be more stable, providing a strategic foundation that guides pricing decisions over a more extended period.

Decision Focus:	Concentrate on the specific mechanics of setting prices, considering factors like costs, competition, and market demand.	Focus on the broader strategic goals of the company, such as market positioning, brand perception, and long-term profitability.
Examples:	Cost-Plus Pricing, Penetration Pricing, Skimming Pricing, Value-Based Pricing.	Skim Pricing Policy, Penetration Pricing Policy, Premium Pricing Policy, Everyday Low Pricing (EDLP) Policy.

PRICING METHODS

A. Cost-Based Pricing Methods

1. Cost Plus Pricing

Cost-plus pricing is a straightforward method where the selling price is determined by adding an anticipated amount of profit to the cost of production.

Advantages:

1. Simplicity in Calculation: Cost-plus pricing is simple and easy to calculate, making it accessible for businesses with straightforward cost structures.
2. Covers All Production Costs: This method ensures that all costs incurred in the production process are accounted for in the pricing strategy.
3. Desired Return on Investment: Businesses can achieve a predetermined return on their investment by adding the required percentage of profit to the production cost.

Disadvantages:

1. Unrealistic and Weak Method: Relying solely on production costs might lead to unrealistic pricing, especially if market dynamics are not considered.
2. Ignores Market Demand and Competition: Cost-plus pricing doesn't take into account market demand or the competitive landscape, potentially leading to pricing misalignment.
3. Neglects Price Elasticity of Demand: The method overlooks the concept of price elasticity of demand, which is crucial in understanding how consumer demand changes with price variations.

Feasibility: Cost-plus pricing is best suited for firms operating in a sellers' market, where there is high demand and limited competition, allowing them to recover costs and achieve profits.

2. Marginal Cost Pricing

Marginal cost pricing focuses on the variable or direct costs involved in producing an additional unit, ignoring fixed costs.

Advantages:

1. Useful for Market Penetration: Firms can use marginal cost pricing to set competitive prices, making it effective for market penetration.

2. Competitive Pricing: This method enables businesses to offer competitive prices for their products or services.
3. Appropriate for Price-Sensitive Markets: Marginal cost pricing is well-suited for markets where price sensitivity is high.

Disadvantages:

1. Ignores Fixed Marketing Costs: By neglecting fixed marketing costs, the method may not accurately reflect the overall cost structure of the business.
2. Potential Cannibalization: If fixed costs are shifted to other products, it may lead to cannibalization, where one product negatively impacts the sales of another.
3. Not Suitable for High Variable Cost Proportion: When fixed costs are a significant portion of total costs, marginal cost pricing may not be appropriate.

Feasibility: Marginal cost pricing is applicable in scenarios such as construction projects, during slack seasons, and when there's a need to utilize idle capacity for exports.

3. Break-even Pricing

Break-even pricing aims to set prices at a level where total revenue equals total costs, resulting in no profit or loss.

Advantages:

1. Safeguards Against Losses: This method helps businesses avoid losses by ensuring that prices cover total costs.
2. Simple Break-even Calculation: Calculating break-even points in units and volume is relatively simple, providing a clear benchmark for pricing decisions.

Disadvantages:

1. Assumptions May Not Be Valid: Break-even pricing relies on assumptions about constant fixed costs and variable costs per unit, which may not always hold true.
2. No Guarantee of Market Acceptance: Even if break-even costs are covered, market acceptance depends on whether consumers find the pricing acceptable.

Feasibility: Break-even pricing is useful for new entrants, firms adopting market penetration strategies, and businesses operating in highly competitive markets.

B. Market-Oriented Pricing Methods

1. Pricing Above the Market

Pricing above the market involves setting prices higher than competitors, often suitable for quality-sensitive markets.

Feasibility: This method is appropriate for firms in markets where consumers associate higher prices with superior quality. It's commonly used when introducing innovative products or aiming for substantial product differentiations.

2. Pricing Below the Market

Pricing below the market entails setting prices below competitors or accepted market standards.

Feasibility: This approach is suitable for follower firms, smaller companies, and markets where price sensitivity is high. Notably, it was exemplified by the success story of "Nirma Chemical Works" in India, where the company gained market share by offering lower-priced detergent.

3. Pricing to Meet Competition

Pricing to meet competition involves setting prices based on prevailing market demand and supply, adjusting to market-accepted price levels.

Feasibility:

This method requires constant adjustments based on the demand and supply dynamics. It is suitable for markets with fluctuating conditions, ensuring that prices align with market expectations.

Pricing Policies and Strategies

1. **Penetration Pricing:**

Penetration pricing involves setting an initial low price to quickly gain market share. This strategy aims to attract customers, build brand awareness, and establish a foothold in the market. While it may result in initial losses, the goal is to drive higher sales volume and achieve economies of scale.

E.g. Consider a new smartphone entering a competitive market. The manufacturer sets the price significantly lower than existing models, enticing consumers to try the new product. As the brand gains recognition and market share, prices can be adjusted upward.

2. **Skimming Pricing:**

Skimming pricing sets high initial prices, gradually lowering them over time. This strategy is often used for innovative or high-tech products. Early adopters are willing to pay a premium, allowing the business to maximize profits before facing competition.

E.g. When a tech company launches a new gaming console, it prices it at a premium during the initial release. As the product matures and newer versions are introduced, the price gradually decreases to attract a broader consumer base.

3. **High-Low Pricing:**

High-low pricing involves offering products at a high price initially and then reducing them significantly during promotions or clearance sales. This strategy creates a sense of urgency and encourages consumers to make purchases during sales events.

E.g. A fashion retailer introduces a new collection with higher prices. As the season progresses, the retailer holds periodic sales events, offering substantial discounts on the same items to entice customers.

4. **Premium Pricing:**

Premium pricing sets prices higher than the market average to convey a sense of exclusivity, quality, or luxury. This strategy relies on creating a strong brand image and targeting consumers willing to pay a premium for perceived superior value.

E.g. A designer clothing brand positions itself as a premium choice, pricing its products significantly higher than similar items in the market. The brand emphasizes craftsmanship, unique designs, and premium materials.

5. **Psychological Pricing:**

Psychological pricing manipulates consumer perceptions by using specific price points. Strategies include pricing just below a round number (e.g., $9.99) or offering discounts like "buy one, get one half off" to influence buying behavior.

E.g. A retail store prices an item at $19.99 instead of $20, creating the illusion of a lower cost. This pricing tactic is believed to appeal to consumers' psychological tendencies.

6. **Bundle Pricing:**

Bundle pricing combines related products or services into packages sold at a single price. This strategy encourages customers to purchase more items and provides perceived value.

E.g. A software company offers a bundle that includes its basic software, additional features, and customer support at a discounted price compared to purchasing each component separately.

7. **Competitive Pricing:**

Competitive pricing involves setting prices in line with competitors. This strategy ensures that a business remains competitive in the market, attracting price-conscious consumers.

E.g. An electronics retailer regularly monitors competitors' prices and adjusts its own prices to match or slightly undercut them, staying competitive and appealing to budget-conscious shoppers.

8. **Cost-Plus Pricing:**

a. Cost Plus Pricing:

Cost-plus pricing adds a markup percentage to the production cost to determine the selling price. This straightforward method ensures that each sale contributes to covering both variable and fixed costs.

E.g. A furniture manufacturer calculates production costs, adds a 20% markup to cover overhead and profit, and sets the selling price accordingly.

b. Marginal Cost Pricing:

Marginal cost pricing considers only variable production costs, making it suitable for short-term decisions and market penetration. This strategy helps ensure that each sale contributes toward covering variable costs.

E.g. A clothing retailer, during a clearance sale, focuses on covering the variable costs associated with producing and selling specific items.

c. Break-Even Pricing:

Break-even pricing aims to set prices that cover both variable and fixed costs, allowing the business to reach the break-even point where total revenue equals total costs.

E.g. A startup in its early stages may adopt break-even pricing to ensure that sales cover both variable costs and a portion of fixed costs.

9. **Market-Oriented Pricing:**

a. Pricing above the Market:

Pricing above the market involves setting prices higher than competitors, emphasizing superior quality, features, or brand image. This strategy targets consumers willing to pay a premium for perceived value.

E.g. A high-end camera manufacturer prices its products above competitors, focusing on advanced features, durability, and professional-grade performance.

b. Pricing below the Market:

Pricing below the market involves setting prices lower than competitors, targeting price-sensitive consumers. This strategy may be suitable for gaining market share or appealing to cost-conscious shoppers.

E.g. A generic brand of cleaning products prices its items lower than competing branded products, attracting consumers seeking affordable alternatives.

c. Pricing to Meet Competition:

Pricing to meet competition involves adjusting prices based on market demand and competitive offerings. This strategy helps maintain market share and adapt to changing market conditions.

E.g. A smartphone manufacturer regularly reviews competitors' pricing and adjusts its own prices to remain competitive within the dynamic smartphone market.

10. **Geographical Pricing Policies:**

a. Ex-factory Pricing:

Ex-factory pricing involves quoting prices at the factory site, with buyers covering transportation costs. This strategy is suitable for bulky or heavy products with high transportation costs.

E.g. An industrial equipment manufacturer quotes the selling price at the factory, and the buyer covers the costs associated with transporting the equipment to its destination.

b. Zonal Pricing:

Zonal pricing divides the market into geographic zones, with a uniform price set within each zone. This strategy accounts for regional variations in costs or market conditions.

E.g. A beverage distributor adopts zonal pricing to set different prices for the same product based on regional factors, such as transportation costs and demand.

c. Uniform Pricing:

Uniform pricing sets a single price for all buyers, regardless of their location. This strategy provides consistency and may involve buyers closer to the production site subsidizing transportation costs for more distant buyers.

E.g. A shoe company uses uniform pricing, quoting the same price for its products across the country, ensuring credibility and simplifying the buying process for customers.

11. **One-Price Versus Variable-Price Policy:**

One-price policy charges the same price to all customers buying similar quantities under the same terms of sale. Variable-price policy sells the product to different buyers at different prices, often determined through negotiations.

E.g. A retail store adopts a one-price policy, ensuring fairness and transparency by charging the same price for a specific product to all customers.

12. **Psychological Pricing or Odd Pricing:**

Psychological pricing, or odd pricing, involves setting prices at odd amounts to influence consumer perceptions of value. Common tactics include pricing just below a round number or using specific price points.

E.g. A retailer prices a product at $49.99 instead of $50, leveraging the psychological impact of perceiving the cost as being in the $40 range.

13. **Resale Price Maintenance Policy:**

Resale price maintenance policy controls retail prices through contracts, maintaining consistent pricing across different retailers. This strategy is often used by manufacturers to protect brand image and ensure a certain level of service.

E.g. A high-end fashion brand may stipulate in contracts with retailers that their products must be sold at a specific minimum price to maintain a sense of exclusivity and premium quality.

14. **Price Lining:**

Price lining involves setting limited prices for entire merchandise categories or product lines. This strategy simplifies customer choices and provides transparency.

E.g. A consumer electronics store offers three price tiers for its laptops: budget, mid-range, and premium. Each tier represents a specific set of features and price points, making it easier for customers to choose based on their needs and budget.

15. **Leader Price Policy:**

Leader price policy involves a market leader initiating price change, with other companies often following the set price. This strategy allows the market leader to influence competitors and market trends.

E.g. A well-established brand in the smartphone industry adjusts the prices of its flagship models, prompting competitors to make similar adjustments in response to market trends.

16. **Price Competition Policy:**

Price competition policy involves competing primarily on price, offering value for money. This strategy targets price-sensitive consumers and aims to gain a competitive advantage through lower prices.

E.g. A budget airline competes primarily on price, offering lower fares compared to other airlines. This approach attracts cost-conscious travellers seeking affordable options.

17. **Non-Price Competition Policy:**

Non-price competition policy focuses on factors other than price, such as product differentiation, quality, brand image, and aggressive promotion. This strategy aims to create perceived value beyond the price tag.

E.g. Two smartphone manufacturers compete in the market—one emphasizes cutting-edge technology and features, while the other focuses on sleek design and brand exclusivity. Both seek to differentiate themselves beyond just price.

18. **Transfer Pricing:**

Transfer pricing sets prices for goods sold within a corporate family, considering control, profitability, and competition among different business units. This strategy ensures fairness and alignment of interests within the organization.

E.g. A multinational company with manufacturing units in different countries determines the transfer prices for components or products exchanged between its subsidiaries, considering factors such as production costs, taxes, and local market conditions.

19. **Economy Pricing:**

Economy pricing consistently offers low prices to undercut competitors. This strategy relies on high sales volume to compensate for lower profit margins.

E.g. Discount superstores, such as Walmart or Aldi, use economy pricing for generic products like household goods and groceries, aiming to attract price-conscious consumers with affordable options.

20. **Freemium Pricing:**

Freemium pricing offers a basic product or service for free, with the option to upgrade to a premium version with additional features. This strategy aims to attract a large user base and convert a percentage of users into paying customers.

E.g. A software company provides a free version of its productivity app with essential features. Users can upgrade to a premium version for advanced functionalities, collaboration tools, and customer support.

21. **Loss-Leader Pricing:**

Loss-leader pricing involves selling a product at a loss to attract customers who may purchase other full-priced items. This strategy relies on the overall profitability of the customer's entire shopping experience.

E.g. A supermarket offers a deeply discounted price on a popular product (the loss leader), expecting that customers attracted by the deal will also buy other items at regular prices, resulting in a net profit.

UNIT-4

Q.1 What is Financial Management? Discuss its Characteristics and Scope.

Financial management is the strategic compass guiding organizations through the vast sea of money. It is the art and science of making judicious decisions about how a company's funds

are acquired, invested, and distributed. Imagine it as the captain at the helm, steering the ship toward financial success.

At its core, financial management involves a series of crucial choices. These decisions range from determining the most promising investments and securing necessary funds to wisely distributing profits among stakeholders. It's a symphony of fiscal activities, each decision harmonizing with others to create a balanced and melodious financial performance.

In essence, financial management is the captain steering the ship through the financial waters, making wise decisions to reach the destination of sustained success and prosperity.

CHARACTERISTICS OF FINANCIAL MANAGEMENT.

1. Goal-Oriented:
Financial management is intrinsically tied to the overarching goals of an organization. These goals span a spectrum from maximizing shareholder wealth to ensuring profitability and fostering long-term growth. For instance, a technology giant like Infosys might set a goal to enhance shareholder wealth through consistent delivery of innovative IT services globally.

2. Systematic Approach:
At its core, financial management follows a systematic process. This involves meticulous planning of financial activities, efficient organization of resources, effective direction of financial operations, and rigorous control mechanisms to ensure adherence to planned strategies. This systematic approach creates a framework that enhances overall management effectiveness.

3. Decision-Making:
Critical decision-making is the lifeblood of financial management. Decisions related to investments, financing choices, and dividend policies directly influence the financial health of the organization. For an automotive leader like Tata Motors, deciding whether to invest in electric vehicle technology or raise funds through debt issuance exemplifies the pivotal nature of financial decision-making.

4. Dynamic:
The dynamism of financial management manifests in its ability to adapt to changes. Economic shifts, regulatory alterations, and evolving business strategies demand agility. Adapting to new technologies or responding to sudden market shifts are testaments to the dynamic quality inherent in financial management.

5. Interdisciplinary:
Financial management draws insights from diverse disciplines. Accounting principles guide accurate financial recording, economic theories shape investment decisions, mathematical models aid in risk assessment, and strategic management principles inform long-term financial planning. This interdisciplinary approach ensures a comprehensive understanding of financial dynamics.

6. Long-term Orientation:
Financial management places a premium on long-term sustainability over short-term gains. Companies such as Hindustan Unilever prioritize long-term brand building and sustainable

business practices, aligning financial decisions with enduring success rather than immediate profitability.

7. Risk Management:
Identifying, assessing, and mitigating financial risks is a critical facet of financial management. In the context of a conglomerate like Reliance Industries, which operates in diverse sectors, managing risks associated with commodity price fluctuations and geopolitical uncertainties becomes paramount.

8. Profit Maximization:
Financial management seeks to maximize profits within acceptable risk thresholds. For Mahindra & Mahindra, profit maximization might involve strategic diversification into high-margin segments like electric vehicles, contributing to overall financial success.

9. Transparency:
Achieving transparency is a cornerstone of financial management. Companies like Wipro prioritize transparent financial reporting in annual statements, fostering trust among investors, regulators, and other stakeholders.

10. Cost Efficiency:
Cost efficiency is a key objective in financial management. Maruti Suzuki, a leading automaker, emphasizes cost efficiency in manufacturing processes to maintain competitiveness and enhance overall profitability.

11. Ethical Considerations:
Upholding ethical standards is integral to financial management. Tata Steel, for example, integrates ethical considerations into its financial decisions, ensuring adherence to sustainable and responsible business practices.

12. Continuous Evaluation:
Financial management involves ongoing evaluation of strategies. Adani Ports, for instance, continually assesses its financial strategies to align with changes in global trade dynamics and infrastructure demands.

13. Legal Compliance:
Adherence to legal and regulatory requirements is a foundational aspect of financial management. The State Bank of India (SBI) strictly follows Reserve Bank of India (RBI) regulations and guidelines in its financial operations.

14. Strategic Alignment:
Financial management aligns financial strategies with overall organizational strategies. Hindustan Unilever strategically integrates financial decisions with sustainability goals, showcasing the company's commitment to responsible business practices.

15. Technology Integration:
Financial management leverages technological advancements for efficiency. Infosys, for example, utilizes advanced technologies such as artificial intelligence and analytics in financial processes to enhance accuracy and streamline operations.

FINANCIAL MANAGEMENT: FUNCTIONS/SCOPE

Primary or Executive Finance Functions:

1. **Financial Planning:**
   Financial planning is the bedrock of effective financial management. It involves formulating sound plans to achieve short-term and long-term objectives. In an evolving business environment, financial managers must set clear financial goals, formulate policies, and make continual adjustments to enhance effectiveness.
   A startup formulating a financial plan to secure initial funding, set growth targets, and determine investment strategies.

2. **Financial Control:**
   Financial control ensures the execution of established objectives, policies, and programs. Through this function, deviations from planned targets are identified and corrective measures are taken. This involves developing performance standards, comparing actual performance, and implementing budgetary control systems.
   Regular evaluation of a company's financial progress against budgeted targets to identify and rectify any discrepancies.

3. **Acquisition of Funds:**
   A core function involving sourcing funds from diverse channels to meet the financial needs of the firm. Financial managers must assess the cost, nature, and impact of different funding sources, such as equity shares, loans, or debentures, considering the firm's cost of capital.
   Evaluating whether to raise funds through issuing bonds, equity, or loans based on the cost implications and impact on shareholders.

4. **Allocation of Funds:**
   Ensures effective distribution of acquired funds to projects and services in line with established plans. Techniques like capital budgeting guide the allocation of funds among long-term assets, while current assets are managed for both profitability and liquidity.
   Allocating funds for research and development projects based on their potential long-term returns and aligning current assets to balance profitability and liquidity.

5. **Distribution of Income:**
   Involves rational distribution of profits, considering returns to shareholders, business expansion, and employee incentives. The decision on income distribution must align with its impact on shareholders' wealth.
   Deciding whether to distribute profits as dividends to shareholders or retain them for reinvestment in the company's growth.

Subsidiary Finance Functions:

6. **Liquidity Function:**
   Maintaining optimal liquidity is crucial for meeting short-term obligations. This involves forecasting cash flows, coordinating cash inflows and outflows, and utilizing tools like cash budgets for effective liquidity management.
   Forecasting and managing cash flows to ensure the company can meet its daily operational expenses.

7. **Profitability Function:**

Financial managers work to maximize profits, utilizing techniques like profit planning, cost control, and strategic pricing. Maximizing profitability is essential for the company's survival in competitive markets.
Implementing cost-control measures to improve the profitability of a product line or service.

8. **Evaluation of Financial Performance:**
   Financial managers analyze and report on the financial performance of the enterprise, comparing current and previous years. This analysis guides future policy adjustments and strategic planning.
   Using financial analysis tools like ratio analysis to assess the company's performance and report findings to the board.

9. **Co-ordination with Other Departments:**
   Financial management intersects with various departments, requiring seamless coordination. Financial managers play a crucial role in maintaining uniformity in decisions across different departments.
   Collaborating with the sales department to align financial strategies with sales targets and overall business goals.

Incidental or Routine Functions:

10. **Supervision of Cash Transactions:**
    Involves overseeing cash receipts, payments, and maintaining optimal cash balances. This ensures the company's ability to meet its financial obligations.
    Implementing and monitoring cash handling procedures to prevent discrepancies and fraud.

11. **Safekeeping of Documents and Securities:**
    Ensures proper custody and safeguarding of important papers, securities, and insurance policies, protecting valuable assets and information.
    Implementing secure document storage protocols to safeguard critical financial records.

12. **Administration of Pension and Welfare Plans:**
    Involves managing employee benefit plans, ensuring compliance with regulations, and fostering employee well-being.
    Administering a comprehensive benefits program, including health insurance and retirement plans, for employees.

13. **Maintenance of Accounts and Preparation of Reports:**
    Routine accounting tasks, including record-keeping, financial reporting, and preparation of financial statements.
    Regularly updating and maintaining ledgers, preparing income statements, and generating financial reports for stakeholders.

14. **Administration of Internal Audit:**
    Oversight of internal audit processes to ensure compliance, accuracy, and effectiveness of financial controls.
    Conducting periodic internal audits to review financial processes, identify areas for improvement, and ensure adherence to internal policies.

Q.2 Discuss the Significance of Financial Management.

Significance Of Financial Management

Financial management stands as the rudder guiding the ship of any business toward the shores of success. It is the strategic compass that not only ensures the efficient allocation and utilization of resources but also plays a pivotal role in shaping the financial health and sustainability of an organization.

1. **Resource Allocation and Utilization:**

Financial management is crucial for the efficient allocation and utilization of resources. It involves judiciously distributing funds among various projects, departments, and activities based on their priorities and potential returns.

Consider a manufacturing company deciding on investments in new machinery. Financial management would guide the allocation of funds to ensure optimal utilization, balancing the need for technology upgrades with budget constraints.

2. **Risk Management:**

Financial management helps identify, assess, and mitigate risks. It involves analyzing various financial instruments, market trends, and economic factors to make informed decisions that safeguard the organization against potential pitfalls.

In a globalized market, a financial manager might use risk management strategies to hedge against currency fluctuations, protecting the company's financial interests.

3. **Profit Maximization:**

One of the primary goals of financial management is profit maximization. By employing various financial strategies, cost control measures, and revenue enhancement techniques, financial managers aim to boost the organization's bottom line.

A retail business might implement pricing strategies, cost-effective inventory management, and efficient supply chain practices to maximize profits.

4. **Strategic Decision-Making:**

Financial management is intricately linked to strategic decision-making. It provides the necessary data and analysis to support decisions on investments, expansions, mergers, acquisitions, and other crucial initiatives.

When deciding to expand into a new market, a company's financial manager would assess the financial feasibility, potential returns, and associated risks to inform the strategic decision.

5. **Liquidity Management:**

Maintaining optimal liquidity is vital for the day-to-day operations of a business. Financial management ensures that there is enough cash or liquid assets to meet short-term obligations without adversely affecting long-term goals.

A technology company, with fluctuating revenue streams, may use financial management tools to create cash flow projections, ensuring they have sufficient liquidity during lean periods.

6. **Cost Efficiency:**

Financial management emphasizes cost efficiency in various operational aspects. It involves evaluating costs, streamlining processes, and optimizing resources to enhance overall operational efficiency.

An automobile manufacturer might implement cost-effective production techniques, negotiate favourable supplier contracts, and implement energy-efficient practices to enhance cost efficiency.

7. **Wealth Maximization:**

Beyond profit maximization, financial management also focuses on wealth maximization for shareholders. This involves increasing the overall value of the business, which, in turn, benefits shareholders.

Shareholders of a publicly traded company benefit from wealth maximization when the company's stock value appreciates due to sound financial management decisions.

8. **Capital Budgeting:**

Financial management plays a pivotal role in capital budgeting, guiding decisions related to long-term investments in assets and projects. It involves evaluating potential returns and risks associated with such investments.

A real estate development company might use financial management tools to assess the feasibility of a large-scale construction project, considering factors like expected revenue, construction costs, and market trends.

9. **Dividend Decisions:**

Financial management guides decisions related to the distribution of profits to shareholders as dividends. This involves striking a balance between retaining earnings for future growth and rewarding shareholders.

A mature company with stable earnings might opt for regular dividend payouts to shareholders, providing them with a steady income stream.

10. **Corporate Governance and Ethics:**

Financial management promotes corporate governance and ethical practices. It involves adhering to regulatory standards, ensuring transparent financial reporting, and upholding ethical principles in all financial dealings.

A financial manager ensures compliance with financial regulations, fostering trust among stakeholders and contributing to the company's reputation for ethical business practices.

11. **Investor Confidence:**

Sound financial management instills confidence among investors and stakeholders. It involves transparent communication, accurate financial reporting, and demonstrating a commitment to financial health and sustainability.

Companies with robust financial management practices often attract more investors, as they provide a clear picture of the organization's financial strength and growth potential.

12. **Financial Planning for Growth:**

Financial management is instrumental in charting a course for the future growth of a business. It involves long-term financial planning, forecasting, and aligning financial strategies with overall business objectives.

A technology startup might engage in financial planning to secure funding for research and development, ensuring sustained growth and innovation.

13. **Tax Planning:**

Financial management includes tax planning strategies to optimize tax liabilities legally. It involves leveraging tax incentives, credits, and deductions to minimize the overall tax burden on the organization.

A multinational corporation might engage in transfer pricing strategies and tax-efficient structures to minimize its global tax exposure while complying with international tax laws.

14. **Creditworthiness and Financing Options:**

Financial management influences a company's creditworthiness, affecting its ability to secure financing. It involves maintaining a favourable credit rating and exploring diverse financing options.

A growing business with strong financial management practices may find it easier to secure loans at favourable interest rates, enhancing its ability to fund expansion initiatives.

15. **Adaptation to Market Changes:**

Financial management equips businesses to adapt to market changes swiftly. It involves staying abreast of economic trends, technological advancements, and shifts in consumer behaviour to make informed financial decisions.

A retail company might leverage financial management insights to pivot its sales strategies in response to changing consumer preferences or market dynamics.

Q.3 Discuss the Roles of a Financial Manager.

FUNCTIONS/ROLE OF FINANCIAL MANAGER

Financial managers play a vital role in steering the financial health and success of organizations. Their responsibilities cover a wide range of functions, each contributing to the overall goal of optimizing financial resources and ensuring the long-term viability of the business.

1. **Estimation of Capital Requirements:**

The financial manager's journey begins with figuring out how much money the organization needs. This involves a detailed look at projected costs, expected revenue, and future plans. By working closely with various departments, financial managers make sure they understand what each part of the company needs money for. This is crucial for getting enough funds to keep the day-to-day operations going and support future growth plans.

2. **Determination of Capital Composition:**

Once the capital requirements are estimated, the financial manager moves on to figuring out the best mix of ways to get money. This includes looking at how much money comes from short-term loans versus long-term investments. Striking the right balance here is important because it affects how much it costs the company to get money and how well it can handle financial risks.

3. **Choice of Sources of Funds:**

With the mix of where the money comes from in mind, financial managers explore different options to get funds. These could be things like selling shares, taking out loans from banks, or getting money from the public. The decision-making process involves looking at the good and bad sides of each option. They consider things like cost, risk, and how the company's money situation looks overall to choose the best funding options that fit the company's goals and how much risk it can handle.

4. **Investment of Funds:**

Once the money is in hand, financial managers need to use it wisely. This means coming up with smart plans for where to put the money, like investing in projects or things that can bring in more money. Financial managers keep an eye on what's happening in the market and do their homework to make sure they're making smart choices that fit the company's goals and how much risk it can handle.

5. **Disposal of Surplus:**

As the company makes money, the financial manager faces the important decision of what to do with the extra funds. This includes thinking about whether to give some of it back to the people who own shares in the company or keeping it for future plans. The financial manager looks at how much money is coming in, what the company needs to do next, and makes careful decisions to keep the company in good financial shape.

6. **Management of Cash:**

Making sure there's enough money for everyday needs is crucial. This includes deciding how much money should be kept on hand for things like paying bills or grabbing opportunities. Financial managers use strategies to make sure money isn't just sitting around doing nothing and is being used wisely to keep the business running smoothly.

7. **Financial Controls:**

To keep things in order, financial managers set up ways to check and control how money is used. This includes things like checking budgets, looking at how money is spent, and making sure everyone follows the rules. Financial managers keep an eye on how well the company is doing financially and make changes as needed to keep things on track.

8. **Financial Planning and Forecasting:**

Coming up with detailed plans for the company's money is a big part of the job. This means looking at what's happening in the economy, how things are going in the market, and what the company wants to do. Financial managers are like financial fortune tellers, trying to predict what might happen in the future so they can plan ahead and make sure the company is ready.

9. **Funds Management:**

Using money in a smart way is important. Financial managers work with different parts of the company to make sure the money is going where it's needed most. They keep an eye on how well the company is making money from investments and make changes if needed to get the best results.

10. **Disposal of Profits:**

Deciding what to do with the money the company makes is a big responsibility. This means thinking about whether to give some of it back to the people who own shares in the company or keeping it for future plans. The financial manager looks at how much money is coming in, what the company needs to do next, and makes careful decisions to keep the company in good financial shape.

11. **Maximization of Shareholders' Wealth:**

Making sure the people who own shares in the company are happy is a big goal. Financial managers work on strategies to make the company more valuable. This might include making decisions about how much money to give back to shareholders or how to make the company more appealing to people who might want to invest in it.

12. **Interpretation and Reporting:**
Understanding what the numbers mean and telling others about it is an important part of the job. Financial managers look at the numbers and prepare detailed reports for others in the company. This helps everyone understand how well the company is doing financially and makes it easier to make smart decisions.

13. Legal Obligations:
Making sure the company follows the rules is a big job. Financial managers work with others in the company to understand and follow all the laws and rules that affect how money is used. This helps keep the company out of trouble and makes sure everything is done the right way.

14. Professional Advice:
Being an expert on money matters is a key part of the job. Financial managers provide advice to others in the company about money and investments. They help the people in charge make good decisions by giving them the information they need.

15. Financial Public Relations:
Keeping a good reputation is important for the company. Financial managers work on how the company looks to others, especially those who might want to invest. They talk to investors and others to make sure they understand how well the company is doing and why it's a good place to put their money.

16. **Responsibilities to Various Parties:**
Making sure everyone is happy is a big responsibility. Financial managers work with different groups, like the people who own shares, the employees, and others who are connected to the company. They try to make sure everyone is treated fairly and that the company is doing things the right way.

17. Other Responsibilities:
There's a lot to keep track of, so financial managers also take care of other important tasks. This might include making sure different parts of the company are working together, managing things like buildings and equipment, making sure the company pays its taxes, deciding on how to give credit, and keeping track of contracts and agreements.

Q.4 Elaborate the types of Financing Decisions in Financial Management.

Financial Decisions:

A. **Investment Decision:**

1. **Resource Allocation:** Organizations face resource constraints, and allocating funds strategically is crucial. For instance, a manufacturing company must decide how much to invest in new machinery versus research and development.

Organizations must decide how to spend their limited money for the best results. For example, a store might decide whether to invest in new products or better advertising.

2. **Long-term vs. Short-term Decisions:** Companies make decisions with different time horizons. A real estate firm deciding to invest in a new property (long-term) versus managing daily cash flows (short-term).

Companies make choices about where to put their money for both a long time and a short time. A construction company might plan a big project (long-term) while also managing daily expenses (short-term).

3. **Impact on Profitability and Assets**: Long-term decisions, such as building a new factory, directly influence a company's profitability and asset size. Short-term decisions, like managing inventory efficiently, impact day-to-day operations.

4. **Working Capital Components:** Efficient management of working capital components like inventory, receivables, and cash is crucial. For example, a retail company needs effective inventory management to balance stock levels and meet customer demand.

Companies need to be smart about everyday money things like keeping enough products in stock, managing what people owe them, and having enough cash to keep things running smoothly.

Factors Affecting Capital Budgeting Decisions:

1. **Cash Flow Analysis:** Assessing the pattern of cash flows is vital. For instance, evaluating how a new product launch will affect cash inflows and outflows over time.

Companies need to look at how money comes in and goes out over time. For example, a restaurant should see how much money they'll make and spend each month.

2. **Rate of Return Consideration:** Determining expected returns and assessing risks are key factors. Choosing between two projects: one with a higher rate of return but higher risk, and another with a lower rate of return but lower risk.

Before deciding where to invest money, it's important to know how much money might be made and how risky it is. Imagine choosing between two ideas: one that might make a lot but is risky, and another that might make less but is safer.

3. **Evaluation Criteria:** Considering various criteria, such as interest rates and cash flows, in evaluating different investment proposals. For example, comparing two projects based on their expected cash flows and associated interest rates.

When thinking about where to put money, companies should look at different options and consider things like interest rates and money coming in.

B**. Financing Decision:**

1. **Sources of Long-term Funds:** Financial managers decide between shareholders' funds and borrowed funds. For example, a tech company may choose between issuing new shares or taking a loan to fund a major expansion.

People in charge of money at a company decide where to get the money they need for a long time. This usually comes from people who own the company and borrowed money.

2. **Shareholders' Funds**: Include share capital, reserves, surpluses, and retained earnings. When a company uses its profits to fund projects rather than distributing them as dividends, it's an example of utilizing shareholders' funds. The money that comes from people who own the company is used for big things like building new places or buying more things. This includes

the money the owners put in, any extra money saved up, and money the company has made but hasn't given to owners yet.

3. **Borrowed Funds**: Raised through debentures and other debt instruments. A manufacturing company issuing bonds to finance a new production facility is an illustration of using borrowed funds.
Sometimes, companies borrow money by selling things like bonds. A bond is like a promise to pay back money with extra (interest) after a certain time.

4. **Cost of Funds:** Financial managers consider the cost of raising funds. For instance, choosing between issuing bonds with a fixed interest rate versus obtaining a bank loan with variable interest rates based on current market conditions.

When a company decides where to get money, they look at how much it will cost. For example, they might compare getting a loan from a bank to selling bonds and pick the cheaper option.

5. **Risk Assessment:** Different sources of finance carry varying degrees of risk. Choosing between equity and debt financing based on the company's risk tolerance and financial stability. Getting money from different places comes with different risks. For instance, borrowing money can be riskier than using money from owners.

6. **Cash Flow Position**: A company with a strong cash flow may opt for debt financing as it can easily cover interest payments and repay the principal. Sometimes, companies want to keep control of the business and decide to borrow money. Other times, they might be okay with giving up some control to get money from owners.

7. **Control Consideration:** Depending on whether the company wants to retain complete control or is willing to dilute control, it may choose between debt and equity financing.

When a lot of people want to invest in companies, they might buy parts of those companies (shares). But when times are tough, they might look for safer ways to invest. Companies think about this when deciding where to get money.

8. **Market Conditions:** During economic booms, investors may prefer investing in equity, while in downturns, they might seek more secure investment options, influencing the financing decision.

C. **Dividend Decision:**

1. **Distribution of Profits:** Dividend decision involves determining how profits will be distributed among shareholders. For instance, a company deciding to distribute a portion of its profits as dividends to reward shareholders.

When a company makes money, they need to decide how much to share with the people who own the company. This is called a dividend decision.

2. **Retained Earnings**: Deciding whether to retain all earnings in the business for future investments. A tech startup may choose to reinvest profits in research and development instead of paying dividends.

Companies think about whether to keep all the money for future plans or share some of it. For instance, a young company might choose to keep all the money to grow more, while an older one might share some with owners.

3. **Earnings Stability**: Companies with stable earnings can declare higher dividends, providing shareholders with consistent returns.

Companies can only share money if they have enough. Even if a company is making money, they might not be able to share it if they don't have enough extra.

4. **Growth Opportunities**: Growing companies may retain a larger share of profits to finance expansion, preferring to distribute fewer dividends.

People who own part of the company (shareholders) might want to get money regularly. Companies consider what owners want when deciding how much to share.

5. **Cash Flow Position**: Even if a company is profitable, it may face liquidity issues, affecting its ability to pay dividends to shareholders.

There are rules about how much money a company can share. Companies need to follow these rules, like how much tax they have to pay on shared money.

6. **Shareholders' Preferences:** Management considers shareholders' expectations when making dividend decisions. For example, a company with income-seeking investors might prioritize consistent dividend payouts.

Sometimes, companies promise lenders that they'll pay them money regularly. This can affect how much money the company can share with owners.

7. **Taxation Policies**: Dividends are tax-free for shareholders, but companies have to pay taxes on distributed profits. Deciding on the optimal balance between dividend payments and tax obligations.

8. **Legal Constraints:** Adhering to regulations and provisions laid out by the Companies Act regarding dividend payouts.

9. **Contractual Constraints**: Some companies may have contractual agreements with lenders regarding future dividend payments.

10. **Stock Market Influence**: Market conditions, such as a bull or bear market, can impact a company's dividend decision. In a bull market, companies may attract investors with dividend payouts, while in a bear market, they may consider alternative investment options.
When lots of people want to invest in companies, companies might share more money to attract them. But when times are tough, they might keep more money to stay strong. Companies think about this when deciding how much to share.

Q.5 What is Financial Planning? Discuss its Role.

Financial Planning refers to the process of determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise. It is a function of

top management and rely delegated to subordinates. Financial Planning is crucial for the survival of business since funds are made available at the right time for the execution of business activities The exploration of different sources of finance, selection of the best alternative and implementation of financial plans and policies are the main objectives of financial planning.

According to Cohen and Robbins financial planning should:

(1) determine the financial resources required to meet the company's operating programme.

(2) forecast the extent to which these requirements will be met by internal generation of funds and to what extend they will be met from external sources.

(3) develop the best plans to obtain the required external funds.

(4) establish and maintain a system of financial controls governing the allocation and use of funds.
(5) formulate programmes to provide the most effective profit volume-cost relationships;

(6) analyse the financial results of operations,

(7) report the facts to the top management and make recommendations as future operations of the firm.

Definitions

1. According to J.H. Bonneville, "**The financial plants corporation has two-fold aspect it refers not only to the capital structure the corporation, but also to the financial policies which the corporation has adopted or intends to adopt**".

Thus, financial planning is the act of deciding in advance the financial activities that are necessary for an enterprise in achieving its objectives.

Role of Financial Planning in Financial Management

Without an accurate plan reflecting the financial needs of the enterprise, companies may have to face frequently various difficulties in way of development and growth. Financial Plan is expected to answer two questions.

(1) What amount of securities shall be issued? The answer to this question is given by capitalisation of corporation

(2) What kind of securities shall be issued? The answer to this question is given by the capital structure of the corporation
There are three aspects of Financial Planning:

(a) Amount of capital to be raised. (Capitalisation)

(b) Form and proportion of various securities to be issued to secure the total capital (Capital Structure).

(c) Policies in the administration of the financial plan. (Financial Policies)

Financial Planning therefore, includes the determination of amount of capital for an enterprise, determination of its capital structure and the determination of financial objectives, policies and procedures.

The important role of financial planning can be explained as below

1. **Ensuring Adequate Funds:**
Financial Planning is crucial to assess and determine the optimal amount of funds required for day-to-day operations. It involves forecasting future expenses, managing working capital efficiently, and ensuring the availability of funds to prevent disruptions in the business cycle.

e.g. A manufacturing company employs financial planning to estimate production costs, analyzing raw material expenses, labor costs, and overheads. By forecasting these expenditures, the company ensures it has sufficient working capital to meet production demands, avoiding shortages or production delays.

2. **Maintaining Balance in Funds Flow:**
Financial Planning involves managing cash flows effectively to prevent imbalances between income and expenditures. It requires a careful analysis of cash inflows and outflows, ensuring a consistent and stable cash position.

e.g. A retail business strategically times its inventory purchases and sales through financial planning. By aligning procurement with sales cycles, the company maintains a balanced funds flow, avoiding excessive stockpiles or shortages, and optimizing cash utilization.

3. **Attracting Investment through Financial Planning:**
Companies with robust financial plans are more attractive to investors. Financial Planning involves creating a comprehensive plan that outlines how invested funds will be utilized, showcasing transparency and a strategic approach to financial management.

e.g. A tech startup presents a detailed financial plan to potential investors, outlining how the investment will be allocated for research and development, marketing, and operational expenses. This transparent approach inspires confidence and attracts investors looking for a clear strategy.

4. **Supporting Growth and Expansion Programs:**
Financial Planning is instrumental in identifying growth opportunities and supporting expansion initiatives. It involves analyzing financial feasibility, projecting revenue, and allocating resources for sustainable growth.

e.g. A restaurant chain uses financial planning to assess the potential of opening new locations. The plan includes cost projections, revenue forecasts, and market analysis, providing a roadmap for expansion that ensures the long-term success of the business.

5. **Reducing Uncertainties in Changing Markets:**
A well-thought-out financial plan helps businesses navigate uncertainties in changing markets by creating contingency funds and risk management strategies.

e.g. A global import-export business employs financial planning to mitigate risks associated with currency fluctuations and changes in trade policies. The plan includes provisions for a contingency fund, allowing the business to adapt to market changes without compromising operations.

6. **Enhancing Efficiency in Management:**
Financial Planning aligns financial resources with business activities, enhancing operational efficiency. It involves optimizing resource allocation, budgeting, and financial decision-making.

e.g. A software development company uses financial planning to allocate resources efficiently for various projects. By aligning financial resources with project timelines and client needs, the company ensures timely delivery and optimal use of resources.

7. **Facilitating Business Expansion:**
Proactive financial planning secures necessary funding for expansion initiatives by outlining the financial requirements and feasibility of growth projects.

e.g. A renewable energy startup employs financial planning to attract investors for building new solar farms. The financial plan includes detailed projections, cost estimates, and potential returns, facilitating the expansion of the company and its environmental impact.

8. **Promoting Economy and Coordination:**
Efficient allocation of resources minimizes waste, fosters economic use of funds, and promotes coordination among various business functions.

e.g. A hotel chain utilizes financial planning to optimize staff schedules, reduce unnecessary expenses, and coordinate marketing efforts. This approach improves overall economic efficiency, ensuring resources are used effectively across different aspects of the business.

9. **Ensuring Fair Return on Capital:**
Financial planning optimizes fund allocation to ensure effective use of capital and maximize returns for investors and stakeholders.

e.g. An investment portfolio is managed using financial planning strategies to diversify assets, mitigate risk, and ensure a fair return on capital for investors. The plan includes a balanced mix of investments tailored to the investor's risk tolerance and financial goals.

10. **Empowering Financial Controls:**
Financial planning establishes a framework for setting and monitoring financial performance standards, allowing businesses to implement effective financial controls aligned with organizational goals.
e.g. A healthcare organization uses financial planning to implement cost controls. The plan includes budgetary guidelines, expenditure limits, and performance metrics, ensuring quality patient care while managing expenses effectively.

Q.6 Discuss the Process of Financial Planning. Also Elaborate the Essentials of Good Financial Planning.

Financial Planning Process

The Process of financial planning involves the following steps:

1. **Defining Organizational Goals and Objectives**

Identifying the financial goals and objectives of an enterprise may include increasing revenue, improving profitability, expanding market share, or launching new products or services. **Example:** An enterprise sets a goal to increase annual revenue by 10% over the next fiscal year and aims to expand into new international markets.

2. **Gathering Financial Data and Assessing the Current Situation**

The next stage involves collecting and analyzing financial data to assess the organization's current financial position. This includes reviewing financial statements, cash flows, balance sheets, and evaluating key performance indicators (KPIs) such as revenue growth, profitability ratios, and liquidity ratios.
Example: The organization collects and analyzes financial data. It includes income statements, balance sheets, and cash flow statements. Key financial ratios, such as profit margins, return on investment, and debt-to-equity ratios, also come into play as you evaluate the current financial health.

3. **Analyzing and Forecasting**

You analyze the financial data to identify trends, patterns, and potential risks or opportunities. The analysis may be used to forecast future financial performance, considering factors like market conditions, industry trends, and competitive landscape.
Example: The enterprise thoroughly analyzes market trends, customer demands, and competitor performance. Based on this analysis, they forecast future sales and revenue growth, considering market dynamics and emerging technologies changes.

4. **Developing a Financial Plan**

Following the previous stages and based on the analysis and forecasts, you develop a comprehensive financial plan that outlines strategies and actions to achieve the organizational goals. This plan includes budgeting, capital expenditure planning, financial projections, and investment strategies.
Example: Using the analysis and forecasts, the organization develops a financial plan that outlines specific strategies. This may include allocating a certain percentage of revenue for research and development, setting aside funds for marketing campaigns, or establishing cost-saving initiatives.

5. **Implementing the Financial Plan**

In this stage, you put the financial plan into action by executing the identified strategies. This involves allocating resources, monitoring expenses, managing cash flows, and making necessary adjustments to ensure alignment with the plan.
Example: The enterprise implements the financial plan by allocating resources, executing marketing campaigns, and closely monitoring expenses. They may also establish financial controls, such as budgetary guidelines and expenditure approval processes, to ensure adherence to the plan.

6. **Monitoring and Reviewing**

The next stage involves regular monitoring and reviewing of the financial plan's progress to assess if your organization is on track to meet its goals. This includes conducting financial performance analysis, comparing actual results against forecasts, and adjusting as needed. **Example:** The organization reviews financial performance constantly by comparing actual results against the financial plan. They monitor KPIs, analyze financial statements, and conduct variance analysis to identify areas of strength and areas needing improvement. Adjustments are made as necessary to keep the organization on track.

7. **Revising and Updating**

Constant revision and updating the plan is the final stage. This must be based on changing market conditions, industry trends, or internal factors. It also ensures the plan remains relevant to the changing needs of the organization.
Example: If market conditions shift or new regulations are introduced, the financial plan may need to be adjusted to reflect these changes.

Essentials of Good Financial Planning

The following factors should be taken in consideration while devising a sound financial plan :

1. **Flexibility:** A financial plan must have element of elasticity. It should allow the diversion of funds into more profitable channels. Raising of more funds at a short notice must be possible. It must be easily adjustable to various internal and external changes occurring in the business
   Example: A company's financial plan includes a provision for a revolving credit facility. This allows the business to quickly access additional funds when needed, adapting to changes in market conditions or unforeseen expenses without disrupting operations.

2. **Objectivity:** It must be more and more realistic and always try to procure funds at the lowest cost and to use them in the best possible manner.
   Example: A business seeks financing options with the lowest possible interest rates and favorable terms. The financial plan objectively evaluates various loan options and chooses the one that aligns with the company's financial goals, minimizing the overall cost of capital.

3. **Adequacy**: The financial plan must take care of the present as well as future requirements of the business. It should provide for various contingencies which may happen in future.
   Example: A manufacturing company's financial plan includes provisions for both short-term working capital needs and long-term capital expenditures. It ensures that the company has adequate funds to cover day-to-day operations and is well-prepared for future expansion projects.

4. **Solvency:** The funds should be invested in those ventures which are likely to give sufficient return on investment.
   Example: An investment firm's financial plan emphasizes investing in assets with a proven

track record of providing stable returns. This focus on solvency ensures that the invested funds have a high likelihood of generating sufficient returns to meet financial obligations.

5. **Liquidity:** It must be a prudent policy to have sufficient liquid resources to purchase current assets and to meet day-to-day expenses.
   Example: A retail business includes a liquidity reserve in its financial plan, ensuring it has enough cash or easily marketable securities to cover short-term obligations, purchase inventory, and handle unexpected expenses without relying on long-term assets.

6. **Estimates of Financial Needs:** Promoters must have accurate estimates of financial needs to carry out capital plans and capital expenditure for launching an enterprise.
   Example: Before launching a startup, the founders conduct a thorough analysis of the estimated financial needs. This includes calculating the initial capital required for product development, marketing, and operational expenses to ensure a successful launch.

7. **Optimum Use of Funds:** The financial manager must evolve necessary measures to secure intensive and optimum utilisation of available financial resources and scientific management of fixed assets as well as working capital.
   Example: A manufacturing company implements lean production principles as part of its financial plan. This involves efficient utilization of both fixed and working capital, minimizing waste, and ensuring that resources are used optimally to enhance overall productivity.

8. **Mode of Finance or Capital Structure:** The pattern of capital structure is also determined under the financial plan. The company may have only one class of securities i.e, share capital or a combination of share capital and loan capital in its capital structure.
   Example: A company decides on its capital structure, choosing a mix of equity and debt financing. The financial plan outlines the proportion of funds to be raised through issuing shares and the amount to be sourced through loans, striking a balance between risk and return.

9. **Simplicity:** A good capital plan should preferably provide simple financial structure so that it can be easily managed.
   Example: A small business opts for a straightforward capital structure, relying solely on equity financing through shares. This simplicity facilitates easy management of financial resources and reduces the complexity of financial decision-making.

10. **Planning foresight:** The management must prepare financial plan having a vision and foresight for scope and scale of operations of a company as well as the forecasting of various contingencies.
    Example: A technology company's financial plan includes a vision for future growth and scalability. It anticipates increased demand for its products and allocates funds for research and development to stay ahead of industry trends and emerging technologies.

11. **External Influences:** External influences on financial planning are the
    (a) Money market conditions-These will determine the choice or type of company securities, their issue price and timing of the public issue of capital
    (b) State of trade that is the business cycle,

(c) Attitude of Investment Market
(d) Government Taxation Policy
(e) General level of interest rates, etc.
Example: A company adjusts its financial plan based on external influences such as changes in interest rates. If interest rates rise, the company may reconsider its financing options, potentially favouring fixed-rate loans over variable-rate loans to mitigate interest rate risks.

Q.7 Discuss the Limitations of Financial Planning. Also Discuss the Factors affecting financial planning

Limitations of Financial Planning

Plans are decisions, which require facts. Since future conditions cannot be forecasted accurately, the adaptability of plans is seriously limited. There are certain established reasons as to why plans fail, these are:

1. Since reliable data and information are the backbone of successful financial planning, such information may not be available or procurable. Poor information may cause poor judgements.

2. Another limitation of financial planning is high expectations and quick implementation.

3. Formulating a good financial plan covers several years, but reliability of forecasting decreases with the passing of time,

4. Another limitation is the management's inability to forecast future conditions due to failure of improving the forecasting techniques.

5 Again, serious difficulty of reluctance or inability of management to change a plan once it has been made.

6. Lack of contingency plans is another limitation of financial planning. Contingency plans are alternative methods to take over the earlier plans if they seem to fail due to unexpected circumstances or modify them as the situation demands Contingency plan helps management to respond quickly to unpredicted changes, thus avoiding panic in crisis situations

7. Financial planning is limited when there is lack of coordination or indecision among personnel. Financial planning affects each function in the organisation and effective coordination is necessary to ensure consistency in action.

8 Lack of understanding of the different steps in financial planning process is an important limitation. The financial management usually lacks proper knowledge or skill in understanding the different steps in the process of financial planning.

9. A hindrance to innovation is another limitation of financial planning. In a planned set up, everything is pre-conceived and every operation is pre-planned. This does not leave any room for a manager's initiative and innovation.

In spite of all these limitations, financial planning is most important and crucial for the successful operation of business activities.

Factors affecting financial planning

Several factors affect financial planning, and understanding these factors allows individuals and organizations to make informed decisions, anticipate challenges, and seize opportunities.

1. Economic Conditions:
Economic conditions serve as a fundamental pillar influencing financial planning. Factors such as interest rates, inflation, and overall market conditions wield significant impact. For instance, during periods of high inflation, the purchasing power of currency diminishes, affecting the cost of goods and services. This necessitates careful consideration in budgeting and resource allocation to counteract the effects of inflation.

Example: Suppose a manufacturing company is planning its budget for the upcoming fiscal year. If the economic conditions indicate a period of high inflation, the company must anticipate increased costs for raw materials and labor. The financial plan would need to account for these inflationary pressures by adjusting pricing strategies, exploring cost-saving measures, or revising production forecasts.

2. Regulatory Environment:

Navigating the complex landscape of finance and accounting requires strict adherence to laws and regulations. The regulatory environment shapes financial planning strategies by imposing compliance requirements. For instance, changes in tax laws can have a profound impact on an organization's financial standing, necessitating adjustments in planning to optimize tax outcomes.
Example: Consider a financial services firm operating in a jurisdiction that introduces new regulations affecting the reporting of financial instruments. The organization must adjust its financial planning processes to ensure compliance with the new regulations. This may involve investing in updated reporting systems, training staff on new requirements, and allocating resources to meet regulatory standards.

3. Organizational Goals and Objectives:
The goals and objectives of an organization serve as a guiding compass for financial planning. Whether focused on expansion, innovation, or debt reduction, the organizational mission directs the allocation of financial resources. For example, if the goal is market expansion, financial planning may prioritize investment in marketing and distribution channels.

Example: Imagine a technology company with a strategic goal to increase market share through product innovation. Financial planning in this scenario would involve allocating resources for research and development, marketing campaigns, and potentially acquiring intellectual property rights. The financial plan aligns with the company's objective of becoming an industry leader through innovation.

4. Risk Tolerance:
Every organization has its unique risk profile, influencing the decisions made in the financial planning process. Understanding and assessing risk tolerance is crucial in determining the level of financial risk an organization is willing to undertake. For instance, a conservative

organization may opt for low-risk investments to safeguard capital, while a more risk-tolerant entity might pursue higher-risk, high-reward opportunities.

Example: A venture capital firm with a high-risk tolerance may decide to allocate a significant portion of its portfolio to early-stage startups. The financial planning process would involve assessing the potential returns and risks associated with these investments. On the other hand, a conservative investment firm may focus on low-risk assets such as government bonds, adjusting its financial plan accordingly.

5. Market Dynamics:

The dynamics of the market, including competition, customer behavior, and industry trends, significantly impact financial planning. A company operating in a highly competitive market may allocate more resources to marketing and product differentiation to gain a competitive edge. Understanding customer preferences and industry trends informs decisions on product development and market positioning.

Example: In a highly competitive consumer electronics market, a company may need to allocate substantial resources to marketing and advertising to differentiate its products. Financial planning would involve budgeting for marketing campaigns, monitoring competitor activities, and adapting strategies to respond to changing consumer preferences and industry trends.

6. Internal Factors:

Internal factors, such as an organization's resources, capabilities, and financial position, play a pivotal role in shaping the scope and feasibility of financial planning. For example, a company with limited resources may need to prioritize and phase its projects based on available funding. Assessing internal factors allows for a realistic and strategic approach to financial planning.

Example: A small startup with limited initial funding must carefully prioritize its financial planning. The plan may include phased product development, initial market entry strategies, and scaling plans based on revenue milestones. Internal factors, such as the availability of skilled personnel and current technological capabilities, would influence the feasibility and pace of these plans.

7. Technological Advancements:

In the contemporary business landscape, technological advancements play a transformative role in financial planning. The adoption of automation and advanced financial tools enhances accuracy and efficiency in financial processes. For instance, implementing a robust financial management system can streamline budgeting, forecasting, and reporting, contributing to more informed decision-making.

Example: A retail company embracing e-commerce trends may invest in advanced data analytics and customer relationship management systems. These technological advancements can enhance the accuracy of demand forecasting, optimize inventory management, and improve overall operational efficiency. Financial planning would involve budgeting for the implementation and maintenance of these technologies.

8. Stakeholder Expectations:
Stakeholders, including investors, lenders, and shareholders, hold unique expectations that shape financial planning goals. Investor expectations for steady returns may lead to conservative investment strategies, while shareholder expectations for growth may drive more aggressive financial planning. Aligning financial strategies with stakeholder expectations is crucial for maintaining trust and support.

Example: If a publicly traded company has shareholders expecting dividend payouts, the financial planning process would involve setting aside a portion of profits for dividends. Conversely, if stakeholders are seeking capital appreciation, the company might allocate more resources to research and development to drive innovation and future growth, aligning the financial plan with stakeholder expectations.

9. Tax Considerations:
Taxes constitute a significant aspect of financial planning, and understanding their implications is essential for optimizing outcomes. Changes in tax laws or regulations can impact the bottom line, influencing decisions on investments, expenses, and overall financial strategies. For instance, tax incentives for specific activities may guide decisions on capital expenditures.

Example: A multinational corporation operating in various jurisdictions must consider the tax implications of its cross-border transactions. Financial planning would involve optimizing the company's global tax strategy, taking advantage of tax incentives and structuring operations to minimize tax liabilities within the bounds of legal compliance.

10. Human Resources:
The availability of skilled financial professionals and their expertise is a vital internal factor influencing financial planning. Competent financial professionals contribute to the accuracy and effectiveness of financial planning processes. For instance, a team well-versed in financial analysis can provide valuable insights for strategic decision-making.

Example: In a financial planning context, the availability of skilled financial professionals is crucial. If a company lacks in-house expertise, it may need to budget for hiring or training programs. A team of skilled financial analysts can contribute significantly to accurate financial forecasting, risk assessment, and strategic decision-making.

Q.8 What do you mean by Capital Structure? Discuss the factors affecting Capital Structure.

Economists view of "Capital" is the wealth which is used in the production of additional wealth. Business people use the term 'Capital' in the sense of the total assets employed in a business. The accountants use the word "Usage" in the sense of net assets, or shareholders' interest as shown by the balance sheet or the net worth of the shareholders' equity. In law, capital usually means capital stock.

The capital structure is made up of debt and equity securities which comprise a firm's finance of its assets. It is the permanent financing of a firm, represented by long term debt, plus preferred stock, plus net worth.

A Company requires capital for its operations. It can raise capital from many sources. These sources will include banks, financial institutions and the public. Banks and financial institutions can grant long term loans. The company can issue shares and debentures to the public and thereby build its share capital and borrowed capital. It has to decide the proportion in which funds have to be raised from shares, long term loans and debentures.

Capital structure, therefore, refers to the composition or make up of long-term sources of funds such as equity shares, preference shares, debentures and long-term loans. All these types of finances have to be in the right proportion in to ensure an optimum capital structure) Basically, there are two types of long-term funds: (i) Owners' capital (Borrowed capital.

Owners' capital refers to the preference and equity shares issued to the public Borrowed capital includes any type of long-term funds obtained either by loans from banks etc. or by issuing debentures or bonds to the public. This is referred to as debt capital also.

Definitions

1 According to Robert H. Wessel, "Capital structure refers to funds employed in a business enterprise".

2 According to Charles W. Gerstenberg "Capital structure refers to the kind of securities that make up the capitalisation."

The ratio of equity and debt capital is of prime importance in capital structure decisions. An appropriate capital structure can be determined by deciding the proportion of various types of securities to be issued. An appropriate capital structure is an optimum or balanced capital structure may meet out financial requirements of an enterprise most effectively Important features of optimum capital structure are as under

(1) Optimum mix of sources of finance.
(2) Minimum cost of capital.
(3) Minimum financial risk.
(4) Maximum returns on investment.
(5) Effective financial control
(6) Flexibility to adjust with changes.
(7) Balanced capitalisation.

Thus, the essence of capital structure decision is to determine the ratio of equity capital and dept capital. The relative proportion of the securities must be decided as to ensure proper capital structure of the company. This proportion is known as "Capital Gearing".

Companies, as we know, raise their capital through various sources viz. shares, debentures, retained earning etc. From whatever source the capital is raised, it is invested in different types of assets.

As in the construction of a building, different types of materials are used in definite standard proportion according to size and nature of the building.

Similarly, raising of capital from different sources and their use in different assets by a company is made on the basis of certain principles that provide a system of capital so that the maximum rate of return can be earned at minimum cost. This sort of system of capital is known as 'capital structure'.

Thus, capital structure refers to the combination or mix of debt and equity which a company uses to finance its long-term operations. Capital in this context refers to the permanent or long-term financing arrangements of the company. Debt capital, therefore, is the company's long-term borrowings and equity capital is the long-term funds provided by the shareholders or owners of the company.

Thus, in capital structure it is decided that what portion of the total required capital be raised from shares and what portion from debentures. In share capital too, what should be the proportion of preference share capital and equity or risk capital.

In the Words of Weston and Brigham "Capital structure is the permanent financing of the firm, represented by long-term debt, preferred stock and net-worth,"

while Wessel R. H. says, "The term capital structure is frequently used to indicate the long-term sources of funds employed in a business." In this way, "the type of securities to be issued and the proportionate amount that make up the capitalisation is known as capital structure or financial structure."

The conceptual clarity of capitalisation, capital structure and financial structure is shown in the chart and the illustration given on next page:

FACTORS INFLUENCING CAPITAL STRUCTURE

Capital structure directly affects the financial soundness of a business enterprise. Hence, all the factors which affect its capital structure, should be considered at the time of its formation. These factors can be divided in two categories i.e. (i) internal factors, and (ii) external factors.

Internal Factors

These internal factors are also known as the characteristic of the company, because peculiar features of the company affect the factors influencing the selection of different sources of funds. Such factors are discussed as follows:

(1) Size of Business: It is an important consideration in selection of capital structure. A small firm finds it extremely difficult to raise long-term funds and small companies depend on share capital and retained earnings for the long-term funds. A large size company requires large amount of capital, that cannot be raised from single source. Hence, it has to resort different types of securities to procure desired amount of funds at reasonable cost. On the contrary, a medium size company is in a position to procure capital from all sources. Therefore, both the sources i.e. shares and debentures are included in its capital structure.

(2) Nature of Business: The nature of business, method of production, type of product etc. also affects the capital structure, because the ratio of fixed capital and working capital is decided according to the nature of business. For example, trading companies require more working capital than fixed capital. Hence, such companies depend mainly on equity or preference capital to meet their capital requirements. The manufacturing companies possess

more debt capacity because of huge assets which can be pledged as security. Therefore, such companies raise funds by issuing debentures or taking term-loans along with the issue of equity shares.

On the contrary, banking and financial institutions, have no more assets with them but due to their credit, they can obtain loans and advances easily. Besides, there are certain companies whose debentures or bonds are guaranteed by the government. The capital structure of such companies contains both share capital and debt capital.

(3) Regularity and Certainty of Income: The certainty and regularity in future income of the firms influences the capital structure to a great extent has given the following postulates in this regard:

• Debentures should be issued only when the future earnings of the company are expected to be fairly high and regular.

Preference shares may be issued when the earnings are irregular but are on the average fairly high.

• Equity shares alone should be issued when the earnings are uncertain and unpredictable.

For example, in case of public utilities and monopolistic concerns, the income is regular and certain. Hence, their capital structure includes debentures and preference shares along with equity share capital. On the contrary, in concerns which involve much risk or there is keen competition or which are in developing stage, they have therefore to rely more on equity share capital.

(4) Assets Structure: The assets structure of the firm i.e. quantum of fixed and current assets in total assets also affects the capital structure. The firms whose assets comprise more fixed assets than current assets, such as public utility concerns, employ more debentures and long-term loans and less equity capital. On the contrary, those firms whose assets comprise current assets like inventory or bills receivable abundantly, the equity share capital with minimum of long-term debts is used as a source of financing because the value of these assets varies with earning capacity of the firm.

(5) Age of the firm : Younger companies find it extremely difficult to raise capital from different sources at reasonable terms and conditions, because they are more risky having no good credit worthiness in the market. Such companies, therefore, raise capital only from equity shares, whereas well-established companies with stable earnings record are always in a better position to raise capital from whatever source they like. That is why, the capital structure of such companies comprises equity shares along with preference shares and debentures.

(6) Desire to Retain Control: The attitude of the management towards retaining control over the company is an important determinant of the capital structure. Fresh issue of additional equity shares may result in diluting the control of existing shareholders. Therefore, priority will have to be given to preference shares and debentures for raising additional funds. The holders of these securities do not enjoy voting rights and therefore, there is little possibility of loss of control. But, depending largely on debt financing may result in a situation of reorganisation or liquidation of the company due to heavy burden of interest and other fixed charges.

(7) Future Plans: Future plans and development of the company should also be kept in view while determining capital structure. If all types of securities are included in the capital structure

in the beginning, it would be difficult to procure funds in future for development and expansion. Hence, in view of future possibilities of expansion, funds should be raised by issue of equity shares in the beginning. Later on, when needed the company may opt for raising additional funds through issue of preference shares and debentures or it may resort term-loans.

(8) Operating Ratio: The portion of total sales utilised in meeting the operating expenses like material, labour, administrative and selling and distribution expenses is called operating ratio. For example, if the total sales of a company is 60,000 and its operating expenses are 51,000, the operating ratio would be 85% (51,000/60,000 × 100). It means that out of the sales of 100, only ₹ 15 are left for paying the interest on long-term debt and dividend.

Therefore, the higher the operating ratio, the lesser will be the part of debt securities in the total capitalisation, because due to high operating ratio, the balance left after meeting the operating expenses would not be sufficient to meet fixed cost (interest) of capital. On the contrary, the lesser is the operating ratio, the more will be the share of fixed cost bearing securities in the capital structure. As, in the above example, if operating expanses are only 42,000, then the operating ratio would be 70% (42,000/60,000 × 100). This will enable the firm to save 30 out of each 100 of income that is sufficient to pay adequate interest on debentures. Thus, companies having low operating ratio may include preference shares and debentures in their capital structure.

(9) **Trading on Equity**: If the promoters or directors or managers desire to have control over maximum of assets of the company with minimum of capital, they can do so by using more of borrowed funds along with share capital i.e. resorting to the policy of trading on equity.

With this, they can earn maximum profit on the capital invested by them by declaring dividend at higher rates. It is because, the total earnings on capital employed are more than the interest payable on long-term debts. When a company uses borrowed capital as weft as owned capital in the regular conduct of its business, it is said to be trading on equity. It is also known as 'favourable financial leverage. Therefore, the capital structure of the companies adopting the policy of trading on equity comprises more of long-term debts and less of equity shares. This has been explained later on in this chapter.

(10) **Period and Purpose of Financing**: Period of finance and the purpose for which it is required also play an important role in the determination of capital structure. Equity shares are the appropriate choice for funds required for permanent investment. Debenture and preference shares are preferable for medium-term finance. Modernisation and expansion programmes may better be financed through preference shares and debentures. Finance required for expansion of capacity may be raised through fixed charge securities as expansion is likely to increase the earning capacity of the company. Any decision relating to pattern of capital structure must be made in the light of future

External Factors

(1) **Capital Market Conditions**: The state of capital market influences the choice of securities to be issued. During depression period or bearish market, income is uncertain that results in lower rate of dividends and interest. The investors prefer safe investment. Therefore, preference shares and debentures carrying a fixed rate of return are more popular than equity shares in depression. On the contrary, during boom period higher incomes are expected and investors are willing to take risk and invest in equity shares even at premium.

Thus, in depression period the debentures and preference shares and in boom period equity shares form a major part of capital structure.

Moreover, if the capital market is fully developed and there are several institutions to provide different types of finance to industries, it becomes easy to make necessary changes in the capital structure from time to time, as the business avails of various types of financial assistance at minimum cost. In undeveloped capital market, it is not so easy to make necessary changes in the capital structure.

(2) **Nature of Investors**: Investors' attitudes and requirements regarding income and risk are important considerations in designing capital structure. A few investors are venturesome and have abundant capital. Such investors like to invest in equity shares. On the other hand, investors of cowardice nature with meagre capital always like regular income and safety of their investments. Debentures and preference shares are issued to attract such investors. Therefore, in order to raise required capital, it becomes necessary to issue different categories of securities according to the preferences of various types of investors.

(3) **Statutory Requirements**: The legal and statutory requirements of the government also influence the capital structure. Banking companies are prohibited from issuing any type of security except equity shares. Similarly, SEBI guidelines on investors' protection maintaining debt-equity ratio and current ratio as per norms, promoters' contribution etc. have direct bearing on capital structure. Besides this, the monetary and fiscal policies of the government also affect the capital structure decisions.

(4) **Taxation Policy**: High corporate tax, high tax on dividend and capital gain directly influence the capital structure decisions. High tax discourages the issues of equity shares and encourages to issue more debentures. It is because, the fixed charge ie. interest on debentures can be directly charged to Profit and Loss Account for income tax calculations. Thus, existing tax provisions make debts more advantageous in relation to equity shares.

(5) **Policies of Financial Institutions**: Policies of financial institutions towards granting loans influence the capital structure. In our country, the financial institutions while granting loans to business concerns insist on 1:1 debt-equity ratio in their capital structure. Moreover, they try to get the loan convened into equity shares if the concern is unable to repay the loan. Therefore, it is necessary to have more authorised capital and determine the capital structure in accordance with the policies of these financial institutions so that there may not be any difficulty in getting loan sanctioned.

(6) **Cost of Financing**: The cost of capital refers to the expectations of suppliers of funds. In a fair capital structure, the cost of capital should be reasonably low. Cost of capital depends upon the prevailing rate of interest, return expected by potential investors, issue expenses like underwriting commission, brokerage, discount and administration expenses. Normally, the cost of debt is lower than that of equity. A company should estimate and compare the cost of alternative sources of finance make debt financing more attractive before making a choice among them.

(7) **Seasonal Variations**: Seasonal variations affect the capital structure of those concerns who produce seasonal products such as sugar manufacturing, enterprises manufacturing syrup, fan, coolers etc. The capital requirements of such concerns vary according to the seasonal demand of their products that is more in a particular season. Hence, they should pay more attention on

short-term loans. If long-term loans are included in their capital structure, it will increase unnecessary burden in recession. Therefore, equity shares form a major portion in their capital structure.

(8) **Economic Fluctuations**: Economic fluctuations occurring in an industry also influence the capital structure. In case of firms whose products' demand is affected by economic fluctuations, their capital structure should be so planned that it can be adjusted according to requirements of the enterprise. The use of debentures in the capital structure is full of risk in such enterprises as their capacity to repay debts is reduced. On the contrary, those concerns whose products' demand is not affected by economic fluctuations, may employ debt capital along with equity shares as their income does not vary during depression.

(9) **Nature of Competition**: Nature of competition also affects the capital structure. Public utility concerns are generally free from inter industry competition. Accordingly, profits of these concerns in the absence of inroads of competitors are likely to be more stable and predictable. Hence, debentures may be included in their capital structure. But, in those industries where there is cut-throat intra-industry competition, income is not stable. Therefore, equity share capital should be preferred in their capital structure.

Q.9 Discuss the essentials of a sound Capital Structure.

Essentials of a Sound or Optimal Capital Structure

The financial management should design and develop a sound capital structure which is most advantageous for the company and its shareholders. The designing of a sound or optimal capital structure requires to consider the following features in addition to a comparative analysis of cost, risk and control associated with different security patterns:

(1) **Minimum Cost of Capital**: A sound capital structure must ensure the minimum cost of capital. The cost of capital means the interest on debt and dividend payable on equity and preference shares, cost of issuance such as underwriting commission, brokerage, advertisement, printing etc. This cost differs in various types of securities. Therefore, while determining the capital structure, such a mix of different securities should be selected in which the cost is minimum. For this purpose, a comparative study of the costs of various mixes of different securities under specific and hypothetical conditions should be done and where the cost is minimum, that mix should be selected. A moderate use of debt capital minimises the overall cost of capital and it leads to an optimal capital structure.

(2) **Minimum Risk:** Various types of business and financial risks such as-business competition, increase in taxes and rate of interest, dwindling purchasing power, natural calamities etc. have adverse effect on the capital structure. Hence, it should be devised in such a way that these risks are minimum and the enterprise may absorb their pressure when needed. In this regard, debt capital has been proved to be a positive step in the sense that it raises the return on equity and the value of the firm. However, excessive debt capital inflates the financial risk of the shareholders. Therefore, sound capital structure attempts at a perfect trade-off between return and risk.

(3) **Maximum Return**: The capital structure should be such that it may provide maximum return to equity shareholders, the real owners of the company. It is possible only when the firm

earns stable and adequate income regularly. Yet, it can be achieved by using debt capital to the extent the cash flows are available for servicing of debt.

(4) **Maximum Control**: Generally, equity shareholders have the control over the affairs of the company. Preference shareholders and debenture holders have limited voting rights i.e. in matters affecting their interest. Therefore, the capital structure should be designed as to preserve the control of the company's management in the hands of the existing group of shareholders. The risk of the loss of control and interference in the autonomy of management should be minimum. This can be achieved by maintaining a proper balance between voting right and non-voting right securities.

(5) **Safety:** Under a sound capital structure, fluctuations in earnings should not involve heavy strain on company's financial structure. Debt should be used to the extent that the burden of fixed charges does not create the danger of risk of insolvency. The company must have sufficient liquidity to meet its obligations in time.

(6) **Simplicity**: The capital structure should not be complicated. Use of several types of securities with varied terms and conditions may create confusion among investors. It is, therefore, very essential that in the beginning only equity shares or preference shares should be issued and afterwards debentures may be issued. However, in order to achieve simplicity, one should be cautious that it may not be so cheap.

(7**) Flexibility**: The optimal capital structure of a company should be flexible so as to enable it to be in tune with the changing economic conditions, both within and outside the company. With the help of this flexibility, the company is in a position to raise funds easily and also sell its securities without any difficulty as and when it wants. Such a flexibility depends upon certain important factors like flexibility in service charges, restrictive clauses in loan agreements, process of redemption and debt capacity.

(8) **Alternative Rules**: The capital structure should be such that various rights of holders of securities such as return, voting power, redemption, transfer etc. are more and more attractive. This will have a good impact on the relations between the company and the holders of different securities.

(9) **Commensurate to Legal Requirements**: In every country, certain rules are framed in companies and other Acts regarding the ratios of various types of securities in the capital structure of business concerns. SEBI also insists to maintain a definite debt-equity ratio. Hence, the capital structure should be commensurate to legal and economic assumptions.

In brief, a sound or optimal capital structure requires a debt-equity ratio 1:1, earnings-interest ratio 2:1 and one and a half times of interest during depression. Besides this, total debt capital should not exceed 50% of the depreciated value of assets and total long-term loans should not be more than net working capital during normal conditions. The current ratio 2:1 and liquid ratio 1:1 be maintained.

Q.10 What are the types of Sources Of Finance.

SOURCES OF FINANCE

As soon as a firm makes an investment decision, simultaneously it also make a financing decision e to determine the sources of finance in order to procure the necessary funds for it at a minimum cost. Financial requirements of any business firm, whether private or public, consists of procurement of fixed, intangible and current assets. Generally, fixed and intangible assets are used for long-term and sometimes for medium term.

Current assets are meant for short-term only. Thus, based on time, sources of finance may be divided into- (i) long-term; (ii) medium-term, and (iii) short-term as explained here under:

► Long-term comprises a period exceeding five years. Long-term requirements for finance relate to the fixed assets like plant and machinery, land, building, furniture, patent etc. and to carry a portion of current assets as permanent investment to ensure uninterrupted and smooth flow of business activity.

►Medium-term comprises a period ranging from one year to five years. It is needed to finance modernisation programmes to launch an advertising campaign and to meet a part of investment in current assets.

►Short-term implies a period up to one year and it is required purely for day-to-day operations to meet working capital requirements.

Thus, business finance is divided into long-term, medium-term and short-term. But this fact should also be taken into consideration that logically the business finance is of two types i.e. long- term and short-term. Medium-term finance is that part of some financial requirements which is procured for the expansion and development of the business. In practice, the computation of medium-term finance is difficult, because neither any firm shows such classification in its balance sheet nor in this regard any special type of data is published. Moreover, the needs of medium- term finance differ from industry to industry.

For example, there is no need of medium-term finance for a newly established undertaking, whereas a 10- or 15-year-old firm has dire need of such finance. Therefore, in practice, finance is only long-term and short-term or working capital finance. Sources of short-term or working capital finance have already been discussed, so in this chapter we shall discuss sources of long-term finance.

Q.11 What are the Sources of Long Term Finance. Explain the Equity shares as a source of Finance.

SOURCES OF LONG-TERM FINANCE

Long-term financing means raising of funds for long-term ie. a period exceeding five years and is required to execute several projects relating to improvement and development of existing industries and establishing new industry. Thus, long-term finance is used to purchase fixed assets, part finance of permanent working capital, replacement of old machines in future after the commencement of business and purchase of new assets under expansion programmes. The main sources of long-term finance for a company are grouped in two categories, i.e. (i) capital based, and (ii) assets based financing.

EQUITY SHARE CAPITAL

Equity share capital is a basic source of finance for any firm. Equity shares or ordinary shares are those shares which carry no preferential right in the payment of dividend and refund of capital. Equity shares, which are called 'Common Stock in U.S.A., constitute the corner stone of a company's financial structure. An equity share is the existence of real ownership and residual interest in the earnings of the company. Equity shareholders bear the maximum risk and therefore they control the affairs of the company from legal point of view.

Features of Equity Share Financing

(1) **Risk Capital**: Capital provided by equity shareholders is the risk capital who share the residual income of the company. Holders of equity shares are the real owners of the company and their wealth increases or decreases along with the prosperity of the company in normal conditions of the business.

(2) **Unstable Dividend**: Equity shareholders get dividend only after the dividend on preference shares and interest on debentures have been paid. If profits are sufficient, they get good amount of dividend otherwise no dividend is paid in absence of profits. The income (dividend) of the equity shareholders is of unstable nature and its quantum in a particular year depends on the amount of profits. The company is not bound to pay dividend at a fixed rate on these shares.

(3) **Variable Market Price**: The face value or paid up value of equity shares has no relation with the market value of these shares. Face or paid up value is fixed, whereas market value depends on the profits earned by the company. The market value is determined by the negotiation between buyer and seller taking into consideration the earnings, dividend, future expectations and managerial ability of the company. As all these factors are not always static, hence, market value of equity shares changes.

(4) **Refund of Capital**: Equity shares provide permanent capital to the company which is not refundable during its life time. Shareholders cannot force the company to refund their capital. They can demand their capital only in the event of liquidation and that too when funds are left after paying all prior claims. Yes, if any shareholder likes, he can get back his capital by selling his shares in the market. But, at present a company can buy-back its equity shares as per provisions of section 77 A of Companies Amendment Act, 1999.

(5) **Claims on Assets**: Being residual owners, equity shareholders are the last claimants to assets of the company. In the event of winding up of the company's business, assets are disposed off to pay the claims of the creditors and also preference shareholders prior to equity shareholders They are, however, entitled to receive proportionately in all left after meeting all other claims

(6) **Right to Control**: Although a company is managed by the Board of Directors who control and direct the affairs of the organisation, but supreme control is endowed with equity shareholders Though, there is divorce between ownership and management in a company, yet it is the equity shareholders who have power to elect the directors of the company and remove any or all of them, if they so desire. In all important matters affecting interest of the company, approval of the equity share-holders in general meeting must be obtained by the Board of Directors.

(7) **Other Rights**: Equity shareholders enjoy the following rights too:

► **Right to Vote**: Equity shareholders have the right to participate in the meetings of the company and vote on each resolution presented. This right is in proportion to their share in the total share capital i.e. one vote for one share. But, according to Companies (Issue of Share Capital with Differential Voting Rights) Rules, 2001, a company can issue equity shares with differential voting rights as to dividend or voting under certain conditions.

Right to Proxy: They also have a right to appoint proxy for using voting right on behalf of the shareholder without transferring share certificate.

► **Shareholders' Approval**: In all important matters of the company such as sale, disposal or lease of the whole or a part of the undertaking, remission of loan by a director, borrowing money in excess of company's share capital and its free reserves etc., an approval of the shareholders in general meeting is essential.

Right of Pre-emption: The company is under legal obligation to offer new shares to the existing equity shareholders before placing them to the market for public subscription. Such a right of equity shareholders to purchase newly issued equity shares is termed as 'pre-emptive right

Advantages of Equity Share Financing

(A) **From Company's Point of View equity shares enjoy the following benefits-**

(1) ***Permanent Capital:*** Equity share capital constitutes the permanent funds or long-term source of finance A company is not bound to pay-back the equity capital during its life time. But it can buy-back its shares as per terms and conditions of Section 77 A of Company's Amendment Act, 1999.

(2) ***Increased Debt Capacity:*** Equity shares do not create any charge on the assets of the company. The financial structure remains flexible and the company can utilise its assets as security for further financing. Thus, equity capital increases the debt capacity of the company.

(3) ***No Fixed Burden***: No fixed obligation is created on the earnings of the company. Dividend on these shares is subject to availability of profits and discretion of the Board of Directors. Shareholders cannot force the directors to declare dividend though there are sufficient profits. Therefore, a company can follow a flexible dividend policy.

(4) ***Internal Financing***: A company can provide sufficient amount for developmental works by ploughing back of the larger part of its earnings, because distribution of dividend is not a compulsion. Thus, a company is not required to procure funds from external sources.

(5) ***Cheap and Convenient Source of Finance***: From economy point of view, raising capital through equity shares is a cheap and convenient source of finance as compared to other sources of finance like debentures. It is because no fixed burden like interest or dividend is created on the earnings of the company.

(6) ***Management Rests in Qualified Persons***: Equity shareholders being real owners of the company control its affairs by voting power. Therefore, they can handover the management to qualified persons.

(B) From Investors' Point of View the equity shares are advantageous from the following viewpoints-

(1) ***Attractive for Persons having Limited Income***: Equity shares are mostly of low denomination i.e. rupee one, two, five, ten etc. and persons with limited resources (income) can purchase these shares Further, there is a possibility of regular income in the form of dividend. Therefore, a company can raise funds from the public at large.

(2) ***Right to Participate in Management***: The voting rights of shareholders empowers them participate in the management and control of the company. They can elect competent persons. directors on the Board of Directors to control and manage the affairs of the company. Moreover they are consulted in important matters due to their certain special rights.

(3) ***More Income***: The rate of dividend is not fixed on these shares. Shareholders get dividend at higher rate in boom period that increases the income of shareholders. Moreover, the company may declare higher dividend by following the policy of trading on equity. This is because equity share- holders are the residual claimants of the profits after meeting all fixed commitment to interest on debentures and preference dividend.

(4) ***Capital Gain/Appreciation***: The market value of equity shares fluctuates directly with the profits of the company. Their real value is based on the net worth of the company's assets and an appreciation in net worth will increase the market value of company's equity shares. The shareholders can earn capital gain by selling their shares at the increased market value. On the other hand, if profits of the company are accumulated, these will be distributed among the shareholders as bonus shares. This is also a capital appreciation.

(5) ***Right of Pre-emption:*** The equity shareholders of a company have pre-emptive right in the successive issue of shares in the company under section 81 of the Indian Companies Act, 1956. If the company is a prospecting one, the equity shareholders are benefitted by such a right issue as the issue price is generally fixed below the market price.

Disadvantages of Equity Share Financing

(A) From Company's Point of View the equity shares suffers from the following demerits-

(1) ***Dilution in Control***: An effective control of the company may be diluted and promoters may find it difficult to retain control of the company. A powerful group of equity shareholders may manipulate the affairs of the company which may be detrimental to the interests of the company

(2) ***High Cost***: It costs more to finance with equity shares than with other securities as underwriting commission and brokerage are paid at a higher rate on the issue of these shares. Moreover, the buyers of equity shares expect a higher rate of return due to heavy risk involved in these shares.

(3) ***Trading on Equity not Possible***: A company cannot trade on equity if equity shares alone are issued. Trading on equity is possible only when the other securities bearing fixed rate of interest/dividend (debentures and preference shares) are issued and the dividend is less than the company's general rate of return on capital employed.

(4) ***Over Capitalisation***: Excessive issue of shares may result in over-capitalisation which yields low dividend per share. This adversely affects the psychology of the investors.

(5) ***Change in Management Policy***: The equity shares of a company are transferable. On account of the transferability, new persons replace old shareholders who may change the management policy of the company. Such changes sometimes may cause hurdles in the smooth functioning of the company.

(6) ***Encouragement to Speculation*** Equity shares of good companies is subject to hectic speculation in the stock market like, shares of Infosys Ltd., Wipro Ltd., Zee Telefilms Ltd. etc. In such cases, the price of these shares fluctuates frequently that is not in the interest of the company.

(B) From Investor's Point of View, the equity shares are disadvantageous from the following viewpoints-

(1) ***Unsuitable for Non-risky Investors***: Equity capital is risk capital and the claim of equity shareholders is residual in the profits of the company. Sometimes, the profits are so scanty that nothing is left after paying the tax and interest and the equity shareholders do not get any dividend. Therefore, such investors who expect regular income are disappointed with these shares due to uncertainty of income.

2) ***Uncertainty of Income***: The payment of dividend on equity shares is subject to the availability of profits and the intention of the Board of Directors. As the income of any company is not certain and regular, the equity shareholders may not get dividend if there is insufficient profits or the management thinks it proper not to pay any dividend on these shares, even if there are sufficient profits. The reason is that shareholders can not force the directors legally to pay dividend in spite of the fact that they are unanimous.

(3) ***Loss in Depression***: During recession or depression period the profits of the company are low and consequently the rate of dividend declines. Due to low rate of dividend and certain other factors the market price of equity shares goes down resulting in a capital loss to the investors.

(4) ***Loss on Liquidation***: Equity shareholders are the worst sufferers in case of liquidation of the company. They are paid in the last only if any surplus is available after meeting all claims including the claims of debenture holders and preference shareholders. If nothing remains, there is every possibility to lose their original investment.

(5) ***Right of Control is a Myth***: In principle, the equity shareholders enjoy the right of control in the affairs of the company, but such a right on Liquidation Equity shareholders are the worst sufferers in case of liquidation of the company. In practice, actually they do not have any control over the affairs of the company as they are scattered, ill-organised and can voice their feelings only in the annual general meeting. They do not have power to participate in the day-to-day affairs of the company. They are paid in the last only if any surplus is available after meeting all claims including the claims of debenture holders and preference shareholders. If nothing remains, there is every possibility to lose their original investment

Q.12 What is Preference Share Capital? Explain its Features, Types, Advantages, & Disadvantages.

PREFERENCE SHARE CAPITAL

As the name suggests, these shares have certain preferences as compared to other type of shares Section 85(1) of Indian Companies Act, 1956 defines, "a preference share is a share which carries preferential rights as to the payment of dividend at a fixed rate either free or subject to income tax and as to the payment of capital at the time of liquidation prior to equity shareholders."

Thus, preference shareholders enjoy two rights over equity shares. First, they are entitled to receive dividend prior to the payment of dividend on equity shares. Second, at the time of winding up of the company, the preference share capital is repaid prior to equity share capital.

Generally, dividend on these shares is paid at predetermined fixed rate which is decided at the time of issue. A company can issue preference shares of varying dividend rates at a time. viz. 9% First Preference Shares; 11% Second Preference Shares etc.

Features of Preference Share Financing

(1) ***Claims on Income***: Preference shareholders have priority of claim to dividend over equity shareholders. In other words, they are first of all paid a dividend at pre-determined fixed rate out of the profits for the year. After paying the fixed rate of dividend they have no right to share extra income. except in case of participating shares. If in a year, the profits are insufficient or the management decides to omit dividend payment, though the company has earnings in excess of total dividend requirements, the directors cannot be forced to declare dividend.

(2) ***Claims on Assets***: Although no specific assets are pledged against the preference shares, yet the preference shareholders have a prior claim on the general assets of the company, over equity shares. In case of winding up of the company after meeting the claims of the creditors and debenture holders, any of the amount realised from the sale of assets, the balance is distributed among the preference shareholders limited to the face value of the share.

(3) ***No Controlling Power***: Preference shareholders do not have the right to participate in the management of the company, hence, they too have no voting power like equity shareholders. However, they have been given right to vote on resolutions which directly affect the rights attached to preference shares such as resolutions for winding up of company or for the redemption or reduction of its share capital. But this is not all. If the dividend has not been paid for at least two years in case of cumulative preference shares and for six years in case of non-cumulative preference shares, they have been given voting rights parallel to equity shareholders.

(4) ***Hybrid Security***: Preference share is a hybrid security which combines the features of equity shares and debentures. It resembles the company's equity in the sense that

(i) the dividend paid on such shares is not allowed as deductible expenditure for the purpose of tax calculation,
(ii) payment of dividend is not compulsory,
(iii) preference dividend is payable only out of distributable profits.

At the same time, it has certain features of debentures such as

(i) it particiaptes in low risk without fully sharing the control and prosperity of the company,
(ii) it carries a fixed rate of dividend like interest.
(iii)it does not provide the right to vote. and
(iv)it entitles to a right to its holder prior to equity shareholders. In the words of "preference shares possess the income weakness of bonds without their element of safety and share much of the risk of equity shares without fully participating in the income of prosperous years."

Types of Preference Shares

Preference shares are of various types according to the rights conferred to them. With this view, preference shares fall in the following categories-

(1) ***Cumulative and Non-Cumulative***: The holders of cumulative preference shares enjoy the right to receive the arrears of dividend for a year, if the company has not paid dividend at fixed rate due to lack of sufficient profits for that particular year. This dividend will go on accumulating and will be paid as arrears in the subsequent years before any dividend is distributed among equity share-holders

In case of non-cumulative preference shares, the dividend does not accumulate (lapse), if it is not paid in a particular year due to insufficient or no profits. The holders of such shares are not entitled to receive the dividend as arrears out of the profits of subsequent years. All preference shares are cumulative unless expressly stated to be non- cumulative which is not permissible under Companies Act.

(2) ***Redeemable and Irredeemable***: The preference shares which would be repaid on or after a certain date in accordance with the terms of issue, are known as redeemable preference shares. It means the company undertakes the responsibility to return the capital under the terms of their issue. Inclusion of such shares in the capital structure of a company creates flexibility Section 80 of Indian Companies Act, 1956 lays down the conditions under which preference shares are to be redeemed.

Irredeemable preference shares are those preference shares which cannot be redeemed during the life-time of the company. It must be noted that now a company can issue only redeemable preference shares because the Companies (Amendment) Act, 1988 has abolished the category of irredeemable preference shares vide subsection 5-A of Section 80,

(3) ***Participating and Non-participating***: The holders of participating preference shares are entitled, in addition to fixed dividend, the share in the surplus profits remaining after paying a certain amount of dividend on equity shares. The rate of additional dividend is decided at the time of issue or left at the discretion of the directors. They may also be entitled to get a share in the surplus assets of the company at the time of winding up. The non-participating preference shares do not carry the right to share in the surplus profits or assets of the company. They are paid only a fixed dividend.

(4) ***Convertible and Non-convertible***: The holders of convertible preference shares have the right to convert their shares into equity shares within a fixed period of time. On exercising the option of conversion at that date the shares are to be surrendered by the shareholders and. in exchange, equity shares are alloted at pre-determined rate.

Non-convertible preference shares are those which cannot be converted into equity shares Unless the terms of issue or Articles of Association of the company provide, otherwise. preference shares are considered non-convertible.

(5) ***Cumulative Convertible Preference Shares***: Public limited companies can now issue cumulative convertible preference shares (CCP) for development, diversification, modernisation, starting new projects and working capital of the company.

The main features of such shares are

- Face value of the share will be Rs. 100 and dividend payable is at 10%.
- Such shares issued will be converted into equity shares within a period of 3 to 5 years (as the company may prefer).
- Arrears of dividend on these shares at the time of conversion will be paid to converted equity shareholders. However, if there are profits in the company such, holders have the right to receive the arrears of dividend
- These shares will be treated as part of equity shares for the purpose of determining debt equity ratio.
- Issue of convertible cumulative preference shares requires provision in the Articles of Association and a special resolution in the annual general meeting of the company.

Advantages of Preference Share Financing

(A) From Company's Point of View, the company enjoys the following advantages by issuing the preference shares-

(1) ***Wider Market for Raising Capital***: Preference shares attract funds from those investors who seek a fixed return along with safety of their investment. Thus, these shares provide a wider market to the company for raising capital.

(2) ***Flexible Capital Structure***: The company can maintain flexibility in its capital structure by issuing redeemable preference shares. When other securities are not popular in the market, preference shares with participative or convertible rights may be issued to raise long-term finance. When market conditions improve these can be repaid or converted into equity shares. Thus, a company can control capitalisation as per needs.

(3) ***No Interference in Management***: Preference shareholders have no voting rights regarding general administration of the company de matters not directly affecting their rights. Hence, equity shareholders retain uninterrupted control over the affairs of the company.

(4) ***No Charge on Assets***: As no specific assets are pledged against preference shares, the mortgageable assets of the company are conserved. This provides a facility to raise additional capital without any difficulty, as more assets are available as collateral security for borrowings

(5) ***No Burden on Company Finances***: Unlike debentures or bonds, preference shares do not prove a burden on the finances of the company. The fixed dividend can be postponed in the years of inadequate profits.

(B) From Investors' Point of View, the preference shares are advantageous from the following viewpoints-

(1) ***Regular Fixed Income***: Investors receive regular fixed income in the form of dividend. The dividend for the year of no profits or insufficient profits can be paid in the profits of subsequent ears as arrears. That is why, investors who desire to earn fixed income with greater certainty always prefer to invest in preference shares.

(2) ***Safety of Capital***: Preference shareholders have priority over equity shareholders in repayment of capital at the time of winding up of the company. Hence, their capital seems to be more safe

(3) ***Increased Purchasing Power***: During depression period when the profits of the company are going down or the rate of interest in the market is continuously falling, preference shareholders receive their dividend at earlier rates. This enhances their purchasing power.

(4) ***Veto Power***: Although, preference shareholders carry no voting rights for general administration and control, but the holders of such shares have veto powers on matters directly affecting their rights. They too have voting rights on all resolutions if the dividend due on their shares remains unpaid.

Disadvantages of Preference Share Financing

(A) From Company's Point of View, preference shares suffer from the following disadvantages-

(1) ***Fixed Burden***: Payment of dividend at fixed rate creates permanent burden on the finances of the company. As preference shares are mostly issued as cumulative. It means arrears of preference dividend must also be paid before anything is paid to equity shareholders.

(2) ***More Costly***: Issue of preference shares is a costly source of finance as compared to debentures. because the rate of preference dividend is usually higher than the prevailing rate of interest. Moreover, preference dividend is not a deductible expense like interest under the Income Tax Act, 1961.

(3) ***Adverse Effect on Credit Worthiness***: Although, there is no legal obligation of a company to pay dividend on preference shares, but frequent delays or non-payment of dividend adversely affects the credit worthiness of the company.

(4) ***No Flexible Capital Structure is Possible***: If the company has issued irredeemable preference shares, it is not possible to reduce the capital. This brings inflexibility in the capital structure.

(5) ***Maximum Return to Equity Shareholders***: The objective of issue of preference shares is to maximise the return to equity shareholders by following the policy of 'trading on equity. The dividend payable on preference shares is usually fixed lower than that payable to equity shareholders. It results in a higher rate of return on equity shares.

(B) From Investors' Point of View, the following limitations or weaknesses of preference shares emerge-

(1) ***No Voting Rights***: The preference shareholders enjoy no voting rights except in matters directly affecting their interest. They are treated like suppliers of capital like debenture holders.

Many investors do not like these shares because they do not get the right to participate in the prosperity and control of the company.

(2) ***No Claim over Surplus***: The dividend on preference shares other than participating preference shares, is fixed. If the company earns higher profits, the preference shareholders have no right to share these additional profits.

(3***) Loss in Depression***: A company may redeem the redeemable preference shares at any time whenever it feels convenient. If the company redeems these shares in depression period, when the preference shareholders are reluctant for it, it results loss to them.

(4) ***No Capital Gain***: In case of winding up of a company, the preference shareholders only get the invested value of their capital. They cannot participate in the surplus. Thus, it prevents them from capital appreciation.

It is clear from the above description that raising capital through issue of preference shares is appropriate only when-

(i) there has been stability in the previous years income of the company,
(ii) the average rate of income is more than the fixed rate of dividend payable on preference shares.
(iii) the company has no sufficient assets to pledge against debentures, and
(iv) there is possibility of increasing risk in the business. That is why. Arther S Dewing has aptly said, "when income of the company is unpredictable and uncertain issue of equity shares and when company's average income is at normal rate, issue of preference shares is profitable."

Q.13 Write a detailed note on Debentures as a source of long-term Capital.

DEBENTURE

The word 'debenture' is derived from the Latin word 'debere' which means 'taking loan'. It means, a debenture is an acknowledgement of debt by a company.

It is an instrument in writing under which a company agrees to pay a fixed rate of interest at a periodical interval and to repay the loan at the expiry of the stipulated time.

A debenture is a document under the company's seal which provides for the payment of a principal sum and interest thereon at regular intervals, which is usually secured by a fixed or floating charge on the company's property or undertaking and which acknowledges a loan to the company. Thus, a debenture is an instrument issued by the company under its common seal acknowledging a debt and setting forth the terms under which they are issued and are to be paid.

Features of Debenture Financing

(1) ***Written Acknowledgement of Debt***: A debenture is a written acknowledgement of debt taken by a company. It contains the name of debenture holder and the number of debentures held by him. A debenture is the proof of the person mentioned in it being a creditor of the company.

(2) ***Refund of Debt***: It is obligatory to repay the amount of the debenture by the company at a certain specified date. If the debt is not repaid at the specified date, the debenture holder may take recourse to law for the same. They can also demand compulsory winding up of the company.

(3) ***Claims on Income***: The fixed rate of interest is payable on debentures at fixed dates de half yearly or yearly irrespective of its level of earnings. Even if a company makes no profit or incurs loss, it is under an obligation to pay interest to its debenture holders. The directors have no right to withheld interest in any case. The default in payment of interest may cause forfeiture of assets or winding up of the company. In any case, the debenture holders have priority of claims on income of the company over equity and preference shareholders.

(4) ***Claims on Assets***: Debenture holders have first priority of claim on assets of the company. They have to be paid first before making any payment to preference or equity shareholders in the event of liquidation of the company. However, they have a claim for the principal amount and interest due only and do not have any share in the surplus assets of the company, if any. Further. debentures may provide either fixed charge or a floating charge on the assets of the company. The debentures which have not been provided any charge are known as 'unsecured or naked debentures.

(5) ***Right to Control***: Since, debenture holders are creditors of the company and not as owners, they do not have any control over the management of the company. They do not have any voting right to elect the directors of the company nor any other matters. But they can indirectly interfere in the management of the company by imposing restrictions on the rights of management for the protection of their interest. If the company is regularly paying their interest, they have no right of any sort.

(6) ***Call Feature***: Issue of debentures, sometimes, provides a call feature which entitles the company to redeem its debentures at a certain price before the maturity date. Since, call feature provides advantage to the company at the cost of its debenture holders, the call price is usually more than the issue price.

Kinds of Debentures

Debentures are of different types. They are classified according to safety, refund of capital and facility of transfer, based on registration, guarantee and redemption. The most popular types of debentures are being discussed below-

(1) ***Secured and Unsecured Debentures***: In case of secured debentures a charge either fixed or floating is created on the whole or any part of the assets of the company. In fixed charge specified assets are mortgaged and the company cannot sell or remortgage these assets, though it can use such assets. Liquidator or other creditors cannot present their claims against these assets. In case of default in payment of principal or interest by the company, the debenture holders can seek decree from the court and sell the assets to realise their claims. Debentures with fixed charge are deemed to be more secured. Floating charge is created on the general assets and the company is free to deal with them until the charge becomes fixed due to default in payment. Unsecured or naked debentures are simple promises to pay the amount involving no charge or security on the assets of the company.

(2) ***Convertible and Non-convertible Debentures***: Sometimes convertible debentures are issued by a company in which debenture holders are given an option to exchange the debentures into equity shares after the expiry of a specified period. Non-convertible debentures cannot be converted into equity shares. Convertible debentures give an investor the privilege of being a secured creditor of the company and to change his status to that of a shareholder. The market price of the shares received by debenture holders on conversion is higher than their converted price. The conversion price is decided at the time of issue. \

The convertible debentures are of two types

(i) ***Fully Convertible Debentures or FCD's*** which are converted into equity shares after the expiry of a certain period specified at the time of issue of such debentures. The rate of interest on these debentures is usually lower than non-convertible debentures. In India, some companies have issued recently Zero Interest Debentures/Bonds. These are usually convertible debentures which yield no interest.

(ii) ***Partly Convertible Debentures or PCD's*** in which a part of the debenture is converted into equity shares and the balance is non-convertible. The convertible part of the PCD is redeemed after the expiry of the specified period. A company may offer PCD's with a buy-back facility also, in which the non-convertible portion can be sold by its holders to the company within a specified period at a pre-determined price.

(3) ***Innovative Debentures:*** Now-a-days companies have come forward to issue a debt security with different alternative and innovative features. Some of these are discussed below:

(a) ***Zero Interest Bonds (ZIB):*** It is a recently popular bond or debenture in India, zero interest bond does not carry any interest but it is sold by issuing company at its eventual maturity value. The difference between the issue price and the maturity value represents the gain or interest by its investors. The investors are not entitled to any interest and are entitled to only repayment of principal sum on the maturity period. The individual investors prefer ZIB because of lower investment cost and the low rate of conversion to equity if ZIBs are fully or partly convertible bonds. ICICI and IDBI usually issue such bonds every year. These ZIB enable the issuing companies to conserve cash during their maturity.

(b) ***Warrants or Optionally Convertible Debentures***: A warrant is an option to buy a number of equity shares (exercise ratio) at the exercise price attached to a non-convertible debenture. It entitles its holders to subscribe to the equity capital of a company during a specified period at a particular price. The holder acquires only the right (option) but he has no obligation to acquire the equity shares. Warrants are generally issued with debentures Warrants are similar to convertible debentures because both give the holders the right (option) to buy equity shares. But warrants can be detached while debentures and conversion are inseparable.

(c) ***Secured Premium Notes (SPN)***: It is a tradable instrument with detachable warrant against which the holder gets equity shares after a fixed period of time. With each SPN, a warrant may be attached to it which will give the holder the right to apply for and get allotment of equity shares after certain period of time by which the SPN will be fully paid up. The investor can plan his tax affairs to minimize tax burden.

(d) ***Deep Discount Bond (DDB)***: It is also like zero interest bond which is sold by the issuing company at its eventual maturity value. The IDBI for the first time issued Deep Discount Bonds

For a deep discount price of Rs. 2,700 an investor gets a bond with a face value of Rs. One lakh. The DDB appreciates to its face value over the maturity period of 25 years. It allows the investor to keep it to maturity or withdraw from the scheme periodically after five years by returning the certificate. The main advantage of DDB is that the difference between the sale price and the original cost of acquisition will be treated as capital gain, if the investor sells the bond on the stock exchange. Thus, the DDB is safe, solid and liquid investment.

(e) ***Floating Rate Bonds (FRBs)***: The interest on such bonds is not fixed. It is floating and is linked to benchmark rate such as interest on treasury bills, bank rate, call rate, maximum rate on term deposits. It is typically a certain percentage point higher than the bench- mark rate. The prices of FRBs tend to be fairly stable and close to par value in comparison with fixed interest bonds. They provide a protection against inflation risk to investors. particularly banks and financial institutions.

(f) ***Easy Exit bond With a Floating Interest Rate***: Such bonds offer easy exit and floating rate of interest. The interest rate is reset every six months. There is early encashment facility for small investors who can encash their bonds up to a specified amount, say. Rs. 1 lakh, any time. However, for holding bonds up to 18 months from the date of allotment, an incentive in the form of additional interest is provided. They also have call and put options.

(g) ***Retirement Bonds***: These are issued at a discount and offer annuity also to investors who are planning for retirement. Investors get a monthly income for a specified period (normally 10 years) after the expiry of a wait period which can be chosen by the investor. Thereafter. investors also get a lump sum amount which is the maturity value of the bond. The investors can also opt for a nil waiting period. There is an early redemption option and call option.

(h) ***Index Bonds***: These give the investors both the security of the debt investment and the potential of the appreciation in the return on the stock market. Typically, an index bond has two parts, a deep discount bond (Part A) and a detachable index warrant (Part B).

Part A is 12-year deep discount bond. It has also a call and put option after six years.

Part B is in the form of an index warrant which gives return in proportion to the increase / decrease in the BSE Sensex after 12 years. The face value of the bond will appreciate the number of times the Sensex has appreciated.

Significance of Debenture Financing

Debentures occupy an important place in company finance. The management uses this source for the supply of finance required for development and expansion of the company, because these are not usually issued at the initial stage. Later on, when income of the company increases, these are redeemed out of internal sources. Various advantages from these debentures are:

(A) From Company's Point of View, debentures confer the following advantages:

(1) ***Capital from Moderate Investors***: Company may raise funds from such investors who prefer safe investment with regular income or who are prohibited from investing in shares. They receive fixed and regular income from these debentures and the refund of capital is safe. Therefore, there is no possibility of losing money.

(2) ***Economy***: Capital is procured at minimum cost by issue of debentures on account of (i) the rate of interest on debentures is lower than the dividend on preference shares; (ii) interest payable on debentures is deductible expenditure, like other expenses, for the calculation of taxable income that results in reducing tax liability, and (iii) the issue expenses and underwriting commission are relatively less. For example, the rate of underwriting commission on shares is 3% whereas on debentures it is 2.5%.

(3) ***Trading on Equity***: By issuing debentures, the company is enabled to trade on equity on account of lower cost of capital. This results in an increase in earnings per share on equity shares.

(4) ***No Interference in Management***: Debenture holders do not enjoy any voting right to control the affairs of the company If interest is paid regularly, the debenture holders can not interfere directly or indirectly in the management of the company. This enables the company to raise additional finance without diluting or weakening the control of existing shareholders

(5) ***Flexibility in Capital Structure***: Debentures provide flexibility in the capital structure of the company as they can be redeemed when there is no need of them. Debentures are a common source of financing for replacement and expansion programmes.

(6) ***Consolidation of Debts***: The rate of interest on small debts of short duration is usually higher than normal rate of interest. But a company can consolidate its several debts of small duration by issuing debentures and thus it can reduce its cost of capital.

(7) ***Boon during Depression***: During depression, the profit earning capacity of the company is low at that time, the investors are not willing to invest in share capital. In such times, debenture capital is the best source of raising finance because of certainty of income and low risk to investors

(B) From Investors' Point of View, the debentures are advantageous on a account of following reasons

(1) ***Fixed and Stable Income***: Debentures carry a fixed rate of interest and the company pays it whether it earns profit or incurs loss. Thus, debentures provide a fixed, regular and stable source of income to its investors. From income point of view, it is the safest source.

(2) ***Safety of Investment***: It is comparatively a safer investment because debenture holders have either a specific or floating charge on all the assets of the company. They enjoy the status of superior creditors in the event of liquidation of the company

(3) ***Liquidity***: Debentures are usually more liquid investment and have greater marketability. An investor can sell or mortgage his debentures to obtain loans from financial institutions. More- over, these debentures can also be sold to the company under its buy-back scheme

(4) ***Other Advantages***: Many investors prefer debentures because of a definite maturity period Moreover, these can be converted into shares, if they are convertible and can be used as collateral security.

Limitations or Disadvantages of Debenture Financing

A debenture is the best source of finance for the company. But if it is used recklessly and out of units it may prove to be a curse to the company. Therefore, it should be used within the limits because debenture financing suffers from certain limitations such as:

(A) From Company's Point of View, the debentures suffer from the following demerits

(1) ***Fixed Burden***: The fixed interest charges and the repayment of principal amount on maturity are legal obligations of the company. They have to be paid even when there are no profit. Hence, it is a permanent burden on the company.

(2) ***Reduction in Credit-worthiness***: Debenture finance reduces the credit standing of the company. Banks and other financial institutions show an unfavourable attitude towards a company whose capital structure is loaded with debentures. Further, default in timely payments of interest and principal also adversely affects the credit worthiness of the firm.

(3) ***Risk of Winding up***: The debenture holders have a right to claim winding up of a company in case the interest on debentures is not paid by the company. Hence, issue of debentures in lean periods is risky.

(4) ***Difficulty in Additional Loans***: The use of debt financing usually increases the risk perception of investors in the company. Moreover, a company cannot raise loans against the security of assets already mortgaged to debenture holders. Because of these factors the company has to pay higher rate of interest on every successive loan than its previous loan

(B) From Investors' Point of View, the debentures are disadvantageous due to following reasons:

(1) ***No Extra Profits***: Debenture holders get a fixed income as interest irrespective of the quantum of profit earned by the company. They have no right to share in the profit and surplus assets of the company beyond the fixed interest and principal amount

(2) ***No Voting Rights***: Debenture holders are merely creditors and not the owners of the company. Therefore, they do not carry any voting right and thus debarred from controlling the affairs of the company

Thus, it is clear that the use of debentures as a source of finance is desirable only when the sales and income of the company are stable and the company has adequate fixed assets for mortgage. In other words, a company whose future expected earnings are not stable or who deals in products with high elastic demand or who does not have sufficient assets to offer as security to debenture holders cannot use this source of raising funds to its benefit.

Q.14 Distinguish Between

(i) Equity Shares and Preference Shares

(ii) Equity vs Debentures

Equity Vs. Preference Shares

Equity shares and preference shares both are the major source of raising long-term capital Differences between the two based on aforesaid analysis are as follows-

Equity Shares	**Preference Shares**
1. Income: Income is not certain as equity shareholders have right on residual income	Income is certain as rate of dividend is predetermined and is paid prior to equity share dividend.
2. Risk: Being owners of business they bear basic risk, hence there is no limit of their profits.	Their share in the risk of the business is of average nature.
3. Control: They have full right to vote, appoint directors and manage the affairs of the company	They have no right to participate in the management of the company
4. Refund of Capital: In case of winding up, they get their capital in the last	They have priority over equity shares in refund of capital
5. Rate of dividend: Rate of dividend varies according to value of assets, earning capacity and stability of the company. Rate is high in prosperity No right to receive arrears of dividend	Rate of dividend is fixed and pre-determined say 9%. No increase in case of prosperity except to participating shares. Unpaid dividend accumulates if shares are cumulative.
6. Voting Power: Enjoy general voting power which is in proportion to paid up capital.	Limited voting power i.e. in case of arrears of dividend and resolutions affecting their rights.
7. Redemption: These cannot be redeemed in life time of the company but the company can buy back a part of it.	These can be redeemed after a certain period under condition of section 80 of Companies Act
8. Suitability: These are suitable for investors who like risk and prefer uncertain income.	These are suitable for such investors who prefer fixed and regular income.
9. Capital Gain: Capital gain is possible during increasing profits by selling at increased market price or by receipt of bonus shares.	Have no share in company's prosperity, capital gain is not possible

DEBT VS. EQUITY

In order to determine the suitability of equity share or debenture for a company, the following factors or distinction should be taken into consideration.

Equity	Debentures
1. Nature of Capital: It is ownership capital which is not paid during the life time of the company.	It is debt capital which is to be repaid after a certain period.
2. Income: It shares in profits as dividends.	Interest is paid at predetermined fixed rate irrespective of profits
3. Risk: It is more risky capital.	Charge is created for principal on assets and for interest on profits. Hence, minimum risk.
4. Control: Equity shareholders have full voting rights to elect directors and participate in management.	No right to participate in management
3. Refund of Capital: Equity share capital is not refunded during the life time of company	At specified period as per terms of issue
6. Taxation Dividend is not deduct- able for calculating taxable income.	Interest on debentures is deductible for calculating taxable income.
7. Issue: Issue of shares at discount is allowed under certain restrictions.	No legal restriction on issue of debentures at premium or discount
8. Issue Time: These are generally issued in the initial stage.	These are issued after expansion of the business
9. Status in Winding up: Claim of shareholders is final	First right in refund of capital

Q.15 Write a detailed Note on

i. **Term Loans**
ii. **Venture Capital**
iii. **Retained Profits**
iv. **Public Deposits**

TERM LOANS

Debentures are usually issued by well-established existing companies for financing additional capital. Newly established companies issue equity or preference shares in the initial stage, but in the present age of inflation only share capital is not sufficient to meet all its requirements on account of increase in project costs. Therefore, long-term loans or term-loans are taken from financial institutions. In India, term loans are also granted by inter- national financial institutions under certain conditions Term loans refer to the borrowed capital of the companies, repayable in not less than one year and normally not more than 10 years. The payment is made from operating income. This finance is obtained to acquire fixed assets and working capital margin.

Characteristics of Term Loan

There are several features of term loan, which differentiate it from other type of loans. These are

(1) ***Objective and Maturity of the Loan***: The loan is given for a specific purpose or a particular project. The maturity period of a term loan may be 6-10 years or even more. Repayment may start after a gap of two or three years after the sanction or utilisation of loan. (2) ***Security for Loan***: All term loans have a first charge on the assets for which the loan is sanctioned. The borrower is also required to create a second charge on other immovable assets. Generally, a margin of 25% is maintained between the value of security and the amount of loan.

(3) ***Rate of Interest*** Rate of interest charged by financial institutions may differ from project to project depending upon the credit worthiness of the borrower.

(4) ***Consortium Lending***: In case of bigger projects, one financial institute may not provide for full requirement of the project. A consortium (group) of different institutions may be constituted to collectively appraise and sanction a term loan for the project. One financial institution may take a role of lead bank.

Sources of Terms Loan

At present a number of financial institutions are providing long-term or term loans to industrial units. These financial institutions may be grouped in the following categories:

►All India Financial Institutions

- Industrial Financial Corporation of India (IFCI)
- Industrial and Credit Investment Corporation of India (ICICI)
- Industrial Development Bank of India (IDBI)
- National Industrial Development Corporation (NIDC) National Small Industries Corporation (NSIC)
- Small Industries Development Bank of India (SIDBI)
- Export Import Bank of India (EXIM Bank of India)

►State-Level Financial Institutions

- State Financial Corporations (SFC's)
- State Industrial Development Corporations (SIDC's)

►Investing Institutions

- Unit Trust of India (UTI)
- Life Insurance Corporation (LIC)
- General Insurance Corporation (GIC)

► Commercial Banks

- Public Sector Commercial Banks

- Private Sector Commercial Banks

Evaluation: The major advantage of term-loans is that it is for a fixed period and is to be paid back out of the cash generated from operations. Terms loans do not cause dilution of control as lending institutions do not have the right to vote. Further, term loan financing saves income tax. However, term loans increase the financial risk of the firm. The term loan agreements, usually, carry restrictive conditions which may reduce managerial freedom.

VENTURE CAPITAL

Venture Capital finance has emerged in India essentially because financial institutions and commercial banks have failed to play their roles properly Inadequacy of capital, focus in low-risk venture, conservative approach, and delay in project evaluation are common features in Indian financial institutions and banks. Venture Capital is long-term financial assistance provided in areas of advance technology, any research and development project, new entrepreneurs, professional and technologists in any field. It is a form of equity capital where the venture capitalists get a return in the form of capital gain. Thus, venture capital is understood as capital that is available for financing new business ventures. It is also often thought of as, "early-stage financing of new and young enterprises seeking to grow rapidly." The National Venture Capital Association defines venture capital as "money provided by professionals who invest alongside management in young, rapidly growing companies that have the potential to develop into significant economic contributors."

Features of Venture Capital

The venture capital financing has several features or characteristics which make it different from other type of financing. Some of these characteristics are-

(1) ***Long Time Horizon***: It is a long-term investment with higher degree of risk. In general, venture capital undertakings take a long time, say 5 to 10 years minimum, to come out commercially successful. Therefore, it has nil liquidity and one needs to wait with patience

(2) ***Lack of Liquidity***: Venture capital financing during early stages of financing during the gestation period of venture capital undertaking, the investment is illiquid.

(3) ***High Risk***: Risk is associated with project, management, product and operations Unlike other projects, the projects that run under venture finance may have a high degree of risk, since their result is probable in nature.

(4) ***High-Tech***: In fact, venture capital finance has emerged to cater to the needs of the first-generation entrepreneurs who are technocrats, having innovative technological business ideas that have not been tapped so for in the industrial field.

(5) ***Equity Participation and Capital Gains***: Venture capitalists invest their money in terms of equity or quasi-equity Hence, they do not look for any dividend or other benefits, but when the project commercially succeeds then they can enjoy the capital gain, which is their main benefit. Otherwise, they will lose their entire investment.

(6) ***Participation in Management***: Venture capital financing is not merely financing but, the venture capitalist can render managerial expertise to entrepreneurs. In this way, it is an active form of investment

Types of Venture Capital Financing

A venture capital firm invests the funds in a venture capital undertaking either in the form of equity share capital or as debt capital, but some common methods of venture capital financing are as follows

(1) **Equity Financing**: As already stated, the venture capital undertaking generally, is a high-risk unit involving long gestation period and requires funds for a longer period but may not be able to provide returns to the investors during the initial stages. Therefore, the venture capital finance is generally provided by way of equity share capital. The equity participation contribution of venture capital firms does not exceed 49% of the total equity capital of venture capital undertakings so that the effective control and ownership remains with the entrepreneur.

(2) **Debt Financing**: Special purpose debt arrangement can be made to suit the requirements of the venture capital undertakings. The ordinary debt instruments may not serve the purpose as the venture capital undertakings does not have incomes in the stages and hence may find problems to pay interest on debt financing. In such a case, a conditional loan may be preferred. This loan is repayable in the form of royalty after the venture capital under-taking is able to generate revenue. No interest may be payable on the loan

(3) **Income Notes**: In case of income notes, the features of conventional loans as well as conditional loans are brought together. The venture capital undertaking may be required to pay interest as well as royalty on the basis of the production/turnover. The rate of interest in case of income notes is generally and substantially low.

Significance of Venture Capital

Since many innovations and inventions cannot he commercialised due to lack of finance, venture capital finance acts as a strong impetus for entrepreneurs to develop products involving newer technologies and try to commercialise them. It promotes entrepreneurs who have innovative concepts and ideas and works as a machinery for rehabilitation of sick companies. It also assists smaller units to upgrade their technology. However, venture capitalists not only provide finance to the needs of various companies, but also managerial, marketing and all other commercial services whenever required.

RETAINED PROFITS

(PLOUGHING-BACK OF PROFITS)

Many businesses adopt a sound dividend policy and set aside their earnings specifically for reinvestment in the business. Retained profit is an internal source of finance. It is a part of the ownership capital of the company. Successful companies make use of retained profits as much as possible for expansion of their business.

Since profits belong to the shareholders, the amount of retained profit is treated as ownership fund which serves the purpose of medium- and long-term finance. It is better than other sources of finance due to the following reasons:

(i) There is no fixed commitment on this source since it is a part of risk capital like equity share capital. Use of retained profit does not involve any cost to be incurred for raising the funds.

(ii) It does not require the security of assets which can be used for raising additional funds in the form of loan (iii) Control over the management of the company remains unaffected. As an internal source, it is more dependable than external sources. It is not necessary to consider investor's preference.

Limitations

Limitations of self-financing or ploughing back of profits are due to excessive resort to this practice of internal financing

1. Tendency towards monopoly due to overinvestment.
2. Accumulation of resources often attract competition in the market.
3. With increased earning shareholders expect a higher rate of dividend to be paid.
4. Danger of overcapitalisation due to frequent issue of bonus shares.
5. Growth of companies through internal financing may attract government restrictions as it leads to concentration of economic power.

PUBLIC DEPOSITS

An important source of medium-term finance which companies make use of happens to be 'public deposits. This requires advertisement to be issued inviting the general public to deposit their savings with the company, The period of deposit may extend up to three years, The rate of interest offered is generally higher that the interest on bank & deposits. Against the deposit a receipt is issued by the company mentioning the amount, rate of interest, time of repayment and, such other information.

Public deposits are not secured loans. The depositors are like ordinary creditors. Hence, only large profitable companies enjoying public confidence are in a position to attract public deposits. Even for such companies there are rules prescribed by Government limiting its use A Company cannot accept deposits in excess of 25 per cent of its paid-up share capital plus reserves. Out of this amount up to 10 per cent can be from the general public Moreover, by 30th April each year the company is required to deposit in a bank or invest in government securities at least 10 per cent of the deposits to be repaid during the next financial year.

Q.16 Explain the concept of Working Capital. Elaborate the determinants of working capital.

A company invests its funds for long-term purposes and for short-term operations. That portion of a company's capital required for minimum stock of raw material to maintain continuity in production, minimum stock of finished goods to fulfil future demand, payment of wages and salaries of the labourers and employees for the processing period and minimum amount of debtors, cash and bank balance is called the 'Working Capital. In other words, working capital is that part of the firm's capital which is required for financing short-term or current assets such

as inventories, debtors, marketable securities and cash. Funds invested in these current assets keep revolving with relative rapidity and are being constantly converted into cash and this cash flows out again in exchange for other current assets. Hence, working capital is also known as 'circulating or revolving capital' or 'short-term capital' or 'liquid capital'.

CONCEPT OF WORKING CAPITAL

The word 'working capital comprises of two words 'working' and 'capital'. In trade and industry, the word 'working with reference to capital means circulation of capital from one form to another form during day-to-day operations of the business, whereas, the word 'capital' refers to the monetary values of all assets (tangible and intangible) of the business. Thus, working capital means that part of the total assets of the business that changes from one form to another form in the ordinary course of business operations. But there is no unanimity with this interpretation of working capital. There is a lot of difference of opinions among accountants, financial experts, entrepreneurs and economists. Therefore, it is essential to understand the different concepts of working capital, important among them are-

- Balance Sheet or Traditional Concept
- Operating Cycle Concept

Balance Sheet or Traditional Concept

According to this concept, working capital depicts the position of the firm at certain point of time. It is calculated on the basis of the balance sheet prepared at a specific date. With this point of view, working capital is of two types, i.e. (i) gross working capital, and (ii) net working capital as discussed below

Gross Working Capital

The gross working capital refers to the firm's investment in current assets. Current assets are the assets which, in the ordinary course of business can be converted into cash during an accounting year These include cash and bank balance, short-term investments, debtorn bills receivable, loans and advances, inventory (raw materials, spare parts, work-in- progress finished goods) etc Economists like Mead, Backer and Field. Bonneville. Mill and Smith are the proponents of this concept. According to this concept, all the current assets of the business whether they have been financed either from long-term funds or from short-term funds, form the working capital of the firm. Hence, the sum of the current assets is the working capital of the business. Following arguments are placed in favour of this concept

• Financing of current assets, whether from long-term sources (shares or debentures) or from short-term loans or creditors, does not diminish their utility.

All current assets are used in the business and enhance the profit earning capacity of the Firm. Therefore, aggregate of current assets should be taken to mean the working capital

• As fixed assets represent fixed or permanent capital, similarly current assets should also represent working capital.

Financial managers are mainly concerned with management of current assets de grow working capital.

The gross working capital de the sum of current assets is a quantitative aspect of working capital which emphasises more on quantity than its qualities. It also gives an idea of total funds required for maintaining current assets. But, it fails to reveal the true financial position of the firm, because every increase in current liabilities will decrease the gross working capital This concept is more appropriate from the management point of view as the management formulates all the plans on the basis of current assets which represent funds available for operations.

Net Working Capital

Net working capital is the difference between current assets and current liabilities or the excess of total current assets over total current liabilities. It may be noted that current liabilities refer to the claims of out- siders which are payable within a short period of normally one accounting year out of current assets of income of the business. These include creditors, bills payable, bank overdraft, outstanding expenses, etc. The extent to which the payments to these current liabilities are delayed, the firm gets the availability of funds for that period. So, a part of funds required to maintain current assets is provided by the current liabilities and the balance (excess of current assets over current liabilities) is provided from long-term sources. Therefore, net working capital may also be defined as, that part of a firm's current assets which is financed with long-term funds. The net working capital may either be positive or negative. When the current assets exceed the current liabilities, the working capital is positive. The negative working capital results when the current liabilities are more than the current assets. This situation being a situation of crisis, does not generally exist in a business firm. The following arguments are put in favour of this concept:

• Excess of current assets over current liabilities is an indicator of the financial soundness and the ability to face depression and contingencies firmly by an enterprise.

DETERMINANTS OF WORKING CAPITAL

Adequate working capital is required for the efficient conduct of a business as evidenced from the aforesaid discussion. But there is no criterion or formula to determine the amount of working capital needs that may be applied to all the firms. The amount of working capital required depends upon a large number of factors and each factor has its own importance. In order to determine the proper amount of working capital of a firm, the following factors should be considered carefully

1. ***Nature of Business***: The amount of working capital is basically related to the nature and volume of business. Firms engaged in public utility services such as railways, transport and electricity supply companies require moderate amount of working capital It is because of cash nature of their business and selling services instead of products. On the contrary, firms producing luxury goods, construction firms, basic steel industry, engineering industries etc. or trading concerns require large amount of working capital since they have to invest substantial amount in current assets such as inventories receivables and cash.

2. ***Size of Business***: Size of the firm is also a determining factor in estimating working capital requirements. The size may be measured either in terms of scale of operations or in assets or sales large firms require more amount of working capital fer investment in current assets and to pay current liabilities that smaller firms. However, in some cases, even a small firm may need more working capital as a cushion against cash flow interruptions

3. ***Changes in Technology***: Changes in technology may lead to improvement in processing of raw material, savings in wastage, higher productivity and more speedy production. All these improvements enable the firm to reduce investment in inventories. Thus, technological changes affect the requirements for working capital. If a firm decides to go for automation, it will reduce the requirements for working capital. If the firm adopts labour intensive process, the requirements for working capital will be larger. The shorter is the manufacturing process due to use of improved technology, the lesser will be the requirements of working capital.

4. ***Length of Operating or Working Capital Cycle***: As explained in operating cycle concept of working capital, the amount of working capital depends upon the length or duration of operating cycle. The speed with which the operating cycle is completed, determines the amount of working capital. The larger is the period of operating cycle, the more is the investment in inventories and wage bills. For instance, a firm manufacturing an aircraft requires a larger amount of working capital than a firm producing confectionery.

5. ***Seasonal Nature of the Business***: In certain industries, demand is subject to wide fluctuations due to seasonal characteristics of production policies The working capital requirements of such industries vary with seasonal variations. A few examples are

(a) In some seasonal industries such as sugar where the demand for the finished goods remains throughout the year, but the production is carried out during a particular season of the year. more working capital is required during the season of production.

(b) In certain industries such as woollen textiles where production is carried on throughout the year but demand of finished products arises during a particular season such a large amount of working capital is required during off season.

(c) In some seasonal industries where production and demand both occur in a particular season like cold drinks and ice factories, a small amount of working capital will be required during that particular season.

In this connection, Nemmers and Grunewald have observed, "if a firm has the choice of maintaining steady production throughout the year, it will require a higher average amount of working capital to finance the longer holdings of inventory Similarly, if a firm has the choice of concentrating production during a few months just before delivery time, it will require lower average amount of working capital"

6. ***Firm's Credit Policy***: Credit policy of the firm also has an impact on the working capital needs A firm following liberal credit policy and thus granting credit facilities to all customers without evaluating the credit worthiness, will require more working capital to carry book debts. On the contrary, a firm that adopts strict credit policy and grants credit facilities to customers with high credit standing, will require less amount of working capital as funds tied-up in receivables will be realised promptly for further uses.

7. ***Terms of Purchase and Sale***: The terms of purchase and sale followed by the firm also affect the quantum of working capital. A firm buying raw materials and other services on credit and selling the finished goods on cash basis will require less investment in current assets. On the other hand, a firm which purchases raw materials on cash basis but sells the finished products on credit basis, will need larger amount of working capital. The period of credit and the efficiency in collection of debts also influence the amount of working capital in a firm. The

terms and conditions of purchase and sale are generally governed by prevailing trade practices and by changing economic conditions.

8. ***Business Cycles***: Business cycles refer to alternate expansion and contraction in general business activities. In a period of boom when the business is prosperous, there is need for larger amount of working capital due to increase in sales and rise in prices of raw materials. The expansion of business units caused by the inflationary conditions creates demand for more working capital. On the contrary. in a period of depression, the business contracts, sales declines and a large amount of working capital is locked as inventories remain unsold and the book debts uncollected. In such cases, shortage of working capital develops and the firm requires more working capital.

9. ***Rate of Growth of Business***: In case of existing businesses, the rate of growth of business directly affects the working capital. If the rate of growth is slow, the working capital requirements can be meet out from ploughing back of profits. But, if the business is expanded at large scale, additional funds will be required to acquire fixed assets along with current assets. It is also to be noted that a growing firm requires additional funds continuously to fulfil the increasing needs of the business.

10. ***Working Capital Turnover***: It implies the speed with which the working capital circulates in the business The rate of turnover of working capital is measured by the ratio of sales to current assets. The faster is the sales, the larger is the turnover, consequently lesser will be the need for working capital and vice-versa.

11. ***Profit Margin***: The amount of working capital required in a firm also depends upon its profit margin. A high rate of profit margin due to quality products or good marketing management of monopoly power in the market, reduces the working capital requirements of the firm, as profit earned in cash is a source of working capital on the contrary, firms earning low margin of profits due to competition or mismanagement need larger amount of working capital.

12. ***Dividend Policy***: It should be noted that whole of the profits earned are not available for working capital purposes as it depends upon the dividend policy pursued by the firm. Distribution of major portion of profits in the form of cash dividend results in a drain on cash resources that reduces working capital to that extent. If the management follows conservative dividend policy and retains larger portion of net profits in the business, the working capital position will be stronger.

13. ***Other Factors***: In addition to the above considerations, there are a number of other factors which affect the requirements of working capital. Important among these factors are (i) rate of industrial development; (ii) means of transport and communication; (iii) co-ordination of activities of the firm; (iv) political stability etc In addition to this, the factors affecting three mas components of working capital de cash, receivables and inventory will also affect the working capital requirements of the firm.

Q.17 Explain the sources of Working Capital.

Short-Term Finance (Working Capital and its Sources)

Funds available for a period of one year or less is called short-term finance. In India, short-term finance is used in finance working capital. Two most important sources for working capital are-

1. **Trade credit**

Trade credit refers to the credit that a customer gets from supplier of goods in the normal course of business. In practice, the buying firms have not to pay cash immediately for the purchases made. This deferral of payment is a short-term financing called trade credit. It is a major source of financing for firms. In India, it contributes about one-third of the short-term financing. Particularly small firms are heavily dependent on trade credit as a source of finance since they find it difficult to raise funds from banks or other sources in the capital markets.

Trade credit is mostly an informal arrangement, and is granted on an open account basis. A supplier sends goods to the buyer on credit which the buyer accepts, and thus, in effect, agrees to pay the amount due as per the sales terms in the invoice. However, he does not formally acknowledge it as a debt, he does not sign any legal instrument. Once the trade links have been established between the buyer and the seller and they have each others mutual confidence, trade credit becomes a routine activity which may be periodically reviewed by the supplier.

Advantages of trade credit

Accordingly, to R.C. Moyer, the major advantages of trade credit are as follows:

(1) Easy availability: Unlike other sources of finance, trade credit is relatively easy to obtain. Except in the case of financially very unsound firms. it is almost automatic and does, not require any negotiations. The easy availability is particularly important to small firms which generally face difficulty in raising funds from the capital markets.

(2) Flexibility: Flexibility is another advantage of trade credit. Trade credit, grows with the growth in firm's sales. The expansion in the firm's sales causes its purchases of goods and services to increase which is automatically financed by trade credit In contrast, if the firm's sales contract, purchases will decline and consequently trade credit will also decline.

(3) Informality: Trade credit is an informal, spontaneous source of finance. It does not require any negotiations and formal agreement. It does not have the restrictions which are usually parts of negotiated sources of finance.

(4) Economy It is an economic source. While availing the credit facility, the company foregoes a discount of 2-3 per cent which it could get in prompt payment of the bill.

However, the liability on account of trade credit cannot be neglected. Payment has to be made regularly. If the company is required to accept a bill of exchange or to issue a promissory note against the credit, payment must be made on the maturity of the bill or note. It is a legal commitment and must be honoured, otherwise local action will follow to recover the dues.

2. ***Accrued Expenses and Deferred Income***

Accrued expenses and deferred income are other spontaneous sources of short-term financing. Accrued expenses are more automatic source since by definition they permit the firm to receive services before paying for them.

Accrued expenses: Accrued expenses represent a liability that a firm has to pay for the services which it has already received. Thus, they represent a spontaneous, interest-force sources of financing. The too important component of accruals are wages and salaries, taxes and interest.

Accrued wages and salaries represent obligations payable by the firm to its employees. The firm incurs a liability the moment employees have rendered set vices. They are however paid afterwards, equally at some Fixed interval like one month. The liability builds up between payable. The longer the payment interval, the greater the amount of provided by the employees.

Accrued taxes and interest constitute another source of financing corporate taxes are paid after the firm has earned profit, these taxes are paid quarterly during the year in which profits are earned This is a deferred payment of the firm's obligation and thus, is a source of finance. Like taxes, interest is paid periodically during a year while the borrowed funds are continuously used by the firm. Thus, accrued interest on borrowed funds requiring semi-annually interest payments can be used as a source of financing for period as long as six months, it is a limited source of short- term financing.

Deferred Income: Deferred income represents funds received by the firm for goods and services which it has agreed to supply in future. These receipts increase the firm's liquidity in the form of cash; therefore, they constitute an important source of financing.

Advance payments made by customers constitute the main item of deferred income. These payments are common in case of expensive products like boilers, turnkey projects, large contracts or where the product is in short supply and the seller has a strong bargaining power as compared to the buyer. These payments are not recorded as revenue until goods and services have been delivered to the customers. They are therefore shown as a liability in the firm's balance sheet.

3. ***Borrowing from Banks or Bank Finance for Working Capital***

Banks are the main institutional sources of working capital finance in India. After trade credit, bank credit is the most important source of financing working capital requirements of firms in India. A bank considers a firm's sales and production plans and the prescribed norms for holding various current assets in determining its working capital requirements. Credit limit is the maximum funds which a firm can obtain from the banking system in practice, banks do not lend 100 per cent of the credit limit, they deduct margin money Margin requirement is based on the principle of conservatism and is meant to ensure security. If the margin requirement is 30 per cent. bank will lend only up to 70 per cent of the value of the asset. This implies that the security of bank's lending should be maintained even if the assets value falls by 30 per cent.

4. ***Operating Profits: Positive operational cash flow generated from day-to-day activities.***

Operating profits, often referred to as operating income or operating earnings, represent the surplus funds generated by a business through its routine operational functions. These profits are the result of revenue earned from selling goods or services minus the costs associated with producing those goods or services.

For instance, consider a small bakery. If this bakery generates $15,000 in revenue by selling cakes, pastries, and other baked goods, and the total cost of ingredients, labor, and other operational expenses amounts to $10,000, then the operating profit is $5,000. This surplus can be utilized for various purposes, such as meeting immediate financial obligations or investing in the expansion of the business.

5. ***Commercial Paper: Short-term unsecured promissory notes issued by creditworthy corporations.***

Commercial paper is a financial instrument issued by large, creditworthy corporations to raise short-term capital. These are unsecured promissory notes with maturities typically ranging from a few days to a few months.

For instance, a technology giant facing a temporary cash shortfall might issue commercial paper worth $1 million to quickly raise funds. Investors purchase this paper, and in return, the company promises to repay the principal along with interest within the specified timeframe.

6. ***Lines of Credit: Pre-established credit lines with financial institutions.***

A line of credit is a flexible financing arrangement between a business and a financial institution. It provides the business with access to a predetermined amount of funds, and the business can borrow and repay within this limit as needed.

Imagine a retail store with a $30,000 line of credit. If the store faces a temporary dip in cash flow, it can borrow from this line of credit to cover operational expenses. The store will then repay the borrowed amount, along with interest, as its cash flow stabilizes.

7. ***Factoring: Selling accounts receivable to a third party at a discount for immediate cash.***

Factoring is a financial practice where a business sells its accounts receivable (unpaid invoices) to a third party, known as a factor, at a discount. This provides the business with immediate cash flow instead of waiting for customers to settle their invoices.

Consider a graphic design agency that has $20,000 in outstanding invoices from various clients. Instead of waiting for these clients to pay, the agency decides to factor the invoices, receiving $18,000 upfront from the factor.

8. ***Working Capital Management: Efficient management of current assets and liabilities.***

Working capital management involves overseeing a company's short-term assets and liabilities to ensure optimal operational efficiency. This includes managing cash, inventory, accounts receivable, and accounts payable.

For instance, a manufacturing company may implement effective working capital management by minimizing excess inventory, negotiating favorable payment terms with suppliers, and promptly collecting payments from customers. This strategic approach helps maintain a healthy balance between liquidity and operational needs.

9. ***Owner's Equity: Capital injections from business owners.***

Owner's equity represents the portion of a business's assets that belongs to its owners. Owners can inject additional funds into the business, increasing their equity stake.

Suppose a small software development startup needs $15,000 for the purchase of new computers and software licenses. The owner might contribute this amount from personal savings, thereby enhancing the owner's equity in the business.

10. ***Government Grants and Subsidies: Financial assistance from governmental entities.***

Government grants and subsidies are financial aids provided by governmental entities to support specific business activities. These funds are often allocated to encourage economic development, innovation, or sustainability.

Consider a renewable energy startup that receives a government grant to support research and development efforts in the field of solar technology. This grant serves as a crucial financial boost, allowing the company to advance its innovative projects.

11. ***Short-term Investments: Investing excess cash in highly liquid securities.***

Businesses often invest surplus cash in short-term, highly liquid securities to earn additional income. These investments can be quickly converted into cash when needed for operational purposes.

Imagine a tech company with $50,000 in excess cash. Instead of letting it sit idle, the company might invest in short-term government bonds, earning interest on the investment until the funds are required for business operations.

12. ***Inventory Financing: Using inventory as collateral for loans or credit.***

Inventory financing involves using the company's inventory as collateral to secure financing. This can be particularly useful for businesses with significant inventory holdings.

Suppose a clothing retailer has a large inventory of winter clothing at the end of the season. To free up cash for other purposes, the retailer might use the inventory as collateral to secure a loan, with the understanding that the loan will be repaid as the winter clothing is sold.

13. ***Supplier Financing: Extended payment terms or financing options from suppliers.***

Supplier financing occurs when suppliers provide extended payment terms or financing options to their customers. This can be beneficial for businesses facing cash flow challenges.

For example, a furniture manufacturer might negotiate with its wood supplier for extended payment terms, allowing the manufacturer to defer payment for raw materials until after the furniture is sold.

14. ***Customer Advances: Upfront payments from customers for goods or services.***

Customer advances involve receiving upfront payments from customers before delivering goods or services. This provides businesses with immediate cash flow.

Consider a custom furniture workshop that requires materials and labor to start a commissioned project. The workshop might request a 50% advance payment from the customer, using these funds to cover initial expenses.

15. ***Grants and Subsidies: Non-governmental grants or subsidies from private organizations.***

In addition to government sources, businesses may receive grants or subsidies from private organizations, non-profits, or industry associations.

Imagine a technology startup focused on environmental sustainability. A non-profit organization interested in promoting green initiatives might provide a grant to support the development of eco-friendly products.

16. ***Leasing: Renting equipment or assets instead of purchasing.***

Leasing involves renting equipment or assets instead of purchasing them outright. This helps businesses conserve cash and manage their capital expenditures.

For instance, a logistics company may choose to lease a fleet of delivery trucks rather than buying them, allowing the company to allocate funds strategically and maintain flexibility in its operations.

17. ***Crowdfunding: Raising funds from individuals through crowdfunding platforms.***

Crowdfunding is a method of raising funds by soliciting small contributions from a large number of individuals, typically through online platforms.

Consider a creative entrepreneur who wants to launch a unique product. Through a crowdfunding campaign on a platform like Kickstarter, the entrepreneur can present the idea to a broad audience, and individuals interested in the product can contribute small amounts to fund its development.

18. ***Angel Investors and Venture Capital: Investments from individuals or firms in exchange for equity.***

Angel investors and venture capital firms provide funding to startups and high-growth companies in exchange for equity ownership.

Suppose a tech startup has a promising idea but lacks the funds to bring it to market. An angel investor or venture capital firm might invest a significant amount in the company in return for a percentage of ownership, providing the startup with the necessary capital to grow.

19. ***Sale of Assets: Selling underutilized or non-essential assets for cash.***

The sale of assets involves liquidating underutilized or non-essential assets to generate cash.

For example, a retail store might decide to sell an extra delivery vehicle that is no longer needed. The cash generated from the sale can then be used to cover immediate expenses or invest in areas that contribute more to the business's objectives.

20. ***Retained Earnings: Reinvesting profits that have not been distributed as dividends.***

Retained earnings are profits that a company has earned but has not distributed to its shareholders as dividends. Reinvesting these earnings into the business can serve as a source of internal financing.

Consider a manufacturing company that, instead of distributing all its profits as dividends, retains a portion to fund the purchase of new machinery. This reinvestment enhances the company's capabilities and competitiveness.

21. ***Convertible Debt: Issuing debt that can be converted into equity.***

Convertible debt is a form of borrowing that can later be converted into equity ownership in the company.

Suppose a startup needs capital but wants to avoid immediate equity dilution. It might issue convertible debt to investors, who can choose to convert their debt into equity in the future, typically when the company reaches a certain valuation or during a subsequent funding round.

22. ***Commercial Mortgages: Long-term financing using real estate as collateral.***

Commercial mortgages involve securing long-term financing by using business real estate, such as office buildings or manufacturing facilities, as collateral.

For example, a retail business looking to expand might secure a commercial mortgage to purchase a larger storefront. The mortgage is repaid over an extended period, and the property serves as collateral to mitigate the lender's risk.

23. ***Joint Ventures and Strategic Alliances: Collaborating with other businesses for mutual benefit.***

Joint ventures and strategic alliances involve businesses coming together for shared projects or partnerships to achieve common goals.

Imagine two technology companies with complementary expertise deciding to form a joint venture to develop a new product. By combining their strengths, they share the costs and risks while potentially reaping greater rewards.

24. ***Insurance Claims: Financial compensation from insurance for covered losses or damages.***

Insurance claims involve seeking financial compensation from an insurance provider for covered losses or damages.

Consider a manufacturing facility that experiences a fire, resulting in damage to equipment and inventory. The business can file an insurance claim to receive compensation for the covered losses, helping to recover and resume operations.

Q.18 Explain the international sources of finance.

The Government of India launched a number of liberalisation measures for globalising the Indian economy. These measures included facilitation of external commercial borrowings and raising of resources for Indian companies from foreign markets Indian companies could only access the Indian capital markets, ie, their sources of finance were restricted within India. With the advent of economic liberalisation, an openness was introduced in the financial system. Indian companies now have the option of accessing the global capital markets. The Government allowed Indian companies to tap international capital markets for raising funds for both debt and equity. The main instruments used by Indian companies to tap international sources of equity were as follows:

- Depository Receipts (DRs):
- Foreign Currency Convertible Bonds (FCCBs).
- Foreign Direct Investment (FDI)

Depository Receipts (DRs)

A DR means any instrument in the form of a depository receipt or certificate created by the Overseas Depository Bank outside India and issued to the non-resident investors against the issue of ordinary shares. A Depository Receipt is a negotiable instrument evidencing a fixed number of equity shares of the issuing company generally denominated in US dollars. DRs are commonly used by those companies which sell their securities in international market and expand their shareholdings abroad. These securities are listed and traded in International Stock Exchanges. These can be either Global Depository Receipt (GDR) or American Depository Receipt (ADR)

(a) ***Global Depository Receipt (GDR)***

Global Depository Receipts are essentially equity instruments created by Overseas Depository Banks (ODBs) which are authorised by the issuing companies in India to issue GDRs outside the country to non-resident investors against the shares of the issuing companies held with the nominated domestic custodian banks. The shares correspond to the GDRs in a fixed ratio, say, of 1 GDR-10 shares. The GDRs could be issued in a negotiable from. GDRs can be redeemed at the price of the corresponding shares of the issuing company ruling on the date of redemption. For all good purposes: GDRs can be treated as direct investment in the issuing companies. There are, however, ceilings on foreign equity participation. They can be traded on international markets. Important features/characteristics of GDR are as follows:

► Participation in P fit: Holders of GDRs participate in the company's profits as equity shareholders.

►Marketing of GDR: GDRs are freely transferable in India without any reference to the issuing company.

► Payment of Dividend: The dividends in respect of the shares represented by the GDR are paid in Indian currency only.

►Voting Right: Holder of GDR does not have voting rights in the company whose shares form the basis of GDR.

►Listing: GDR are listed on the Luxembourg Stock Exchange and/or London Stock Exchange or any other international stock exchange outside India. It can also be traded in private placement market in USA

►Transfer and Cancellation: An investor may transfer a GDR or may get the GDR redeemed or cancelled any time after a cooling period of 45 days. In that case, the Overseas Depository Bank (ODB) shall request the domestic Custodian Bank to cancel the GDR and to get the deposited shares released in favour of non-resident investors.

(b) **American Depository Receipts (ADR)**

American Depository Receipts (ADR) is a negotiable instrument issued by an American Depository Bank. The Depository Bank certifies that the shares of a non-US issuing company are held by the custodian of depository's bank abroad. In case of ADR the shares are not possessed by the depository but are held by an intermediary known as custodian. An ADR can be issued to the USA citizens only and can be listed and traded on a stock exchange of the USA. Thus, ADRs are issued on behalf of an Indian Company for raising funds from the investors of the USA. Like GDRs, ADRs are also treated as foreign direct investment (FDI) in the issuing company. ADRs are listed on New York Stock Exchange, the American Stock Exchange and the National Association of Securities Dealers Association Quotation (NASDAQ).

An ADR represents specified number of shares of the issuing company. It does not carry voting rights. A holder of ADRs can at any time convert them into the number of shares they represent. After conversion, shares are listed and traded on the Indian Stock Exchanges. The dividend on ADRs is payable in the Indian currency.

Difference between GDR and ADR

ADRs are similar to GDRs as they too are used to tap overseas investors. Like GDR's they are global equity offerings. Like GDR's the shares issued by the company are held by an international bank, which receives dividend notices, and reports Though GDR's and ADR's are similar in many respects but they also have their points of differences. ADR's carry more clout with investors as they are listed on one of the major stock exchanges in the US. Since stock exchange regulations are extremely stringent in the US, ADR's are subject to much stricter disclosure requirements than GDR's. Also the annual legal and accounting costs of maintaining an ADR are much higher. ADR enhances shareholders value more than GDR. GDR market is mainly in institutional market with lower liquidity, whereas ADR is more liquid.

Foreign Currency Convertible Bonds (FCCBs)

The FCCB means bonds issued in accordance with the relevant scheme and subscribed by a non-resident in foreign currency and convertible into ordinary shares of the issuing company in any manner, either in whole or in part, on the basis of any equity related warrants attached

to debt instruments. The FCCBs are unsecured, carry a fixed rate of interest and an option for conversion into a fixed number of equity shares of the issuer company Interest and redemption price (if conversion option is not exercised) is payable in dollars. Interest rates are very low by Indian domestic standards FCCBs are denominated in any freely convertible foreign currency.

Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is direct contribution to the equity capital of the company by multinational companies. Quite a large number of companies have expanded their operation beyond their national boundaries. These companies are known as multinational companies (MNCs). Investment in the overseas operations of the MNCs is represented by foreign direct investment. It includes

- Investment for establishment of a new enterprise in foreign county either as a branch or as a subsidiary.
- Acquisition of an overseas enterprise, and
- Expansion of an overseas branch or subsidiary

Prior to 1991, FDI was allowed only on a case-to-case basis, with a normal ceiling of 40% of the total equity capital of the company registered in India. A higher percentage of FDI was permitted in certain industries if the technology was sophisticated and was not available in the country. In the new economic environment, the Government has liberalised the rules pertaining to FDI. The ceiling of 40% has been increased and in certain cases cent-per-cent foreign equity is permitted.

UNIT-5

Q.1 What is Production Management? Write its Characteristics and Importance.

Production is the process of transforming raw materials into finished products for sale. The term production is wide in scope. It includes manufacturing process also by which raw material are transformed into finished goods for final consumption. Land, capital labour. organisation and entrepreneurship are the factors of production, whereas marketing includes market research, personal sales, sales promotion, advertising, publicity and all other activities relating to distribution.

In brief, production refers to a process of fabrication of a product or a physical object through the use of men, material, capital and entrepreneurship for the satisfaction of human wants.

Production Management

Production management refers to a process of production planning organising, coordinating and controlling the operations, so that the goods and services are produced in accordance with the production schedule and specifications at a minimum cost.

Definitions

In the words of Elivood S. Buffa, **Production management deals with decision making related to production process, so that the resulting good, or service is produced according to the specification in the amounts, and by the schedule demanded, and at a minimum cost**".

Nature of Production Process

1. **Interdependence of Functions:**

The interdependence of functions means that each step in the production process relies on the successful completion of the previous one. This ensures a smooth flow of operations.
Example: Think of baking a cake. Mixing the ingredients comes before baking. If you forget to mix, you can't bake a well-blended cake.

2. **Division of Labor:**

Division of labor involves assigning specific tasks to individuals or teams based on their skills, which can enhance efficiency as each person becomes an expert in their assigned area.
Example: In a construction project, one team may focus on laying the foundation, while another specializes in framing walls, allowing for quicker and more specialized work.

3. **Standardization:**

Standardization ensures that processes and products remain consistent. This helps in producing items with predictable quality and characteristics.
Example: Consider a fast-food chain. Each burger is made following the same recipe and using the same ingredients, ensuring a consistent taste across all locations.

4. **Automation:**

Automation involves using machines and technology to perform tasks, reducing the need for manual labor. This can speed up production and reduce errors.
Example: In an automobile manufacturing plant, robots may be employed to weld car frames precisely and quickly, enhancing both speed and accuracy.

5. **Economies of Scale:**

Economies of scale occur when producing larger quantities of a product reduces the average cost per unit. This is because fixed costs are spread over a greater number of items.
Example: A company producing smartphones benefits from economies of scale, as the cost per phone decreases when producing a large batch compared to a smaller one.

6. **Flexibility:**

Flexibility in production allows a business to adapt to changes in demand, design, or other factors swiftly, ensuring responsiveness to market needs.
Example: A 3D printing service can easily shift from producing phone accessories to creating customized home décor items based on customer requests.

7. **Quality Control:**

Quality control involves systematic checks and measures to ensure that products meet predefined standards, minimizing defects and ensuring customer satisfaction.
Example: In a chocolate factory, a quality control team may sample chocolates from each batch to verify taste, texture, and appearance, maintaining consistent quality.

8. **Time Sensitivity:**

Being time-sensitive means completing tasks within specified timeframes to meet customer expectations or adhere to deadlines, ensuring timely delivery of products.
Example: A bakery must efficiently produce and deliver cakes during wedding seasons, ensuring that orders are ready for the special day.

9. **Continuous Improvement:**

Continuous improvement involves an ongoing commitment to finding better ways to do things, fostering innovation and efficiency.
Example: Software developers regularly release updates to improve the functionality and user experience of their applications based on user feedback and changing technology trends.

10. **Globalization:**

Globalization in production involves coordinating activities across different countries to take advantage of diverse resources and markets.
Example: An electronics company may design products in one country, manufacture components in another, and assemble the final product in yet another, leveraging global capabilities.

11. **Sustainability:**

Sustainability in production focuses on minimizing environmental impact through eco-friendly practices, responsible resource use, and waste reduction.
Example: A paper mill may adopt sustainable practices by using recycled fibres in its paper production and implementing energy-efficient processes to reduce its ecological footprint.

<u>Importance of Production management</u>

1. **Achieving production target:**

Production management involves planning and organizing to make sure a company produces the right amount of goods as planned. This is crucial for meeting the organization's goals. For instance, if a smartphone company plans to produce 50,000 phones in a month, production management ensures that this target is met by coordinating various aspects like raw material availability, workforce scheduling, and machine efficiency.

2. **Ensures quality and standard:**

Production management plays a key role in maintaining a consistent level of quality in the products. This involves setting and adhering to certain standards. For example, if a shoe company commits to providing durable and comfortable footwear, production management ensures that every pair of shoes meets these quality standards through rigorous testing and inspection.

3. **Facilitates better inventory control:**

Efficient production management helps in keeping track of the materials needed for manufacturing. This ensures that there are no shortages or excess, preventing disruptions in the production process. To illustrate, a car manufacturing plant plans its inventory of steel, rubber, and other components so that they have enough to build the targeted number of cars without overstocking or running out of essential parts.

4. **Maintains regularity in production:**

Regular production is essential to meet market demands consistently. Production management identifies and addresses any issues that could disrupt the production flow. For instance, a clothing company needs to produce a steady supply of new designs to keep up with fashion trends and consumer demands throughout the year.

5. **Efficient use of plant and machinery:**

Production management focuses on optimizing the use of equipment and machinery to ensure maximum efficiency. In a factory producing electronic gadgets, production management ensures that assembly lines are well-organized, and machines are running smoothly to meet production targets without unnecessary delays.

6. **Prevention of wastage and labor turnover:**

Efficient production management aims to minimize resource wastage and retain skilled workers. In the context of a bakery, production management might implement strategies to reduce leftover ingredients, such as using precise measurements to avoid excess, and ensure that skilled bakers are satisfied with their work conditions to prevent turnover.

7. **Cost reduction and efficiency:**

Production management looks for ways to cut costs while maintaining or improving efficiency. In a printing company, for example, production management might explore cost-effective

printing techniques and streamline processes to produce high-quality prints at a lower cost, contributing to overall profitability.

8. **Creates utilities:**

Production management transforms raw materials into finished products that customers find useful. Think of a mobile phone factory that converts various components like chips, screens, and casings into fully functional smartphones, providing a valuable utility to consumers.

9. **Use of modern and improved technology:**

Embracing new and improved technology is essential for staying competitive. In the context of a textile mill, production management might adopt advanced weaving machines and automation to enhance the quality and speed of fabric production, meeting market demands more efficiently.

10. **A source of employment:**

Production management contributes to job creation by overseeing the production process. For example, a new food processing plant opening in a community generates employment opportunities for local residents, from machine operators to administrative staff, supporting the economic growth of the region.

Q.2 Explain the Scope/Functions & types of Production Management.

Scope or Functions of Production Management

1. Designing the product:

The product design process involves collaboration between the technical department and key experts, such as chief engineers or chemists. It encompasses various elements like deciding the product's appearance, ingredients, and specifications. The design function extends to creating product catalogs, determining formulas, conducting laboratory tests, and estimating production costs. **E.g.,** Consider a chocolate company introducing a new candy bar. The design phase involves not only deciding on the ingredients like cocoa, sugar, and nuts but also determining the bar's shape, packaging, and overall presentation to make it visually appealing to consumers.

2. Production Engineering:

Production engineering focuses on the methods and techniques used in the production process. This includes decisions about machinery, processes, and technologies. Time and motion studies are conducted to identify the most efficient ways of carrying out tasks.

E.g., In an automobile manufacturing plant, production engineering determines the best assembly line layout, the type of welding processes to be used, and the most efficient robotic systems for tasks like painting and welding to optimize the entire production process.

3. Production Planning:

Production planning is a comprehensive process that involves making critical decisions before actual production begins. These decisions include selecting production techniques, determining the quantity and type of items to be produced, identifying necessary machinery, and estimating costs.

E.g., For a smartphone manufacturer, production planning involves deciding on the number of units to be produced, selecting the assembly line configurations, and estimating the costs associated with sourcing materials, labor, and equipment.

4. Production Control:

Production control is an ongoing process that verifies if production aligns with the established plan. It includes steps such as planning, routing (directing the flow of materials through production stages), scheduling (day-to-day planning), despatching (managing production schedules), and inspection to ensure quality standards are met.
E.g., In a pharmaceutical company, production control ensures that each batch of medicine follows the approved formulation, adheres to safety standards, and is dispatched for distribution only after passing rigorous quality checks.

5. Plant Layout:
Plant layout involves arranging machinery, equipment, and materials in an efficient manner within the production facility. A well-designed plant layout reduces production costs by minimizing unnecessary movement and optimizing the flow of materials and workers.
E.g., In a textile mill, an efficient plant layout ensures that spinning machines, weaving looms, and finishing equipment are strategically placed to facilitate a smooth flow of materials from one stage to another, enhancing overall production efficiency.

6. Method Analysis:
Method analysis involves evaluating different production methods to identify the most appropriate and cost-effective approach. This analysis extends to studying plant layout, product design, material handling methods, and overall production techniques.
E.g., In a food processing plant, method analysis may involve assessing different approaches to packaging, labeling, and distribution to identify the most efficient and cost-effective way to bring the final product to market.

7. Quality Control:
Quality control ensures that products meet specified standards from the outset, focusing on making things right rather than identifying and rejecting defective items. It involves rigorous testing and inspection to maintain the desired level of product quality.
E.g., In an electronics manufacturing company, quality control involves testing each electronic component to ensure it meets safety standards, works as intended, and complies with industry regulations before the final product is assembled.

8. Material Handling:
Material handling covers a range of activities related to the movement and storage of materials within a production facility. This includes picking up, moving, and organizing materials efficiently to support the continuous flow of production.
E.g., In an automotive assembly plant, material handling ensures that components like engines, chassis, and body parts move seamlessly from one workstation to another, reducing delays and optimizing the overall production process.

9. Inventory Control:
Inventory control involves managing stock levels to balance the inflow and outflow of materials, ensuring a steady supply for continuous production. It requires maintaining buffer stock to prevent disruptions and maintain a smooth flow of materials.
E.g., In a furniture manufacturing company, inventory control involves tracking the availability of raw materials such as wood, fabric, and hardware to ensure that the production line can operate continuously without delays due to material shortages.

10. Stock-keeping:

Stock-keeping involves systematic management of material storage, including activities like receiving, storing, issuing, and maintaining records. The objective is to provide efficient service to users while keeping the storage area organized.
E.g., In a retail distribution center, stock-keeping involves receiving shipments, checking and organizing products in storage, issuing items based on demand, and maintaining accurate records to ensure a smooth flow of products to retail stores.

11. Work Measurement:
Work measurement, or time study, determines the amount of work a person should accomplish in a day. It involves analyzing the time and motion required for specific tasks to assess worker performance and identify areas for improvement.
E.g., In an assembly line producing electronic devices, work measurement involves studying the time it takes for workers to assemble individual components, helping management assess efficiency, set realistic production targets, and identify opportunities for training or process improvement.

12. Wage-Incentive Administration:
To motivate workers, wage-incentive administration introduces incentive plans tied to productivity. This could involve bonuses or rewards based on achieving production targets or maintaining a high level of efficiency.
E.g., In a garment manufacturing factory, wage-incentive administration might involve offering bonuses to sewing machine operators who consistently meet or exceed daily production quotas, providing motivation for increased productivity.

13. Cost Control:
Cost control focuses on optimizing the utilization of production resources to evenly distribute fixed costs. This involves developing efficient plant layout systems, implementing effective inventory control, and extending the life of machinery to maximize production at lower costs.
E.g., In a steel manufacturing plant, cost control measures may include implementing energy-efficient processes, optimizing the use of raw materials, and maintaining machinery to reduce downtime, all contributing to lower production costs.

Types of Production Process

1. Mass Production:

Mass production is a continuous process where all workers collaborate to create a large quantity of the same item. The focus is on maintaining consistency in product forms and sizes.
E.g. Consider a bakery that consistently produces a significant quantity of identical loaves of bread simultaneously. Each worker plays a specific role in the production line, contributing to the uniformity of the final product.

2. Craft Production:
Craft production involves crafting products individually, with careful attention to detail. This method is often employed for personalized or customized orders, and it is prevalent in the creation of artisanal or handcrafted goods.
E.g. Imagine an artisan crafting pottery by hand in a small studio. Each piece is unique, showcasing the artisan's skill and allowing for a personal touch that mass production may lack.

3. Batch Production:

Batch production is akin to mass production but involves organizing production into batches. Products are grouped based on characteristics like size or colour and produced in stages, allowing for some customization within each batch.
E.g. Think of a T-shirt manufacturer using batch production to screen-print T-shirts in different sizes and colours in separate batches. This method offers flexibility while maintaining some level of efficiency.

4. Job Production:
Job production is characterized by the creation of a limited quantity of items, often tailored to specific customer preferences. It is a small-scale, personalized production method where one job is completed before moving on to the next.
E.g. Picture a tailor crafting a custom-made suit for an individual customer. The process is detailed, catering to the unique measurements and design preferences of the client.

5. Service Production:
Service production involves automated services triggered by customer actions, particularly prevalent in online services. The goal is to streamline the process from order placement to product delivery.
E.g. Consider online platforms like Amazon, where the entire ordering and delivery process is automated. Customers experience a seamless journey from selecting products to receiving their orders at their doorstep.

6. Mass Customization:
Mass customization combines aspects of craft production with large-scale manufacturing. It allows for customization on shape, colour, pattern, etc., for a considerable number of similar items.
E.g. Think of a company producing customized 3D-printed phone cases in large quantities. While the customization options are diverse, the production remains efficient and caters to a broad customer base.

7. Continuous Production (or Process Production):
Continuous production involves a non-stop, 24/7 process primarily handled by machines. This method is common in industries with homogeneous products, ensuring a consistent output.
E.g. Visualize the continuous brewing of beer in a brewery, where the production process runs continuously. This approach is well-suited for products with standardized features.

8. Project- or Job-Based Production:
Project- or job-based production focuses on creating one-of-a-kind items, with only one unit manufactured at a time. It often requires highly skilled or specialized workers.
Examples: Consider the construction of a custom-designed home, where each detail is tailored to the client's specifications. Similarly, designing tailored outfits involves skilled artisans creating unique clothing pieces.

9. Unit or Job Type of Production:
Unit production involves creating a single unit of a product at a time. This method is commonly observed in small businesses or premium companies catering to individual preferences.
E.g. Think of a tailor crafting a unique outfit for an individual customer or a premium computer company like Dell allowing customers to customize laptops based on specific preferences.

Q.3 What is Production planning and its control? Discuss its Objectives & Scope.

Production Planning and Control

Production planning is a management function that sets levels and limits for manufacturing operations over a future period. It's a process where production management decides what, when, and where items should be produced and assembled. This includes creating paperwork, specifications, and industrial details needed to execute predetermined plans. Production planning provides essential data to manufacturing units, guiding them in performing the prescribed work and collecting performance reports for future operations.

Production control is the process of planning production in advance of operations, establishing the exact route of each individual item or part thereof. It consists of a group of activities of individual production orders, releasing them for production and follow up of activities. This controlling process change the form of raw materials to finished product It also includes the process of planning and time scheduling of production and efficient coordination of manufacturing programme

Definition:

In the words of E.F.L. Brech, "Production planning which decides and issues schedules for when work is to be done and covers materials and stock records. Preparation of long- and short-term manufacturing programmes, shop and machines loading and progress chasing."

In the words of Bethal, Atwater, Smith and Stackman, Production planning is a series of related and coordinated activities performed by not one but a number of different departmental groups, each activity being to systematise in advance the manufacturing efforts in its area."

In the words of Bethel and others: "Production control regulates the orderly flow of materials in the manufacturing process from the raw state to the finished product. It takes the influx of sales orders, boils them down into production orders and feeds them to the plant at a rate and in a sequence that enables the plant to digest them most readily and within a minimum of internal disorders"

Objectives of Production Planning

1. **To determine the production of goods and services based on market forecasting:**

Production planning begins with a careful analysis of market forecasts. This involves studying consumer demands, trends, and preferences to estimate the quantity of goods or services needed. The aim is to align production with anticipated market requirements.

> **E.g.,** A smartphone manufacturer analyzes market trends, customer preferences, and competitors' offerings to determine the quantity and features of smartphones to produce in the upcoming quarter.

2. **To produce goods and services in line with market expectations:**

The objective is to ensure that the produced goods and services meet the quality, size, design, and price range anticipated by the market. This involves aligning production specifications with the preferences and expectations of potential consumers.

> **E.g.,** A clothing manufacturer produces garments with specific designs, sizes, and quality standards that are in line with the latest fashion trends and consumer preferences.

3. **To study machines, equipment, and tools required for production:**

Production planning involves a thorough examination of the machinery, equipment, and tools necessary for the production process. This ensures that the production facilities are equipped with the appropriate technology to meet quality and efficiency standards.

E.g., An automobile manufacturer assesses the latest technology in robotics and assembly line equipment to determine the most efficient tools and machines for producing vehicles.

4. To determine the number and quality level of workers:

Planning involves assessing the quantity and quality of the workforce required for production. It includes evaluating qualifications, experience, and skill levels to ensure that the workforce can efficiently contribute to the production process.

E.g., A construction company plans for the number of skilled laborers needed for a building project and provides training to workers to enhance their skills.

5. To study production methods or techniques:

Production planning includes a comprehensive study of various production methods and techniques. This ensures that the organization adopts the most efficient and cost-effective processes to achieve its production objectives.

E.g., A food processing company explores different techniques for preserving and packaging food products to extend shelf life and meet market demands.

6. To study the requirements of buildings and facilities:

Planning involves studying the infrastructure needs such as buildings, production rooms, and warehouses. This ensures that the physical environment supports the production process and meets safety and regulatory standards.

E.g., A pharmaceutical company plans the construction of cleanrooms and sterile production facilities to meet stringent regulatory requirements for drug manufacturing.

7. To enable large-scale production at minimum costs:

The objective is to plan production processes in a way that allows for economies of scale, minimizing per-unit production costs. This involves optimizing resource utilization and improving efficiency.

E.g., An electronics manufacturer plans production in large batches to benefit from bulk purchasing of components, reducing overall production costs.

8. To plan for commencing production as early as possible:

Production planning aims to create schedules and timelines that allow for the timely commencement of production. This ensures that production activities align with market demand and delivery schedules.

E.g., A seasonal toy manufacturer plans production well in advance to start manufacturing holiday-themed toys, ensuring they are available in stores before the holiday season begins.

9. To ensure effective use of plant and machinery:

Planning involves optimizing the use of plant and machinery to enhance efficiency and productivity. This includes scheduling maintenance, upgrades, and ensuring that equipment is used to its full capacity.

E.g., An oil refinery plans routine maintenance schedules for its processing units to prevent downtime and ensure continuous, efficient production.

10. To complete customer orders on time:

The objective is to plan production schedules in a way that fulfills customer orders within the specified timeframes. This involves aligning production with supply schedules to meet customer expectations.

E.g., An e-commerce fulfilment center plans production and logistics to ensure that customer orders are processed and shipped within the promised delivery window.

11. To maintain coordination and balance between different departments:

Production planning ensures coordination and harmony among various departments involved in the production process. This includes aligning efforts to avoid bottlenecks and maintain a seamless workflow.

E.g., In an automotive manufacturing plant, production planning coordinates efforts between the production, engineering, and quality control departments to ensure the smooth assembly of vehicles.

12. To provide manuals/directories to officers and foremen:

Production planning involves creating manuals and directories that guide officers and foremen in executing production plans effectively. These resources serve as reference materials for standardized procedures.

E.g., A chemical manufacturing plant provides manuals to production supervisors detailing safety protocols, production procedures, and troubleshooting guidelines.

13. To reduce labor costs:

Production planning aims to bring down labor costs by evaluating the nature and magnitude of various input factors. This includes optimizing workforce utilization, reducing idle time, and improving overall labor efficiency.

E.g., A textile factory plans shifts and work schedules to ensure a balanced workload, reducing overtime costs and improving overall labor productivity.

Scope of Production Planning

1. **Forecasting Demands:**

Forecasting demands involves analyzing historical sales data, market trends, and consumer behavior to predict the quantity of goods or services that customers are likely to purchase. This process allows companies to align their production levels with anticipated market needs, avoiding both excess inventory and stock shortages.

E.g. A smartphone company may use past sales data, consumer surveys, and industry reports to estimate the demand for its new model. This information helps in determining the appropriate production quantity to meet consumer expectations without overproducing.

2. **Determining Production Volume and Quality:**

Once demand is forecasted, decisions on the volume of production and quality standards are made. Production volume is about setting the right quantity to meet market demand, while quality standards ensure that the produced items meet specific criteria for durability, performance, and safety.

E.g. An automobile manufacturer might decide to produce 5,000 units of a particular car model to align with forecasted demand. Simultaneously, they set quality standards to ensure that each car meets safety regulations and performance expectations.

3. **Selecting Production Techniques:**

Selecting the appropriate production technique involves evaluating different methods such as batch production, mass production, or just-in-time manufacturing. This decision is influenced by factors like the complexity of the product, available resources, and desired production efficiency.

E.g. A company producing custom-designed furniture might choose batch production to accommodate various customer preferences, whereas a company producing standardized electronic components might opt for continuous production to maximize efficiency.

4. **Plant Layout:**

Plant layout planning involves organizing the physical arrangement of machinery, workstations, and storage areas within the production facility. The goal is to optimize the flow of materials and personnel to enhance efficiency and minimize production delays.

E.g. In a food processing plant, the layout might be organized to facilitate the sequential processing of raw materials into finished products, reducing the time and effort required for material handling.

5. **Material Management:**

Material management ensures the timely availability of raw materials and components needed for production. It includes processes such as procurement, storage, and inventory control to maintain a steady production flow.

E.g. A toy manufacturing company must carefully manage its inventory of plastic, metal, and electronic components to avoid production delays. Effective material management ensures a continuous supply of materials for uninterrupted production.

6. **Product Design Based on Demand:**

Adapting product design based on customer demand and market trends ensures that the produced goods align with consumer preferences. This requires a flexible approach to design that can respond to changing customer needs.

E.g. A tech company may modify the design of its smartphones to incorporate new features or styles based on customer feedback and emerging trends in the electronics market.

7. **Internal Transport System:**

Planning the internal transport system involves determining how materials and components move within the production facility. This includes the use of conveyors, forklifts, or automated systems to streamline the flow of materials.

E.g. In an automotive assembly plant, a well-designed internal transport system ensures that components move seamlessly from one production station to another, reducing bottlenecks and increasing overall efficiency.

8. **Warehousing and Inventory Control:**

Establishing effective warehousing involves creating storage facilities for raw materials and finished goods. Inventory control is the ongoing process of managing inventory levels to prevent stockouts or overstock situations.

E.g. A clothing retailer maintains a warehouse to store seasonal inventory, implementing inventory control measures to avoid excess stock that may go unsold or shortages that could result in lost sales opportunities.

9. **Routing and Timing of Production Process:**

Routing and timing involve planning the sequence of production operations and determining the appropriate time for each step. This ensures a smooth and efficient production process with minimal delays.

E.g. In a manufacturing plant producing consumer electronics, the routing and timing plan specifies the order in which components are assembled, tested, and packaged to meet production deadlines.

10. **Distribution of Resources:**

Allocating both physical resources (machinery, equipment) and human resources involves strategically assigning equipment and personnel to different tasks based on their skills and the requirements of the production process.

E.g. A construction company allocates specific machinery and skilled workers to different construction sites based on the unique demands and complexities of each project.

11. **Formulating Alternative Plans:**

Formulating alternative plans involves preparing for unforeseen events or changes in the production environment. This proactive approach ensures that the production process can adapt quickly to unexpected challenges without significant disruptions.

E.g. A manufacturing company may have contingency plans in place for a sudden increase in demand, supply chain disruptions, or equipment failures, allowing them to respond swiftly and maintain production continuity.

Q.4 Discuss the Process of Production Planning & control.

Planning and Control of Production Process/ Functions of Planning and Control of Production

Production planning and control (PPC) involves the planning of production, decision on sequence of operations to achieve what has been planned, the setting of starting and finishing time for production, the issue of the necessary orders to commence operations, and follow up action to check the progress of operations.

1. Demand Forecasting:

Demand forecasting is the initial and crucial step in production planning and control. It involves analyzing historical data, market trends, and customer demand patterns to predict future product demand. This prediction serves as a foundation for creating an effective production plan.
E.g., A smartphone manufacturer might use past sales data, market research on emerging trends, and feedback from customers to forecast the demand for their latest model, helping them plan production accordingly.

2. Master Planning:

Master planning involves creating a production plan by gathering key information from various sources, including sales data and engineering specifications. This phase simplifies the production process by answering fundamental questions about what, when, and how to produce.
E.g., In an automobile manufacturing company, master planning considers factors like the number of cars to be produced, promised delivery dates, and technical specifications from the engineering department to outline a comprehensive production plan.

3. Material Requirements Planning (MRP):

MRP calculates the materials needed for production based on the master plan. It considers factors such as lead times, current inventory levels, and production constraints to generate procurement recommendations for materials.
E.g., In a furniture manufacturing facility, MRP would assess the quantity and type of wood, fabric, and hardware required for upcoming production cycles, ensuring that materials are available when needed.

4. Capacity Planning:

Capacity planning involves assessing production capacity and resource availability, including labor, machines, and equipment. The goal is to ensure that production schedules can be met with existing resources and to identify any potential constraints.
E.g., A food processing plant would engage in capacity planning to confirm that the production line can handle the required volume of processed goods without exceeding the capabilities of available machinery.

5. Routing:

Routing determines the precise path that raw materials take to become finished products. This involves planning the entire production process, selecting the most efficient order of operations, and ensuring the optimal use of resources.
E.g., In a clothing manufacturing facility, routing would involve planning the sequence of cutting, sewing, and finishing operations to maximize the efficiency of machinery and personnel.

6. Scheduling:

Scheduling determines the time required for each production operation to be completed. It focuses on optimizing the timing of operations to meet overall production timelines. This involves creating master schedules, daily schedules, and operational schedules.
E.g., In an electronics assembly line, scheduling ensures that each step in the production process, from component installation to quality checks, is allocated an appropriate amount of time to meet overall production targets.

7. Loading:

Loading is where scheduling and routing plans are put into action. It involves examining the amount of work assigned to personnel or machines at each routing point, considering factors like time needed for tasks, overall workload capacity, and resource availability.
E.g., In an automotive manufacturing plant, loading would determine the allocation of tasks to different workstations, considering factors like assembly line speed and the availability of skilled workers.

8. Dispatching:

Dispatching is the process of initiating production activities by issuing orders and instructions according to the pre-established schedule. This includes purchasing necessary tools before they are needed and providing workers with work orders and blueprints.
E.g., In a construction project, dispatching involves procuring necessary construction materials ahead of time and providing workers with detailed instructions and plans to commence work on schedule.

9. Follow Up:

Follow-up involves analyzing the manufacturing process post-completion to identify any inefficiencies and seek opportunities for improvement. It ensures that production activities align with the schedule and meet delivery deadlines.
E.g., After completing a batch of electronic devices, follow-up in a manufacturing plant would involve reviewing the production process to identify any bottlenecks or areas where efficiency could be further enhanced.

10. Quality Control:

Quality control measures are implemented to maintain product quality and adherence to standards. It involves inspections, tests, and audits throughout the production process to identify and rectify any quality issues.
E.g.,

In a pharmaceutical manufacturing facility, quality control includes rigorous testing of each medication batch to ensure it meets safety standards and specifications before being released to the market.

11. Performance Monitoring and Improvement:
Performance monitoring involves measuring key performance indicators (KPIs) such as production output, cycle times, and resource utilization. The data is analyzed to identify areas for improvement, leading to the implementation of process enhancements or corrective actions.
E.g., In an aerospace manufacturing plant, performance monitoring would track the efficiency of aircraft assembly, identifying areas where production output could be increased or resource utilization optimized.

12. Feedback and Continuous Improvement:
Continuous improvement involves gathering feedback from various sources, including production activities and customer input. This information is used to refine and optimize production planning and control processes continuously.
E.g., A consumer electronics company might gather feedback from customer reviews and production teams to identify ways to enhance product quality, streamline production processes, and improve overall efficiency.

Q.5 Write the Importance of Production Planning & control. Also Write the Components of Production Planning & Control.

Importance of Production Planning

1. Achievement of Objectives:
Production control ensures that the company meets its production targets according to the planned schedule. This involves coordinating various aspects of production to efficiently reach predetermined goals.
E.g., Suppose a toy manufacturing company aims to produce 10,000 units of a new toy within a month. Production control ensures that each stage of the manufacturing process aligns with the schedule to meet this target.

2. Production Planning:
An effective production control system aids in the creation of well-thought-out production plans. This helps minimize the chaos in production orders and ensures a streamlined and organized manufacturing process.
E.g., In a clothing factory, production control assists in planning the production of different clothing lines, such as shirts, trousers, and jackets, ensuring a balanced and efficient workflow.

3. Production of Good Quality Products:
Production control plays a crucial role in upholding the quality standards set in production planning. This commitment to quality enhances the company's reputation in the market.
E.g., Consider a smartphone manufacturer that promises specific features and performance. Production control ensures that each smartphone leaving the assembly line meets the expected quality standards.

4. Inventory Control:

Production control is instrumental in managing inventory by aligning raw material procurement with production plans. This ensures that the right amount of materials is ordered and used efficiently.
E.g., If a furniture manufacturer plans to produce a specific number of chairs and tables, production control ensures that the necessary wood, upholstery, and other materials are acquired in the correct quantities.

5. Regularity in Production:
Production control maintains a consistent and uninterrupted production flow by identifying and resolving issues before they disrupt the manufacturing process.
E.g., In an automobile assembly line, production control monitors the machinery, detects potential malfunctions early, and addresses them promptly to prevent any interruptions in the production of vehicles.

6. Better Customer Services:
Production control ensures timely production and delivery, leading to improved customer services. This reliability in meeting delivery schedules enhances customer satisfaction.
E.g., For an online electronics retailer, production control ensures that the ordered products, such as laptops and smartphones, are manufactured and delivered as per the committed timeline.

7. Better Use of Plant and Machinery:
Production control maximizes the utilization of workers, plant, and machinery by optimizing production capacity. This results in increased efficiency and reduced idle time.
E.g., In a food processing plant, production control ensures that machines operate at their maximum efficiency during each phase of production, from processing to packaging.

8. Prevention of Mishandling of Production:
Production control systems proactively prevent disruptions and mishandling in the production process by identifying and addressing issues before they escalate.
E.g., If a pharmaceutical company relies on precise temperature control during drug manufacturing, production control implements measures to prevent equipment malfunctions that could compromise the production process.

9. Establishment of Industrial Rhythm:
An effective production control system establishes a consistent industrial rhythm, ensuring a smooth and predictable workflow. This helps maintain efficiency in operations.
E.g., In a textile mill, production control ensures that each step of fabric production, from spinning to weaving, follows a regular and efficient rhythm, optimizing overall output.

10. Prevention of Wastage and Labor Turnover:
A good production control system minimizes material wastage and prevents excessive labor turnover, promoting efficient resource utilization and a stable work environment.
E.g., In an automotive assembly plant, production control avoids overordering parts, reducing material wastage, and ensures a steady work environment, minimizing the need for frequent hiring and training of new workers.

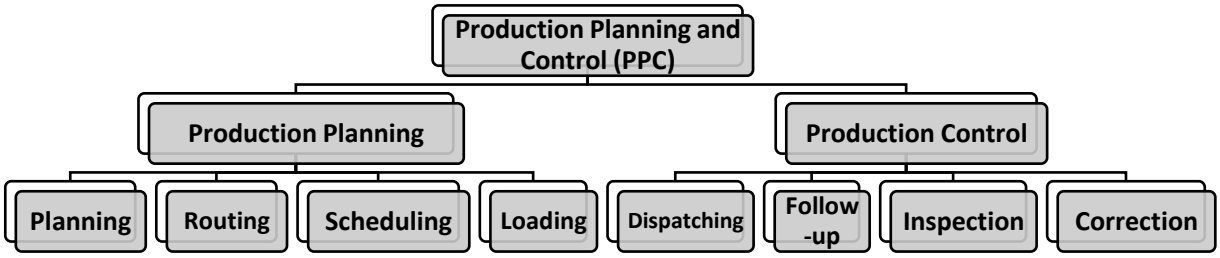
11. Cost Reduction and Efficiency in Production:
Effective production control enhances the efficiency of the production process, leading to cost reduction through optimized resource usage and streamlined operations.

E.g., If a solar panel manufacturing plant optimizes its production process through production control, it can reduce costs by maximizing the efficiency of equipment, reducing energy consumption, and minimizing waste.

Components of Production planning and control

Production Planning and Control (PPC)

Production Planning and Control (PPC) is an indispensable aspect of manufacturing, analogous to tuning a guitar. It kicks off after finalizing product design and production processes, focusing on optimizing efficiency and economic benefits.



1. Production Planning:
Planning acts as the blueprint for transforming raw materials into a finished product, ensuring a streamlined workflow. In automotive manufacturing, meticulous planning ensures the efficient assembly of various components.
Characteristics:
Ensuring timely availability of materials.
Maximizing the use of resources.

Sub-stages of Planning:

- **Planning**

- **Routing:**

It involves planning the precise route for the product on the production line. In electronics manufacturing, it includes determining the most efficient sequence of tasks for optimal utilization of machines and resources.
E.g., In smartphone manufacturing, routing guarantees that each component follows the most efficient path on the assembly line.

- **Scheduling:**

Scheduling determines the time required for each task. In textiles, it prioritizes tasks and workflow based on time and importance.
E.g., In clothing production, scheduling ensures that cutting, stitching, and finishing are sequenced appropriately to meet deadlines.

- **Loading:**

Loading is the execution of scheduling and routing plans. In a garment factory, it involves checking resource allocation for maximum efficiency.
E.g., In shoe manufacturing, loading ensures that each workstation has the necessary materials and workforce to maintain a steady production pace.

2. Production Control:
Once the plan is in action, control monitors and adjusts processes to ensure alignment with the plan. It includes steps like dispatching, follow-up, inspection, and correction.

- **Characteristics:**

Regulating production inventory management.
Optimizing resource and time utilization.

Sub-stages of Control:

- **Dispatching:**

Dispatching implements production orders to commence operations. In electronics manufacturing, it involves issuing instructions for each operation.
E.g., In computer assembly, dispatching ensures that each workstation receives instructions to assemble specific components.

- **Follow-up:**

Follow-up monitors progress and identifies bottlenecks. In car manufacturing, it helps ensure operations align with the blueprint.
E.g., In aircraft manufacturing, follow-up ensures that each stage of assembly progresses according to the planned schedule.

- **Inspection:**

Inspection conducts audits and inspections to maintain quality standards. In food production, this ensures adherence to quality parameters.
E.g., In chocolate manufacturing, inspection involves regular checks on ingredients, temperatures, and machinery to guarantee consistent product quality.

- **Correction:**

Correction is the response to inspections. In pharmaceuticals, it involves adjusting routes, rescheduling, and rectifying deviations for smooth production.
E.g., In drug manufacturing, correction ensures that any deviations in the production process are promptly addressed to maintain product efficacy and safety.

Q.6 <u>Explain How to make PPC effective?</u>

1. Complete Knowledge of Products: Understanding what products need to be made is crucial. For instance, a furniture company making custom pieces must know about various furniture types and customer preferences. This ensures each piece meets customer needs.
2. Knowledge of Machines and Processing Units: Knowing about production machines is essential. In a car assembly, understanding the types and speeds of machines helps avoid delays.
3. Understanding Time Requirements: Knowing how long each part takes is vital. In watchmaking, understanding assembly times helps in creating realistic schedules.
4. Knowledge of Materials: Being informed about materials is critical. In textiles, knowing yarn and dye stock levels prevents delays.
5. Understanding Labor Availability: Knowing worker availability is essential. In construction, understanding labor helps in effective task scheduling.
6. Knowledge of Manufacturing Operations: Understanding how to make each part is key. In electronics, knowing tools for circuit board assembly ensures efficiency.
7. Standardization of Processes: Making things the same way every time is important. In food processing, standardizing recipes ensures consistent product quality.
8. Committed Labor Force: Having a dedicated workforce is crucial. In garment factories, committed workers help meet deadlines.

9. Management Recognition: Ensuring bosses understand planning's importance is vital. In car manufacturing, this encourages investments for efficiency.
10. Dedicated PPC Department: Having a special team for planning is crucial. In aerospace, this team works with different departments for efficient planning.
11. Effective Delegation of Authority: Giving planning teams decision-making power is important. In computer manufacturing, it helps adjust plans quickly.
12. Integration with Other Departments: Working closely with other parts of the company is crucial. In pharmaceuticals, it ensures plans match the budget.
13. Modern Reporting and Control Techniques: Using new tools for tracking and fixing problems is crucial. In electronics manufacturing, real-time data helps identify and fix issues fast.

Q.7 What is Quality Control? Write the importance of Quality Control. Also Discuss the Steps of Quality Control.

Quality refers to the overall features and aspects that describe a product. These qualities are usually specific characteristics like size, colour, weight, and others. It's important that these characteristics can be measured objectively, although there are cases where subjective measures might be needed, but these should be kept to a minimum.
The importance of quality cannot be stressed enough. One advantage of having a high-quality product is that it enhances productivity. When a product is of better quality, it reduces the expenses related to repairs, training, waste, fixing mistakes, and guarantees. This improved productivity leads to higher profits and helps in building customer loyalty.

Quality Control involves ensuring that products meet specific standards based on customer demands, sales, engineering, and manufacturing requirements. Instead of just identifying and rejecting defective items, it focuses on ensuring that things are done correctly from the start. It's a set of techniques used in industrial management to consistently produce products of acceptable quality. The main aim is to establish a standard for the product.
In the broader context, an industry's objective is to create a product with quality integrated into its design, construction, and maintenance at the most efficient cost. In industrial terms, the process of assigning responsibility and authority for management activities, freeing management from unnecessary details while still ensuring satisfactory results, is known as 'control.' Simply put, the method for addressing the variable of industrial quality is referred to as 'Quality Control.'

Definitions

In the words of Stanley Oliver, "In its broadest sense, quality control is a technique which enables products to measure up to customer's specifications."

1. **Determining the Standard of Items:** Quality control aims to establish a set standard for the items a company produces. This involves defining the specific characteristics and features that a product should possess. For example, if a company manufactures smartphones, the standard could include criteria such as screen resolution, battery life, and camera quality.
2. **Arranging Production According to Standard:** Once the standard is set, quality control ensures that the production process aligns with these predetermined specifications. This means that during manufacturing, every step and component should meet the defined

standards. For instance, in automobile production, the alignment of parts and the precision of assembly would adhere to predetermined standards.

3. **Checking Deviations from Quality:** Quality control involves constant monitoring to identify any deviations from the established quality standards. If a product falls below the set criteria, it is flagged for correction or rejection. In food production, for example, if a batch of cookies is found to have an unusual taste or texture, it would be flagged for further inspection.
4. **Determining Tolerance Limits for Deviations:** Quality control establishes tolerance limits, indicating the acceptable range of deviations from the standard. This is crucial because not every product can be absolutely identical. Using the example of clothing manufacturing, slight variations in color or size within a specified range may be deemed acceptable.
5. **Evaluating the Production Process:** Quality control involves assessing the entire production process to ensure that it consistently meets quality standards. In electronics manufacturing, for instance, this could involve evaluating the efficiency of soldering connections on circuit boards to avoid defects.
6. **Presenting Suggestions for Improvement:** Quality control is not just about identifying issues but also about proposing improvements. Teams may analyze data and suggest modifications to the production process. For instance, in car manufacturing, if a certain model consistently faces issues with a particular component, the quality control team may recommend design changes or better materials.
7. **Increasing Customer Satisfaction:** By maintaining and improving product quality, quality control directly contributes to customer satisfaction. For a software company, this might mean minimizing bugs in a new software release to enhance the user experience.
8. **Increasing Sales and Goodwill:** A company that consistently produces high-quality products gains a positive reputation, leading to increased sales and goodwill. In the food industry, if a brand is known for producing consistently tasty and safe products, consumers are more likely to choose that brand over competitors.
9. **Reducing Over Expenses and Wastages:** Quality control helps in identifying and rectifying issues promptly, reducing the likelihood of producing defective goods. This, in turn, minimizes expenses related to rework, repairs, and waste. In manufacturing, if defects are detected early, it prevents the production of entire batches of faulty products.
10. **Stabilizing Competitive Position:** By ensuring that products meet or exceed industry standards, quality control helps a company maintain a stable and competitive position in the market. In the smartphone industry, for example, consistently delivering innovative features and reliable performance helps a company stay competitive in the market.

NEED AND IMPORTANCE OF QUALITY CONTROL

Quality control is one of the important functions of production management Quality control is that basic function that not only benefit the customers, but also to the firm. George S. Rodford has rightly said, "It is general experience that economy of production distribution and consumption are greatest when the products of industry are definite and of uniform quality that is of standardised quality."

1. **Increase in Sales:** Quality control ensures the production of goods with consistent standards, attracting customers who prefer reliable and high-quality products. For instance, a smartphone brand known for its consistent performance gains increased sales.
2. **Minimize Cost of Production:** Quality control identifies and eliminates inefficiencies, reducing waste and duplication of activities. This optimization leads to a more cost-

effective production process. In consumer electronics manufacturing, efficient processes can significantly minimize production costs.

3. **Improves Production Effectiveness:** Quality control focuses on maintaining standards throughout the production process, enhancing overall production effectiveness. In the automotive industry, attention to detail in assembly improves the efficiency of production.
4. **Fulfillment of Social Responsibility:** A sound quality control system ensures that products meet safety standards, fulfilling the social responsibility of a business. In the pharmaceutical industry, adherence to quality control prevents the distribution of defective medicines, safeguarding public health.
5. **Complies with Government Rules and Standards:** Quality control ensures adherence to government regulations and standards for different products and services. This compliance is essential for avoiding legal issues. In the food industry, meeting government safety standards is imperative.
6. **Increase in Goodwill of the Firm:** Quality products contribute to a positive reputation, increasing the goodwill of the firm. A commitment to quality, as seen in the automotive industry, enhances the image of both the firm and its products.
7. **Consumer Satisfaction:** Quality control focuses on meeting consumer demands and preferences, ensuring satisfaction. In retail, a brand that consistently delivers high-quality products experiences higher levels of consumer satisfaction.
8. **Enhanced Product Reliability:** Quality control contributes to product reliability, building consumer trust and encouraging repeat purchases. In home appliances, for example, reliable products lead to satisfied customers and increased sales.
9. **Cost-Efficient Production Processes:** Quality control identifies and eliminates inefficiencies, contributing to cost-efficient production. In consumer electronics, efficient processes reduce production costs, positively impacting the bottom line.
10. **Employee Productivity and Job Satisfaction:** Quality control fosters a sense of responsibility among employees, boosting job satisfaction and productivity. In the automotive industry, motivated workers contribute to better quality control and overall production effectiveness.
11. **Environmental Responsibility and Sustainability:** Quality control can extend to ensure environmentally responsible and sustainable production practices. In the fashion industry, a commitment to sustainability aligns with consumer preferences for ethical products.
12. **Adherence to Ethical Standards:** Quality control ensures products meet ethical standards, building trust with consumers. In the food industry, adherence to quality control standards prevents the sale of contaminated or misrepresented products.
13. **Innovation and Product Development:** Quality control processes drive innovation and support the development of new, high-quality products. In the tech industry, a commitment to quality leads to innovative features, distinguishing a brand in a competitive market.
14. **Brand Consistency Across Markets:** Quality control ensures consistency within a product line and across different markets, maintaining a strong brand identity. In beverages, consistent taste and quality enhance global brand image.
15. **Adaptation to Regulatory Changes:** Quality control helps companies stay compliant with evolving regulations, ensuring adaptability. In the pharmaceutical sector, adherence to safety standards safeguards against legal issues.
16. **Supply Chain Resilience:** Quality control contributes to supply chain resilience by ensuring raw materials meet specified standards. In the automotive industry, a reliable supply chain ensures timely vehicle assembly.
17. **Reduction in Warranty Claims:** Quality control reduces potential issues, leading to fewer warranty claims. In electronics, fewer claims indicate a more reliable product.

18. **Market Adaptation and Flexibility:** Quality control allows companies to adapt to changes in market trends swiftly. In the software industry, regular quality checks ensure products meet evolving user expectations.
19. **Customer Loyalty Programs:** High-quality products supported by effective quality control contribute to the success of customer loyalty programs. In retail, a clothing brand with a loyalty program can attract and retain customers through consistent quality.
20. **Reduction in Product Liability Risks:** Quality control helps identify potential safety hazards, reducing the risk of product liability issues. In toys and childcare products, safety standards are crucial.
21. **Global Expansion Opportunities:** Robust quality control positions companies for global expansion by adhering to international standards. In food and beverage, meeting global safety standards allows export opportunities.
22. **Efficient Recall Management:** Quality control ensures efficient recall processes in the event of a product recall. In the automobile industry, recall management is critical for maintaining consumer trust.
23. **Investor Confidence:** A commitment to quality enhances investor confidence, leading to increased funding for research and development. In pharmaceuticals, investor confidence is crucial for funding drug development.
24. **Cybersecurity in Product Development:** Quality control includes cybersecurity measures, ensuring products are secure from cyber threats. In technology and software, security audits contribute to overall product quality.
25. **Crisis Preparedness and Reputation Management:** Quality control minimizes the likelihood of product-related issues, contributing to effective reputation management during crises. In the airline industry, aircraft manufacturing quality is crucial for crisis preparedness.

<u>Steps of Quality Control</u>

1. **Raw Material Control:** Raw material control involves ensuring that the materials used in production are of high quality. This is crucial because the quality of the final product depends significantly on the quality of its components. For example, in the manufacturing of smartphones, using high-quality materials for the device's casing, screen, and internal components contributes to the overall quality of the finished product.
2. **Standards and Specification:** Setting standards and specifications is essential for maintaining consistency in the production process. This involves determining specific characteristics of the product, such as colour, design, size, and type. In the textile industry, for instance, standards for thread thickness, colourfastness, and fabric composition ensure that each batch of fabric meets predetermined criteria.
3. **Control Over Production Operations:** Quality control requires meticulous oversight of every step in the production process. This includes minimizing environmental impacts that could affect product quality. In food processing, for example, maintaining strict control over temperature and hygiene during production is crucial for ensuring the quality and safety of the final food products.
4. **Testing the Suitability of Machines and Equipment:** Machines and equipment directly impact product quality. Regular testing and maintenance are necessary to ensure that these tools function properly. In the automobile industry, conducting routine checks on manufacturing equipment, such as robotic assembly arms, helps prevent defects that could compromise the quality of the vehicles.
5. **Proper Location of Inspection Points:** Inspection points should be strategically placed to catch critical aspects of the production process. For example, in the production of

pharmaceuticals, inspection points could be located where different ingredients are mixed to ensure accurate quantities and prevent contamination.

6. **Decision on the Amount of Inspection:** Balancing the amount of inspection is essential. Excessive inspection can be counterproductive. In the production of electronic devices, deciding on the appropriate level of inspection ensures that quality is maintained without slowing down the production process unnecessarily.
7. **Control of Accuracy of Inspection:** The accuracy of inspections depends on the skills and training of inspectors. In the aerospace industry, where precision is critical, inspectors are trained to use specialized equipment to ensure the accuracy of measurements and identify any defects in the components.
8. **Development of Quality Consciousness:** Ensuring that all employees are quality-conscious is vital. In the garment industry, for instance, every employee, from designers to production line workers, must be aware of the importance of maintaining quality in stitching, fabric selection, and finishing to ensure the final product meets customer expectations.
9. **Application of Statistical Methods:** Statistical methods, such as sampling and control charts, can provide valuable insights into the quality control process. In the manufacturing of packaged goods, statistical techniques help assess the consistency of product weight, packaging integrity, and other critical factors.
10. **Maintenance of Quality Control Records:** Keeping detailed records of quality control activities is essential for future reference and improvement. In the automotive industry, records of inspections, approvals, and rejections are maintained to trace the quality history of each vehicle, aiding in continuous improvement and compliance verification.

Q.8 What is Product Design? Write its characteristics. Write the Objectives of product design and development.

PRODUCT DESIGN AND DEVELOPMENT

Meaning

Product design is concerned with the form and function of a product. From design involves the determination of what a product would look like, product's shape and appearance, what it will be made of and how it will be made. Functional design deals with what the product will do and how it works.

Even machinery makers pay attention to form design, although functional design is still the deciding factor. Factories buying machines want their shop floor to look streamlined and clean.

Product is expected to be a fashion leader and not a fashion follower. Functional design is changed the production design to make it easy to manufacture.

From, the fashion point of view, styling the design is again thoroughly overhauled. The product designer should use as for a possible standard part to reduce the cost of production. The product designer should also know about the possibility of simplification and diversification of the product.

Attentive products design must:

- Create attention in the product.
- Make the product of utility.
- Produce at the lowest possible cost.
- Enlarge the importance of the product from consumer point of view.

Characteristics of Product Design

(1) Guaranteeing Performance: A product is sold not because of the good quality of raw material or its eye-catching performance but because of the advantages that it provides to customer, So, while designing a product, the producer must manufacture performance.

(2) Miniaturization: It means shrinkage in the size of the product and increase in its utility. For an example, Condensers and resistors are of less than fingernail size but are very important

(3) Reliability: Consumers desire to use durable and costly products over a long period and that too without repairs. To avoid maintenance and repairs customer's pay high hence the design should be reliable and its use dependable.

(4) Simplicity: A product should be simple to operate by an average consumer. Design that provides as surety about simplicity while handling the product is always appreciated.
(5) Safety in Use: Life and health of consumers should not come in danger while using a product.
(6) Aesthetics: A product should appeal to all. It should be compact and convenient for use and handling. This sense needs special attention in the case of containers and packages of products.

(7) Producibility: Product design in closely related to the cost of production. It must facilitate manufacturing at economical cost.

(8) Repairability: An important aspect of product design is easy repairs. Handy repairs machine has been invented to make responsibility easy and pleasant experience.

Objectives of Production Design and Development:
Production design and development serve as critical phases in bringing a concept to life, ensuring that a product not only meets its technical specifications but also aligns seamlessly with user needs. The objectives of these processes encompass a spectrum of goals that collectively contribute to the creation of successful and user-friendly products.

1. Conceptual Clarity: Defining the Vision
The initial objective of production design and development is to establish conceptual clarity, clearly defining the vision for the product. This involves articulating the purpose, functionality, and intended user experience.
Example: Consider the development of a new e-learning platform. Conceptual clarity would entail defining the platform's purpose (facilitating online education), specifying functionalities (interactive courses, progress tracking), and envisioning the user experience (intuitive interface, engaging content).

2. User-Centric Approach: Prioritizing User Needs

A pivotal goal is to adopt a user-centric approach, ensuring that the product caters to the needs and preferences of the target audience. Understanding the end-users and addressing their pain points is fundamental.
Example: In the design and development of a fitness app, adopting a user-centric approach would involve features like personalized workout plans, progress tracking, and user-friendly interfaces based on user demographics and preferences.

3. Technical Feasibility: Ensuring Viability
Technical feasibility is paramount to ascertain that the proposed design and development processes are achievable within the constraints of technology, resources, and time.
Example: Developing a new mobile application with augmented reality features requires assessing the technical feasibility of implementing such features within the available technology and resources.

4. Innovation and Creativity: Fostering Uniqueness
Encouraging innovation and creativity is crucial to differentiate the product in the market. This involves exploring novel ideas, features, or design elements that set the product apart from competitors.
Example: When designing a new smart home device, incorporating innovative features like voice-activated controls or integration with emerging technologies showcases creativity and positions the product as cutting-edge.

5. Cost-Efficiency: Managing Resources Wisely
Cost-efficiency is a key consideration
on to ensure that the design and development processes align with budget constraints. This involves optimizing resources without compromising on quality.
Example: In the development of a budget-friendly smartphone, cost-efficiency would be achieved by strategically selecting materials, components, and manufacturing processes to keep production costs low.

6. Scalability: Planning for Growth
Planning for scalability is essential to accommodate future growth and demand. This involves designing and developing a product in a way that allows for easy expansion or adaptation to changing requirements.
Example: In the creation of a software application, ensuring scalability would involve developing a robust architecture that can handle increased user loads and additional features as the user base grows.

7. Time Management: Meeting Deadlines
Effectively managing time is critical to ensure that the product is brought to market within the specified deadlines. Timely delivery is often a key factor in a product's success.
Example: Developing a seasonal product, such as a holiday-themed mobile game, requires efficient time management to ensure it is launched before the holiday season to capitalize on market demand.

8. Compliance and Regulations: Meeting Standards
Adhering to legal and industry standards is imperative to ensure the product's compliance with regulations and norms. This involves considering safety, environmental, and ethical standards.

Example: In the production of a new electronic device, compliance would include adhering to safety standards, environmental regulations, and industry-specific certifications.

9. Feedback Integration: Continuous Improvement
Integrating feedback from various stages of design and development allows for continuous improvement. This involves actively seeking and incorporating user feedback to enhance the product.
Example: Releasing a beta version of a software application and gathering user feedback helps identify bugs, usability issues, and feature preferences, enabling iterative improvements before the official launch.

10. Sustainability: Environmental Responsibility
Incorporating sustainable practices in design and development aligns with growing environmental concerns. This involves minimizing the product's environmental footprint through eco-friendly materials and manufacturing processes.
Example: Designing a new line of eco-friendly furniture involves using sustainable materials like bamboo or recycled wood and implementing eco-conscious manufacturing practices.

11. Brand Consistency: Maintaining Identity
Ensuring brand consistency is crucial to maintain a coherent and recognizable identity across products. This involves aligning the design and development with the established brand image.
Example: If a company is known for sleek and minimalist designs, maintaining brand consistency in the development of a new product would involve incorporating similar design elements.

12. Accessibility: Inclusivity in Design
Making products accessible to a diverse audience is a key goal. This involves designing and developing products that are inclusive, considering users with different abilities, languages, and cultural backgrounds.
Example: Creating a new website with accessibility in mind would involve features like alt text for images, keyboard navigation options, and ensuring compatibility with screen readers.

13. Risk Mitigation: Proactive Problem Solving
Identifying potential risks and developing strategies to mitigate them is crucial. This involves a proactive approach to problem-solving to address challenges that may arise during the design and development phases.
Example: In the development of a complex software system, risk mitigation would involve contingency plans for potential technical issues, ensuring a smoother development process.

14. Cross-Functional Collaboration: Team Integration
Encouraging collaboration across different departments and disciplines ensures a holistic approach to design and development. This involves fostering effective communication and cooperation between teams.
Example: Cross-functional collaboration in developing a new electronic gadget would involve close coordination between the design, engineering, and marketing teams to align product features with market demands.

15. Market Adaptation: Staying Relevant

Designing products that can adapt to changing market trends is essential. This involves anticipating shifts in consumer preferences and technology and incorporating flexibility in the product's design.
Example: Developing a versatile smartphone that can easily accommodate software updates and new features ensures that the product remains relevant in a rapidly evolving market.

Q.9 <u>Write the Factors affecting Product Design. Also Discuss the Importance of Product Design.</u>

(1) **Quality Control**: It is known by the manufacturer and not to the consumers, though better-quality control helps maintaining good product design and is achieve through right use of raw materials, skills and production.

(2) **Customer Specification**: If the product is designed taken care of customer's specification, it gives satisfaction and appeal a re- purchase, developing the brand loyalty.

(3) **Manufacturing**: If the required capabilities do not exist, the management can consider increasing the production capabilities by making higher investments Hence, product is design to given in smooth and easy manufacturing.

(4) **Cost of the Product**: If the cost of the product goes beyond control, it directly increases the price of the product This, leads to difficulties in dealing with competitive brands.

(5) **Types of Materials**: For selecting the best economical and good quality materials a detailed blue print should be prepared for required material. As reports are liberalized, materials can be imported also.

(6) **Reverse Engineering**: To understand the composition and technology used to design products it is used. It implies dismantling an existing product of a competitor in order to understand its unique features.

(7) **Goodwill of the Firm**: Firms enjoying sound goodwill would not like to risk thin reputation. They are more than careful to design such products that do not damage their goodwill.

(8) **Impact on other Products**: While designing a product, the firm must consider the impact of a new/improved product on the existing brand of product. Decision in it adversely affects the marketing strategy.

(9) **Computer Aided Design**: It is a software which helps the product designer to design a product on the computer and visualize the design from different angles. CAD also facilities to view the product at different workstations simultaneously.

(10) **Research and Development**: It is responsible to provide newer and better variety of goods. Pure research adds to knowledge but applied research provides commercial applications.

The importance of product design:

(1) Product design is a critical factor in organizational success because it sets the characteristics, features, and performance of the service or good that consumers demand.

(2) Product
design plays a vital role in lowering the cost of manufacture for competitive advantage.

(3) Product design is important in making more profits by attracting more customers through its design and packaging

(4) To enter into new prospective business through related or unrelated diversification, product design is essential.

(5) Product design can also be an important mechanism for coordinating the activities of key supply chain participants.

(6) Product design is an essential activity for firms competing in a global environment.

(7) Product design shapes the product's quality. It defines the way that good and service functions.

Q.10 <u>Discuss the procedure of Product Design and Development.</u>

Product Design & Development Procedure

Designing and developing a product involves a series of meticulously planned steps that span from ideation to production. Each step contributes significantly to the overall success of the product, ensuring it not only meets the technical requirements but also addresses user needs effectively. Let's delve into the intricacies of these steps, exploring their importance and providing practical examples.

1. **Brainstorming:**

Brainstorming, born in 1953 in the United States, stands as the creative genesis of any product design process. Typically executed with two distinct groups, the first comprises individuals tasked with generating ideas to solve a defined problem. The second group, known as the "commission," undertakes the responsibility of processing these ideas. The process itself unfolds in three phases.

Definition of the Problem: The initial step involves formally announcing the problem and selecting participants for both teams. This lays the groundwork for a focused brainstorming session, ensuring the participants understand the challenge at hand.

Idea Generation: This stage unleashes the most creative aspects of the participants. Every conceivable idea is voiced, regardless of how unconventional or absurd it may sound. The emphasis here is on quantity over quality, encouraging participants to think beyond limitations, combine ideas, and avoid any form of criticism.

Selection of Viable Ideas: In this phase, the second team plays a pivotal role in evaluating the multitude of ideas generated. While appreciation and criticism are welcomed, the primary

goal is to sift through and identify the most viable ideas that align with the problem statement.

Example: Consider a team brainstorming session for the design of a new smartphone. Participants might propose ideas ranging from foldable screens to holographic displays. The process encourages thinking outside the box and exploring innovative solutions.

2. Defining the Product: Clarifying Expectations

After the whirlwind of brainstorming, the next step involves distilling the chosen viable ideas into a concrete set of general expectations or requirements for the product. This output serves as a roadmap for the subsequent phases, providing a guiding framework for the development team.

Example: For the smartphone design, defining expectations could encompass aspects like a sleek and ergonomic design, cutting-edge camera capabilities, and an intuitive user interface. This step ensures a clear vision for the product's overall direction.

3. Conducting User Research: Understanding the Landscape

User research plays a pivotal role in shaping the product's trajectory. This phase involves comprehensive market research, often spearheaded by marketers and business analysts. The research aims to define the competitive landscape, identify trends, and assess the potential longevity of the product. The outcomes contribute to the creation of customer portraits, offering insights into demographics, needs, and preferences.

A properly-composed customer portrait includes parameters such as gender, age, marital status, income level, place of residence (geography), employment, job position, typical problems, needs, fears, and desires.

Example: Imagine the development of a new fitness app. User research involves studying competitors, identifying market trends, and creating customer profiles. Understanding the target audience's demographics and preferences is crucial for tailoring the app to their specific needs.

4. Sketching: Visualizing Concepts

With a clearer understanding of the product's direction and user requirements, the design team proceeds to the sketching phase. This involves creating visual representations to coordinate with clients and stakeholders. The sketches act as a preliminary exploration of design concepts, helping to narrow down the focus before diving into detailed design work.

Example: Sketches for a new website could include various interface layouts, providing clients with a tangible visualization of design directions. This step allows for client input and sets the stage for more refined design work.

5. Prototyping: Building the Foundation

Prototyping marks a crucial step in the product development journey. It goes beyond creating a visually appealing design and focuses on building a functional "skeleton" of the product.

While the result may not represent the final appearance, it demonstrates key functionalities and user interactions. The prototype serves as a tool to gather early feedback and avoid potential errors and corrections in the later stages.

Example: Developing a prototype for a new mobile app allows the team to showcase how users will interact with its features. This early demonstration helps in refining the user experience and functionality before full-scale development.

6. Compiling Specifications: Detailed Roadmap

Creating a comprehensive list of specifications is akin to elaborating on the earlier requirement specification. It involves a meticulous review of all requirements for the finished product, detailing possible solutions, and establishing the final delimitation of responsibilities, deadlines, and costs. These specifications become essential documents guiding the product development stage.

Example: Compiling specifications for a software application includes detailed feature descriptions, delineation of development responsibilities, and a clear roadmap outlining project timelines. These specifications serve as a detailed guide for the development team.

7. Producing Factory Samples: Testing Viability

For physical products, the creation of pre-production samples is vital. It helps assess the viability and attractiveness of the core product idea. Understanding how different manufacturing departments or contractors respond to the product's requirements, both in terms of speed and quality, is crucial. In the realm of software development, such samples are referred to as Minimum Viable Products (MVPs), offering a basic but functional representation of the application.

Example: Producing samples of a new clothing line allows for a tangible evaluation of materials and design appeal before committing to mass production. For a software application, an MVP could be a wireframe application with essential functionality.

8. Sample Testing: Iterative Improvement

Testing these samples is a critical step that allows the identification of flaws or inconsistencies with the requirements before full-scale implementation. Iterative testing ensures that the product aligns with user expectations and garners positive feedback.

Example: Testing samples of a new electronic gadget involves rigorous evaluation to ensure they meet quality standards. Feedback from potential users during this phase can lead to iterative improvements before the product reaches the market.

9. Starting Production/Development: Agile Implementation

At the commencement of production or development, having a full set of technical specifications with clearly defined requirements, tasks, responsibilities, deadlines, and budget is essential. Breaking down major tasks into smaller, manageable subtasks with assigned priorities becomes the focus. In the software industry, Agile methodologies like Scrum or

Kanban are commonly employed to ensure flexibility and adaptability throughout the development process.

Example: Initiating the development of a new software application involves breaking down tasks into sprints using Agile methodologies. This allows for continuous adaptation to changing requirements and efficient task management.

10. Providing Quality Assurance: Ensuring Excellence

Quality assurance activities span all stages of product development, covering release and subsequent maintenance. However, their primary responsibility lies in ensuring the quality of the finished product. In the realm of app development, the QA team plays a crucial role in pre-release testing, verifying that the product aligns with the requirements specification and meets the expectations outlined during customer portrait formation.

Example: Quality assurance for a new mobile app involves rigorous pre-release testing to ensure it meets the specified requirements and aligns with user expectations. Continuous monitoring during maintenance ensures sustained quality over time.

In summary, the meticulous progression through these ten stages ensures a holistic approach to product design and development. From the initial burst of creativity in brainstorming to the fine-tuning through prototyping and testing, each step contributes to the creation of a product that not only meets technical specifications but resonates with users, ensuring its success in the market.

Q.11 <u>What is Material Management? Discuss its Characteristics and Objectives.</u>

Materials management is a body of knowledge, which helps the manager to improve the productivity of capital by reducing materials costs, preventing large amounts of capital being locked up for long periods, and improving the capital-turnover ratio.

It has been recognized as a major functional area of management It covers all aspects of material costs, materials supply and utilization Materials are any commodities used directly or indirectly in producing a product or service, such as raw-materials, component parts, assemblies, and supplies. Managing materials in most companies is crucial to their success because the cost of buying, storing, moving and shipping materials accounts for over half of a products cost

It can be defined as,

"That aspect of management function which is primarily concerned with the acquisition, control and use of materials, needed and flow of goods and services connected with production process having some predetermined objectives in view."

"The function responsible for the co-ordination of material planning, sourcing, purchasing, moving, storing and inventory control of materials in an optimum manner so as to provide a service to a customer at a minimum cost."

Materials refers to the movement of production materials from the stage of their acquisition to the stage of their consumption. It is important for an industrial establishment to have a

centralised authority vested with the responsibility of planning, procuring, preserving, handling, usage and other related aspects. Such centralised authority wherein all related activities of materials are combined is called simply the material management.

Definition:
According to A. K. Datta, "Materials management can be said to be that process of management which coordinates, supervises and executes the tasks associated with the flow of materials to, through and out of an organization in an integrated fashion.

Characteristics of Material Management

1. Functions of Industrial Management: Materials Management is a crucial part of industrial management, ensuring the smooth functioning of industries by arranging for raw materials, components, and supplies. Without proper materials management, industrial operations could face disruptions due to shortages or inefficiencies.
Example: In a manufacturing plant, materials management involves planning and coordinating the acquisition of raw materials needed for the production process, ensuring a continuous supply to meet demand.
2. Specific Process of Management: Materials Management is a distinct management process involving planning, organizing, directing, and controlling activities related to the proper use of materials. It focuses on systematically managing the flow and utilization of materials throughout the organization.
Example: The process of materials management includes creating plans for inventory levels, organizing procurement activities, directing the movement of materials within the facility, and implementing controls to ensure efficient use.
3. Integrated Approach: Materials Management takes an integrated approach, considering not only physical aspects but also human, social, and cultural elements. It involves collaboration between producers, consumers, suppliers, technologists, and governmental entities to create a well-coordinated system.
Example: Collaboration between a manufacturing company and its suppliers in materials management ensures timely deliveries, quality assurance, and mutual benefit.
4. Wide Process: Materials Management covers a broad spectrum of functions involved in converting raw materials into finished products. This includes purchasing, materials handling, warehousing, external and internal transportation, as well as inventory management and control.
Example: In a textile industry, materials management encompasses sourcing raw cotton, managing inventory of yarn and fabrics, and organizing transportation for the distribution of finished products.
5. Universal Function: Materials Management is a universal function applicable across all departments of a manufacturing organization. It plays a critical role in ensuring the availability of materials needed for production in various departments such as production, maintenance, and quality control.
Example: In an automobile manufacturing company, materials management is essential for coordinating the procurement of metal components for the assembly line, ensuring the smooth functioning of the entire production process.
6. Object: The primary objective of materials management is to obtain materials at the lowest possible cost while maintaining good quality and a consistent supply. It also aims to coordinate activities to achieve common goals within the organization.

Example: A construction company focuses on materials management to procure construction materials at the best prices, ensuring that building projects are cost-effective and of high quality.
7. Optimum Use: Materials Management emphasizes the optimal use of materials and the timely supply of required materials. This ensures that resources are used efficiently, preventing wastage and minimizing costs associated with excess inventory.
Example: In a food processing company, materials management involves planning production schedules to use perishable ingredients efficiently, reducing the risk of spoilage and waste.
8. Regulations of Material Cycle: Materials Management provides a structured approach to the materials cycle, aiming for regularized and balanced procurement and usage. When an organization can obtain required materials at a minimum cost, the materials cycle is considered well-regulated.
Example: An electronics manufacturer regulates its materials cycle by carefully managing the procurement of electronic components, ensuring a steady supply for production while minimizing costs.
9. 'Specialist' Function: Materials Management is often considered a specialist function within organizations, where specialists are entrusted with the responsibility of ensuring the proper supply and management of materials.
Example: Large manufacturing companies may have a dedicated materials management department with specialists responsible for tasks such as procurement, inventory control, and logistics.
10. Art and Science: Materials Management combines both art and science. It employs scientific techniques such as mathematical and statistical analysis and utilizes computer systems. However, decisions are often made based on experience and applied knowledge, making it an art as well.
Example: A materials manager may use statistical models to forecast demand but relies on their experience and judgment to make decisions during unexpected supply chain disruptions.

Objectives of Materials Management

1. **Cost-Effective Procurement:**

Obtain materials at the lowest cost while maintaining consistent quality and quantity.
Organizations aim to strike a balance between cost savings and quality assurance during the procurement process. Negotiating with suppliers, exploring bulk purchase options, and leveraging market conditions contribute to achieving this objective.

2. **Efficient Inventory Management:**

Minimize inventory to free up working capital for other purposes.
Keeping inventory levels optimized is crucial for financial resource management. It involves strategic inventory turnover, ensuring that capital tied up in stock is minimized, freeing resources for more strategic and lucrative investments.

3. **Streamlined Planning and Performance:**

Plan and execute processes seamlessly, from material delivery to production and materials planning.
Effective planning ensures a harmonious workflow, preventing bottlenecks and disruptions. Coordinated efforts from the delivery of materials through production and materials planning contribute to sustained operational efficiency.

4. **Timely and Optimal Procurement:**

Procure materials promptly and efficiently.

Timely procurement is pivotal for meeting production timelines. It involves anticipating material needs, collaborating closely with suppliers, and employing efficient procurement processes to ensure a constant and reliable supply of materials.

5. **Optimum Inventory Turnover:**

Determine the speed at which materials enter and leave storage.
Striking the right balance in inventory turnover is about managing the pace at which materials are utilized. This not only minimizes waste but also ensures that materials are readily available when needed, contributing to overall operational efficiency.

6. **Establish Vendor Relationships:**

Build strong relationships with suppliers through improved acquisition and delivery performance.
Positive relationships with vendors foster reliability and mutual understanding. This involves consistent communication, timely payments, and collaborative problem-solving, ensuring a smooth and dependable supply chain.

7. **Efficient Physical Distribution:**

Ensure smooth product distribution and enhance consumer service.
Streamlining physical distribution involves optimizing logistics and delivery processes. This not only enhances customer satisfaction through timely deliveries but also contributes to overall operational efficiency.

8. **Control Overall Material Costs:**

Coordinate activities to control material costs and optimize facility usage.
Coordination across various activities, from procurement to storage and distribution, is essential for cost control. Efficient facility usage, coupled with a keen eye on minimizing waste, contributes to overall cost-effectiveness.

9. **Elimination of Duplication:**

Avoid redundancy in functions through an integrated materials management system.
Streamlining processes eliminates duplicative tasks and paperwork. An integrated system ensures that each function serves a unique purpose, eliminating unnecessary redundancy and promoting efficiency.

10. **Cost Reduction and Efficiency:**

Reduce production costs and efficiently distribute end products to achieve organizational goals.
Employing systematic inventory control techniques and optimizing production processes contribute to reducing overall production costs. Efficient distribution ensures that end products reach consumers cost-effectively.

11. **Provisioning and Storage Optimization:**

Economically procure, store, and minimize inventories through proper management.
Strategic provisioning involves sourcing materials economically, while proper store-keeping practices, timely distribution, and effective inventory control contribute to minimizing costs associated with storage and upkeep.

12. **Enhancing Supply Chain:**

Identify new sources, develop vendors, and improve human resource skills.

A robust supply chain involves constant exploration of new sources, nurturing vendor relationships, and upskilling the workforce. This objective ensures a diversified and resilient supply network.

13. **Harmonization and Coordination:**

Coordinate functions for a smooth flow of materials.
Achieving harmony and coordination involves aligning various functions within the materials management system. This ensures a seamless flow of materials both into and out of the organization.

14. **Providing Supportive Services:**

Support production and other departments to achieve organizational objectives.
The materials management team serves as a support hub, ensuring that necessary materials are readily available for production and other departments. This support contributes to overall operational efficiency.

15. **Overall Organizational Objectives:**

Contribute to organizational survival, growth, customer satisfaction, and technological leadership.
Aligning material management with broader organizational objectives ensures the organization's sustained success. This involves meeting customer needs, ensuring technological leadership, and contributing to the organization's growth and survival in a competitive landscape.

Q.12 <u>Discuss the Importance & Scope of Material management.</u>

IMPORTANCE OF MATERIALS MANAGEMENT

1. Lower prices for materials and equipment:
Companies benefit from negotiating and securing lower prices for materials and equipment when purchasing in bulk or establishing long-term contracts with suppliers.
For instance, a manufacturing company may negotiate with a steel supplier to get a discounted rate for purchasing a large quantity of steel for production.
2. Faster inventory turnover:
Efficient material management ensures that inventory turnover is swift, preventing excessive stockpiling and reducing carrying costs.
An example would be a retail store implementing a just-in-time inventory system, where products are restocked only as they are sold, minimizing excess inventory.
3. Continuity of supply:
Ensuring a continuous supply of materials is crucial to avoid disruptions in production. This involves having multiple suppliers or contingency plans in case of unexpected shortages.
An example could be a smartphone manufacturer maintaining relationships with multiple suppliers for critical components to prevent production delays due to supply chain issues.
4. Reduced lead time:
Material management focuses on minimizing the time it takes to procure and receive materials. This reduces lead time, allowing companies to respond more quickly to customer demands.
An illustration is a car manufacturer streamlining its supply chain to receive components promptly, enabling faster assembly and delivery of finished vehicles.
5. Reduced transportation costs:

Efficient material management involves optimizing transportation logistics to minimize costs. This includes selecting cost-effective shipping methods and consolidating shipments.
For instance, a furniture company may choose a centralized distribution center to reduce transportation costs and deliver products to various retailers efficiently.
6. Less duplication of efforts:
Material management aims to eliminate redundant tasks and activities, ensuring that resources are used efficiently without unnecessary duplication.
An example could be a construction project where careful planning prevents the duplication of orders for the same materials, avoiding excess costs.
7. Elimination of buck-passing:
Effective communication and coordination in material management prevent the passing of responsibility or blame between departments, ensuring accountability.
In a software development company, clear communication between the design and coding teams helps avoid blaming one another for delays, fostering a collaborative environment.
8. Reduced materials obsolescence:
Material management involves monitoring inventory to minimize the risk of materials becoming obsolete. This includes using the oldest materials first (first-in, first-out) to prevent wastage.
An example is a technology company regularly updating its product designs to utilize the latest components, minimizing the chances of older materials becoming obsolete.
9. Improved supplier relationship and better records and information:
Building strong relationships with suppliers through transparent communication and timely payments is essential for effective material management.
In the context of a clothing retailer, maintaining detailed records of suppliers' lead times, product quality, and delivery performance helps in making informed decisions and building long-term partnerships.
10. Better interdepartmental cooperation: - Material management encourages collaboration between different departments within a company, ensuring a smooth flow of information and resources. - For instance, a food manufacturing company coordinates between the production and marketing departments to align production schedules with promotional campaigns, optimizing resources.
11. Personnel development: - Prioritizing the development of personnel involved in material management ensures that employees have the necessary skills to contribute to the efficiency of the process. - An example is a logistics company providing training programs for its warehouse staff to enhance their skills in inventory management and order fulfilment.

Scope of Materials Management

Material management is a crucial aspect of organizational efficiency, encompassing various functions to ensure the smooth flow of materials from acquisition to production and distribution

1. Materials Planning:

Materials planning involves determining the future requirements of raw materials, parts, and components based on production schedules. It aims to align production needs with demand forecasts to avoid shortages or excess inventory. For example, a bakery planning to introduce a new pastry would need to anticipate the flour, sugar, and other ingredient requirements to meet the expected demand.

Key considerations:

- **Lead Times:** Anticipating the time it takes for materials to be delivered.
- **Operating Environment:** Analyzing the external factors that might impact demand or supply.
- **Planning Horizon:** Keeping the planning period realistic, typically within a year.

2. Purchasing and Procurement:

Purchasing involves acquiring goods and services, while procurement has a broader scope, encompassing all activities related to acquiring goods. For instance, a smartphone manufacturer needs to source components like processors, screens, and batteries.

Key objectives:

- **Centralized Buying:** Centralized purchasing offers better control but may face challenges in immediate supply demands.
- **Objectives:** Ensuring the right quantity, quality, price, source, and timely acquisition.
- **Vendor Relations:** Maintaining good relationships with suppliers for long-term benefits.

3. Value Analysis and Quality Control:

Value analysis examines the functional and cost aspects of a product to identify cost-saving opportunities while maintaining performance and quality. Quality control ensures that materials meet specified standards. For example, a car manufacturer might use value analysis to find cost-effective materials without compromising safety or performance.

Key aspects:

- **Value Analysis:** Focusing on equivalent performance at a lower cost.
- **Quality Control:** Ensuring materials meet functional needs and are procured at the lowest cost possible.
- **Objective:** Providing maximum value at the lowest cost, actively engaging in cost reduction techniques.

4. Inventory Management and Control:

Inventory management involves determining the optimal levels of stock to minimize holding costs while meeting demand. For instance, a retail store would need to balance having enough products to meet customer demand without overstocking items that might become obsolete.

Key principles:

- **Just-in-Time:** Minimizing holding costs by having inventory arrive just before it is needed.
- **ABC Analysis:** Prioritizing items based on their importance, with 'A' items being the most critical.
- **Regular Reviews:** Periodic assessments, physical verifications, and proper accounting are essential.

5. Stores Management and Operation:

Stores management encompasses the receipt, upkeep, and issuance of materials. It acts as a buffer between procurement and various departments. For example, a manufacturing plant needs an organized system to receive, store, and issue raw materials efficiently.

Routine activities:

- **Receipt System:** Checking and coordinating inspections for received materials.
- **Issue System:** Preparing vouchers, making actual issues, and keeping authorities informed.
- **Efficient Layout:** Ensuring materials are stored for easy retrieval, minimizing pilferage and waste.

6. Materials Accounting:

Materials accounting is based on cost and involves tracking the quantity and value of materials on hand. Various records such as bin cards, stores ledgers, and stock identification cards are maintained. For instance, a furniture manufacturer would need to account for the wood, screws, and other materials used in production.

Key records:

- **Bin Card:** Recording movement against each stock item.
- **Stores Ledger:** Providing supplier details, quantity ordered, and expected delivery.
- **Stock Identification Card:** Identifying materials in specific bins or racks.

7. Materials Handling and Transportation:

Materials handling focuses on efficiently moving and storing materials within an organization, minimizing costs. Transportation deals with managing the movement of goods from source to destination. For example, a distribution center must handle packages efficiently to meet customer delivery expectations.

Basic principles:

- **Least Handling:** Minimizing handling costs as it does not add value to the product.
- **Standardization of Equipment:** Choosing flexible equipment for multiple operations.
- **Volume Dictates Method:** Considering the volume of materials for efficient handling.

In summary, effective material management involves meticulous planning, procurement, analysis, control, and logistics. By understanding and implementing these functions, organizations can optimize their resource utilization, reduce costs, and enhance overall operational efficiency. Each function plays a critical role in ensuring a seamless flow of materials throughout the entire supply chain, contributing to the success of the organization.

Q.13 <u>Elaborate the Methods of Material Management.</u>

<u>Methods of Material Management.</u>

Material management plays a pivotal role in the seamless functioning of businesses, encompassing a variety of strategies and methods designed to enhance efficiency and reduce

costs. In this comprehensive exploration, we will delve into each method, using straightforward language and practical examples to facilitate a thorough understanding of their applications.

1. ABC Analysis:

ABC analysis is a systematic categorization of items based on their relative importance, providing a structured approach to resource allocation and prioritization.

ABC Analysis classifies inventory items into three categories based on their value and importance to the business: A (high-value items), B (medium-value items), and C (low-value items).

The A items — typically the most expensive and most important — should be managed with extra care and attention. The B items are also important for the business's success, but not as much as A. The C items are not as important for the business's success.'

The advantages of ABC analysis include:

1. **Focused Attention:** Enables businesses to prioritize and manage high-priority items (A-class) effectively.
2. **Cost Savings:** Helps in saving money by avoiding unnecessary resource allocation to less important items.
3. **Inventory Control:** Provides greater control over inventory levels, preventing stockouts and ensuring steady supplies.
4. **Informed Decision-Making:** Facilitates better decision-making by understanding the importance of different items in the inventory.

Example: Consider a retail electronics store. 'A' item, such as high-value smartphones and laptops, are critical to revenue generation. 'C' items, like lower-value accessories such as phone cases, are less impactful. This categorization enables businesses to focus resources where they matter most.

2. Just-in-Time (JIT):

Just-in-Time is a method focused on receiving materials precisely when they are needed, mitigating excess inventory costs and enhancing operational efficiency.

Features of Just-in-Time analysis include:

1. **On-Demand Production:** JIT focuses on producing goods and services in response to actual customer demand rather than forecasting.
2. **Minimized Inventory:** The strategy aims to keep inventory levels as low as possible. This helps in reducing holding costs and the risk of obsolescence.
3. **Continuous Improvement:** JIT encourages a continuous improvement mindset, seeking to eliminate waste, streamline processes, and enhance efficiency.
4. **Supplier Relationships:** Close relationships with suppliers are crucial in JIT. Suppliers need to deliver materials promptly to support the just-in-time production schedule.
5. **Flexibility:** JIT systems require a high level of flexibility to adapt to changes in demand, production issues, or supply chain disruptions.

6. **Quality Control:** Quality is integral to JIT. Defects and errors are addressed immediately to prevent disruptions in the production process.
7. **Pull System:** JIT often operates on a pull system, where production is triggered by actual customer demand rather than being pushed based on forecasts.

Example: A bakery employing JIT for flour. Instead of stockpiling large quantities of flour, the bakery receives fresh deliveries daily, precisely when needed. This not only minimizes holding costs but also ensures the freshness of the ingredients for optimal product quality, contributing to customer satisfaction.

3. Economic Order Quantity (EOQ):

EOQ is a sophisticated technique that determines the optimal order quantity, considering the delicate balance between ordering costs and holding costs for efficient inventory management. Economic order quantity (EOQ) is a calculation companies perform that represents their ideal order size, allowing them to meet demand without overspending. Inventory managers calculate EOQ to minimize holding costs and excess inventory.

The goal of EOQ is to find the order quantity that balances the costs of holding inventory (carrying costs) against the costs of ordering more inventory.

The Formula for Economic Order Quantity

The formula for Economic Order Quantity is:

$$EOQ = \sqrt{\frac{2 \times S \times D}{H}}$$

where:

S=Setup costs (per order, generally includingshipping and handling)
D=Demand rate (quantity sold per year)

H=Holding costs (per year, per unit)

Key points about EOQ:

1. **Ordering Cost vs. Holding Cost:** EOQ helps find the order quantity that minimizes the total cost, considering both the costs associated with ordering and holding inventory.
2. **Balancing Act:** There is a trade-off between ordering costs and holding costs. Larger order quantities reduce ordering costs but increase holding costs, and vice versa.
3. **Optimal Order Size:** The EOQ model aims to identify the order size that minimizes the total cost, striking a balance between these two opposing costs.
4. **Assumptions:** The EOQ model assumes a constant demand rate, a constant ordering cost, and a constant holding cost per unit.
5. **Practical Application:** EOQ is widely used in inventory management and helps businesses determine how much to order to minimize total costs and maintain an efficient inventory system.

Example: Visualize a furniture manufacturing facility calculating EOQ for wood procurement. By identifying the most cost-effective order quantity, the business minimizes expenses related to ordering and storing materials, contributing to financial prudence.

4. RFID Technology:

RFID employs special tags equipped with radio-frequency identification technology to track materials in real-time, significantly enhancing inventory visibility and control.

Example: In a clothing store, RFID tags are affixed to garments. When a customer makes a purchase, the system automatically updates the inventory, providing accurate and immediate information about stock levels. This advanced technology streamlines operations and reduces the likelihood of errors.

5. Cross-Docking:

Cross-docking is a streamlined logistics strategy that minimizes storage time by moving materials directly from suppliers to customers, enhancing supply chain efficiency.

It is a logistics method that involves unloading goods from an incoming truck or container and loading them directly onto outbound trucks for quick distribution without significant storage time.

Process:

1. *Goods Arrival:* Products arrive at a cross-docking facility on an inbound truck.
2. *Sorting and Consolidation:* Items are quickly sorted based on their destination and consolidated with similar products.
3. *Minimal Storage:* There is minimal or no storage time; the goal is to swiftly move goods through the facility.
4. *Loading onto Outbound Trucks:* The sorted and consolidated products are loaded directly onto outbound trucks for immediate delivery to their final destinations.

Example: Visualize a grocery distribution center sorting fresh produce immediately upon arrival and directing it to outgoing transportation. This approach eliminates the need for extended storage, ensuring timely delivery of perishable goods and reducing the risk of spoilage.

6. Kanban System:

The Kanban system is a visual management tool that uses signals, such as cards, to regulate inventory levels and production flow, fostering a lean and efficient manufacturing process. The Kanban system is a visual management method that helps control and optimize work processes. It originated from Japanese manufacturing but has found widespread use in various industries globally.

Key Components:

1. **Kanban Board:**

- A visual representation of the workflow divided into columns (stages of work).
- Example: To-Do, In Progress, Testing, Done.

2. **Kanban Cards:**

- Physical or digital cards representing tasks or work items.
- Example: A card for each software feature to be developed.

3. **Work in Progress (WIP) Limits:**

- Constraints set on the number of tasks allowed in each column.
- Example: Limiting "In Progress" tasks to five at a time.

Process:

1. **Initiation:**

- Tasks are listed on the "To-Do" column as cards.
- Example: Software development team lists new features to be worked on.

2. **Visualization:**

- Team members move cards across the board as tasks progress.
- Example: A card moves from "To-Do" to "In Progress" when a developer starts working on it.

3. **Work in Progress (WIP) Limits:**

- WIP limits prevent overloading, ensuring smooth workflow.
- Example: If "In Progress" has a WIP limit of 5, only 5 tasks can be worked on simultaneously.

4. **Completion and Review:**

- Tasks move to "Done" when completed.
- Example: After coding, testing, and approval, a feature card moves to the "Done" column.

5. **Continuous Improvement:**

- Regular meetings to analyze and improve the process.
- Example: The team discusses bottlenecks and adjusts WIP limits for better efficiency.

Example: In an automobile assembly line, workstations use Kanban cards to indicate when more components are needed. This visual system prevents overproduction, reduces waste, and maintains an efficient workflow, contributing to cost savings and sustainability.

7. Supplier Relationship Management (SRM):

SRM focuses on cultivating strong and collaborative relationships with suppliers to ensure a reliable and efficient supply chain.

It is a strategic approach that focuses on developing and managing long-term partnerships with key suppliers to create value for both the buying organization and the supplier. It involves actively working with suppliers to build strong, collaborative relationships that go beyond simple transactional interactions. The goal of SRM is to maximize the performance, efficiency, and innovation of the entire supply chain by fostering open communication, mutual trust, and shared goals.

In essence, SRM is about treating suppliers as strategic partners rather than mere transactional entities. It encompasses various activities, including supplier selection, performance monitoring, risk management, and joint problem-solving. The emphasis is on building a collaborative and mutually beneficial relationship that extends beyond cost considerations to include factors like quality, innovation, and continuous improvement.

Key components of Supplier Relationship Management include:

1. **Strategic Alignment:** Ensuring that the goals and objectives of both the buyer and the supplier are aligned for long-term success.
2. **Communication and Collaboration:** Establishing open and transparent communication channels to facilitate collaboration, information sharing, and joint decision-making.
3. **Performance Measurement:** Regularly evaluating supplier performance against predefined metrics and key performance indicators (KPIs).
4. **Risk Management:** Identifying and managing potential risks in the supply chain to ensure continuity and resilience.
5. **Innovation and Continuous Improvement:** Encouraging suppliers to contribute innovative ideas and participate in continuous improvement initiatives to enhance overall supply chain efficiency.
6. **Contractual Agreements:** Establishing clear and fair contractual agreements that outline expectations, responsibilities, and performance standards.
7. **Conflict Resolution:** Addressing and resolving conflicts in a constructive manner to maintain a positive and collaborative relationship.

Example: Consider an electronics manufacturer collaborating closely with semiconductor suppliers. By maintaining open communication, sharing information, and engaging in joint planning, the business ensures a steady supply of crucial components, fostering a positive and reliable partnership that benefits both parties.

8. Batch Tracking:

Batch tracking involves assigning unique identifiers to groups of materials, enabling traceability and facilitating swift identification in the event of quality or safety concerns.

Batch tracking is a systematic method used in industries to monitor and trace groups of materials or products with unique identification throughout the production and distribution processes. The primary goal is to ensure quick and precise identification of specific batches in case of quality, safety, or regulatory concerns.

Example: In pharmaceuticals, each production batch of medication receives a distinctive identifier. If any issues arise regarding quality or safety, this method allows for the swift identification and recall of affected products, ensuring consumer safety and regulatory compliance.

9. Cycle Counting:

Cycle counting is a perpetual inventory counting method that involves regularly checking a subset of items to maintain accuracy and prevent discrepancies.

Key Components of Cycle Counting:

1. **Regular Checks:** Instead of counting the entire inventory at once, businesses choose a subset of items to count regularly. This could be based on factors such as item value, sales frequency, or criticality to operations.
2. **Random Selection:** The items selected for counting are often chosen randomly, preventing predictability and promoting a fair representation of the overall inventory.
3. **Continuous Process:** Cycle counting is a perpetual or continuous activity, occurring throughout the year, allowing for real-time adjustments and maintaining accuracy.

Example:

Let's consider a retail store selling electronic gadgets. To implement cycle counting:

1. **Categorization:** The store categorizes its products based on factors like sales volume and product value. For instance, high-value items or fast-selling products may be selected for more frequent cycle counts.
2. **Random Selection:** Instead of counting all the smartphones in stock at once, the store randomly selects a subset, perhaps 20% of its smartphone inventory, for counting this week.
3. **Counting Process:** Store staff physically count the selected smartphones on the shelves and compare the results with the recorded inventory in the system.
4. **Adjustments:** If any discrepancies are found, adjustments are made immediately. For instance, if the system says there are 50 smartphones, but only 45 are found during the count, the system is updated accordingly.
5. **Regular Rotation:** The store rotates the items selected for cycle counting regularly, ensuring that over time, all products in the inventory are subject to this accuracy check.

Importance of Cycle Counting:

1. **Accuracy Maintenance:** By regularly checking a subset of items, businesses can quickly identify and correct discrepancies, ensuring that inventory records accurately reflect the actual stock.
2. **Operational Efficiency:** Cycle counting reduces the need for large-scale, time-consuming annual inventory counts, allowing businesses to maintain smooth operations without disruptions.
3. **Timely Corrections:** Immediate adjustments based on cycle counting findings help prevent prolonged discrepancies, reducing the risk of stockouts or overstock situations.
4. **Cost Savings:** The ongoing nature of cycle counting minimizes the resources required for large-scale counting events, leading to cost savings in terms of time and labor.

Example: In a retail setting, rather than shutting down for a comprehensive inventory count, cycle counting entails regularly checking a portion of the stock. This ongoing process identifies discrepancies early, preventing widespread inaccuracies and contributing to operational transparency.

10. Demand Forecasting:

Demand forecasting is a strategic planning tool that predicts future material needs based on historical data, market trends, and external factors, ensuring businesses are well-prepared for fluctuations in demand.

Demand forecasting is a crucial planning method used by businesses to anticipate their future material requirements. By analysing historical data, market trends, and external factors, this strategic tool helps companies prepare effectively for changes in demand. The goal is to ensure that businesses can meet customer needs efficiently and maintain optimal inventory levels.

Key Components of Demand Forecasting:

1. **Historical Data Analysis:** Businesses examine past sales data and patterns to identify trends and understand the historical demand for their products.

2. **Market Trends:** Analysis of current market conditions and trends provides insights into potential shifts in customer preferences, economic factors, or competitor actions.
3. **External Factors Consideration:** Factors such as seasonality, promotions, economic conditions, and external events are taken into account to predict how they might influence future demand.
4. **Data Modelling:** Various statistical and mathematical models are applied to generate forecasts. This may include methods like time-series analysis, regression analysis, or machine learning algorithms.

Example: A clothing retailer might utilize demand forecasting to prepare for the upcoming winter season. By analysing previous sales data, considering weather forecasts, and staying attuned to market trends, the retailer ensures they have sufficient stock of winter clothing to meet customer demand, minimizing stockouts and maximizing sales opportunities.

Q.14 Write the Meaning of Inventory Control. Discuss its Objectives & Significance.

Inventory Control

Inventory control involves keeping track of the amount of goods a business has. It's crucial to avoid having 'too much,' 'too little,' or poorly balanced inventories because they can be costly in various ways.

Having 'too much' inventory leads to extra expenses like taxes, insurance, storage costs, and dealing with items becoming obsolete or losing value over time. It also means that a significant portion of the company's working capital is tied up in these excess goods.

On the other hand, having 'too little' inventory can result in frequently ordering small quantities, missing out on discounts for bulk purchases, and facing higher transportation charges. It might be 'too low' considering possible shortages in the future, rising prices, or a shortfall in production output.

To handle this, it's important to categorize inventory items based on their usefulness and importance. This process, known as "Inventory Management," involves applying techniques to select and control inventory effectively, ensuring that production needs are met.

In simple terms, inventory management aims to figure out the right amount of stock to keep in order to meet production demands. The goal is to provide the right materials, at the right time, in the right quantities, and at competitive prices.

In essence, inventory management is about finding the best balance between (a) minimizing the money tied up in inventory and (b) maximizing the level of service provided to the company's customers and its various departments.

Material control, another aspect of this process, is systematically managing the procurement, storage, and usage of materials. The aim is to reduce waste and losses while avoiding unnecessary investments in materials

Objectives

(1) To avoid stockouts in production:

The aim is to ensure there are always enough materials available for production so that the manufacturing process doesn't come to a halt.
Example: A car manufacturing plant ensures a continuous supply of essential parts to prevent delays in assembling cars and meeting customer demands.

(2) To derive economic advantages for the availability of materials:
Focus on having materials at the right time and in the right quantity to benefit from cost savings and economic advantages.
Example: A construction company strategically purchases bulk quantities of building materials during discounted periods to reduce overall project costs.

(3) To smoothen the flow of production:
Adjusting inventory based on the demand, nature of the product, and the production process to maintain a steady production flow.
Example: A bakery manages flour and ingredients inventories based on the demand for various types of bread, ensuring a smooth baking process.

(4) To process materials in lots or batches:
Managing materials in specific quantities or batches to streamline the production process and reduce complexity.
Example: A pharmaceutical company manufactures medications in batches to ensure quality control and efficient production.

(5) To facilitate transit and handling:
Ensuring that materials are organized and handled efficiently during transportation to minimize damage and delays.
Example: A logistics company organizes inventory in a way that makes it easy to load and unload goods, reducing the risk of damage during transportation.

(6) To reduce material handling costs:
Minimizing the costs associated with moving and storing materials by optimizing handling processes.
Example: A retail warehouse strategically arranges products for easy accessibility, reducing the time and effort required for employees to handle inventory.

(7) To properly maintain stock records:
Keeping accurate and up-to-date records of inventory levels, ensuring transparency and aiding in decision-making.
Example: An online retailer uses a computerized system to track stock levels in real-time, preventing errors in order fulfillment and inventory management.

(8) To avoid sub-optimal decision-making:
Making informed decisions by having accurate information about inventory levels, demand, and market trends.
Example: A fashion retailer analyzes sales data to make informed decisions about which clothing items to reorder and when, avoiding overstock or shortages.

(9) To meet possible storages in the future:
Planning for future needs and potential increases in demand or changes in market conditions.

Example: A seasonal goods retailer anticipates higher demand during holidays and ensures sufficient inventory is available to meet customer needs during peak times.

(10) To achieve reasonable utilization of resources:
Efficiently using resources, such as materials and storage space, to minimize waste and maximize productivity.
Example: A manufacturing plant optimizes the use of raw materials to reduce waste and enhance overall production efficiency.

(11) To provide a buffer between production processes:
Creating a buffer of inventory to account for any delays or disruptions in the production process.
Example: An electronics manufacturer maintains a buffer stock of essential components to mitigate the impact of supply chain disruptions.

(12) To reduce obsolescence:
Avoiding the loss associated with materials becoming outdated or obsolete.
Example: A technology retailer regularly updates its inventory to include the latest gadgets and discounts older models to prevent obsolescence.

Significance of Inventory management and control:

(1) Inventories serve as cushions to absorb shocks:
Inventories act as a safety net, providing a cushion for unforeseen events such as sudden increases in demand, supply chain disruptions, or unexpected market fluctuations. This allows businesses to adapt to unexpected shocks without disrupting their operations.
Example: An electronics retailer maintains a buffer stock of popular gadgets to meet unexpected spikes in customer demand during holiday seasons or promotions.

(2) Inventory for any organization is a necessary unit:
A well-organized inventory is fundamental for the effective functioning of any organization. It ensures a systematic approach to managing resources, meeting production needs, and fulfilling customer demands, contributing to overall operational efficiency.
Example: A manufacturing company meticulously organizes its inventory of raw materials, ensuring a seamless production process and avoiding bottlenecks in the supply chain.

(3) Inventories are the result of many interrelated decisions and policies within an organization:
The level of inventory is influenced by a complex interplay of decisions and policies made within an organization. These decisions include procurement strategies, pricing policies, and production planning, all of which contribute to the overall inventory management strategy.
Example: A retail chain adjusts its inventory levels based on a combination of market research, pricing strategies, and seasonal demand patterns to align with the overall business strategy.

(4) Inventory provides production economies:
Effectively managing inventory leads to cost savings in the production process. By optimizing the quantity and timing of material purchases, businesses can reduce production costs, minimize waste, and enhance overall operational efficiency.
Example: An automobile assembly line strategically plans its inventory of car parts, ensuring cost-effective production by minimizing excess inventory and avoiding unnecessary expenses.

(5) Improving the liquidity position of the firm by reducing unnecessary tying up of capital in excess inventories:
Avoiding unnecessary capital tied up in holding excess inventory enhances the liquidity position of a firm. This financial flexibility allows organizations to invest in other operational needs, respond to market changes, and seize strategic opportunities.
Example: A small business carefully manages its inventory levels to prevent overstocking, ensuring that funds are available for marketing, technology upgrades, or unforeseen expenses.

(6) Facilitating regular and timely supply to customers through adequate stocks of finished products:
Maintaining sufficient finished product inventory ensures a steady and timely supply to meet customer demands. This is crucial for customer satisfaction, loyalty, and maintaining a competitive edge in the market.
Example: A clothing retailer strategically manages its inventory of finished products to meet customer orders promptly, preventing stockouts and building a positive customer experience.

(7) Ensuring smooth production operations by maintaining reasonable stocks of materials:
Maintaining an appropriate level of raw materials prevents disruptions in production operations. It ensures a smooth and continuous manufacturing process, preventing delays and ensuring optimal utilization of resources.
Example: A furniture manufacturer carefully plans its inventory of raw materials, avoiding shortages and ensuring a consistent production flow to meet customer orders without interruptions.

(8) Protecting the firm against variations in raw materials delivery time:
Having inventory acts as a buffer against uncertainties in raw materials delivery times. This buffer helps organizations mitigate the impact of unexpected delays, ensuring a consistent supply chain and preventing production bottlenecks.
Example: A construction company strategically maintains an extra stock of construction materials to counter delays caused by unpredictable factors like transportation issues or supplier disruptions.

(9) Facilitating production scheduling, avoiding shortages of materials, and duplicate ordering:
Proper material management aids in efficient production scheduling, preventing shortages of essential materials, and avoiding unnecessary duplicate orders. This contributes to optimal resource utilization and cost efficiency.
Example: A food processing plant schedules production based on inventory levels of ingredients, preventing shortages and eliminating the need for rush orders, thus ensuring a streamlined production process.

(10) Minimizing loss by obsolescence, deterioration, damage, etc.:
Effective inventory management helps minimize losses due to factors like obsolescence, deterioration, or damage. By regularly assessing inventory and implementing proper storage and handling practices, organizations reduce the risk of losses associated with these factors.
Example: A technology retailer regularly updates its inventory, discounts older models, and employs proper storage practices to minimize losses from holding outdated gadgets that may lose value or suffer damage.

(11) Enabling the firm to take advantage of price fluctuations through economic lot buying when prices are low:
Efficient material management allows organizations to capitalize on price fluctuations in the market. By adopting economic lot buying strategies during periods of lower prices, businesses can achieve cost savings and enhance overall profitability.
Example: A restaurant leverages lower seasonal prices for certain ingredients by buying in bulk, taking advantage of cost savings and improving profit margins during periods of favourable market conditions.\

Q.15 Discuss the techniques of Inventory Control.

Inventory Control Techniques:

1. Demand Forecasting:
Demand forecasting predicts future product demand based on historical sales data. It helps businesses estimate customer purchases and optimize stock levels.
Example: A retail store uses past sales data to predict higher demand for winter clothing during colder months, ensuring they stock enough inventory to meet customer needs.

2. ABC Analysis:

ABC analysis categorizes inventory items based on their importance and profits. It prioritizes control efforts on high-value items to maximize business impact.
ABC analysis is a systematic categorization of items based on their relative importance, providing a structured approach to resource allocation and prioritization.

ABC Analysis classifies inventory items into three categories based on their value and importance to the business: A (high-value items), B (medium-value items), and C (low-value items).

The A items — typically the most expensive and most important — should be managed with extra care and attention. The B items are also important for the business's success, but not as much as A. The C items are not as important for the business's success.'

The advantages of ABC analysis include:

5. **Focused Attention:** Enables businesses to prioritize and manage high-priority items (A-class) effectively.
6. **Cost Savings:** Helps in saving money by avoiding unnecessary resource allocation to less important items.
7. **Inventory Control:** Provides greater control over inventory levels, preventing stockouts and ensuring steady supplies.
8. **Informed Decision-Making:** Facilitates better decision-making by understanding the importance of different items in the inventory.

Example: Consider a retail electronics store. 'A' item, such as high-value smartphones and laptops, are critical to revenue generation. 'C' items, like lower-value accessories such as phone cases, are less impactful. This categorization enables businesses to focus resources where they matter most.

Example: An electronics store classifies its products into A, B, and C categories. High-end smartphones fall into category A, receiving more attention in terms of inventory management.

3. Economic Order Quantity (EOQ):

EOQ determines the optimal order quantity to minimize costs related to ordering, holding, and production.
EOQ is a sophisticated technique that determines the optimal order quantity, considering the delicate balance between ordering costs and holding costs for efficient inventory management. Economic order quantity (EOQ) is a calculation companies perform that represents their ideal order size, allowing them to meet demand without overspending. Inventory managers calculate EOQ to minimize holding costs and excess inventory.

The goal of EOQ is to find the order quantity that balances the costs of holding inventory (carrying costs) against the costs of ordering more inventory.

The Formula for Economic Order Quantity

The formula for Economic Order Quantity is:

$$EOQ = \sqrt{\frac{2 \times S \times D}{H}}$$

where:

S=Setup costs (per order, generally includingshipping and handling)
D=Demand rate (quantity sold per year)

H=Holding costs (per year, per unit)

Key points about EOQ:

- **Ordering Cost vs. Holding Cost:** EOQ helps find the order quantity that minimizes the total cost, considering both the costs associated with ordering and holding inventory.
- **Balancing Act:** There is a trade-off between ordering costs and holding costs. Larger order quantities reduce ordering costs but increase holding costs, and vice versa.
- **Optimal Order Size:** The EOQ model aims to identify the order size that minimizes the total cost, striking a balance between these two opposing costs.
- **Assumptions:** The EOQ model assumes a constant demand rate, a constant ordering cost, and a constant holding cost per unit.
- **Practical Application:** EOQ is widely used in inventory management and helps businesses determine how much to order to minimize total costs and maintain an efficient inventory system.

Example: Visualize a furniture manufacturing facility calculating EOQ for wood procurement. By identifying the most cost-effective order quantity, the business minimizes expenses related to ordering and storing materials, contributing to financial prudence.

Example: A bakery uses EOQ to find the right balance of ingredients to order, reducing holding costs and ensuring fresh products.

4. VED Analysis:
VED Analysis categorizes materials as Vital, Essential, and Desirable, helping in organizing items for production.
VED Analysis is a classification method used in inventory management to categorize materials based on their importance in production processes. The acronym VED stands for Vital, Essential, and Desirable, and it helps organizations prioritize and manage their inventory efficiently.

Vital (V) Items:
Vital items are materials that are crucial for the production process and are often difficult to replace or find alternatives for. These items have a direct impact on the company's ability to manufacture its products.
Example: In a manufacturing plant, specialized components used in a unique product might be categorized as V items. If these components are not readily available, the production of the specific product could come to a halt.

Essential (E) Items:
Essential items are necessary for the production process but may have alternatives or substitutes available. While they are important, the impact of their unavailability is not as critical as that of vital items.
Example: Standard raw materials like basic metals or common components might be classified as E items. Although their absence may cause some disruption, it won't completely stop production, as alternative materials can be used.

Desirable (D) Items:
Desirable items are those that, if unavailable, do not significantly impact the production process. These items are often used for convenience or to enhance the product but are not essential for basic production.
Example: Packaging materials, which contribute to the product's aesthetics but don't affect its core functionality, could be considered D items. Running out of these materials might not halt production but could affect the final presentation of the product.

Application in a Manufacturing Plant: In a real-world scenario, a manufacturing plant would conduct a thorough analysis of its inventory and classify each item as V, E, or D. This categorization guides inventory management decisions. For instance:

- **Stock Levels:** V items would be maintained at higher stock levels to prevent any shortage, ensuring continuous production.
- **Ordering Priorities:** When placing orders with suppliers, priority would be given to V items to maintain a consistent supply chain.
- **Risk Mitigation:** Knowing the criticality of each item helps the company develop contingency plans for potential shortages or disruptions.

In conclusion, VED Analysis is a valuable tool for organizations to strategically manage their inventory by prioritizing items based on their importance to production. This ensures a more efficient and resilient supply chain, ultimately contributing to the overall success of the business.

Example: In a manufacturing plant, vital raw materials like specialized components are categorized as V items, ensuring they are always in stock.

5. Backordering:
Backordering allows accepting orders even when stock is empty, initiating purchase or production against sales orders.
Backordering is a business practice that allows companies to accept and process customer orders even when the desired products are currently out of stock. Instead of declining the order, the company initiates a process to either purchase or produce the requested items to fulfill the customer's order at a later date. This strategy helps businesses maintain customer satisfaction by avoiding order rejections due to stock shortages.
Example: Suppose you run an online electronics store, and a customer places an order for a popular smartphone that is currently not in stock. Instead of turning away the customer, the company decides to accept the order and informs the customer that the product is on backorder. The company then takes steps to either reorder the smartphones from the manufacturer or start the production process if they manufacture the products in-house.

- **Customer Order Acceptance:** Backordering begins when a customer places an order for a product that is temporarily out of stock. Rather than refusing the order, the company accepts it with the understanding that the product will be delivered at a later date.
- **Notification to Customer:** Once the order is accepted, the customer is notified that the product is on backorder. This transparency is crucial for managing customer expectations, and it helps to build trust by keeping customers informed about the status of their orders.
- **Procurement or Production Initiation:** After receiving the order, the company takes steps to fulfill it. This can involve initiating a purchase order to restock the product from suppliers or starting the production process if the company manufactures the items internally.
- **Estimated Delivery Date:** The company provides the customer with an estimated delivery date based on the time required to restock or produce the item. This information helps the customer plan and understand when they can expect to receive their order.
- **Inventory Management:** Backordering is closely tied to effective inventory management. It allows companies to continue accepting orders, even during periods of stock depletion, without losing potential sales. This flexibility is especially important for high-demand products that may experience temporary shortages.

Benefits of Backordering:
- **Customer Retention:** Backordering helps retain customers by allowing them to place orders for temporarily unavailable items, preventing them from turning to competitors.
- **Revenue Generation:** The company can continue generating revenue even when certain products are out of stock, contributing to overall financial stability.
- **Maintaining Market Presence:** By accepting backorders, a company maintains its presence in the market, ensuring that customers consider it a reliable and accessible source for desired products.

Example: An online store accepts customer orders for a popular product even when temporarily out of stock, ensuring customers get the item when it's available.

6. Drop-shipping:
Drop shipping involves selling products without keeping inventory. Products are shipped directly from the supplier to the customer.

Example: An e-commerce entrepreneur partners with suppliers, listing products for sale without holding inventory, reducing upfront costs.
Drop-shipping is a retail business model where a seller offers products for sale without physically stocking or owning them. Instead of keeping inventory, the seller partners with a supplier who holds the products in stock. When a customer makes a purchase, the seller passes the order details to the supplier, who then ships the product directly to the customer. This model eliminates the need for the seller to handle and store the products, making it a low-risk and cost-effective way to start an online retail business.

Meaning:

1. **Setting Up an Online Store:**

The seller creates an online storefront, showcasing products for sale, but they don't physically own or store these products.

2. **Supplier Partnership:**

The seller establishes partnerships with suppliers who hold inventory. These suppliers could be manufacturers, wholesalers, or other retailers.

3. **Listing Products for Sale:**

The seller lists the supplier's products on their online store, setting their own prices and creating product descriptions. Customers visit the online store and place orders.

4. **Order Placement and Payment:**

When a customer makes a purchase, the seller receives the order details and payment on their online platform.

5. **Forwarding Order to Supplier:**

The seller then forwards the order information to the supplier, including the customer's shipping details and the purchased product.

6. **Supplier Ships Directly to Customer:**

The supplier processes and ships the product directly to the customer. The seller doesn't handle the product physically; all logistics are managed by the supplier.

7. **Customer Receives the Product:**

The customer receives the product with packaging and labeling that might indicate it came from the supplier rather than the seller.

Benefits of Drop-shipping:

- **Low Initial Investment:** Sellers don't need to invest heavily in inventory, reducing the upfront costs of starting a retail business.
- **Reduced Operational Hassles:** The seller doesn't have to deal with inventory management, packaging, or shipping logistics, allowing them to focus on marketing and customer service.
- **Wide Product Range:** Drop-shipping enables sellers to offer a wide variety of products without the need to stock them physically.

7. Just-In-Time (JIT) Strategy:

JIT ensures supplies are delivered when needed, reducing tied-up capital and holding costs.

Just-in-Time is a method focused on receiving materials precisely when they are needed, mitigating excess inventory costs and enhancing operational efficiency.

Features of Just-in-Time analysis include:

- **On-Demand Production:** JIT focuses on producing goods and services in response to actual customer demand rather than forecasting.
- **Minimized Inventory:** The strategy aims to keep inventory levels as low as possible. This helps in reducing holding costs and the risk of obsolescence.
- **Continuous Improvement:** JIT encourages a continuous improvement mindset, seeking to eliminate waste, streamline processes, and enhance efficiency.
- **Supplier Relationships:** Close relationships with suppliers are crucial in JIT. Suppliers need to deliver materials promptly to support the just-in-time production schedule.
- **Flexibility:** JIT systems require a high level of flexibility to adapt to changes in demand, production issues, or supply chain disruptions.
- **Quality Control:** Quality is integral to JIT. Defects and errors are addressed immediately to prevent disruptions in the production process.
- **Pull System:** JIT often operates on a pull system, where production is triggered by actual customer demand rather than being pushed based on forecasts.

Example: A car manufacturer receives components from suppliers precisely when needed for production, minimizing storage costs.

8. Just-in-Case Inventory Management:
JIC involves keeping a large inventory to prevent stockouts, suitable for businesses with unpredictable demand.
Example: A hardware store maintains extra inventory during the hurricane season to meet increased demand for emergency supplies.

9. Vendor Managed Inventory (VMI):
VMI lets the supplier manage the buyer's inventory, ensuring timely replenishment based on demand data shared by the buyer.
Example: A retail chain allows its suppliers to monitor and restock inventory shelves directly, reducing stockouts and excess inventory.

10. Consignment Inventory:
Consignment inventory is stock owned by someone else but stored at the business location, with payment only upon sale.
Example: A boutique showcases designer clothing on consignment, paying the designer only when the items are sold.

11. Cross-Docking:
Cross-docking involves shipping products directly from suppliers to retail stores, reducing the need for warehousing.
Cross-docking is a streamlined logistics strategy that minimizes storage time by moving materials directly from suppliers to customers, enhancing supply chain efficiency.
It is a logistics method that involves unloading goods from an incoming truck or container and loading them directly onto outbound trucks for quick distribution without significant storage time.

Process:

- *Goods Arrival:* Products arrive at a cross-docking facility on an inbound truck.

- *Sorting and Consolidation:* Items are quickly sorted based on their destination and consolidated with similar products.
- *Minimal Storage:* There is minimal or no storage time; the goal is to swiftly move goods through the facility.
- *Loading onto Outbound Trucks:* The sorted and consolidated products are loaded directly onto outbound trucks for immediate delivery to their final destinations.

Example: A grocery store receives fresh produce directly from suppliers to the sales floor without storing it in the warehouse.

12. FIFO and LIFO:
FIFO (First In, First Out) sells older inventory first, while LIFO (Last In, First Out) sells newer inventory first, impacting inventory valuation.
FIFO and LIFO are methods used in inventory management to determine the order in which products are sold and how the cost of goods sold is calculated. These methods impact the valuation of inventory on a company's financial statements.

1. **FIFO (First In, First Out):**

FIFO assumes that the oldest inventory items are sold first. In other words, the goods that enter the inventory earliest are the ones considered to be sold first. This method is akin to a queue system, where the first items to come in are the first to go out.
Example: Imagine a grocery store that receives fresh fruits regularly. Under FIFO, if the store receives a batch of apples on Monday and another on Wednesday, when a customer buys apples on Friday, the store accounts for it as if they sold the apples from Monday's batch first.

2. **LIFO (Last In, First Out):**

LIFO operates on the principle that the newest inventory items are sold first. It assumes that the last goods added to the inventory are the first to be sold. It's like a stack system, where the most recently added items are the first to be used.
Example: In a computer store with regularly updated models, if the store receives a new shipment of laptops in October and another in November, under LIFO, when a customer buys a laptop in December, the store accounts for it as if they sold a laptop from the November shipment first.

Impact on Inventory Valuation:

- **FIFO:**

Advantage: During periods of rising prices, FIFO tends to result in a higher valuation of ending inventory because it assumes that the older, lower-cost items are still in stock.
Disadvantage: It can lead to a higher cost of goods sold (COGS) on the income statement, potentially resulting in lower reported profits.

- **LIFO:**

Advantage: In times of rising prices, LIFO may result in a lower COGS, leading to higher reported profits. This is because the newer, higher-cost items are considered to be sold first.
Disadvantage: LIFO can lead to a lower valuation of ending inventory on the balance sheet, which may affect financial ratios and tax liabilities.

Considerations:
Tax Implications: The choice between FIFO and LIFO can impact a company's taxable income and, consequently, its tax liability.

Industry Practices: Some industries may have preferences for one method over the other based on their specific characteristics and market conditions.

Example: A supermarket uses FIFO to ensure that older perishable goods are sold first, minimizing waste.

13. Batch Tracking:
Batch tracking monitors products with common characteristics, enabling easy identification in case of quality issues or recalls.
Example: A pharmaceutical company tracks batches of medications based on production dates to ensure timely recalls if necessary.

14. FSN Analysis:
FSN Analysis categorizes items as Fast-Moving, Slow-Moving, and Non-Moving, helping prioritize inventory efforts.
Example: An electronics retailer focuses on the fast-moving category, ensuring popular products are well-stocked to meet customer demand.

15. HML Analysis:
HML Analysis categorizes items based on unit price into High, Medium, and Low categories, optimizing inventory control.
Example: A hardware store gives more attention to the High category, ensuring efficient management of high-value items.

16. SOS Analysis:
SOS Analysis classifies items as Scarce, Difficult, and Easy based on supply availability, guiding inventory control efforts.
Example: A manufacturing plant prioritizes scarce items, ensuring a proactive approach to managing challenging-to-obtain materials.

17. GOLF Analysis:
GOLF Analysis assesses items based on Government Supply, Ordinarily Available, Local Availability, and Foreign Source of Supply.
Example: A retailer uses GOLF Analysis to diversify its sources, reducing procurement risks and costs associated with inventory management.

18. XYZ Analysis:
XYZ Analysis classifies items based on demand variability, helping businesses optimize inventory levels and ordering policies.
Example: An online bookstore focuses on high-variability items (X) to enhance forecasting accuracy and reduce stockouts.

19. Customer Managed Inventory (CMI):
CMI lets customers manage their inventory levels and place replenishment orders, shifting responsibility from the supplier.
Example: A manufacturer allows retailers to manage their stock levels, streamlining the supply chain and improving inventory accuracy.
These inventory control techniques offer businesses diverse strategies to manage their inventory effectively, considering factors like demand variability, item importance, and supply source characteristics.

B.Com. (Hons.) (Part-III) EXAMINATION, 2023
(Functional Management) Paper 1

UNIT-1

What is Human Resources Management? Discuss the role of HRM in a business organization.

OR

What do you mean by selection of personnel? Describe the model procedure for selection of personnel in an institution

UNIT-II

What do you mean by Job Enlargement Describe advantage and limitations of Job Enlargement

OR

Discuss 300 Degree Appraisal, explaining its features, merits and demerits.

UNIT-III

What is meant by Marketing? Discuss importance of Marketing

OR

Describe the procedure of Marketing Research.

UNIT - IV

Define financial management. Describe various functions of it.

OR

What is meant by Capital Structure? Discuss the factors affecting Capital Structure.

UNIT-V

What do you mean by Production Planning and Control? Explain its importance.

OR

Write short note on:

- Economic Order Quantity
- ABC Analysis

B.Com. (Hons.) (Part-III), Examination, 2022
(Functional Management) Paper: I

UNIT-1

What do you understand by Human Resource Management? State its characteristics.

OR

What do you mean by Recruitment? Explain the process of recruitment.

UNIT-II

How will you identify training needs of an organisation? Describe the process of training

OR

Discuss the essentials of a sound merit rating programme.

UNIT-III

What do you mean by product development? Explain the stages of new product development.

OR

Explain the difference between selling and marketing.

UNIT-IV

Define Financial Management. Explain the importance of financial management in modern organisation.

OR

State the need and factors affecting the financial planning.

UNIT-V

Explain the nature and types of Production Process

OR

What do you mean by Production Planning? Discuss its objectives and functions?

B.Com. (Hons.) (Part-III) Examination. 2020
(Functional Management)

Unit-I

Define Human Resource Management. Discuss its role and importance.

OR

What do you understand by the term recruitment? What are the various sources of Recruitment?

Unit-II

Write a note on the following

- Job Description
- Job Enrichment

Or

Define performance appraisal. Discuss the various methods of performance appraisal

Unit-III

What do you mean by Market Research? Discuss its process.

Or

Define Pricing. Discuss the various pricing policies and strategies.

Unit-IV

Define Financial Management. Discuss its scope and importance.

Or

Write a note on the following:

(i) Role of Financial Manager.

(ii) Financial planning

Unit-V

Define Production Management. Discuss its scope and importance.

Or

Define Material Management. Discuss its scope and functions

B.Com. (Hons.) (Part-III) EXAMINATION, 2019
(Functional Management)

UNIT-I

Define Human Resource Management. Discuss the need and importance of HR Management.

OR

What is Human Resource Planning? Explain the nature of Human Resource Planning. Also state the guidelines for making the HRP effective.

UNIT-II

What do you mean by Job Enlargement? How does it differ from Joh Enrichment and discuss the methods of job enlargement.

OR

What is performance appraisal? Describe its different methods.

UNIT - III

What is meant by Marketing Research? Explain the need and importance of Marketing Research in business.

OR

What do you mean by Pricing. Discuss the various Pricing Methods.

UNIT - IV

Define Financial-Management. Discuss the various functions of Financial Management.

OR

Define and explain the concept of working capital. What are the various sources of working capital? Describe in detail.

UNIT-V

What do you mean by Production Planning? Describe in brief the various components of Production Planning and Control.

OR

What is Material Management? Discuss the functions of Material Management.

B.Com. (Hons.) (Part II) EXAMINATION-2018
[Functional Management]

UNIT-I

Discuss the role of Human Resource Management in a business institution.

OR

Describe in detail the various internal and external sources of recruitment

UNIT-II

Discuss in brief the various training methods.

OR

What do you mean by Merit Rating"? Discuss its utility.

UNIT-III

What do you mean by Marketing? Clearly explain the nature and scope of marketing

OR

Explain the functions and services of wholesalers.

UNIT-IV

What do you mean by Financial Management'? Explain clearly, the scope of Financial Management.

OR

Define Financial plan and explain essentials of a sound financial plan.

UNIT - V

What do you mean by Production Management? Explain the importance of Production Management in an Industrial enterprise.

OR

Explain the objectives and various techniques of inventory control.